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EBA Final Draft Regulatory Technical Standards

on the conditions to allow institutions to calculate K_{IRB} in accordance with the purchased receivables approach under Article 255 of Regulation (EU) 2017/2401 amending Regulation (EU) No 575/2013

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Executive summary

Regulation (EU) No 575/2013 [1] as amended by Regulation (EU) 2017/2401 [2] (the Capital Requirements Regulation (CRR)) provides that institutions may calculate K_{IRB} in relation to the securitised exposures in accordance with the provisions set out in Part Three, Title II, Chapter 3 of the CRR for the calculation of capital requirements for purchased receivables, and mandates the European Banking Authority (EBA) to prepare draft Regulatory Technical Standards (RTS) in this area. The CRR requires the EBA to submit the draft RTS to the European Commission by 18 January 2019.

Main features of the RTS

The draft RTS, in accordance with Article 255(9) of the CRR, should specify in greater detail the conditions that allow institutions to calculate K_{IRB} for the underlying pools of securitisations in accordance with paragraph 4 of Article 255 of the CRR, in particular with regard to:

a) internal credit policy and models for calculating K_{IRB} for securitisations;

b) the use of different risk factors relating to the underlying pool and, where sufficient accurate or reliable data on the underlying pool are not available, of proxy data to estimate the probability of default (PD) and loss given default (LGD); and

c) due diligence requirements to monitor the actions and policies of sellers of receivables or other originators.

These draft RTS are developed to strike the right balance between the need to acknowledge the specific circumstances of institutions calculating capital requirements in the context of a securitisation transaction and the need to maintain appropriately safe and prudent requirements on the internal modelling of capital requirements, making the internal ratings-based (IRB) provisions workable in a securitisation context, and taking into account the different roles that an institution calculating K_{IRB} in relation to a given securitisation transaction may play in the context of that transaction.

In order to achieve such balance, and to maximise legal clarity, the draft RTS clearly specify that the entire set of both Level 1 and Level 2 regulations, as well as the guidelines relating to the IRB framework, apply to institutions calculating K_{IRB} in accordance with Article 255(4) of the CRR, unless specified differently in the RTS.

[1] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

[2] Regulation of the European Parliament and the Council No 2401/2017 amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms.

These draft RTS identify the servicing of the securitised exposures as the main condition determining whether the institution calculating K_{IRB} shall be allowed to compute it in accordance with Article 255(4) of the CRR. Where the institution calculating K_{IRB} is not the servicer of the securitised exposures, that institution is deemed to be in a condition of limited control and access to information in relation to the securitised exposures, which is comparable to the condition of an institution purchasing receivables in accordance with the credit risk framework. However, in certain circumstances, the institution calculating K_{IRB} that undertakes the servicing of the securitised exposures might also face conditions of limited access to information on the securitised exposures, either because it is the originator that has purchased a third party's exposures on its own account and has then securitised them or because it is not the original lender. Hereinafter, those securitised exposures for which the institution calculating K_{IRB} (i) is not the servicer or (ii.a), when being the servicer, was not involved in, or did not conclude, the original agreement that created the obligations or potential obligations of the debtor or potential debtor giving rise to them and (ii.b) has limited access to data and information on such securitised exposures shall be called 'qualifying securitised exposures'.

A servicer that is also the originator that was involved in, or that concluded, the original agreement that gave rise to the securitised exposures is not permitted to apply these RTS and should calculate K_{IRB} in accordance with the general IRB rules. Where the securitisation internal ratings-based approach (SEC-IRBA) may not be used, that institution shall use the securitisation standardised approach (SEC-SA) or the securitisation external ratings-based approach (SEC-ERBA) in accordance with Article 254 of the CRR.

Even though the Level 1 text of the CRR provides institutions with the option of using the requirements for the calculation of purchased receivables in the calculation of K_{IRB}, the EBA is of the opinion that in all cases in which (i) there is a situation of limited control of the assets or limited access to information in relation to the qualifying securitised exposures described above, and (ii) these exposures would fall within the range of application of an internal model for calculating K_{IRB} for which institutions have received the approval of the competent authority (CA), then institutions calculating K_{IRB} should compute it in accordance with the rules that are specific to purchased receivables, in particular as further specified in these RTS.

These draft RTS provide that institutions shall use internal models for calculating K_{IRB} whose range of application include only qualifying securitised exposures. The EBA is of the opinion that the use of common rating systems for exposures that are serviced and originated by the institution calculating capital and qualifying securitised exposures is not appropriate, as the two types of exposures are necessarily managed in different ways. In particular, the IRB estimation standards achieved on the exposures that the institution services might be biased or compromised by the different management standards and data used in relation to the exposures in the scope of these RTS.

These draft RTS also specify that the 3 years' prior experience normally required by the CRR on each new rating system shall not be required when the institution applies for permission to use an internal model for calculating K_{IRB}. The experience gained by the institution as a result of having received prior IRB permission for at least one rating system used under the general credit risk framework for the exposure class to which the securitised exposures are assigned, which in the context of the draft RTS is the pre-condition for the institution to be eligible for the SEC-IRBA method, is deemed sufficient for the institution to be able to obtain an IRB permission on the internal model for calculating K_{IRB} under consideration, without having to use such a rating system for 3 years before applying.

The CRR purchased receivables framework envisages, under specific conditions, facilitated estimation requirements for corporate purchased receivables. Among other things, it provides that institutions may use retail risk quantification standards, instead of corporate standards, on eligible corporate purchased receivables. In this regard, the RTS reformulate Articles 154(5) and 184 of the CRR, in order to make them workable and meaningful in a securitisation transaction context, as opposed to the portfolio purchase context for which they were originally designed. In so doing, the draft RTS also take into account the rationale of the requirements on purchased receivables as expressed in the corresponding Basel standards. The requirement whereby institutions may use retail risk quantification standards on corporate purchased receivables only where it would be unduly burdensome for them to apply corporate risk quantification standards is further specified with respect to its credit risk framework high-level wording, in order to ensure that such facilitation in the estimation process may be adopted only where justified by concrete factors and conditions.

While ensuring the internal coherence of the SEC-IRBA, these RTS provide a fall-back LGD for K_{IRB} calculation purposes, which will apply both to retail securitised exposures and to non-retail senior securitised exposures, in line with Article 259(6) of the CRR, which allows institutions to set the exposure weighted-average LGD under the SEC-IRBA as 50% for granular pools. At the same time, these RTS preclude the use of Article 161(1)(e) of the CRR, which allows the application of a 45% LGD for senior corporate purchased receivables, as it would not be congruent to apply a higher LGD value to portfolios of retail securitised exposures than to portfolios of non-retail senior exposures, which in almost all cases have a lower granularity.

Furthermore, the RTS state that the term ‘proxy data’ encompasses the concepts of ‘internal data’, ‘external data’ and ‘pooled data’, as already referred to in the CRR for the calculation of capital requirements, and sets out that the requirements on conservatism when institutions make use of data in the course of the estimation shall also apply when they use proxy data for the purposes of model development, the calibration of risk parameters and the application of the rating system for calculating K_{IRB}.

The CRR purchased receivables framework includes not only specific IRB provisions on the estimation of risk parameters (PD, LGD and credit conversion factors) but also other provisions that are not explicitly addressed in the RTS, as the corresponding CRR provisions specific to purchased receivables can be smoothly applied in a securitisation context to exposures underlying the securitisation, for the calculation of K_{IRB}, where applicable and without further specification.

Next steps

The final draft RTS will be submitted to the Commission for adoption. Following the submission, the RTS will be subject to scrutiny by the European Parliament and the Council before being published in the Official Journal of the European Union.

Background and rationale

The new Basel securitisation framework implemented in the European Union

1. Regulation (EU) 2017/2401 (the Regulation amending the CRR) and the accompanying amendments to the securitisation framework of Regulation (EU) 2013/575 (the CRR) introduce in the European Union three new approaches to the calculation of capital requirements on securitisation positions, the securitisation internal ratings-based approach (SEC-IRBA), securitisation standardised approach (SEC-SA) and securitisation external ratings-based approach (SEC-ERBA), in accordance with the July 2014 revision of the Basel securitisation framework. SEC-IRBA and SEC-SA are formulae-based approaches that require, among other inputs, the capital requirement on the exposures underlying the securitisation transaction. SEC-ERBA is based on external ratings and does not depend on the capital requirement of the securitised exposures. In the case of SEC-IRBA, the capital requirement on the securitised exposures, including expected loss, is known as K_{IRB} and must be computed in accordance with the internal ratings-based (IRB) approach of the CRR credit risk framework.

2. In accordance with the Basel standards, the amended CRR provides that SEC-IRBA ranks first in the hierarchy of approaches that are available to compute capital requirements. Institutions may use SEC-IRBA when the securitised exposures are of a type in relation to which they have permission to use the IRB approach and are able to calculate risk-weighted exposure amounts in accordance with the IRB approach for at least 95% of the underlying exposure amount. In addition, institutions may use SEC-IRBA only when sufficient information is available on the securitised exposures for them to be able to calculate K_{IRB}. Whereas the current securitisation framework provides that a specific supervisory permission is needed for institutions other than originators to use the IRB formulae-based approach to securitisation capital (in the previous framework, this is called the Supervisory Formula Method), the Regulation amending the CRR removes that specific approval and makes the use of SEC-IRBA conditional only on the IRB permissions of the credit risk framework and on the availability of sufficient information to calculate K_{IRB}.

3. In line with the Basel securitisation framework, the Regulation amending the CRR further specifies that, when using SEC-IRBA, institutions may use the provisions of the purchased receivables approach (PuRa) of the IRB framework of the CRR (Part Three, Title II, Chapter 3 of the CRR) in order to compute $K_{IRB.}$ The Regulation amending the CRR specifies that ‘proxy data’ may be used when sufficient, accurate or reliable data on the securitised exposures or on the portfolio of the originator or original lender from which they have been extracted are not available for the calculation of K_{IRB}.

4. Overall, the amendments of the securitisation framework aim to reduce the reliance on external ratings in the calculation of capital requirements and to facilitate the use of the SEC-IRBA by institutions other than originators.

The purchased receivables approach

5. In accordance with the Basel standards on the IRB approach, the IRB framework of the CRR includes specific rules on the treatment of purchased receivables. The term 'purchased receivables' is not defined in either the Basel framework or the CRR. Purchased receivables can broadly be referred to as credit exposures that institutions purchase from third parties, either corporate entities (e.g. factoring business) or other financial institutions (e.g. loan portfolio sale). In either case, one or more of the following circumstances occur: (i) the purchasing institution did not originate the obligation underlying the receivable; (ii) the obligor of the receivable may not be a customer of the purchasing institution and may not be informed that the ownership of his/her credit obligation has been transferred to the purchasing institution; (iii) the purchasing institution may rely on a third party (e.g. the seller of the receivables, a servicer or other third-party entity) for part of or the whole process of management and/or servicing of the receivables.

6. Given the above features, the IRB rules that are specific to purchased receivables ensure the following:

   a. From an operational perspective, the purchasing institution exercises sufficient control and due diligence on the purchased receivables as well as on all the entities involved in the transaction, i.e. the seller, the obligors and, where applicable, the servicer. The risk quantification, operational and due diligence requirements (Article 184 of the CRR) are minimum requirements with which the institution shall comply when it computes capital requirements on the purchased receivables in accordance with the IRB approach.

   b. As regards the IRB parameters estimation, given the likelihood that the purchasing institution may not have access to complete and fully reliable information on the purchased receivables – as opposed to the exposures it originates and holds on its balance sheet – the purchasing institution may apply, under certain conditions, less stringent IRB requirements on corporate purchased receivables. In particular, institutions may be allowed to apply retail risk quantification standards to eligible corporate purchased receivables, and may be allowed to estimate the probability of default (PD), as well as the loss given default (LGD) in the case of institutions with permission to use their own estimates of LGD, by decomposing estimates of expected losses, where the PD or LGD parameters may not be appropriately estimated in accordance with the IRB requirements (Articles 160, 161 and 170 of the CRR).

   c. In the case of retail purchased receivables, the purchasing institution takes into account the underwriting standards and customer heterogeneity of the seller for the purposes of risk differentiation, as well as all available internal and external data, given that the institution itself did not originate the purchased receivables. In addition, the institution may apply retail risk quantification standards under certain conditions, which allow for the estimation of risk parameters at pool level and for the decomposition of estimates of expected losses (Article 170, Article 180(2)(b) and Article 181(2)(a) of the CRR).

d. The purchasing institution appropriately calculates dilution risk on the purchased receivables unless the institution can demonstrate that dilution risk is immaterial for the relevant type of exposures. Although it may arise in relation to any receivables, dilution risk is more likely to arise on receivables originated by corporate entities, e.g. trade receivables.

7. Unlike the CRR, the Basel standards on the treatment of purchased receivables explicitly define the risk quantification procedure applicable to both eligible corporate purchased receivables and retail purchased receivables as a 'top-down' approach. The standards specify that the top-down approach must comply with the retail risk quantification standards and that PD, LGD and expected loss (EL) parameters may be estimated at pool level, provided that the purchased receivables have been grouped into sufficiently homogeneous pools to allow the institution to obtain accurate and consistent estimates of those parameters.

The application of provisions on purchased receivables to SEC-IRBA

8. Article 254 of the CRR sets out a hierarchy of approaches by which institutions that meet the conditions of Article 258 of Regulation (EU) No 575/2013 shall use the SEC-IRBA. In order to meet those conditions, institutions may calculate K_{IRB} in relation to the underlying exposures of a securitisation in accordance with the provisions for the calculation of capital requirements for purchased receivables in accordance with Article 255(4) of the CRR and these draft RTS. When the SEC-IRBA may not be used, institutions shall use SEC-SA or SEC-ERBA in accordance with Article 254.

