

ANNEX VI

STANDARDISED APPROACH

PART 1

RISK WEIGHTS

1. EXPOSURES TO CENTRAL GOVERNMENTS OR CENTRAL BANKS
 - 1.1. Treatment
 1. Without prejudice to points 2 to 7, exposures to central governments and central banks shall be assigned a 100 % risk weight.
 2. Subject to point 3, exposures to central governments and central banks for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 1 in accordance with the assignment by the competent authorities of the credit assessments of eligible ECAs to six steps in a credit quality assessment scale.

TABLE 1

Credit quality step	1	2	3	4	5	6
Risk weight	0 %	20 %	50 %	100 %	100 %	150 %

3. Exposures to the European Central Bank shall be assigned a 0 % risk weight.
- 1.2. Exposures in the national currency of the borrower
 4. Exposures to Member States' central governments and central banks denominated and funded in the domestic currency of that central government and central bank shall be assigned a risk weight of 0 %.
 5. When the competent authorities of a third country which apply supervisory and regulatory arrangements at least equivalent to those applied in the Community assign a risk weight which is lower than that indicated in point 1 to 2 to exposures to their central government and central bank denominated and funded in the domestic currency, Member States may allow their credit institutions to risk weight such exposures in the same manner.
- 1.3. Use of credit assessments by Export Credit Agencies
 6. Export Credit Agency credit assessments shall be recognised by the competent authorities if either of the following conditions is met:
 - (a) it is a consensus risk score from Export Credit Agencies participating in the OECD 'Arrangement on Guidelines for Officially Supported Export Credits'; or
 - (b) the Export Credit Agency publishes its credit assessments, and the Export Credit Agency subscribes to the OECD agreed methodology, and the credit assessment is

Status: EU Directives are being published on this site to aid cross referencing from UK legislation. After IP completion day (31 December 2020 11pm) no further amendments will be applied to this version.

associated with one of the eight minimum export insurance premiums (MEIP) that the OECD agreed methodology establishes.

7. Exposures for which a credit assessment by an Export Credit Agency is recognised for risk weighting purposes shall be assigned a risk weight according to Table 2.

TABLE 2

MEIP	0	1	2	3	4	5	6	7
Risk weight	0 %	0 %	20 %	50 %	100 %	100 %	100 %	150 %

2. **EXPOSURES TO REGIONAL GOVERNMENTS OR LOCAL AUTHORITIES**

8. Without prejudice to points 9 to 11, exposures to regional governments and local authorities shall be risk weighted as exposures to institutions. This treatment is independent of the exercise of discretion as specified in Article 80(3). The preferential treatment for short-term exposures specified in points 31, 32 and 37 shall not be applied.
9. Exposures to regional governments and local authorities shall be treated as exposures to the central government in whose jurisdiction they are established where there is no difference in risk between such exposures because of the specific revenue-raising powers of the former, and the existence of specific institutional arrangements the effect of which is to reduce their risk of default.

Competent authorities shall draw up and make public the list of the regional governments and local authorities to be risk-weighted like central governments.

10. Exposures to churches and religious communities constituted in the form of a legal person under public law shall, in so far as they raise taxes in accordance with legislation conferring on them the right to do so, be treated as exposures to regional governments and local authorities, except that point 9 shall not apply. In this case for the purposes of Article 89(1)(a), permission to apply Title V, Chapter 2, Section 3, subsection 1 shall not be excluded.
11. When competent authorities of a third country jurisdiction which apply supervisory and regulatory arrangements at least equivalent to those applied in the Community treat exposures to regional governments and local authorities as exposures to their central government, Member States may allow their credit institutions to risk weight exposures to such regional governments and local authorities in the same manner.

3. **EXPOSURES TO ADMINISTRATIVE BODIES AND NON-COMMERCIAL UNDERTAKINGS**

3.1. **Treatment**

12. Without prejudice to points 13 to 17, exposures to administrative bodies and non-commercial undertakings shall be assigned a 100 % risk weight.