9. These draft RTS are developed to strike the right balance between the need to acknowledge the specific circumstances of institutions calculating capital requirements in the context of a securitisation transaction and the need to maintain appropriately safe and prudent requirements on the internal modelling of capital requirements. In this regard, the variability of risk-weighted exposure amounts due to modelling practices is a widely acknowledged undesirable implication of the use of internal models that both the Basel Committee on Banking Supervision and the EBA have been working to address. In addition, from a prudential perspective and against the backdrop of the global securitisation market's performance during the financial crisis, it would not be appropriate to set IRB requirements applicable to the securitisation framework that are more flexible than those currently applicable, where this is not justified by sufficiently stringent and objective operational conditions.

10. An explicit link between the purchased receivables framework and the use of internal models in securitisation is acknowledged in the Basel standards. Paragraph 241 of the Basel II standards states that 'Primarily it [the top-down approach] is intended for receivables that are purchased for inclusion in asset-backed securitisation structures, but banks may also use this approach, with the approval of supervisors, for appropriate on-balance sheet exposures that share the same features'.

11. In order to define the conditions under which the IRB provisions on purchased receivables may be used for the calculation of K_{IRB}, these RTS are developed taking into account the different roles that an institution calculating K_{IRB} may play in the context of the transaction.

12. In relation to the qualifying securitised exposures, which for the avoidance of doubt include performing and non-performing securitised exposures:

- The risk quantification, operational and due diligence requirements relating to purchased receivables (Article 184 of the CRR) are deemed essential to ensure that institutions may exercise a sufficient degree of control over the securitised exposures and that they have access to information and data that are sufficiently accurate for the IRB approach to be applicable on those exposures. Furthermore, those rules ensure that institutions calculating K_{IRB} carry out sufficient due diligence analysis on all the parties involved in the securitisation transaction that may affect the accuracy of the K_{IRB} calculation.

- Institutions must take into account the original lender's underwriting practices and the heterogeneity of customers, when they are not the original lender of the securitised exposures.

- Because of the limited availability of data on the securitised exposures, as well as the limited control over those exposures, institutions may justifiably apply to eligible non-retail securitised exposures the less stringent IRB requirements set out for eligible purchased corporate receivables.

- Because of the limited availability of data on the securitised exposures, institutions may benefit from the use of 'proxy data', as referred to in the EBA's mandate in relation to these RTS.

13. The above considerations are also justified in relation to those investors that are investing in securitisation positions originated by other institutions with which they share IRB models based on pooled data. This is because the use of pooled data models does not substantially change the level of control that the investor can exercise on the securitised exposures, nor does it affect the flow of data that it receives in relation to those exposures.

14. The servicing of the securitised exposures and the status of being the institution that was involved in, or that concluded, the original agreement that gave rise to the exposures are considered key factors in determining the degree of control that the institution calculating K_{IRB} may achieve over the securitised exposures, as well as the quantity and quality of information that the institution may receive in relation to those exposures and that is necessary for an accurate K_{IRB} calculation. For these reasons, the provisions on the calculation of capital requirements for purchased receivables are deemed appropriate only in relation to qualifying securitised exposures.

15. The proposed standards afford some flexibility to the institution in those cases in which the institution is either the servicer or the institution that was involved in, or that concluded, the

original agreement that gave rise to some, but not all, of the securitised exposures of a given securitisation transaction in relation to which the institution shall calculate K_{IRB}. The requirements do not preclude the institution calculating K_{IRB} from splitting the exposures underlying a securitisation into sub-pools in order to calculate K_{IRB} separately, as long as each sub-pool meets the corresponding provisions set out in the CRR or, where applicable, in these RTS. In light of this, the institution may calculate K_{IRB} (i) in accordance with Article 255(4) of the amended CRR and this Regulation for the qualifying securitised exposures, and (ii) in accordance with the other provisions of Article 255 of the CRR, and the IRB provisions that are not specific to purchased receivables, for the sub-pool of exposures in the transaction that they service and for which they are the originator, in the sense of point (a) of Article 2(3) of the Securitisation Regulation, or the original lender. It is worth stressing that, as a consequence of what is set out in Article 258 of the amended CRR, the conditions for the use of SEC-IRBA will be met even if a maximum of 5% of the underlying exposure amount does not meet the provisions for the calculation of K_{IRB} in accordance with the CRR and these RTS, in which case the K_{SA} of those exposures shall be taken into account as laid down in Article 259(7) of the amended CRR.

16. Securitised exposures that are not serviced by the institution calculating K_{IRB} cannot be considered to be homogeneously managed with respect to exposures, either securitised or not securitised, for which the institution calculating K_{IRB} is the servicer, for reasons of different degrees of control and access to information explained in the previous paragraphs. Due to the different type of management, it is not appropriate that exposures that are in the scope of these RTS be treated under the same rating systems used by institutions for exposures that are not in the scope of these RTS. In addition, when the institution calculating K_{IRB} is the servicer and was not involved in, or did not conclude, the original agreement that created the obligations or potential obligations of the debtor or potential debtor giving rise to the exposures being securitised, it might be subject to limited access to information and data on the securitised exposures. For these reasons, the RTS require that institutions use tailor-made internal models for calculating K_{IRB} when such a calculation is undertaken in accordance with Article 255(4) of the CRR. Using common rating systems may bias or otherwise worsen the estimation outcomes for exposures that are on the balance sheet of the institution, which the institution calculating K_{IRB} service and for which the institution was involved in, or concluded, the original agreement that created the obligations or potential obligations of the debtor or potential debtor.

17. As an exception, the institution calculating K_{IRB} may use for PD estimation the approved existing rating system used for its own originated exposures within whose range of application the non-retail securitised exposures would fall, as long as it has sufficient information to apply that rating system, which could well be the case for exposures to large corporates. However, in such cases, the institution calculating K_{IRB} shall not rely on the LGD estimation from the approved existing rating system used for its own originated exposures when it is not the servicer, because the recovery practices and servicing standards may differ. Nonetheless, the institution calculating K_{IRB} and applying this exception shall comply with the rest of the provisions set out in these RTS.

18. Before applying for permission for a tailor-made internal model for calculating K_{IRB}, in accordance with this Regulation, institutions shall be considered eligible to use SEC-IRBA, in accordance with

Article 258(1) of the amended CRR, as long as they already have permission to use at least one rating system within the exposure class to which the securitised exposures are assigned.

19. Any such permission for a tailor-made internal model for calculating K_{IRB} should be based on a prior assessment of the rating system in terms of its compliance with all the requirements set out in this Regulation. When applying for such permission, institutions shall not have to meet the requirement of having been using the rating system under consideration for at least 3 years before applying, as the experience gained in the use of at least one rating system for which the institution must already have permission in the same exposure class shall be deemed sufficient in this context.

20. It is expected that a given internal model for calculating K_{IRB} that has received prior permission to be used in accordance with this Regulation may be used repeatedly and in the context of holdings in different securitisation transactions, where the securitised exposures of these different transactions may be considered to fall in the range of application of that rating system. In this regard, any changes to an internal model for calculating K_{IRB}, or to its range of application, after the required prior permission has been obtained, should be assessed in terms of regulatory treatment in accordance with the existing CRR provisions on model changes.

21. With regard to non-retail securitised exposures, in accordance with Article 153(6) of the CRR, institutions shall use the retail risk quantification standards (the 'top-down' approach in the Basel standards) when the conditions of Article 154(5) and Article 184 of the CRR are met, as specified in this Regulation, and when, in addition, they can demonstrate that it would be unduly burdensome to apply the corporate risk quantification standards as further specified in this Regulation. The 'unduly burdensome' condition is further specified in the draft RTS, in order to ensure that the facilitated estimation requirements may be used only when concrete conditions related to the implementation costs and operational capabilities for the institution calculating K_{IRB} are satisfied. Furthermore, a minimum granularity condition is proposed for a given sub-pool of non-retail securitised exposures to be eligible for retail risk quantification standards. Finally, among the conditions to be considered in the context of the assessment, the risk posed to the institution by its overall securitisation investment activity shall be considered.

22. In the case of retail securitised exposures, institutions shall use the retail risk quantification standards when the conditions of Article 184 and Article 154(5)(b) to (d) of the CRR are met, as specified in this Regulation. Point (a) of Article 154(5), as further specified in these RTS, whereby 'the SSPE has purchased the securitised exposures from unrelated third-party originators to the institution calculating K_{IRB}, and its exposure to the obligor in the pool of securitised exposures does not include any exposures that are directly or indirectly originated by the institution calculating K_{IRB} itself' cannot be applied for the purposes of these RTS in relation to retail securitised exposures. If that point were applied, an originator that does not service the exposures underlying the securitisation would be precluded from treating under retail risk quantification standards the securitised exposures that it itself has originated and classified as retail exposures in accordance with the credit risk framework of the CRR. The Basel standards take a similar approach, in that the provisions corresponding to the entirety of Article 154(5) determine eligibility only for the retail treatment of corporate purchased receivables and not for any purchased receivables as in the CRR

credit risk framework. In the event that the conditions of Article 184 of the CRR as specified in this Regulation are met but the retail securitised exposures are not eligible for the retail risk quantification standards, this Regulation clarifies that the institution calculating K_{IRB} shall calculate risk-weighted exposure amounts in the way set out for corporate exposures in accordance with Article 153 of the CRR.

23. Article 259(6) of the CRR allows institutions to set the exposure weighted-average LGD under the SEC-IRBA at 50% when the share of the largest exposure of the pool is no more that 3% for the purpose of the calculation of the p-parameter. This 50% LGD value has been taken into account in this Regulation to provide a fall-back LGD for K_{IRB} calculation purposes and will apply to both retail securitised exposures and non-retail senior securitised exposures, while a 100% LGD will apply to non-retail subordinated exposures. The reason for applying this 50% LGD value to non-retail senior securitised exposures, and for disapplying Article 161(1)(e) of the CRR, which allows the application of a 45% LGD for senior corporate purchased receivables, is that it would not be congruent to apply a higher LGD value to portfolios of retail securitised exposures than to portfolios of non-retail senior exposures, which in almost all cases have a lower granularity.

24. It should be understood that internal data (which in the CRR are referred to in respect of the institution calculating capital) are not necessarily to be considered the most accurate data for the use of the internal models for calculating K_{IRB} in the context of these RTS. This is because, in the context of the RTS, the securitised exposures are not necessarily serviced by the institution calculating capital and, in the case of non-originators, the exposures were not even originated by the institution calculating capital. This means that the most accurate sources of data on the securitised exposures, as well as of proxy data (i.e. not directly related to those exposures) may be external or pooled data. For these reasons, the IRB provisions that refer to internal data as the primary source of data for IRB estimation shall not necessarily apply in the context of the RTS. In addition, whenever the IRB provisions require comparability and representativeness of the data used for risk differentiation and risk quantification with respect to the data or lending standards related to the institution's actual exposures and obligors, the corresponding provisions may not always meaningfully be applied in the context of the RTS. In fact, when the internal model for calculating K_{IRB} uses external data as the most accurate source of data on the securitised exposures in the scope of the RTS, data and lending standards relating to the actual exposures and obligors of the institution calculating K_{IRB} may not be relevant reference points. Finally, the experience to be considered in the collection and recovery policies for estimating loss characteristics is that of the servicer of the securitised exposures and not that of the institution calculating K_{IRB}, when it is not the servicer.

25. Proxy data to estimate the risk parameters could be used when sufficient accurate or reliable data on the pool of securitised exposures or on the portfolio underwritten based on similar underwriting standards of the originator or original lender from which they have been extracted are not available. The term 'proxy data' encompasses the concepts of 'internal data', 'external data' or 'pooled data', as already referred to in the CRR for the calculation of capital requirements for purchased receivables. Proxy data should be used when the available information directly referred to the exposures underlying the securitisation or to the portfolio underwritten based on similar

underwriting standards of the originator or original lender from which they have been extracted is not sufficient, accurate or reliable. Its use is subject to the requirement of the representativeness of proxy data with regard to the data that they supplement and their detailed specification, when intended to be used, in the internal model for calculating K_{IRB} in the following situations: model development, quantification of risk parameters and application.

26. When estimating risk parameters and when assigning exposures to grades or pools, it should be necessary to make adjustments or adopt an adequate margin of conservatism with regard to the external data corresponding to the securitised exposures, the portfolio from which they have been extracted and proxy data. As Article 171(2) of the CRR sets out, the less information an institution has, the more conservative shall be its assignment of exposures to obligor and facility grades or pools. This is even more relevant when the definition of default used in the external data corresponding to the securitised exposures, the portfolio from which they have been extracted and the proxy data are different from the definition used by the institution calculating K_{IRB} in its internal model. Therefore, in order to apply the PuRa to securitised exposures, this Regulation incorporates Section 6 of the EBA Guidelines 2016/07 on the application of the definition of default in external data, making it mandatory for external data corresponding to the securitised exposures and proxy data under the scope of this Regulation.

27. For purchased receivables, Article 153(7) and Article 154(6) of the CRR set out that refundable purchase discounts, collateral or partial guarantees that provide first-loss protection for default losses, dilution losses or both may be treated as first-loss positions under the IRB securitisation framework. This implies that, from the perspective of the purchasing institution, those receivables are securitised exposures and that the purchasing institution may need to calculate K_{IRB} under the scope of this Regulation in order to risk weight the position it holds.

The optionality in Article 255(4) of the CRR

28. Article 255(4) of the CRR explicitly provides institutions with the possibility of choosing to apply the requirements of the IRB framework of the CRR on purchased receivables in the calculation of K_{IRB} ('institutions may calculate K_{IRB} […]'). Where the SEC-IRBA may not be used, institutions shall use SEC-SA or SEC-ERBA in accordance with Article 254 of the CRR.