3.2. **Public Sector Entities**

13. Without prejudice to points 14 to 17, exposures to public sector entities shall be assigned a 100 % risk weight.

14. Subject to the discretion of competent authorities, exposures to public sector entities may be treated as exposures to institutions. Exercise of this discretion by competent authorities is independent of the exercise of discretion as specified in Article 80(3). The preferential treatment for short-term exposures specified in points 31, 32 and 37 shall not be applied.
 15. In exceptional circumstances, exposures to public-sector entities may be treated as exposures to the central government in whose jurisdiction they are established where in the opinion of the competent authorities there is no difference in risk between such exposures because of the existence of an appropriate guarantee by the central government.
 16. When the discretion to treat exposures to public-sector entities as exposures to institutions or as exposures to the central government in whose jurisdiction they are established is exercised by the competent authorities of one Member State, the competent authorities of another Member State shall allow their credit institutions to risk-weight exposures to such public-sector entities in the same manner.
 17. When competent authorities of a third country jurisdiction, which apply supervisory and regulatory arrangements at least equivalent to those applied in the Community, treat exposures to public sector entities as exposures to institutions, Member States may allow their credit institutions to risk weight exposures to such public sector entities in the same manner.
4. EXPOSURES TO MULTILATERAL DEVELOPMENT BANKS
- 4.1. Scope
 18. For the purposes of Articles 78 to 83, the Inter-American Investment Corporation, the Black Sea Trade and Development Bank and the Central American Bank for Economic Integration are considered to be Multilateral Development Banks (MDB).
 - 4.2. Treatment
 19. Without prejudice to points 20 and 21, exposures to multilateral development banks shall be treated in the same manner as exposures to institutions in accordance with points 29 to 32. The preferential treatment for short-term exposures as specified in points 31, 32 and 37 shall not apply.
 20. Exposures to the following multilateral development banks shall be assigned a 0 % risk weight:
 - (a) the International Bank for Reconstruction and Development;
 - (b) the International Finance Corporation;
 - (c) the Inter-American Development Bank;
 - (d) the Asian Development Bank;
 - (e) the African Development Bank;
 - (f) the Council of Europe Development Bank
 - (g) the Nordic Investment Bank;
 - (h) the Caribbean Development Bank;

Status: EU Directives are being published on this site to aid cross referencing from UK legislation. After IP completion day (31 December 2020 11pm) no further amendments will be applied to this version.

- (i) the European Bank for Reconstruction and Development;
 - (j) the European Investment Bank;
 - (k) the European Investment Fund; and
 - (l) the Multilateral Investment Guarantee Agency.
21. A risk weight of 20 % shall be assigned to the portion of unpaid capital subscribed to the European Investment Fund.
5. EXPOSURES TO INTERNATIONAL ORGANISATIONS
22. Exposures to the following international organisations shall be assigned a 0 % risk weight:
- (a) the European Community;
 - (b) the International Monetary Fund;
 - (c) the Bank for International Settlements.
6. EXPOSURES TO INSTITUTIONS
- 6.1. Treatment
23. One of the two methods described in points 26 to 27 and 29 to 32 shall apply in determining the risk weights for exposures to institutions.
24. Without prejudice to the other provisions of points 23 to 39, exposures to financial institutions authorised and supervised by the competent authorities responsible for the authorisation and supervision of credit institutions and subject to prudential requirements equivalent to those applied to credit institutions shall be risk#weighted as exposures to institutions.
- 6.2. Risk-weight floor on exposures to unrated institutions
25. Exposures to an unrated institution shall not be assigned a risk weight lower than that applied to exposures to its central government.
- 6.3. Central government risk weight based method
26. Exposures to institutions shall be assigned a risk weight according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned in accordance with Table 3.

TABLE 3

Credit quality step to which central government is assigned	1	2	3	4	5	6
Risk weight of exposure	20 %	50 %	100 %	100 %	100 %	150 %

Status: EU Directives are being published on this site to aid cross referencing from UK legislation. After IP completion day (31 December 2020 11pm) no further amendments will be applied to this version.

27. For exposures to institutions incorporated in countries where the central government is unrated, the risk weight shall be not more than 100 %.
28. For exposures to institutions with an original effective maturity of three months or less, the risk weight shall be 20 %.
- 6.4. Credit assessment based method
29. Exposures to institutions with an original effective maturity of more than three months for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 4 in accordance with the assignment by the competent authorities of the credit assessments of eligible ECAIs to six steps in a credit quality assessment scale.

TABLE 4

Credit quality step	1	2	3	4	5	6
Risk weight	20 %	50 %	50 %	100 %	100 %	150 %

30. Exposures to unrated institutions shall be assigned a risk weight of 50 %.
31. Exposures to an institution with an original effective maturity of three months or less for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 5 in accordance with the assignment by the competent authorities of the credit assessments of eligible ECAIs to six steps in a credit quality assessment scale:

TABLE 5

Credit quality step	1	2	3	4	5	6
Risk weight	20 %	20 %	20 %	50 %	50 %	150 %

32. Exposures to unrated institutions having an original effective maturity of three months or less shall be assigned a 20 % risk weight.
- 6.5. Interaction with short-term credit assessments
33. If the method specified in points 29 to 32 is applied to exposures to institutions, then the interaction with specific short-term assessments shall be as follows.
34. If there is no short-term exposure assessment, the general preferential treatment for short-term exposures as specified in point 31 shall apply to all exposures to institutions of up to three months residual maturity.
35. If there is a short-term assessment and such an assessment determines the application of a more favourable or identical risk weight than the use of the general preferential treatment for short-term exposures, as specified in point 31, then the short-term assessment shall be used for that specific exposure only. Other short-term exposures

Status: EU Directives are being published on this site to aid cross referencing from UK legislation. After IP completion day (31 December 2020 11pm) no further amendments will be applied to this version.

shall follow the general preferential treatment for short-term exposures, as specified in point 31.

36. If there is a short-term assessment and such an assessment determines a less favourable risk weight than the use of the general preferential treatment for short-term exposures, as specified in point 31, then the general preferential treatment for short-term exposures shall not be used and all unrated short-term claims shall be assigned the same risk weight as that applied by the specific short-term assessment.
- 6.6. Short-term exposures in the national currency of the borrower
37. Exposures to institutions of a residual maturity of 3 months or less denominated and funded in the national currency may, subject to the discretion of the competent authority, be assigned, under both methods described in points 26 to 27 and 29 to 32, a risk weight that is one category less favourable than the preferential risk weight, as described in points 4 and 5, assigned to exposures to its central government.
38. No exposures of a residual maturity of 3 months or less denominated and funded in the national currency of the borrower shall be assigned a risk weight less than 20 %.
- 6.7. Investments in regulatory capital instruments
39. Investments in equity or regulatory capital instruments issued by institutions shall be risk weighted at 100 %, unless deducted from the own funds.
- 6.8. Minimum reserves required by the ECB
40. Where an exposure to an institution is in the form of minimum reserves required by the ECB or by the central bank of a Member State to be held by the credit institution, Member States may permit the assignment of the risk weight that would be assigned to exposures to the central bank of the Member State in question provided:
- (a) the reserves are held in accordance with Regulation (EC) No 1745/2003 of the European Central Bank of 12 September 2003 on the application of minimum reserves⁽¹⁾ or a subsequent replacement regulation or in accordance with national requirements in all material respects equivalent to that Regulation; and
- (b) in the event of the bankruptcy or insolvency of the institution where the reserves are held, the reserves are fully repaid to the credit institution in a timely manner and are not made available to meet other liabilities of the institution.
7. EXPOSURES TO CORPORATES
- 7.1. Treatment
41. Exposures for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 6 in accordance with the assignment by the competent authorities of the credit assessments of eligible ECAIs to six steps in a credit quality assessment scale.

TABLE 6

Credit quality step	1	2	3	4	5	6
Risk weight	20 %	50 %	100 %	100 %	150 %	150 %

42. Exposures for which such a credit assessment is not available shall be assigned a 100 % risk weight or the risk weight of its central government, whichever is the higher.
8. RETAIL EXPOSURES
43. Exposures that comply with the criteria listed in Article 79(2) shall be assigned a risk weight of 75 %.
9. EXPOSURES SECURED BY REAL ESTATE PROPERTY
44. Without prejudice to points 45 to 60, exposures fully secured by real estate property shall be assigned a risk weight of 100 %.
- 9.1. Exposures secured by mortgages on residential property
45. Exposures or any part of an exposure fully and completely secured, to the satisfaction of the competent authorities, by mortgages on residential property which is or shall be occupied or let by the owner, or the beneficial owner in the case of personal investment companies, shall be assigned a risk weight of 35 %.
46. Exposures fully and completely secured, to the satisfaction of the competent authorities, by shares in Finnish residential housing companies, operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation, in respect of residential property which is or shall be occupied or let by the owner shall be assigned a risk weight of 35 %.
47. Exposures to a tenant under a property leasing transaction concerning residential property under which the credit institution is the lessor and the tenant has an option to purchase, shall be assigned a risk weight of 35 % provided that the competent authorities are satisfied that the exposure of the credit institution is fully and completely secured by its ownership of the property.
48. In the exercise of their judgement for the purposes of points 45 to 47, competent authorities shall be satisfied only if the following conditions are met:
- (a) the value of the property does not materially depend upon the credit quality of the obligor. This requirement does not preclude situations where purely macro#economic factors affect both the value of the property and the performance of the borrower;
- (b) the risk of the borrower does not materially depend upon the performance of the underlying property or project, but rather on the underlying capacity of the borrower to repay the debt from other sources. As such, repayment of the facility does not materially depend on any cash flow generated by the underlying property serving as collateral;
- (c) the minimum requirements set out in Annex VIII, Part 2, point 8 and the valuation rules set out in Annex VIII, Part 3, points 62 to 65 are met; and
- (d) the value of the property exceeds the exposures by a substantial margin.
49. Competent authorities may dispense with the condition contained in point 48(b) for exposures fully and completely secured by mortgages on residential property which is situated within their territory, if they have evidence that a well-developed and long#established residential real estate market is present in their territory with loss rates which are sufficiently low to justify such treatment.

Status: EU Directives are being published on this site to aid cross referencing from UK legislation. After IP completion day (31 December 2020 11pm) no further amendments will be applied to this version.