29. The draft RTS define the conditions to allow institutions to use such provisions, by ensuring that (i) those provisions are used only in relation to qualifying securitised exposures, justifying access to a set of slightly facilitated estimation requirements, and (ii) all the requirements of the purchased receivables framework, as further specified in the RTS, apply whenever such conditions of limited control and access to information on the securitised exposures are satisfied. The latter condition ensures that the use of the IRB approach remains prudent and adequate in such 'unusual' conditions and that the use of the IRB approach in those conditions may not affect the quality of estimation that the institution achieves by means of using ordinary rating systems and IRB requirements on exposures that it has originated and holds on its balance sheet.

30. However, the optionality embedded in Article 255(4) of the CRR is such that institutions may choose not to apply the purchased receivables framework, and these RTS, even when the qualifying securitised exposures would fall within the range of application of an internal model for calculating K_{IRB} for which they have received the approval of the CA. Whereas these RTS are not an appropriate instrument with which to modify a Level 1 requirement, the recitals of the draft RTS clarify that institutions should apply the proposed RTS in such a case.

Draft regulatory technical standards

COMMISSION DELEGATED REGULATION (EU) No …/..

of XXX

[…]

supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the conditions to allow institutions to calculate K_{IRB} in relation to the underlying exposures of a securitisation transaction in accordance with the provisions set out in Part Three, Title II, Chapter 3 of Regulation (EU) No 575/2013 for the calculation of capital requirements for purchased receivables

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012[3], and in particular the third subparagraph of Article 255(9) thereof,

Whereas:

[3] OJ L 321, 30.11.2013, p. 6.

(1) As referred to in recital (3) below, for an institution to be eligible to use SEC-IRBA in accordance with Article 258(1) of Regulation (EU) No 575/2013 for calculating K_{IRB} in accordance with Article 255(4) of that Regulation, it suffices that the institution has received permission to use the IRB approach in relation to at least one rating system in the relevant exposure class. In order to calculate K_{IRB} in accordance with Article 255(4), as explained in the following recitals, institutions should be required to use tailor-made internal models for calculating K_{IRB}. When an institution that meets the requirements of Article 258(1) applies for permission to use an internal model for calculating K_{IRB} in accordance with Article 255(4) and this Regulation, the requirement that the institution shall have been using that internal model for calculating K_{IRB} for at least 3 years prior to applying for permission should not apply and the experience the institution has gained by using at least one rating system in the relevant IRB exposure class should be considered sufficient.

(2) Given the effect, from a prudential perspective, of the servicing factor and the status of not being involved in, or not having concluded, the original agreement that created the obligations or potential obligations of the debtor or potential debtor giving rise to the securitised exposures on the quality of the rating systems of an institution overall, institutions subject to limited control and to limited access to information and data on the securitised exposures will effectively need to calculate K_{IRB} in accordance with Article 255(4) of that Regulation in order to use the SEC-IRBA approach. As a result, the optionality of Article 255(4) of Regulation (EU) No 575/2013 is restricted to cases where institutions are deemed to have limited control or limited access to information and data on the exposures underlying the securitisation, or both. The latter occurs in all cases where the institution is not servicing all of those exposures (i.e. where institutions are either investors in securitisation positions, or sponsors or originators retaining securitisation positions in a securitisation transaction and not servicing all of the underlying exposures of such a transaction). It also occurs in certain cases where the institution calculating K_{IRB} is the servicer but was not involved in, or did not conclude, the original agreement that created the obligations or potential obligations giving rise to the securitised exposures. In the case of a securitisation with multiple originators, each originator retaining a securitisation position in the securitisation should be able to calculate K_{IRB} in accordance with Article 258 of that Regulation by applying this Regulation to the qualifying securitised exposures and the general internal ratings-based (IRB) provisions for exposures other than purchased receivables to the securitised exposures it is servicing and in relation to which it was involved in, or concluded, the original agreement that created the obligations or potential obligations of the debtor or potential debtor giving rise to them.

(3) Articles 258(1) and 242(7) of Regulation (EU) No 575/2013 provide that for the institution to be allowed to use SEC-IRBA the exposures underlying the securitisation have to be of a type in relation to which the institution has an IRB permission without further differentiating between the different roles, such as originator, servicer or investor, which an institution may play in a securitisation transaction. In the context of calculating K_{IRB} for the purposes of this Regulation, an institution would never be able to comply with the requirement to have received prior permission in accordance with Article 143(2) of Regulation (EU) No 575/2013, given that, for the reasons explained in the previous recitals, the qualifying securitised exposures could never be deemed to be homogeneously managed as similar exposures, either securitised or not securitised,

that are serviced and originated by that institution. In such cases, compliance with the requirements of the SEC-IRBA would require compliance with the requirements of this Regulation. Therefore, for the purposes of this Regulation, permission to use SEC-IRBA in accordance with Article 258(1) of Regulation (EU) No 575/2013 should be read as requiring that the institution calculating K_{IRB} has received permission to use the IRB approach in relation to at least one rating system within the exposure class to which the qualifying securitised exposures are assigned.

(4) Where an institution calculating K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013 invests in securitised exposures that it does not service, it cannot be considered to be managing those securitised exposures homogeneously to similar exposures of the same exposure class, either securitised or not securitised, for which the institution is the servicer. This is because, with regard to the former exposures, the institution will have to rely on the servicing practices and recovery practices of external entities, as well as on external data trasmitted by those entities or other external sources, including proxy data. Where the institution calculating K_{IRB} is investing in securitised exposures originated by third-party entities, that institution is generally not the original lender of those securitised exposures, nor is it the servicer of those exposures. In such cases, the institution calculating K_{IRB} has limited control and access to information in relation to the securitised exposures, similarly to an institution purchasing receivables under the credit risk framework. Similarly, even when an institution calculating K_{IRB} invests in securitsed exposures for which it is also the servicer but neither was involved in nor concluded the original agreement that created the obligations or potential obligations of the debtor or potential debtor, there might be situations in which the institution again has limited access to the contractual and risk information relating to the time when the original agreement was concluded. It is only in these circumstances that the less stringent estimation requirements generally available for purchased receivables should also be allowed for the purposes of calculating K_{IRB}. For these reasons, the computation of K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013 is applicable only to a set of qualifying securitised exposures that reflect those limited circumstances.

(5) The servicing of securitised exposures by third parties and limited access to information and data relating to their time of origination may have a material impact on the risk drivers considered relevant for risk differentiation, as well as on the quantification of the risk parameters assigned to individual grades or pools. As a result, institutions calculating K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013 should use an internal model for calculating K_{IRB} that is exclusively used to derive PD, LGD, EL or conversion factor estimates for that specific purpose of calculating K_{IRB} in accordance with that article. This means that an internal model used for the purposes of calculating K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013 should not be used for the calculation of risk-weighted exposure amounts for exposures, either securitised or not securitised, that the institution services and in relation to which it is the original lender or an originator as defined in point (a) of Article 2(3) of Regulation (EU) 2017/2402[4]. Such a separation between rating systems for general credit risk modelling and internal models for calculating K_{IRB} is also necessary to ensure

[4] Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No 1060/2009 and (EU) No 648/2012 (OJ L 347, 28.12.2017, p. 35).

that the IRB estimation standards achieved on the exposures that the institution services and in relation to which it is the original lender or an originator as defined in point (a) of Article 2(3) of Regulation (EU) 2017/2402 are not biased, compromised or otherwise worsened by the different management standards and data used in relation to the exposures in the scope of this Regulation. Nevertheless, in the case of non-retail securitised exposures, the institution calculating K_{IRB} should be allowed to use for PD estimation the approved existing rating system used for its own originated exposures under whose range of application the non-retail securitised exposures would fall, as long as it has sufficient information to apply that rating system, which could well be the case for exposures to large corporates. However, in such cases, the institution calculating K_{IRB} should not be allowed to rely on the LGD estimation from the approved existing rating system used for its own originated exposures, when it is not the servicer, because the recovery practices and servicing standards may differ.

(6) As the calculation of K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013 necessitates the use of separate rating systems that are tailor-made for this purpose, the requirements of Article 143 of that Regulation, which provide for prior approval by the relevant competent authorities for each rating system used by institutions, also apply here. As a result, all provisions relating to the use of the IRB approach for exposures other than purchased receivables, including any technical standards and guidelines relating to them, also apply, in principle, to the calculation of K_{IRB}. Consequently, the requirements of Delegated Regulation (EU) No 529/2014[5] on the materiality of extensions and changes of the IRB approach also apply where changes occur to an internal model for calculating K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013 after the prior permission has been obtained. Similarly, the IRB provisions of Regulation (EU) No 575/2013 relating to dilution risk also apply here. In accordance with the hierarchy of approaches set out in Article 254 of Regulation (EU) No 575/2013, institutions calculating K_{IRB} should always apply the internal model for calculating K_{IRB} for which they have received permission with regard to the securitised exposures that fall within its range of application, and apply SEC-IRBA accordingly.

(7) Given that the provisions of Regulation (EU) No 575/2013 relating to purchased receivables contain language relating to that specific context and not to the context of securitisation transactions, some of the terminology for purchased receivables should be understood in a manner consistent with the context of securitisation transactions and this Regulation should clarify these aspects, including the terms relating to 'seller', 'purchasing institution', 'institution's exposures and standards' and 'type of exposures'.

(8) The majority of the IRB provisions of Regulation (EU) No 575/2013 are applicable in the case of calculating K_{IRB} in accordance with Article 255(4) of that Regulation, adapted to reflect, in the context of securitisation, their original prudential purposes. Nevertheless, the application of some other of those IRB provisions in the context of securitisation is not appropriate, either because such rules are not relevant, or because they do not lead to prudent outcomes or because they would be too burdensome for

[5] Commission Delegated Regulation (EU) No 529/2014 of 12 March 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for assessing the materiality of extensions and changes of the Internal Ratings Based Approach and the Advanced Measurement Approach (OJ L 148, 20.05.2014, p. 36).

institutions in the context of securitisation. For all such cases, therefore, this Regulation should specify alternative rules that are appropriate in the context of securitisation.

(9) The requirements in Article 184 of Regulation (EU) No 575/2013 aim to ensure that, when estimating risk parameters for purchased receivables, the purchasing institution exercises a sufficient minimum level of control over those receivables on an ongoing basis, has ongoing access to data and information related to the riskiness of the receivables, including from the seller and servicer of the receivables, and takes into account on an ongoing basis the seller's and servicer's characteristics and conduct that may affect the riskiness of the receivables. These operational and due diligence requirements must be met in order to ensure a sufficiently prudent and accurate application of the IRB approach on the purchased receivables. It is therefore necessary to extend the requirements of Article 184 of that Regulation to institutions calculating K_{IRB} for the purposes of this Regulation. When there is a securitisation special purpose entity (SSPE), the institution calculating K_{IRB} may exercise indirect control on the exposures underlying the securitisation by means of the SSPE that owns the exposures as well as through a trustee, or entity fulfilling equivalent tasks, that acts on its behalf and represents its interests in the securitisation transaction. The institution has to exercise due diligence on the servicer of the securitised exposures and, where the institution itself is not the originator of the transaction, on the securitisation's originator, as originator and servicer's standards and conduct are risk drivers in relation to the exposures underlying the securitisation transaction. When, in accordance with Articles 153 and 154 of Regulation (EU) No 575/2013, the institution calculating K_{IRB} holds purchased receivables on its balance sheet and has received a refundable purchase discount, collateral or partial guarantees that provide first-loss protection for default losses, dilution losses or both, these purchased receivables should be allowed to be treated as securitised exposures and the institution should be required to exercise due diligence on the servicer, as applicable, and on the seller, as the seller's and servicer's standards and conduct are risk drivers in relation to those securitised exposures.

(10) In the context of securitisation transactions, the originator's or, where applicable, the original lender's lending standards and characteristics and the servicer's servicing standards and characteristics are essential risk drivers in relation to the exposures underlying the securitisation. As a result, these risk drivers should always be assessed as potential risk drivers when developing an internal model for calculating K_{IRB}, unless disregarding them is justified. Their implications could be reflected either by considering such risk drivers when assigning the exposures to grades or pools or by using different calibration segments for different originators and different servicers. When the institution calculating K_{IRB} is itself the originator or the original lender or the servicer of the securitisation, it should not take its own standards and characteristics into account as an additional risk driver.

(11) Article 259(6) of Regulation (EU) No 575/2013 allows institutions to set the exposure weighted-average LGD under the SEC-IRBA as 50% for the purpose of the calculation of the p-parameter of the SEC-IRBA formula when the share of the largest exposure of the pool is no more that 3%. Such optionality should be taken into account for K_{IRB} calculation purposes and should apply to both retail securitised exposures and non-retail senior securitised exposures, while a 100% LGD value should apply to non-retail subordinated exposures. This is because it would not be congruent to apply a

higher LGD value to portfolios of retail securitised exposures than to portfolios of non-retail senior exposures, which in almost all cases have a lower granularity.

(12) Institutions calculating K_{IRB} for the purposes of this Regulation would be allowed to apply the retail risk quantifications standards to non-retail securitised exposures in accordance with Article 153(6) of Regulation (EU) No 575/2013 if they met the conditions of Article 154(5), as replaced by this Regulation, and Article 184 of Regulation (EU) No 575/2013, as further specified in this Regulation, and the institution could justify that it would be unduly burdensome to apply the corporate risk quantification standards as further specified in this Regulation. When any of the conditions of Article 154(5), as replaced by this Regulation, or the unduly burdensome condition as further specified in this Regulation were not met in relation to certain securitised exposures, the institution calculating K_{IRB} would not be allowed to apply the retail risk quantification standards to those exposures, but could still apply corporate risk quantification standards to them, provided that they use an internal model for calculating K_{IRB} that meets all the requirements of this Regulation.