50. When the discretion contained in point 49 is exercised by the competent authorities of a Member State, the competent authorities of another Member State may allow their credit institutions to assign a risk weight of 35 % to such exposures fully and completely secured by mortgages on residential property.
- 9.2. Exposures secured by mortgages on commercial real estate
51. Subject to the discretion of the competent authorities, exposures or any part of an exposure fully and completely secured, to the satisfaction of the competent authorities, by mortgages on offices or other commercial premises situated within their territory may be assigned a risk weight of 50 %.
52. Subject to the discretion of the competent authorities, exposures fully and completely secured, to the satisfaction of the competent authorities, by shares in Finnish housing companies, operating in accordance with the Finnish Housing Company Act of 1991 or subsequent equivalent legislation, in respect of offices or other commercial premises may be assigned a risk weight of 50 %.
53. Subject to the discretion of the competent authorities, exposures related to property leasing transactions concerning offices or other commercial premises situated in their territories under which the credit institution is the lessor and the tenant has an option to purchase may be assigned a risk weight of 50 % provided that the exposure of the credit institution is fully and completely secured to the satisfaction of the competent authorities by its ownership of the property.
54. The application of points 51 to 53 is subject to the following conditions:
- (a) the value of the property must not materially depend upon the credit quality of the obligor. This requirement does not preclude situations where purely macro-economic factors affect both the value of the property and the performance of the borrower;
 - (b) the risk of the borrower must not materially depend upon the performance of the underlying property or project, but rather on the underlying capacity of the borrower to repay the debt from other sources. As such, repayment of the facility must not materially depend on any cash flow generated by the underlying property serving as collateral; and
 - (c) the minimum requirements set out in Annex VIII, Part 2, point 8, and the valuation rules set out in Annex VIII, Part 3, points 62 to 65 are met.
55. The 50 % risk weight shall be assigned to the Part of the loan that does not exceed a limit calculated according to either of the following conditions:
- (a) 50 % of the market value of the property in question;
 - (b) 50 % of the market value of the property or 60 % of the mortgage lending value, whichever is lower, in those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions.
56. A 100 % risk weight shall be assigned to the Part of the loan that exceeds the limits set out in point 55.
57. When the discretion contained in points 51 to 53 is exercised by the competent authorities of one Member State, the competent authorities of another Member State may allow their credit institutions to risk weight at 50 % such exposures fully and completely secured by mortgages on commercial property.

58. Competent authorities may dispense with the condition contained in point 54(b) for exposures fully and completely secured by mortgages on commercial property which is situated within their territory, if they have evidence that a well-developed and long-established commercial real estate market is present in their territory with loss-rates which do not exceed the following limits:
- (a) losses stemming from lending collateralised by commercial real estate property up to 50 % of the market value (or where applicable and if lower 60 % of the mortgage lending value (MLV)) do not exceed 0,3 % of the outstanding loans collateralised by commercial real estate property in any given year; and
 - (b) overall losses stemming from lending collateralised by commercial real estate property must not exceed 0,5 % of the outstanding loans collateralised by commercial real estate property in any given year.
59. If either of the limits referred to in point 58 is not satisfied in a given year, the eligibility to use point 58 shall cease and the condition contained in point 54(b) shall apply until the conditions in point 58 are satisfied in a subsequent year.
60. When the discretion contained in point 58 is exercised by the competent authorities of a Member State, the competent authorities of another Member State may allow their credit institutions to assign a risk weight of 50 % to such exposures fully and completely secured by mortgages on commercial property.
10. PAST DUE ITEMS
61. Without prejudice to the provisions contained in points 62 to 65, the unsecured part of any item that is past due for more than 90 days and which is above a threshold defined by the competent authorities and which reflects a reasonable level of risk shall be assigned a risk weight of:
- (a) 150 %, if value adjustments are less than 20 % of the unsecured part of the exposure gross of value adjustments; and
 - (b) 100 %, if value adjustments are no less than 20 % of the unsecured part of the exposure gross of value adjustments.
62. For the purpose of defining the secured part of the past due item, eligible collateral and guarantees shall be those eligible for credit risk mitigation purposes.
63. Nonetheless, where a past due item is fully secured by forms of collateral other than those eligible for credit risk mitigation purposes, a 100 % risk weight may be assigned subject to the discretion of competent authorities based upon strict operational criteria to ensure the good quality of the collateral when value adjustments reach 15 % of the exposure gross of value adjustments.
64. Exposures indicated in points 45 to 50 shall be assigned a risk weight of 100 % net of value adjustments if they are past due for more than 90 days. If value adjustments are no less than 20 % of the exposure gross of value adjustments, the risk weight to be assigned to the remainder of the exposure may be reduced to 50 % at the discretion of competent authorities.
65. Exposures indicated in points 51 to 60 shall be assigned a risk weight of 100 % if they are past due for more than 90 days.
11. ITEMS BELONGING TO REGULATORY HIGH-RISK CATEGORIES

Status: EU Directives are being published on this site to aid cross referencing from UK legislation. After IP completion day (31 December 2020 11pm) no further amendments will be applied to this version.

66. Subject to the discretion of competent authorities, exposures associated with particularly high risks such as investments in venture capital firms and private equity investments shall be assigned a risk weight of 150 %.
67. Competent authorities may permit non past due items to be assigned a 150 % risk weight according to the provisions of this Part and for which value adjustments have been established to be assigned a risk weight of:
- (a) 100 %, if value adjustments are no less than 20 % of the exposure value gross of value adjustments; and
- (b) 50 %, if value adjustments are no less than 50 % of the exposure value gross of value adjustments.

12. EXPOSURES IN THE FORM OF COVERED BONDS

68. 'Covered bonds', shall mean bonds as defined in Article 22(4) of Directive 85/611/EEC and collateralised by any of the following eligible assets:
- (a) exposures to or guaranteed by central governments, central banks, public sector entities, regional governments and local authorities in the EU;
- (b) exposures to or guaranteed by non-EU central governments, non-EU central banks, multilateral development banks, international organisations that qualify for the credit quality step 1 as set out in this Annex, and exposures to or guaranteed by non-EU public sector entities, non-EU regional governments and non-EU local authorities that are risk weighted as exposures to institutions or central governments and central banks according to points 8, 9, 14 or 15 respectively and that qualify for the credit quality step 1 as set out in this Annex, and exposures in the sense of this point that qualify as a minimum for the credit quality step 2 as set out in this Annex, provided that they do not exceed 20 % of the nominal amount of outstanding covered bonds of issuing institutions;
- (c) exposures to institutions that qualify for the credit quality step 1 as set out in this Annex. The total exposure of this kind shall not exceed 15 % of the nominal amount of outstanding covered bonds of the issuing credit institution. Exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by real estate to the holders of covered bonds shall not be comprised by the 15 % limit. Exposures to institutions in the EU with a maturity not exceeding 100 days shall not be comprised by the step 1 requirement but those institutions must as a minimum qualify for credit quality step 2 as set out in this Annex;
- (d) loans secured by residential real estate or shares in Finnish residential housing companies as referred to in point 46 up to the lesser of the principal amount of the liens that are combined with any prior liens and 80 % of the value of the pledged properties or by senior units issued by French Fonds Communs de Créances or by equivalent securitisation entities governed by the laws of a Member State securitising residential real estate exposures provided that at least 90 % of the assets of such Fonds Communs de Créances or of equivalent securitisation entities governed by the laws of a Member State are composed of mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 80 % of the value of the pledged properties and the units qualify for the credit quality step 1 as set out in this Annex where such units do not exceed 20 % of the nominal amount of the outstanding issue. Exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of,

loans secured by pledged properties of the senior units or debt securities shall not be comprised in calculating the 90 % limit;

- (e) loans secured by commercial real estate or shares in Finnish housing companies as referred to in point 52 up to the lesser of the principal amount of the liens that are combined with any prior liens and 60 % of the value of the pledged properties or by senior units issued by French Fonds Communs de Créances or by equivalent securitisation entities governed by the laws of a Member State securitising commercial real estate exposures provided that, at least, 90 % of the assets of such Fonds Communs de Créances or of equivalent securitisation entities governed by the laws of a Member State are composed of mortgages that are combined with any prior liens up to the lesser of the principal amounts due under the units, the principal amounts of the liens, and 60 % of the value of the pledged properties and the units qualify for the credit quality step 1 as set out in this Annex where such units do not exceed 20 % of the nominal amount of the outstanding issue. The competent authorities may recognise loans secured by commercial real estate as eligible where the Loan to Value ratio of 60 % is exceeded up to a maximum level of 70 % if the value of the total assets pledged as collateral for the covered bonds exceed the nominal amount outstanding on the covered bond by at least 10 %, and the bondholders' claim meets the legal certainty requirements set out in Annex VIII. The bondholders' claim must take priority over all other claims on the collateral. Exposures caused by transmission and management of payments of the obligors of, or liquidation proceeds in respect of, loans secured by pledged properties of the senior units or debt securities shall not be comprised in calculating the 90 % limit; or
- (f) loans secured by ships where only liens that are combined with any prior liens within 60 % of the value of the pledged ship.

For these purposes 'collateralised' includes situations where the assets as described in subpoints (a) to (f) are exclusively dedicated in law to the protection of the bondholders against losses.