(13) Article 154(5) of Regulation (EU) No 575/2013, designed to apply in the context of purchased receivables, aims to ensure that purchasing institutions may not end up applying retail (i.e. less burdensome) risk quantification standards to non-retail exposures that they have originated. The Basel standards on purchased receivables clearly specify that the standards corresponding to the requirements in Article 154(5) of Regulation (EU) No 575/2013 determine eligibility for the retail treatment of corporate purchased receivables only. Article 154(5), however, does not explicitly indicate that those eligibility conditions refer only to corporate purchased receivables. In the context of securitisation, where in particular an originator does not service the exposures underlying the securitisation, point (a) of Article 154(5) would prevent the originator from treating under the retail risk quantification standards securitised exposures that it has originated itself and classified as retail exposures in accordance with the credit risk framework of Regulation (EU) No 575/2013. To avoid such a result, it should be clarified that the requirements of point (a) in Article 154(5) do not apply to retail securitised exposures. Instead, institutions calculating K_{IRB} for the purposes of this Regulation are allowed to apply the retail risk quantification standards to retail securitised exposures subject to the conditions of Article 154(5), as adapted for the purposes of this Regulation, and those of Article 184 of Regulation (EU) No 575/2013, as further specified in this Regulation. On the other hand, where the conditions of Article 184 of Regulation (EU) No 575/2013, as further specified in this Regulation, are met but the retail securitised exposures are not eligible for the retail risk quantification standards, then the institution calculating K_{IRB} should be required to calculate risk-weighted exposure amounts in the way specified for corporate exposures in Article 153 of Regulation (EU) No 575/2013.

(14) A sufficient degree of flexibility should be provided to institutions calculating K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013, which should not be prohibited from splitting the securitised exposures in sub-pools in order to calculate K_{IRB} separately, as long as each sub-pool meets the corresponding provisions set out in Part Three, Title II, Chapter 3 of Regulation (EU) No 575/2013 and in this Regulation (i.e. exposures serviced by the institution calculating K_{IRB} for which the institution was involved in, or concluded, the original agreement that created them or exposures not serviced by the institution calculating K_{IRB} or for which the institution

was not involved in, or did not conclude, the original agreement that created them using either the retail risk quantification standards or the corporate risk quantification standards). In addition, as a consequence of what is set out in Article 258 of Regulation (EU) No 575/2013, the conditions for the use of SEC-IRBA would be met even if a maximum of 5% of the underlying exposure amount did not meet the provisions for the calculation of K_{IRB} in accordance with this Regulation, in which case the K_{SA} of those exposures is required to be taken into account in the way laid out in Article 259(7) of Regulation (EU) No 575/2013.

(15) In order to be able to benefit from the retail risk quantification standards, institutions calculating K_{IRB} should be required to verify that the qualifying securitised exposures comply with several requirements, namely being purchased from unrelated third parties, not being directly or indirectly originated by the institution calculating K_{IRB}, and being generated on an arm's-length basis. In addition, for non-retail qualifying securitised exposures, institutions calculating K_{IRB} are required to calculate the outstanding exposure values to a group of connected clients. Given the difficulties regarding the availability of relevant data in the case of qualifying securitised exposures, such a verification and calculation should be undertaken to the best of the knowledge of the institutions, such as on the basis of information on the debtors, obtained from the originator, the seller or the original lender at the time of the origination of the exposures, and information obtained from the servicer in the course of its servicing of the exposures or in the course of its risk-management procedure.

(16) In quantifying the risk parameters to be associated with exposures underlying a securitisation for the purposes of this Regulation, the population of exposures represented in the data used for estimation and the lending standards that generated those data should be comparable with the securitised exposures and the lending standards that applied in the origination of those exposures. The comparability of the data used for estimation and the lending standards applied at origination should also be assessed against the exposures and standards of the institution calculating K_{IRB} for the purposes of this Regulation only where the institution calculating K_{IRB} for the purposes of this Regulation was involved in, or concluded, the original agreement that gave rise to the exposures underlying the securitisation, although it was not the servicer of those exposures. Similarly, given the need to adapt Article 180(2)(c) of Regulation (EU) No 575/2013 to the context of securitisation, internal data (to the institution calculating K_{IRB}) should not necessarily be considered to be the best available data, where the institution calculating K_{IRB} for the purposes of this Regulation was not involved in, or did not conclude, the original agreement that gave rise to the exposures underlying the securitisation, and given that the institution is not necessarily the servicer of those exposures.

(17) Given that the provisions of Regulation (EU) No 575/2013 relating to the use of the IRB approach provide for the use of data of lesser quality where other data are not available, similarly proxy data in the context of this Regulation should be understood to refer to any data that are of lesser quality than would be ideal, which in the case of securitisation applies to any data not directly referring to the securitised exposures or to the portfolio underwritten based on similar underwriting standards of the originator or original lender from which they have been extracted. Furthermore, given that Part Three, Title II, Chapter 3 of Regulation (EU) No 575/2013 for the calculation of capital requirements for purchased receivables under the credit risk approach provides

for the use of internal, external and pooled data, proxy data in the context of securitisation may also include those three types of data.

(18) The assignment of securitised exposures to grades or pools is of particular concern when using proxy data. Indeed, in accordance with Article 171(2) of Regulation (EU) No 575/2013, the less information an institution has, the more conservative its assignment of exposures to obligor and facility grades or pools needs to be. This is even more relevant when the definition of default used in external data corresponding to the securitised exposures, the portfolio underwritten based on similar underwriting standards of the originator or original lender from which they have been extracted, and proxy data are different from the definition used by the institution calculating K_{IRB} in its internal model for calculating K_{IRB}. Therefore, it is necessary for this Regulation to establish rules regarding the adjustments to be made and the margin of conservatism to be adopted in the estimation of the risk parameters in the context of calculating K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013.

(19) This Regulation is based on the draft regulatory technical standards submitted by the European Banking Authority (EBA) to the Commission.

(20) The EBA has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010[6],

HAS ADOPTED THIS REGULATION:

Article 1

Definitions

1. For the purposes of this Regulation, the following definitions shall apply:

(a) ‘model development’ means the part of the process of the estimation of risk parameters that leads to an appropriate risk differentiation by specifying relevant risk drivers, building statistical or mechanical methods to assign exposures to obligor or facility grades or pools, and estimating intermediate parameters of the model, where relevant;

(b) ‘calibration segment’ means a uniquely identified subset of the scope of application of the PD or LGD model that is jointly calibrated

where

- ‘PD model’ means all data and methods used as part of a rating system within the meaning of Article 142(1) point (1) of Regulation (EU) No 575/2013 that relate to the

[6] Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2020, p. 12).

differentiation and quantification of own estimates of PD and are used to assess the default risk for each obligor or exposure covered by that model;

- 'LGD model' means all data and methods used as part of a rating system within the meaning of Article 142(1) point (1) of Regulation (EU) No 575/2013 that relate to the differentiation and quantification of own estimates of LGD, LGD in-default and ELBE and are used to assess the level of loss in the case of default for each facility covered by that model;

(c) 'qualifying securitised exposures' means either of the following types of securitised exposures:

(i) securitised exposures for which the institution calculating K_{IRB} is not the servicer;

(ii) securitised exposures for which the institution calculating K_{IRB}, despite being the servicer, fulfils both of the following conditions:

- it was not involved in, or did not conclude, the original agreement that created the obligations or potential obligations of the debtor or potential debtor;

- it has limited access to data and information on such securitised exposures.

(d) 'internal model for calculating K_{IRB}' means a rating system for the purposes of calculating K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013.

2. With regard to the requirements referred to in Articles 2(c) and 3(d), references in Regulation (EU) No 575/2013 relating to purchased receivables shall be understood in the following sense for the purposes of their application in the particular context of securitisation, under this Regulation:

   i. 'seller' when there is an SSPE shall be understood to refer to the originator of the securitisation transaction;

   ii. 'purchasing institution' shall be understood to refer to the institution calculating K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013;

   iii. 'institution's exposures and standards' as referred to in Article 179(1)(d) of that Regulation shall be understood as references to securitised exposures and standards applied to those exposures;

   iv. 'type of exposures' as referred to in Article 142(1)(2) of that Regulation shall be understood as references to securitised exposures that would have been considered a type of exposures if they had been managed by the institution calculating K_{IRB}.

Article 2

Conditions for calculating K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013 using K_{IRB}-specific rating systems

In order to calculate K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013 using K_{IRB}-specific rating systems, the permission of the competent authorities referred to in Article 143 of that Regulation shall be granted only where the following conditions are met:

(a) the range of application of the K_{IRB}-specific rating system includes only qualifying securitised exposures;

(b) the institution calculating K_{IRB} has received permission to use the IRB approach in relation to at least one rating system within the exposure class to which the qualifying securitised exposures are assigned;

(c) all requirements of Part Three, Title II, Chapter 3 of Regulation (EU) No 575/2013 relating to rating systems are met, except those referred to in point(d);

(d) the requirements of Articles 4-11 are met with regard to the application of the purchased receivable rules of Regulation (EU) No 575/2013 in the particular context of securitisation, instead of the corresponding ones in that Regulation, as set out in each of those articles;

(e) the requirements of Articles 12 and 13 are met with regard to the use of data.

Article 3

Conditions for calculating K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013 using rating systems already approved for use for its own-originated exposures

In order to calculate K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013 using rating systems already approved for use for own-originated exposures of the institution, the following conditions shall be met:

(a) the rating system is used only for calculating the PD of the non-retail qualifying securitised exposures;

(b) the non-retail qualifying securitised exposures fall within the range of application of the rating system contemplated to be used;

(c) the institution calculating K_{IRB} uses the LGD values set out in Article 6(2);

(d) all requirements of Part Three, Title II, Chapter 3 of Regulation (EU) No 575/2013 relating to rating systems are met, except those referred to in point (e);

(e) the requirements of Article 5 and Article 10(3) are met with regard to the application of the purchased receivable rules of Regulation (EU) No 575/2013 in the particular context of securitisation, instead of the corresponding ones in that Regulation, as set out in each of those articles;

(f) the requirements of Articles 12 and 13 are met with regard to the use of data.

Article 4

Prior experience when calculating K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013

Instead of the requirements of Article 145 of Regulation (EU) No 575/2013, where an institution has received a permission to apply the IRB approach for at least one rating system within the exposure class to which the qualifying securitised exposures are assigned, the experience required for that permission shall be considered sufficient prior experience for the purposes of this Regulation.

Article 5

General conditions on risk quantification, credit policy and due diligence

1. Institutions shall comply with the requirements specified in paragraphs 2(a) to (f), instead of those referred to in Article 184 of Regulation (EU) No 575/2013.

2. In quantifying risk parameters to be associated with rating grades or pools for exposures meeting the conditions set out in point (a) of Article 2, institutions calculating K_{IRB} shall ensure, on their own, or through a party to the securitisation acting for and in the interest of the investors in the securitisation in accordance with the terms of the related securitisation documents, that all of the following requirements are met:

   (a) that the structure of the securitisation ensures that under all foreseeable circumstances the SSPE or the institution calculating K_{IRB} has effective ownership and control of all cash remittances from the securitised exposures; that ,when the obligor makes payments directly to an originator or servicer, the institution calculating K_{IRB} has procedures to verify regularly that payments are forwarded completely and within the contractually agreed terms; and that the structure of the securitisation ensures that ownership over the securitised exposures and cash receipts is protected against bankruptcy stays or legal challenges that could materially delay the ability of the SSPE or the institution calculating K_{IRB} to liquidate or assign the securitised exposures or retain control over cash receipts;

   (b) that the institution calculating K_{IRB} monitors both the quality of the securitised exposures and the financial condition of the originator, seller and servicer, including all of the following:

(i) that the institution calculating K_{IRB} assesses the correlation between the quality, or the potential recovery in case of default, of the securitised exposures and the financial condition of the originator, seller and servicer, and has in place internal policies and procedures that provide adequate safeguards to protect against any contingencies, including the assignment of an internal risk rating for the originator, seller and servicer;

(ii) that the institution calculating K_{IRB} has clear and effective policies and procedures for determining originator, seller and servicer eligibility; that the institution or its agent conducts periodic reviews of originators, seller and servicers in order to verify the accuracy of reports from the originator or servicer, detect fraud or operational weaknesses, and verify the quality of the originator's or seller's credit policies and servicer's collection policies and procedures; and that the findings of these reviews are documented;

(iii) that the institution calculating K_{IRB} assesses:

- the characteristics of the securitised exposures pools, including over-advances;

- the history of the originator's or seller's arrears, bad debts and bad debt allowances;

- the payment terms, and potential contra accounts;

(iv) that the institution calculating K_{IRB} has effective policies and procedures for monitoring, on an aggregate basis, single-obligor concentrations both within and across pools of securitised exposures;

(v) that the institution calculating K_{IRB} ensures that it receives from the originator, seller or servicer, as applicable, timely and sufficiently detailed reports of securitised exposures' ageings and dilutions to ensure compliance with the securitisation's eligibility criteria and advancing policies governing securitised exposures, and providing an effective means with which to monitor and confirm the originator's terms of sale and dilution.