Until 31 December 2010 the 20 % limit for senior units issued by French Fonds Communs de Créances or by equivalent securitisation entities as specified in subpoints (d) and (e) does not apply, provided that those senior units have a credit assessment by a nominated ECAI which is the most favourable category of credit assessment made by the ECAI in respect of covered bonds. Before the end of this period this derogation shall be reviewed and consequent to such review the Commission may as appropriate extend this period in accordance with the procedure referred to in Article 151(2) with or without a further review clause.

Until 31 December 2010 the figure of 60 % indicated in subpoint (f) can be replaced with a figure of 70 %. Before the end of this period this derogation shall be reviewed and consequent to such review the Commission may as appropriate extend this period in accordance with the procedure referred to in Article 151(2) with or without a further review clause.

69. Credit institutions shall for real estate collateralising covered bonds meet the minimum requirements set out in Annex VIII Part 2, point 8 and the valuation rules set out in Annex VIII, Part 3, points 62 to 65.
70. Notwithstanding points 68 and 69, covered bonds meeting the definition of Article 22(4) of Directive 85/611/EEC and issued before 31 December 2007 are also eligible for the preferential treatment until their maturity.
71. Covered bonds shall be assigned a risk weight on the basis of the risk weight assigned to senior unsecured exposures to the credit institution which issues them. The following correspondence between risk weights shall apply:

Status: EU Directives are being published on this site to aid cross referencing from UK legislation. After IP completion day (31 December 2020 11pm) no further amendments will be applied to this version.

- (a) if the exposures to the institution are assigned a risk weight of 20 %, the covered bond shall be assigned a risk weight of 10 %;
- (b) if the exposures to the institution are assigned a risk weight of 50 %, the covered bond shall be assigned a risk weight of 20 %;
- (c) if the exposures to the institution are assigned a risk weight of 100 %, the covered bond shall be assigned a risk weight of 50 %; and
- (d) if the exposures to the institution are assigned a risk weight of 150 %, the covered bond shall be assigned a risk weight of 100 %.

13. ITEMS REPRESENTING SECURITISATION POSITIONS

72. Risk weight exposure amounts for securitisation positions shall be determined in accordance with Articles 94 to 101.

14. SHORT-TERM EXPOSURES TO INSTITUTIONS AND CORPORATES

73. Short-term exposures to an institution or corporate for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 7 as follows, in accordance with the mapping by the competent authorities of the credit assessments of eligible ECAIs to six steps in a credit quality assessment scale:

TABLE 7

Credit Quality Step	1	2	3	4	5	6
Risk weight	20 %	50 %	100 %	150 %	150 %	150 %

15. EXPOSURES IN THE FORM OF COLLECTIVE INVESTMENT UNDERTAKINGS (CIUS)

74. Without prejudice to points 75 to 81, exposures in collective investment undertakings (CIUs) shall be assigned a risk weight of 100 %.
75. Exposures in the form of CIUs for which a credit assessment by a nominated ECAI is available shall be assigned a risk weight according to Table 8, in accordance with the assignment by the competent authorities of the credit assessments of eligible ECAIs to six steps in a credit quality assessment scale.

TABLE 8

Credit quality step	1	2	3	4	5	6
Risk weight	20 %	50 %	100 %	100 %	150 %	150 %

76. Where competent authorities consider that a position in a CIU is associated with particularly high risks they shall require that that position is assigned a risk weight of 150 %.

77. Credit institutions may determine the risk weight for a CIU as set out in points 79 to 81, if the following eligibility criteria are met:
- (a) the CIU is managed by a company which is subject to supervision in a Member State or, subject to approval of the credit institution's competent authority, if:
 - (i) the CIU is managed by a company which is subject to supervision that is considered equivalent to that laid down in Community law; and
 - (ii) cooperation between competent authorities is sufficiently ensured;
 - (b) the CIU's prospectus or equivalent document includes:
 - (i) the categories of assets in which the CIU is authorised to invest; and
 - (ii) if investment limits apply, the relative limits and the methodologies to calculate them; and
 - (c) the business of the CIU is reported on at least an annual basis to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period.
78. If a competent authority approves a third country CIU as eligible, as set out in point 77(a), then a competent authority in another Member State may make use of this recognition without conducting its own assessment.
79. Where the credit institution is aware of the underlying exposures of a CIU, it may look through to those underlying exposures in order to calculate an average risk weight for the CIU in accordance with the methods set out in Article 78 to 83.
80. Where the credit institution is not aware of the underlying exposures of a CIU, it may calculate an average risk weight for the CIU in accordance with the methods set out in Articles 78 to 83 subject to the following rules: it will be assumed that the CIU first invests, to the maximum extent allowed under its mandate, in the exposure classes attracting the highest capital requirement, and then continues making investments in descending order until the maximum total investment limit is reached.
81. Credit institutions may rely on a third party to calculate and report, in accordance with the methods set out in points 79 and 80, a risk weight for the CIU provided that the correctness of the calculation and report shall be adequately ensured.
16. OTHER ITEMS
- 16.1. Treatment
82. Tangible assets within the meaning of Article 4(10) of Directive 86/635/EEC shall be assigned a risk weight of 100 %.
83. Prepayments and accrued income for which an institution is unable to determine the counterparty in accordance with Directive 86/635/EEC, shall be assigned a risk weight of 100 %.
84. Cash items in the process of collection shall be assigned a 20 % risk weight. Cash in hand and equivalent cash items shall be assigned a 0 % risk weight.
85. Member States may allow a risk weight of 10 % for exposures to institutions specialising in the inter-bank and public-debt markets in their home Member States and subject to close supervision by the competent authorities where those asset items are fully and completely secured, to the satisfaction of the competent authorities of the