(d) that the institution calculating K_{IRB} has systems and procedures for detecting deteriorations in the originator's or seller's financial condition and the securitised exposures' quality at an early stage and for addressing emerging problems pro-actively and, in particular, that the institution has clear and effective policies, procedures and information systems to monitor covenant violations, and clear and effective policies and procedures for initiating legal actions and dealing with problematic securitised exposures;

(e) that the institution calculating K_{IRB} has clear and effective policies and procedures governing the control of securitised exposures, credit and cash and, in particular, that written internal policies specify all material elements of the securitisation, including the advancing rates, eligible collateral, necessary documentation, concentration limits and the way cash receipts are to be handled; that these elements take appropriate account of all relevant and material factors, including the originator's and servicer's financial condition, risk concentrations and trends in the quality of the securitised exposures and the originator's customer base; and that internal systems ensure that funds are advanced only against specified supporting collateral and documentation;

(f) that the institution calculating K_{IRB} has an effective internal process for assessing compliance with all internal policies and procedures, including regular audits of all critical phases of the securitisation, verification of the separation of duties between, first, the assessment of the originator, seller and servicer and the assessment of the obligors, and second, between the assessment of the originator, seller and servicer and the field audit of the originator, seller and servicer, as well as evaluations of back office operations, including qualifications, experience, staffing levels and supporting automation systems.

Article 6

General conditions for risk differentiation

1. When assigning exposures to grades or pools, institutions shall consider the originator's or, as applicable, the original lender's underwriting standards and the servicer's recovery practices and servicing standards as potential risk drivers, unless they use different calibration segments for different originators or, as applicable, original lenders and different servicers in quantifying the risk parameters associated with those grades or pools.

2. Institutions calculating K_{IRB} may set LGD at 50% for retail qualifying securitised exposures, and set the following values for LGD, instead of those resulting from Article 161(1)(e) and (f) of Regulation (EU) No 575/2013, respectively:

   (a) 50% for non-retail senior qualifying securitised exposures;

   (b) 100% for non-retail subordinated qualifying securitised exposures.

Article 7

Eligibility for the retail treatment of non-retail securitised exposures

1. For the purposes of this Regulation, in order for non-retail securitised exposures to be eligible for the risk quantification standards for retail exposures as set out in Section 6, Chapter 3 of Title II, Part Three of Regulation (EU) No 575/2013, both of the following requirements shall be met instead of Article 153(6) of that Regulation:

(a) the non-retail securitised exposures shall comply with the requirements of paragraph 2, instead of the requirements referred to in points (a) to (d) of Article 154(5) of Regulation (EU) No 575/2013;

(b) it would be unduly burdensome for an institution calculating K_{IRB} to use the risk quantification standards for corporate exposures as set out in Section 6, Chapter 3 of Title II, Part Three of Regulation (EU) No 575/2013 for these exposures.

2. For the purposes of point (a) of paragraph 1, the following conditions shall be met:

(a) the SSPE or the institution calculating K_{IRB} shall have purchased the securitised exposures from unrelated third-party originators or sellers to the institution calculating K_{IRB}, and its exposure to the obligors in the pool of securitised exposures shall not include any exposures that are directly or indirectly originated by the institution calculating K_{IRB} itself;

(b) the securitised exposures shall have been generated on an arm's-length basis between the originator or seller and the obligor and as a result shall exclude inter-company accounts receivables and receivables subject to contra-accounts between firms that buy and sell to each other;

(c) the SSPE or the institution calculating K_{IRB} shall have a claim on all proceeds from the securitised exposures or a pro-rata interest in the proceeds;

(d) the pool of securitised exposures shall be sufficiently diversified.

3. For the purposes of point (b) of paragraph 1, the assessment of whether the use of risk quantification standards for corporate exposures is unduly burdensome for non-retail securitised exposures shall be carried out on the basis of the following considerations in a holistic manner:

(a) the cost to the institution calculating K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013 of using the corporate purchased receivables approach is materially affecting the decision to proceed with the holding of the securitisation position when compared with the use of the retail risk quantification standards, including the cost of developing a non-retail internal model for calculating K_{IRB} or the cost of integrating a new calibration segment into an existing one, as well as the cost of integrating the data into the institution's existing risk and reporting systems;

(b) the control and ease of access to relevant data for the institution;

(c) the operational capability of the institution to integrate any external or proxy data into existing risk and reporting systems;

(d) the pool of securitised exposures to which the retail risk quantification standards are to be applied is sufficiently granular so as to support the above considerations, which shall be deemed to be the case where the number of underlying exposures of the securitisation to which the retail treatment is to be applied exceeds 100 and the aggregate exposure value of all such exposures to a single obligor in the pool do not exceed 2% of the aggregate outstanding exposure values of the pool of securitised exposures. For the purposes of this calculation, loans or leases that have been funded by the SSPE or the institution calculating K_{IRB} to a group of connected clients shall be considered as exposures to a single obligor;

(e) the size and frequency of securitisation exposures within the institution where the application of the corporate risk quantification standards is considered unduly burdensome is not considered to be a material risk to the institution.

Article 8

Eligibility for the retail treatment of retail securitised exposures

For the purposes of this Regulation, in order for retail exposures to be eligible for the risk quantification standards for retail exposures as set out in Section 6, Chapter 3 of Title II, Part Three of Regulation (EU) No 575/2013, all of the following requirements shall be met instead of Article 154(5) of that Regulation:

(a) the securitised exposures shall have been generated on an arm's-length basis between the originator and the obligor and as a result shall exclude inter-company accounts receivables and receivables subject to contra-accounts between firms that buy and sell to each other;

(b) the SSPE or the institution calculating K_{IRB} shall have a claim on all proceeds from the securitised exposures or a pro-rata interest in the proceeds;

(c) the pool of securitised exposures shall be sufficiently diversified.

Article 9

Determination of relationship between parties, arm's-length and connected clients

For the purposes of paragraphs 2(a), 2(b) and 3(d) of Article 7 and paragraph (a) of Article 8, the institution calculating K_{IRB} shall assess the relationship between parties, the arm's-length condition or the connectedness of clients, as referred to in those paragraphs to the best of its knowledge, on the basis of the following types of information:

(a) information on the debtors, obtained from the originator, the seller or the original lender at the time of the origination of the exposures;

(b) information obtained from the servicer in the course of its servicing of the exposures or in the course of its risk-management procedure.

Article 10

Calculation of risk-weighted exposure amounts for credit risk of securitised exposures

1. In the case of retail securitised exposures that meet the requirements set out in Article 8, institutions calculating K_{IRB} for the purposes of this Regulation shall calculate risk-weighted exposure amounts for credit risk in accordance with Articles 154 and, where applicable, Article 156(b) of Regulation (EU) No 575/2013.

2. In the case of retail securitised exposures that do not meet the requirements set out in Article 8, institutions shall calculate risk-weighted exposure amounts for credit risk in accordance with Article 153 and, where applicable, Article 156(b) of Regulation (EU) No 575/2013.

3. In order to calculate K_{IRB} for non-retail securitised exposures, irrespective of whether the conditions in accordance with Article 7 for applying retail risk quantification standards are met or not in respect of such exposures, institutions shall calculate risk-weighted exposure amounts for credit risk in accordance with Article 153 and, where applicable, Article 156(b) of Regulation (EU) No 575/2013.

Article 11

Requirements on data and primary data

1. Where the securitised exposures and the obligors of those exposures were not exposures or obligors of the institution calculating K_{IRB} before the transfer of such exposures to the SSPE or to the institution calculating K_{IRB}, instead of the requirement of representativeness of the data used for model development in accordance with Article 174(c) of Regulation (EU) No 575/2013, the representativeness of the data shall be assessed in relation to the securitised exposures.

2. Instead of the requirement in the first sentence of Article 180(2)(c) of Regulation (EU) No 575/2013, institutions shall regard the data relating to the securitised exposures, the data of the portfolio of the originator or original lender based on similar underwriting standards from which they have been extracted, and the data relating to the collection and recovery policies adopted by the servicer as the primary source of information for estimating risk parameters for the purposes of model development, the quantification of risk parameters and the application of the internal model for calculating K_{IRB}.

Article 12

Use of proxy data

1. For the purposes of model development, the quantification of risk parameters and the application of the internal model for calculating K_{IRB}, and in order to complement the data referred to in Article 11(2), institutions calculating K_{IRB} may use any data other than the data referred to in that article as proxy data.

2. From the perspective of the institution calculating K_{IRB}, the proxy data referred to in paragraph 1 can be internal, external or pooled data in the sense used in Part Three, Title II, Chapter 3, Section 6 of Regulation (EU) No 575/2013.

3. The requirements of Article 179(1)(f) of Regulation (EU) No 575/2013 on conservatism when institutions make use of proxy data in the course of the estimation shall apply also when institutions use proxy data for the purposes of model development, quantification of risk parameters and application of the internal model for calculating K_{IRB} in accordance with paragraph 1.

4. Institutions calculating K_{IRB} that use proxy data shall assess their representativeness with regard to the data referred to in Article 11(2) and make the necessary adjustments to the proxy data in order to align their quality to that of the data referred to in Article 11(2).

5. Where it is not possible to overcome the difference in quality by adjustments in the proxy data, institutions calculating K_{IRB} shall adopt an appropriate margin of conservatism in the estimation of risk parameters in accordance with Article 179(1)(f) of Regulation (EU) No 575/2013.

6. Institutions calculating K_{IRB} may use, for the purposes of model development, the quantification of risk parameters and the application of the internal model for calculating K_{IRB}, the data on static and dynamic historical default and loss performance made available by originators and sponsors in accordance with Articles 22 and 24(14) of Regulation (EU) 2017/2402, irrespective of whether they meet the requirements of simple, transparent and standardised securitisations of that Regulation.

Article 13

Use of data that are not consistent with the definition of default in accordance with Article 178(1) of Regulation (EU) No 575/2013

1. The calibration of risk parameters shall be based on the institution's definition of default that is applicable to the respective internal model for calculating K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013. Institutions calculating K_{IRB}, which use external data or proxy data for the purpose of calibration of risk parameters, shall meet all of the following requirements:

(a) they shall ensure that the definition of default used in the data is consistent with Article 178 of Regulation (EU) No 575/2013;

(b) they shall ensure that the definition of default used in the data is consistent with the definition of default as implemented by the institution calculating K_{IRB} in accordance with Article 255(4) of Regulation (EU) No 575/2013 for the relevant portfolio of securitised exposures, including the counting and number of days past due that triggers default, the structure and level of materiality threshold for past due credit obligations, the definition of distressed restructuring that triggers default, the type and level of specific credit risk adjustments that triggers default and the criteria to return to non-defaulted status;

(c) they shall document sources of the data, the default definition used in these data, the analysis performed and all identified differences.

2. For each of the differences identified in the definition of default resulting from the assessment referred to in paragraph 1, institutions calculating K_{IRB} shall meet both of the following requirements:

(a) they shall assess whether the adjustment to the internal definition of default would lead to an increased or a decreased default rate or whether it is impossible to determine;

(b) depending on the outcome of the assessment referred to in point (a), they shall either perform appropriate adjustments in the data or be able to demonstrate that the difference is negligible in terms of the impact on all risk parameters and own funds requirements, as appropriate.

3. With regard to the totality of the differences identified in the definition of default resulting from the assessment referred to in paragraph 1 and taking into account the adjustments performed in accordance with point (b) of paragraph 2, institutions calculating K_{IRB} shall achieve a broad equivalence with the internal definition of default used within the internal model for calculating K_{IRB}, including, where possible, by comparing the default rate in internal data on a relevant type of exposures with external or proxy data.

4. Where the assessment referred to in paragraph 1 identifies differences in the definition of default that are non-negligible but not possible to overcome by adjustments in the data, institutions calculating K_{IRB} shall adopt an appropriate margin of conservatism in the estimation of risk parameters in accordance with Article 179(1)(f) of Regulation (EU) No 575/2013. In that case, institutions calculating K_{IRB} shall ensure that this additional margin of conservatism reflects the materiality of the remaining differences in the definition of default and their possible impact on all risk parameters.

Article 14

Final provisions

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission
The President

Accompanying documents

Draft cost-benefit analysis/impact assessment

1. Article 255(4) of Regulation (EU) No 575/2013 (the CRR), as amended by Regulation (EU) 2017/2401 (the Regulation amending CRR) establishes that institutions may calculate K_{IRB} in relation to the securitised exposures in accordance with the provisions set out in Part Three, Title II, Chapter 3 of the CRR for the calculation of capital requirements for purchased receivables.

2. Article 255(9) establishes that the EBA shall develop draft regulatory standards to specify in greater detail the conditions to allow institutions to calculate K_{IRB} for the underlying pools of securitised exposures in accordance with paragraph 4.

3. The EBA shall submit those draft RTS to the Commission by 18 January 2019. The current draft RTS are the EBA's response to this mandate.

4. As per Article 10(1) of the EBA Regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council), any RTS developed by the EBA shall be accompanied by an Impact Assessment (IA) annexe that analyses 'the potential related costs and benefits' before submission to the Commission. Such an annex shall provide the reader with an overview of the findings as regards the identification of the problem, the options identified to remove the problem and their potential impacts.

5. For the purposes of the IA section of the Consultation Paper, the EBA prepared the IA with a cost-benefit analysis of the policy options included in the regulatory technical standards described in this Consultation Paper. Given the nature of the study, the IA is high level and qualitative in nature and includes some quantitative analysis when possible.

A. Problem identification

6. The Regulation amending CRR introduces in the European Union three new approaches to the calculation of capital requirements on securitisation positions, SEC-IRBA, SEC-SA and SEC-ERBA, in accordance with the July 2014 revision of the Basel securitisation framework. SEC-IRBA and SEC-SA are formulae-based approaches that require, among other inputs, the capital requirement on the exposures underlying the securitisation transaction. SEC-ERBA is based on external ratings and does not depend on the capital requirement of the securitised exposures.

7. The Regulation amending CRR attempts to substantially reduce reliance on external ratings within the securitisation framework. It places the approach based on internal models (SEC-

IRBA) at the top of the hierarchy, and places SEC-SA and SEC-ERBA as, respectively, the second and third approaches, unless specific conditions for the inversion of this hierarchy are fulfilled, in which case SEC-ERBA may be used as the second approach.