Status: EU Directives are being published on this site to aid cross referencing from UK legislation. After IP completion day (31 December 2020 11pm) no further amendments will be applied to this version.

- home Member States, by a items assigned a 0 % or a 20 % risk weight and recognised by the latter as constituting adequate collateral.
86. Holdings of equity and other participations, except where deducted from own funds, shall be assigned a risk weight of at least 100 %.
87. Gold bullion held in own vaults or on an allocated basis to the extent backed by bullion liabilities shall be assigned a 0 % risk weight.
88. In the case of asset sale and repurchase agreements and outright forward purchases, the risk weight shall be that assigned to the assets in question and not to the counterparties to the transactions.
89. Where a credit institution provides credit protection for a number of exposures under terms that the nth default among the exposures shall trigger payment and that this credit event shall terminate the contract, and where the product has an external credit assessment from an eligible ECAI, the risk weights prescribed in Articles 94 to 101 shall be assigned. If the product is not rated by an eligible ECAI, the risk weights of the exposures included in the basket will be aggregated, excluding n-1 exposures, up to a maximum of 1 250 % and multiplied by the nominal amount of the protection provided by the credit derivative to obtain the risk weighted asset amount. The n-1 exposures to be excluded from the aggregation shall be determined on the basis that they shall include those exposures each of which produces a lower risk#weighted exposure amount than the risk#weighted exposure amount of any of the exposures included in the aggregation.

PART 2

Recognition of ECAIs and mapping of their credit assessments

1. METHODOLOGY
 - 1.1. Objectivity
 1. Competent authorities shall verify that the methodology for assigning credit assessments is rigorous, systematic, continuous and subject to validation based on historical experience.
 - 1.2. Independence
 2. Competent authorities shall verify that the methodology is free from external political influences or constraints, and from economic pressures that may influence the credit assessment.
 3. Independence of the ECAI's methodology shall be assessed by competent authorities according to factors such as the following:
 - (a) ownership and organisation structure of the ECAI;
 - (b) financial resources of the ECAI;
 - (c) staffing and expertise of the ECAI; and
 - (d) corporate governance of the ECAI.
 - 1.3. Ongoing review

4. Competent authorities shall verify that ECAI's credit assessments are subject to ongoing review and shall be responsive to changes in the financial conditions. Such review shall take place after all significant events and at least annually.
5. Before any recognition, competent authorities shall verify that the assessment methodology for each market segment is established according to standards such as the following:
 - (a) the back-testing must be established for at least one year;
 - (b) the regularity of the review process by the ECAI must be monitored by the competent authorities; and
 - (c) the competent authorities must be able to receive from the ECAI the extent of its contacts with the senior management of the entities which it rates.
6. Competent authorities shall take the necessary measures to be promptly informed by ECAs of any material changes in the methodology they use for assigning credit assessments.
- 1.4. Transparency and disclosure
7. Competent authorities shall take the necessary measures to assure that the principles of the methodology employed by the ECAI for the formulation of its credit assessments are publicly available as to allow all potential users to decide whether they are derived in a reasonable way.
2. INDIVIDUAL CREDIT ASSESSMENTS
- 2.1. Credibility and market acceptance
8. Competent authorities shall verify that ECAs' individual credit assessments are recognised in the market as credible and reliable by the users of such credit assessments.
9. Credibility shall be assessed by competent authorities according to factors such as the following:
 - (a) market share of the ECAI;
 - (b) revenues generated by the ECAI, and more in general financial resources of the ECAI;
 - (c) whether there is any pricing on the basis of the rating; and
 - (d) at least two credit institutions use the ECAI's individual credit assessment for bond issuing and/or assessing credit risks.
- 2.2. Transparency and Disclosure
10. Competent authorities shall verify that individual credit assessments are accessible at equivalent terms at least to all credit institutions having a legitimate interest in these individual credit assessments.
11. In particular, competent authorities shall verify that individual credit assessments are available to non-domestic parties on equivalent terms as to domestic credit institutions having a legitimate interest in these individual credit assessments.
3. 'MAPPING'

Status: EU Directives are being published on this site to aid cross referencing from UK legislation. After IP completion day (31 December 2020 11pm) no further amendments will be applied to this version.