8. However, the use of SEC-IRBA, which relies on the possibility for the institution to be able to apply the general IRB credit risk framework and to calculate the IRB capital requirements of the underlying pool of securitised exposures, would generally be limited to IRB originating institutions that service those securitised exposures because they have full control as well as full access to the necessary information in relation to the securitised exposures. IRB investing institutions would not generally be able to apply the SEC-IRBA due to a lack of control and a lack of sufficient information on the underlying pool and, consequently, the most risk-sensitive approach would have limited use.

B. Policy objectives

9. The main objective of the RTS is to specify the conditions that allow institutions to calculate K_{IRB} for the underlying pools of a securitisation in accordance with the provisions set out in Chapter 3 of the CRR for the calculation of capital requirements for purchased receivables. This would allow institutions that do not service the securitised exposures, or have not been involved in the original agreement that created the obligations or potential obligations of the debtor or potential debtor giving rise to them, and that hold a securitisation position, to apply the SEC-IRBA and facilitate the achievement of the general objective of reducing reliance on external ratings within the securitisation framework.

10. As a result, the specific objective of the RTS is to specify in greater detail, when using the existing provisions on purchased receivables in the CRR, the following:

    a) the internal credit policy and models for calculating K_{IRB} for securitisations;

    b) the use of proxy data to estimate PD and LGD, where sufficient accurate or reliable data on the underlying pool are not available; and

    c) due diligence requirements to monitor the actions and policies of original lenders, services and, where applicable, originators.

C. Cost-benefit analysis

11. Taking into account the foregoing, the proposed technical standards are expected to provide enough benefits for institutions and supervisors that more than offset the additional costs connected with their implementation.

12. From the perspective of an institution calculating K_{IRB}, the benefit is that the SEC-IRBA, which sits at the top of the hierarchy, has been calibrated to produce generally lower capital requirements, as it is the most risk-sensitive approach, which implies an increased capacity

to lend and invest for a given capital base, with the limit imposed by the leverage ratio. This is likely to more than offset the additional costs connected with the development and approval of new internal rating systems for securitised exposures and the internal governance requirements imposed as a consequence.

13. From the perspective of supervisors, the increased costs of supervision that a more extended use of internal rating systems involves, in comparison with external ratings-based approaches, would be offset by the benefits arising from further reducing the reliance on external ratings in the regulatory capital framework, which will mitigate in the future the negative impact of the herding and cliff effects that arose in the financial crisis as a result of credit rating agencies' rating thresholds being hard-wired into laws, by reducing the mechanistic reliance by market participants and establishing stronger internal credit risk assessment practices instead.

14. Regarding those negative impacts, it is relevant to note, as the Basel Committee underlined, that, 'during the crisis, credit rating agencies (CRAs) downgraded the ratings of many securitisation tranches, including senior tranches, highlighting deficiencies in credit rating agency models originally used to determine the ratings … Recognising that their models had been inadequate, shortly after the crisis CRAs began to make fundamental changes to their methodologies … As rating agencies downgraded highly-rated securitisation exposures below investment grade, regulatory capital requirements increased rapidly and significantly due to the presence of cliff effects within the securitisation framework. Market uncertainty and procyclical cliff effects in capital requirements created incentives for banks in certain jurisdictions to sell securitisation exposures to maintain their capital ratios. This in turn further depressed values leading to mark-to-market losses in fair valued portfolios.'

Feedback on the public consultation on PuRa

The EBA publicly consulted on the draft proposal contained in this paper.

The consultation period lasted for 3 months and ended on 15 September 2018. In total, eight responses (seven public and one confidential) were received, mostly from banking associations. Although the number of respondents was relatively low, the responses to the questions and general remarks were often very detailed and of a highly technical nature.

This paper presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments and the actions taken to address them if deemed necessary.

In many cases, several industry bodies made similar comments, or the same body repeated its comments in response to different questions. In such cases, the comments and the EBA analysis are included in that section of the paper that the EBA considers most appropriate.

Changes to the draft RTS have been incorporated as a result of the responses received during the public consultation.

Summary of key issues

All respondents agree with the general principle of a separate rating system for securitised exposures. However, they also stressed that the draft RTS might be too generic and that they should provide further deviation for the general credit risk framework, as, in particular, the 2017 EBA guidelines for the estimation of PD and LGD are deemed globally inappropriate for purchased receivables portfolios. Other specific comments were the following:

<u>Hierarchy of approaches</u>. The final technical standards should confirm that, if an institution has relevant IRB permissions but is not able to apply the SEC-IRBA (including the securitisation PuRa) to its investment in a particular transaction, it should then apply the SEC-ERBA or the SEC-SA in accordance with the hierarchy set out in Article 254 of the amended CRR.

<u>Exemption of prior approval</u>. Some respondents are of the opinion that credit institutions that already have an approved IRB model for an asset class should be allowed to apply PuRa for that asset class following notification to the relevant CA without having to obtain the prior approval of the national competent authorities (NCAs).

<u>Range of permission</u>. In addition, it is suggested that the final RTS clarify that the range of permissions obtained by an institution can be (i) extended to entities within the group subject to consolidated supervision under the CRR and (ii) applied to the exposure class across all European Union jurisdictions.

<u>Extension to servicers that are not the original lender</u>. Some respondents stressed that PuRa should also be allowed for institutions exposed to a securitisation that (i) are the servicer but not the

original lender and (ii) do not have sufficient data available to use the regular IRB model. As a result, the definition of the scope of the RTS should preferably focus on the relevant lack of information rather than on a third-party servicer scenario.

Extension to non-SSPE. In addition, institutions purchasing receivables directly and recognising refundable purchase price discount as first loss protection should explicitly be allowed to use PuRa in accordance with the RTS. For this purpose, it is suggested that the references to 'the SSPE' in Articles 4, 6 and 9 of the draft RTS are changed to refer to 'the SSPE or the institution as applicable'.

General condition for risk differentiation. It was suggested that the conditions regarding risk differentiation be modified to require institutions to apply minimum requirements of originator and servicer underwriting standards and recovery practices, instead of treating them as risk drivers to differentiate between transactions. Flexibility should also be considered so that risk drivers are applied only where relevant and appropriate.

Treatment of non-retail exposures and corporate waiver. In terms of the eligibility criteria for the retail treatment of non-retail exposures, some respondents would like the final RTS to explain further the reason why the condition in Article 6(2)a of the draft RTS that precludes own-originated corporate exposures from benefiting from a retail treatment is applicable only to non-retail exposures. In addition, the exclusion of receivables subject to contra accounts between firms that buy and sell to each other (stated in Article 6(2)b of the draft RTS) is seen as too prohibitive.

Granularity requirement. Most respondents disagree with the suggested granularity requirements for the use of a corporate waiver. In particular, the provisions of the RTS (500 minimum exposures and 2% concentration limit) are seen as too stringent and not workable for collateralised loan obligations (CLOs).

Exposures to a group of connected clients. In the case of a group of connected clients, it is viewed that the final RTS should be more flexible and allow the calculation of the concentration limits to be done 'to the best knowledge of the sponsor'.

PD estimation. It is suggested that a firm be allowed to apply its own PD model to a particular corporate name in a pool of purchased receivables, whether or not the exposures to that obligor make up a large concentration.

LGD estimation. Most respondents expressed concern regarding their ability to meet the requirements on LGD calculation set out in the 2017 EBA guidelines for the estimation of PD and LGD when using proxy data. In this regard, they provided several alternatives: (i) use their LGD model for the same type of exposures as long as they expect the servicer's performance for the securitised exposures to be materially similar to that of the institution; (ii) set up a look-up table with fixed LGDs depending on asset types; and (iii) use the foundation LGD.

Proxy data. Most respondents are fine with the concept of proxy data but ask for more clarity regarding their use. In particular, further guidance is requested on (i) the circumstances that would allow institutions to use internal, external or pooled data and (ii) the interaction between the RTS on PuRa and the EBA Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures and the different types of proxy data and their relationship to the margins of conservatism.

Synthetic securitisation. Most respondents would like the EBA to consider extending the use of PuRa on synthetic securitisations. They argue that the proposed indirect control requirement for the use of PuRa is very strict and is not necessarily relevant in the case of synthetics (i.e. under a synthetic securitisation transaction, the institution has not provided funding to the originator and, therefore, its need to control the cash flows from the receivables is seen as limited).

Non-performing loan (NPL) securitisation. In addition, some credit institutions argue that the final RTS should be workable if applied to NPL securitisation as long as (i) the pool is sufficiently granular and (ii) the institutions could calculate LGDs especially when relevant data such as third-party valuations are available.

The EBA's response

In the final draft RTS, the methodology has been maintained and the EBA still considers that the existing Level 2 regulations and guidelines are appropriate and fully applicable to purchased receivables portfolios and, in turn, to securitised exposures, when adapted to reflect, in the context of securitisation, their original prudential purposes, with the adjustments proposed in the draft RTS. Therefore, for the relevant cases, the RTS specify alternative rules to the IRB provisions on purchased receivables of the CRR, which are more appropriate in the context of securitisation. However, with respect to the rest of the applicable IRB rules, as a safeguard, a recital states that these IRB rules should be read in the context of securitisation, maintaining their prudential purpose.

With respect to more specific issues, the following changes have been made:

Clarification on the optionality of Article 255(4) of the CRR and the application of the hierarchy of approaches of Article 254 of the CRR. The RTS clarify that to meet the conditions to use SEC-IRBA, institutions may calculate K_{IRB} in relation to the underlying exposures of a securitisation in accordance with Article 255(4) of the CRR and the present RTS. However, a recital states that it should be expected that institutions always apply the model to calculate K_{IRB} in accordance with Article 255(4) of the CRR for which they have received permission to the securitised exposures that fall within its range of application, and apply SEC-IRBA accordingly, instead of going down the hierarchy of approaches.

Extension to servicers that are not the original lender. The RTS specify that 'Institution calculating K_{IRB}' refers to an institution that holds a securitisation position and makes use of the optionality under Article 255(4) of the CRR because it has limited control and/or access to information on the securitised exposures and it is not a servicer that was involved in the original agreement that created the obligations. This extends the scope of the RTS, in the case of limited access to the information on the original agreement that created the securitised exposures, to servicers that are originators under point (b) of the definition of originator in Article 2(3) of the Securitisation

Regulation (i.e. those that purchase a third party's exposures on their own account and then securitise them).

Extension to non-SSPE. The RTS apply not only to securitised exposures in the context of the transfer of assets to an SSPE but also to purchased receivables on the balance sheet of the institution calculating K_{IRB} that benefit from refundable purchase discounts, collateral or partial guarantees that provide first-loss protection for default losses, dilution losses or both. Consequently, all the references to a SSPE in the RTS have been extended to the institution calculating K_{IRB}, and additional references to the seller also have to be included to account for this situation.

General conditions for risk differentiation. The RTS will set out that, when developing an internal model for calculating K_{IRB}, the originator's or, when applicable, the original lender's lending standards and characteristics and the servicer's servicing standards and characteristics shall always be assessed as potential risk drivers. If they are disregarded as relevant risk drivers, a reasoned justification shall be provided to the CA.

Treatment of non-retail exposures and corporate waiver. The final draft RTS reduce the number of underlying exposures from 500 to 100 as one of the elements to be considered for the assessment of whether the use of risk quantification standards for corporate exposures is unduly burdensome for non-retail securitised exposures. However, the consideration that the concentration threshold to a single obligor in the pool does not exceed 2% of the aggregate outstanding exposure values of the pool of securitised exposures is kept.

The best knowledge standard. The EBA agreed to introduce a certain degree of flexibility in the fulfilment of certain requirements in the RTS to the best of the knowledge of the institution calculating K_{IRB}, by analogy with recital 26 of the Securitisation Regulation on best knowledge referring to situations of credit-impairedness. An article will set out that, at a minimum, the 'best knowledge' standard should be considered to be fulfilled on the basis of information obtained from the originator, the seller or the original lender when applicable, on the debtors at the origination of the exposures, and information obtained from the servicer in the course of its servicing of the exposures or in the course of its risk-management procedure.

PD estimation. As an exception, for non-retail securitised exposures only, the institution calculating K_{IRB} may use for PD estimation the approved existing rating system used for its own originated exposures under which range of application the non-retail securitised exposures would fall, as long as it has sufficient information to apply that rating system, which could well be the case for exposures to large corporates. However, in such a case the institution calculating K_{IRB} shall not rely on the LGD estimation from the approved existing rating system used for its own originated exposures, when it is not the servicer, because the recovery practices and servicing standards may differ, and it shall apply the fall-back LGD value instead. Nonetheless, the institution calculating K_{IRB} applying this exception shall comply with the rest of provisions set out in the RTS.

Fall-back LGD value. Article 259(6) of the CRR allows institutions to set the exposure weighted-average LGD under the SEC-IRBA as 50% when the share of the largest exposure of the pool is no more than 3% for the purpose of the calculation of the p-parameter. This 50% LGD value has been taken into account in this regulation to provide a fall-back LGD for K_{IRB} calculation purposes and will apply to both retail securitised exposures and non-retail senior securitised exposures, while a 100% LGD will apply to non-retail subordinated exposures.

LGD estimation. The RTS states that the experience to be considered in the collection and recovery policies for estimating loss characteristics is that of the servicer of the securitised exposures and not that of the institution, when it is not the servicer. This is to ensure a correct application in the context of securitised exposures of the 2017 EBA Guidelines for the estimation of PD and LGD.

Proxy data. The concept of proxy data has been further clarified in the RTS.

Use of data. Further clarity has been added in the draft RTS by outlining a hierarchy on the use of data and the corresponding application of margin of conservatism (MoC).