12. In order to differentiate between the relative degrees of risk expressed by each credit assessment, competent authorities shall consider quantitative factors such as the long-term default rate associated with all items assigned the same credit assessment. For recently established ECAIs and for those that have compiled only a short record of default data, competent authorities shall ask the ECAI what it believes to be the long-term default rate associated with all items assigned the same credit assessment.
13. In order to differentiate between the relative degrees of risk expressed by each credit assessment, competent authorities shall consider qualitative factors such as the pool of issuers that the ECAI covers, the range of credit assessments that the ECAI assigns, each credit assessment meaning and the ECAI's definition of default.
14. Competent authorities shall compare default rates experienced for each credit assessment of a particular ECAI and compare them with a benchmark built on the basis of default rates experienced by other ECAIs on a population of issuers that the competent authorities believes to present an equivalent level of credit risk.
15. When competent authorities believe that the default rates experienced for the credit assessment of a particular ECAI are materially and systematically higher than the benchmark, competent authorities shall assign a higher credit quality step in the credit quality assessment scale to the ECAI credit assessment.
16. When competent authorities have increased the associated risk weight for a specific credit assessment of a particular ECAI, if the ECAI demonstrates that the default rates experienced for its credit assessment are no longer materially and systematically higher than the benchmark, competent authorities may decide to restore the original credit quality step in the credit quality assessment scale for the ECAI credit assessment.

PART 3

Use of ECAIs' credit assessments for the determination of risk weights

1. TREATMENT
1. A credit institution may nominate one or more eligible ECAIs to be used for the determination of risk weights to be assigned to asset and off-balance sheet items.
2. A credit institution which decides to use the credit assessments produced by an eligible ECAI for a certain class of items must use those credit assessments consistently for all exposures belonging to that class.
3. A credit institution which decides to use the credit assessments produced by an eligible ECAI must use them in a continuous and consistent way over time.
4. A credit institution can only use ECAIs credit assessments that take into account all amounts both in principal and in interest owed to it.
5. If only one credit assessment is available from a nominated ECAI for a rated item, that credit assessment shall be used to determine the risk weight for that item.
6. If two credit assessments are available from nominated ECAIs and the two correspond to different risk weights for a rated item, the higher risk weight shall be assigned.

7. If more than two credit assessments are available from nominated ECAIs for a rated item, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned.
2. ISSUER AND ISSUE CREDIT ASSESSMENT
8. Where a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure belongs, this credit assessment shall be used to determine the risk weight to be assigned to that item.
9. Where no directly applicable credit assessment exists for a certain item, but a credit assessment exists for a specific issuing program or facility to which the item constituting the exposure does not belong or a general credit assessment exists for the issuer, then that credit assessment shall be used if it produces a higher risk weight than would otherwise be the case or if it produces a lower risk weight and the exposure in question ranks pari passu or senior in all respects to the specific issuing program or facility or to senior unsecured exposures of that issuer, as relevant.
10. Points 8 and 9 are not to prevent the application of points 68 to 71 of Part 1.
11. Credit assessments for issuers within a corporate group cannot be used as credit assessment of another issuer within the same corporate group.
3. LONG-TERM AND SHORT-TERM CREDIT ASSESSMENTS
12. Short-term credit assessments may only be used for short-term asset and off-balance sheet items constituting exposures to institutions and corporates.
13. Any short-term credit assessment shall only apply to the item the short-term credit assessment refers to, and it shall not be used to derive risk weights for any other item.
14. Notwithstanding point 13, if a short-term rated facility is assigned a 150 % risk weight, then all unrated unsecured exposures on that obligor whether short-term or long-term shall also be assigned a 150 % risk weight.
15. Notwithstanding point 13, if a short-term rated facility is assigned a 50 % risk weight, no unrated short-term exposure shall be assigned a risk weight lower than 100 %.
4. DOMESTIC AND FOREIGN CURRENCY ITEMS
16. A credit assessment that refers to an item denominated in the obligor's domestic currency cannot be used to derive a risk weight for another exposure on that same obligor that is denominated in a foreign currency.
17. Notwithstanding point 16, when an exposure arises through a credit institution's participation in a loan that has been extended by a Multilateral Development Bank whose preferred creditor status is recognised in the market, competent authorities may allow the credit assessment on the obligors' domestic currency item to be used for risk weighting purposes.

Status: EU Directives are being published on this site to aid cross referencing from UK legislation. After
IP completion day (31 December 2020 11pm) no further amendments will be applied to this version.

- (1) [OJ L 250, 2.10.2003, p. 10.](#)