Use of data. The RTS allow the use, for the purposes of model development, the quantification of risk parameters and the application of the internal model for calculating K_{IRB}, the data on static and dynamic historical default and loss performance made available by originators and sponsors in accordance with Article 22 and Article 24(14) of Regulation (EU) 2017/2402, irrespective of whether they meet the requirements of simple, transparent and standardised securitisations of that regulation.

Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses	EBA analysis	Amendments to the proposal
General comment	Rating system. All respondents agree with the general principle of a separate rating system for securitised exposures. However, they also stressed that the draft RTS might be too generic and that they should provide further deviation for the general credit risk framework, as the 2017 EBA Guidelines for the estimation of PD and LGD in particular are deemed globally inappropriate for purchased receivables portfolios.	The EBA considers that the existing Level 2 regulations and guidelines are appropriate and fully applicable to purchased receivables portfolios and, in turn, to securitised exposures when adapted to reflect, in the context of securitisation, their original prudential purposes, with the adjustments made in the RTS.	Recital 8 reflects this view.
	Hierarchy of approaches. The final technical standard should confirm that, if an institution has relevant IRB permissions but is not able to apply the SEC-IRBA (including the securitisation PuRa) to its investment in a particular transaction, it should then apply the SEC-ERBA or the SEC-SA in accordance with	The EBA agrees that, despite being implicit, this should be clarified in one of the recitals.	A background section clarifies the interaction between the RTS and the hierarchy of approaches set out in Article 254 of Regulation (EU) No 575/2013. In addition, recital 6 sets out that 'In accordance with the hierarchy of approaches as set out in Article 254

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	the hierarchy set out in Article 254 of the amended CRR.		of Regulation (EU) No 575/2013, institutions calculating K_{IRB} should always apply the internal model for calculating K_{IRB} for which they have received permission with regard to the securitised exposures that fall within its range of application, and apply SEC-IRBA accordingly.'
Q1: Do you agree with the requirement that a rating system shall be exclusively used for securitised exposures that the institution does not service, i.e. for the exposures that are in the scope of these draft RTS?	Extension to servicers that are not originators (draft Article 2a). PuRa should be allowed for institutions that (i) are the servicer but not the originator and (ii) do not have sufficient data available to use the regular IRB model. As a result, for some respondents, the definition of the scope of the RTS should preferably focus on the relevant lack of information rather than on a third-party servicer scenario.	The EBA recognises that, when the institution calculating K_{IRB} is the servicer but not the original lender or an originator under point (a) of its definition, there might be situations in which the institution lacks the information necessary to calculate K_{IRB} in the usual way.	Article 1 of the RTS defines 'qualifying securitised exposures' for the purpose of the RTS.
	Extension to non-SSPE (draft RTS Articles 4, 6 and 9). Institutions purchasing receivables directly and recognising refundable purchase price discounts as first-loss protection should explicitly be allowed to use PuRa in accordance with the RTS. For this purpose, it is suggested that the	The EBA recognises that Articles 153(7) and 154(6) CRR set out that, for purchased receivables, 'refundable purchase discounts, collateral or partial guarantees that provide first-loss protection for default losses, dilution losses, or both, may be treated as first-loss positions under the IRB securitisation framework'. This implies that, from the perspective of the purchasing institution, those receivables are securitised exposures and that the purchasing institution may need to	Several changes have been made to the draft RTS: references to 'the SSPE' have been replaced with the 'SSPE or the institution calculating K_{IRB}' and references to the originator have been replaced by the 'originator or seller'.

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	references to 'the SSPE' in Articles 4, 6 and 9 of the draft RTS are changed to refer to 'the SSPE or the institution as applicable'.	calculate K_{IRB} under the PuRa approach in order to risk weight the senior position it holds.	
Q2A: Should an exception be introduced for certain corporate exposures (e.g. large corporate exposures that the institution may rate using the corporate rating system it uses to rate corporate clients)?	Corporate waiver. stakeholders expressed mixed views: - Some respondents do not see a need for a separate treatment of certain corporate exposures ,as this might add unnecessary complexity. - Others stress that such an exception for corporate exposures would be appropriate, particularly for concentrated exposures. In this case, an exception should be considered for exposures to obligors exceeding a given level of concentration in the pool (as defined in Article 6(3) of the draft RTS) or could be allowed if the single obligor is identified under the large exposure regulation of Regulation 1187/2014 ('Look-Through Approach'). In particular, one respondent suggests the following global categorisation: ▪ Granular sub-pool of obligors (pursuant to	The EBA recognises that, in those cases where the institution calculating K_{IRB} has a rating system under whose range of application the non-retail securitised exposures would fall, the estimation of PD would be accurate, as long as all the required information to feed the PD model were available. In contrast, where the institution has been authorised to use its own LGD estimates, that LGD estimation will not be accurate because the institution's recovery practices and servicing standards may differ from those of the servicer.	A new Article 3 has been added.

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	Article 6.3) should be rated using PuRa. ▪ Single name concentrations that exceed the concentration limit and can be rated using an internal model should be rated using the institution's IRB models. ▪ Single name concentrations that exceed the concentration limit and cannot be rated using internal models should use the standardised approach.		
	<u>Eligibility criteria for retail treatment of non-retail exposures</u> - Some respondents would like the final RTS to further explain the reason why the condition in Article 6(2)a of the draft RTS that precludes own-originated corporate exposures from benefiting from a retail treatment is applicable only to non-retail exposures. Some other respondents suggest deleting this	Recital 13 already explains the reason why the condition in Article 7(2)a of the draft RTS that precludes own-originated corporate exposures from benefiting from a retail treatment is applicable only to non-retail exposures. The EBA recognises that the use of the retail risk quantification standards usually implies a large number of underlying exposures, in respect of which the institution does not always have full access to their contracts.	No change introduced to the draft RTS with respect to the consultation paper (CP) version. Recital 15 and a new Article 9 take on board the 'best knowledge standard'.

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	requirement, which is seen as improper, as institutions using PuRa will usually not be in a position to ensure that the exposures in a portfolio are not directly or indirectly originated by the institution. - In addition, the exclusion of receivables subject to contra accounts between firms that buy and sell to each other (stated in Article 6(2)b of the draft RTS) is seen as too prohibitive and considered as already addressed by a generic 'prudent securitisation' requirement. It is usually addressed by eligibility criteria, or credit enhancement, or materiality concepts within a securitisation transaction.	The EBA considers that there is no reason to exclude this requirement in the context of securitisation when it is fully applicable in the context of the direct purchase of receivables.	No change introduced to the draft RTS with respect to the CP version.
	<u>Granularity requirement.</u> Most respondents disagree with the suggested granularity requirements for the use of a corporate waiver. In particular, the disposal of the RTS (500 minimum exposures and a 2% concentration limit) are seen as inconsistent with Article 259 (which refers to a granularity threshold of 25	The EBA considers that the absolute minimum requirement of 500 exposures might be too high and that setting it at 100 underlying exposures seems more reasonable. In addition, those non-retail securitised exposures treated under the rating system for own originated exposures pursuant to the exception mentioned in Question 2A shall not be considered for the calculation of the granularity requirement.	Changes in bold to Article 7(3)(d): 'the pool of securitised exposures **to which the retail risk quantification standards are to be applied** is sufficiently granular so as to support the above considerations, which shall be deemed to be the case where the number of underlying exposures of

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	minimum exposures) and not workable for CLOs. As an alternative, it is suggested that the RTS require a minimum number of exposures of 25 and apply a concentration limit of 4%.		the securitisation to which the retail treatment is to be applied exceeds **100** and the aggregate exposure value of all such exposures to a single obligor in the pool do not exceed 2% of the aggregate outstanding exposure values of the pool of securitised exposures'.
	Calculation of the granularity requirement - The granularity requirement should be applied to the pool used to seek approval for the use of PuRa but not to each transaction where PuRa is to be applied.	The EBA considers that the granularity requirement in Article 6(3) aims to support that the application of the corporate risk quantification standards to a specific transaction of non-retail securitised exposures would be unduly burdensome. It has nothing to do with the data requirement to develop a model for calculating K_{IRB}.	No change introduced to the draft RTS with respect to the CP version.
	- The calculation of the concentration limit should be based on the funded pool only, excluding receivables (and excess obligor concentrations) in the pool that are ineligible for funding.	The EBA considers that in the case of securitisation of trade receivables this is an issue, although less relevant for other type of underlying exposures. The EBA considers that there is no need to specify the frequency of the calculation as it is linked with the prudential reporting.	The last sentence of Article 7(3)(d) is amended as follows: 'For the purposes of this calculation, loans or leases to a group of connected clients **that have been funded by the SSPE or the institution calculating K_{IRB} …** shall be considered as exposures to a single obligor.'

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	The calculation should be done on the basis of, and with frequency consistent with, periodic reports provided by the servicer (e.g. on a monthly basis for asset-backed commercial paper transactions).		No change introduced to the draft RTS with respect to the CP version.
	<u>Exposures to a group of connected clients</u> - In the case of a group of connected clients, it is viewed that the final RTS should be more flexible and allow the calculation of the concentration limits to be done 'to the best knowledge of the sponsor'.	The EBA recognises that the use of the retail risk quantification standards usually implies a large number of underlying exposures, in respect of which the institution does not always have full access to their contracts.	Recital 15 and a new Article 9 take on board the 'best knowledge standard'.
	- In addition, it should be clarified that, where exposures to a single obligor (or a group of connected clients) exceed the specified concentration limit, the RTS should not prevent the institution from applying PuRa or retail quantification standards to the pool as a whole, but only to the relevant obligor (or group).	See Q2A.	See Q2A.

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	Scope of exclusion. It is suggested that the final RTS should allow for a line-by-line approach for exposures exceeding a defined concentration limit in a given transaction, rather than prevent the eligibility for the retail treatment of the whole transaction portfolio.	See Q2A.	See Q2A.
Q2B. Should such an exception be limited to the estimation of PD? If yes, what alternative would you propose for LGD estimation?	PD exemption. Most respondents think that the suggested proposal to allow the use of the same PD under the IRB model for the purpose of PuRa makes sense for large corporate exposures. However, it is also suggested that a firm be allowed to apply its own PD model to a particular corporate name and to identify that corporate as an obligor in a pool of purchased receivables, whether or not the exposures to that obligor make up a large concentration.	See Q2A.	See Q2A.
	LGD deviation. A three-step approach is suggested to determine the LGD under PuRa: - If an institution has already determined an LGD and expects the servicer performance for the securitised exposures to be materially similar to the performance of the servicer for the portfolio for which the institution has determined the LGD, then the institution may	The institution calculating K_{IRB} is allowed under the RTS to either calculate LGD in accordance with the PuRa or use a fixed 50% LGD for retail securitised exposures and non-retail senior securitised exposures. This 50% fixed LGD already exists for the calculation of the p-parameter in Article 259 CRR, when the underlying securitised portfolio is sufficiently granular. The RTS has extended it for the purpose of the calculation of K_{IRB} not only for retail securitised exposures, but also for non-retail	Article 6(2) of the RTS sets out the optionality to set LGD at 50% for retail securitised exposures and non-retail senior securitised exposures and 100% for non-retail subordinated securitised exposures. Article 161(1)(e) and (f) of Regulation (EU) No 575/2013 shall not apply.

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	apply that LGD to the excepted exposures. - In other cases, the institution could set up a mapping between the underlying securitised assets and the LGD grids and use that mapping to attribute LGD parameters to the excepted exposures. - As an alternative, the institution could choose to use LGD-F.	securitised exposures replacing the 45% LGD value applicable to senior purchased receivables under the PuRa, as it would not be coherent to apply a lower LGD value for less granular portfolios.	
Q3: Do you agree with the fact that, unlike traditional securitisations, synthetic securitisations cannot meet the general conditions set out in this article and in particular the requirements on indirect control and ownership of the securitised exposures by	Stakeholders globally agree that the conditions proposed in the draft RTS for the use of PuRa cannot be applicable to an investor (credit protection provider) in a synthetic securitisation, even though that investor would not be the servicer of the securitised exposures. However, most stakeholders would like the EBA to consider extending the use of PuRa on synthetic securitisations. They argue that the proposed indirect control requirements for the use of PuRa are very strict and not necessarily relevant in the case of synthetics (i.e. under a synthetic securitisation transaction, the institution has not provided funding to the originator; therefore, its need to	The EBA considers this recommendation to be beyond the scope of the CRR mandate under Article 255, as the PuRa applies by definition to exposures that have been purchased in accordance with Chapter 3 of the CRR. However, according to the EBA's analysis in Question 1 above, the EBA recognises that Article 153(7) and Article 154(6) of the CRR set out that, for purchased receivables, 'refundable purchase discounts, collateral or partial guarantees that provide first-loss protection for default losses, dilution losses, or both, may be treated as first-loss positions under the IRB securitisation framework'. This implies that, from the perspective of the purchasing bank, those receivables are securitised exposures and that the purchasing bank may need to calculate K_{IRB} under the PuRa approach in order to risk weight the senior position it holds.	See Q1 above.

Comments	Summary of responses	EBA analysis	Amendments to the proposal
the institution calculating K_{IRB}?	control cash flows from the receivables is seen as limited). As a result, stakeholders would favour the possibility of using PuRa if (i) a synthetic transaction can be structured to give investors sufficient protection in the event of default of the servicer and (ii) sufficient information is available.		
	It is also proposed that an exception be introduced in the RTS to account specifically for the situation where an institution purchases receivables originated and serviced by a third party and synthetically sells off/insures a tranche of the exposure. In particular, it is viewed that, if the requirements of Article 184 CRR are satisfied by the buyer, then the institution may not have sufficient information on the exposures to rate each of them individually using internal models, but might still be permitted to use the PuRa to calculate K_{IRB} for the securitisation positions it retains.		
Q4: Do you consider that a more detailed	Most respondents are fine with the concept of proxy data (even though they acknowledge that the definition lacks	The EBA recognises that further clarification is needed in order to specify which data are not considered to be proxy.	Article 11(2) is modified as follows: ‘Instead of the requirement in the first sentence of Article 180(2)(c) of

Comments	Summary of responses	EBA analysis	Amendments to the proposal
definition of proxy data is necessary? If yes, please provide a suitable definition.	detail) but ask for more clarity regarding <u>the use of proxy data</u>. In particular, further guidance is requested on: - the circumstances that would allow institutions to use internal, external or pooled data; - the interaction between the RTS on PuRa and the EBA Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures (i.e. some stakeholders fear that, if adherence to these guidelines is a prerequisite for the use of PuRa, there might be too many constraints for institutions considering using PuRa); - the different types of proxy data and their relationship to the margins of conservatism (i.e. there are concerns that data sourced from specialised warehouses, if treated as 'proxy' data and subject to high margins of conservatism, may result in unduly high risk estimations, which would limit and discourage the use of these data).	In this regard, the current and historical data of the portfolio of the originator or original lender from which the securitised exposures have been extracted shall not be considered proxy data, as long as they are based on similar underwriting standards, and shall not be subject to the same adjustments and MoC of other sources of external and proxy data. Therefore, data obtained from central repositories or data warehouses referred to exposures of the same type from the same originator or original lender shall not be considered proxy data as long as they are based on similar underwriting standards.	Regulation (EU) No 575/2013, institutions shall regard **the** data related to the securitised exposures, **and the data of the portfolio of the originator or original lender based on similar underwriting standards from which they have been extracted** … as the primary source of information for estimating loss characteristics.'

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	One stakeholder proposes that the EBA develop a more granular taxonomy of proxy data, which might be structured as follow: - primary data (i.e. directly related to the securitised exposures); - Level 1 proxy data (i.e. related to specialised data warehouses, on which the EBA might provide a specific list of recognised data providers) - Level 2 proxy data (other), with a higher margin of conservatism than Level 1 proxy data.	See the EBA's analysis above.	Article 12 has been amended and establishes a hierarchy in the use of data and the adjustments and margin of conservatism applicable at each stage.
	It is also proposed that the draft RTS include more specific examples of the types of proxy data allowed. Such examples may include specific illustrations regarding: - the use of information on similar pools to define IRB adjustments (where the institution plays the role of an investor/sponsor);	See the EBA's analysis above.	See above.

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	- the use of external reports/data to estimate IRB adjustments; - the use of external ratings for single name concentrations.	The use of external ratings will preclude the use of SEC-IRBA.	No change introduced to the draft RTS with respect to the CP version.
Q5: Do you consider that the provisions set out in the draft RTS are workable if applied to securitisations of non-performing exposures?	Most stakeholders argue that the final RTS should be workable if applied to NPL securitisation as long as (i) the pool is sufficiently granular and (ii) the institutions could calculate LGDs, especially where relevant data such as third-party valuations are available. However, some respondents also acknowledge that EL and LGD in default have a completely different background from that of PuRa, which implies a performing expected loss estimate.	The EBA considers that there is no reason that prevents institutions from calculating EL and LGD in default for securitised exposures. The estimation of risk parameters for defaulted exposures is dealt with in Chapter 7 of the Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures. However, there is a need to clarify in the RTS, although it is obvious, that the experience to be considered is that of the servicer of the securitised exposures in the recovery process and not that of the institution calculating K_{IRB}.	Article 11(2) is modified as follows: 'Instead of the requirement in the first sentence of Article 180(2)(c) of Regulation (EU) No 575/2013, institutions shall regard the data related to the securitised exposures … **and the data related to the collection and recovery policies adopted by the servicer**, as the primary source of information for estimating loss characteristics.'
	Some respondents also stressed that the main issue for NPL pools is that both the SEC-IRBA and the SEC-SA result in extremely high-risk weights for the senior tranches, resulting in these approaches being uneconomic for bank investors. As a result, it is proposed that a cap on the risk weights of the senior tranche that would take into account	The EBA consider this recommendation to be beyond the scope of this CRR mandate.	No change introduced to the draft RTS with respect to the CP version.

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	the purchase price discounts be introduced.		
Q6: Do you have any other comments on the draft RTS?			
Prior approval and past experience (Articles 2 and 3 of the draft RTS)	Exemption from prior approval. Institutions that already have an approved IRB model for an asset class should be allowed to apply PuRa for that asset class following notification to the relevant CA without having to obtain the prior approval of the CA. For this purpose, an 'asset class' could be one of the broad classes referred to in the EBA's RTS on homogeneity in the criteria for simple, transparent and standardised securitisations.	The EBA considers that given the specificities of the internal models to calculate K_{IRB} and the due diligence and operational requirements connected to them, as set out in this draft RTS, prior approval is needed. Having an approved IRB model in the asset class, and experience in dealing with the IRB framework, is a prerequisite for institutions to be able to develop an internal model to calculate K_{IRB}.	No change introduced to the draft RTS with respect to the CP version.
	Range of permission. The final RTS should clarify that the range of permissions obtained by an institution can be:	The EBA considers that the same rules applicable to an ordinary IRB rating system shall apply.	No change introduced to the draft RTS with respect to the CP version.
	- extended to entities within the group subject to consolidated supervision under the CRR; and - applied to the exposure class across all EU jurisdictions (e.g. if an	As the general IRB rules apply by default, the institution is free to determine the range of application of the internal model to calculate K_{IRB}.	No change introduced to the draft RTS with respect to the CP version.

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	institutions has an IRB model permission used for UK residential mortgages it should be allowed to apply for permission to use PuRa for any retail exposures, including residential mortgages in any jurisdiction).		
	Transitional arrangement. The EBA is asked to consider and provide guidance in the final RTS on how institutions should calculate their capital requirements for securitisations during the period after the final RTS become applicable and before institutions are able to obtain those approvals.	The EBA consider this recommendation to be beyond the scope of the CRR mandate.	No change introduced to the draft RTS with respect to the CP version.
General conditions on risk quantification credit policy and due diligence (Article 4 of the draft RTS)	Correlation assessment (Article 4(2)(a)(i) of the draft RTS). It is proposed that 'among' be changed to 'between' to make it clearer that the correlation to be assessed is between obligor credit qualify (on the one hand) and seller and servicer financial condition (on the other hand) and not between different exposures in the portfolio.	The EBA agrees with the suggestion and recognises that a more precise treatment of defaulted exposures in this regard is necessary.	A change has been made in Article 5(2)(b)(i) as follows: 'that the institution calculating K_{IRB} assesses the correlation **between** the quality, **or the potential recovery in case of default,** of the securitised exposures and the financial condition of the originator, seller and servicer…'

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	Across pools assessment (Article 4(2)(b)(iv) of the draft RTS). It is proposed that the following requirement be deleted: '... the institution has effective policies and procedures for monitoring, on an aggregate basis, single-obligor concentrations both within and across pools of securitised exposures...'. This is seen as improper, as the top-down approach is to be used by institutions with limited loan-level data but proper portfolio information. Given this, the capability of institutions to make across-pool checks is viewed as technically very limited.	As long as Article 5(2)(b)(iv) of the draft RTS also applies to non-retail securitised exposures for which the retail risk quantification standards do not apply, this article should be kept. However, the EBA recognises that the use of the retail risk quantification standards usually implies a large number of underlying exposures, in respect to which the institution does not always have full access to their contracts.	Recital 15 and a new Article 9 take on board the 'best knowledge standard'.
General condition for risk differentiation (Article 5 of the draft RTS)	It is suggested that the conditions regarding risk differentiation be modified to require institutions to apply minimum requirements of originator and servicer underwriting standards and recovery practices, instead of treating them as risk drivers to differentiate between transactions.	Article 6 of the draft RTS does not preclude the institution from considering setting minimum requirements of underwriting standards and recovery practices for the originator and servicer in order to implement the corresponding risk driver. The content of Article 5 cannot be replaced by a minimum quality of the originator or servicer for the institution to be able to apply the PuRa.	No change introduced to the draft RTS with respect to the CP version.
	Flexibility should be considered so as to apply risk drivers only where relevant and appropriate. As an example, after	The EBA is of the opinion that the originator's or original lender's underwriting standards and the	Recital 10 and Article 6 are modified accordingly: the originator's or original

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	'servicing standards as risk drivers', '(in the case of non-retail exposures, if and to the extent relevant and appropriate)' could be added.	servicer recovery practices shall always be assessed as potential risk drivers. If they are disregarded, a reasoned justification shall be provided to the CA.	lender's underwriting standards and the servicer recovery practices shall always be assessed as potential risk drivers.
	Where originator and servicer risk drivers apply, the final RTS should clarify the parameters to foster consistent treatment, using, for example, the matrix of risk factors and asset categories established in the RTS on homogeneity.	The EBA considers that a certain degree of flexibility should be given to modellers in order to take on board risk drivers for risk differentiation purposes.	No change introduced to the draft RTS with respect to the CP version.
	The RTS should provide further details regarding the information on the 'originator's underwriting standards', 'servicer's recovery practices' and 'servicer's standards' in order to avoid potentially inconsistent application of the regulation as well as potentially inconsistent assessment by NCAs. In this regard, it is also suggested to leverage on the EBA RTS on the homogeneity.	The EBA considers that some flexibility should be given to modellers in order to take on board risk drivers for risk differentiation purposes.	No change introduced to the draft RTS with respect to the CP version.
Requirement on data (Article 9 of the draft RTS)	One respondent noticed that, under Article 179(1)(e) CRR, estimates shall reflect all relevant information available to the purchasing institution and that this obligation must be balanced against the principle of the PuRa and the 'unduly burdensome' criterion under	The EBA considers that Article 179(1)(e) of the CRR just mentions all the sources of data that the institution shall use for estimation when available. It is not prudent to introduce a difference in the RTS with respect to the regulation currently applicable to purchased receivables.	No change introduced to the draft RTS with respect to the CP version.

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	Article 153(6) of the CRR. Against this background, it is proposed that the EBA specify that the obligation under Article 179(1)(e) applies only to the extent that it is not unduly burdensome.		
Use of data that are not consistent with the definition of default in accordance with Article 178(1) of the CRR (Article 11)	The EBA is invited to develop guidelines specifying how (i) to achieve equivalence to default and LGD rates calculated in accordance with a fully compliant default definition and (ii) to maintain a more objective definition of default to cover days past due and triggers applied by servicers (rather than subjective standards of whether the obligor is unlikely to pay) so as to allow more comparability and consistency of application between different institutions.	The EBA considers that the adjustments to be made in the case of a different definition of default in external and proxy data are already dealt with in (i) the Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures, (ii) the Guidelines on the application of the definition of default under Article 178 CRR, (iii) the RTS on the specification of the assessment methodology for CA regarding compliance of an institution with the requirements to use the IRB approach in accordance with Article 144(2), Article 173(3) and Article 180(3)(b) of the CRR, and (iv) in Article 11 of these draft RTS, which transposes Section 6 of the later guideline. It should also be noted that the Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures set out that 'institutions may, subject to certain requirements, use a definition of default other than that specified in Article 178 of the CRR' and that Article 11 of these draft RTS sets out that 'the definition of default used in external data or proxy data shall be consistent with Article 178 and with that implemented in the internal model for	No change introduced to the draft RTS with respect to the CP version.

Comments	Summary of responses	EBA analysis	Amendments to the proposal
		calculating K_{IRB} for the portfolio of securitised exposures'.	
Credit risk modelling	Fall-back approach. One stakeholder proposes that a fall-back approach be included for exposures that exceed the concentration limit and cannot be rated using internal models. This approach would result in assigning a conservative risk weight to this exposure that would still be considered an IRB pool to define the eligibility of the SEC-IRBA approach. As an alternative option, it is also proposed that a deduction of exposures that exceed the SA pool allowance for the SEC-IRBA approach be allowed (currently 5%). These two mechanisms are suggested to avoid scenarios where a transaction is eligible for SEC-IRBA for one reporting period but becomes ineligible for SEC-IRBA due to an increase in the number of unrated single name concentrations during the next reporting period.	The EBA considers this recommendation to be beyond the scope of the CRR mandate under Article 255, as it implies a modification of Article 258 of the CRR.	No change introduced to the draft RTS with respect to the CP version.
	Time horizon for estimation of default risk. In the CRR, there is no explicit guidance for the calculation of short-term rolling transactions with a	This comment was already dealt with in the EBA's response to the Consultation Paper on the Guidelines	No change introduced to the draft RTS with respect to the CP version.

Comments	Summary of responses	EBA analysis	Amendments to the proposal
	maturity of less than 1 year, which creates uncertainty on how to estimate PDs, specifically for trade receivables. Against this background, it is proposed that an estimate of PDs for the current pool estimated over a short-term horizon rather than 1 year be used and that this is used without tenor adjustments to assess the risk of exposures of equal short-term tenor.	on PD estimation, LGD estimation and the treatment of defaulted exposures: 'In relation to the comment that no specific treatment should be applied to short-term contracts because the maturity parameter contains a one-year floor, it should be mentioned that, regardless of the calibration of the risk weight function, the PD estimates should reflect the probability that the obligor will default at least once within a one-year horizon, and this default may happen at any moment during the one-year period. Furthermore, the possibility of default on a short-term contract is not limited to the original maturity of the contract, given that default may be recognised only after 90 days past due. Therefore, the problem should rather be analysed from the perspective of whether such short-term contracts introduce bias in the observed average DRs compared with portfolios in which there are no short-term contracts. The CP on the GL (like the final GL) specifies that a specific treatment should be applied only if the presence of these short-term contracts causes bias. This may, for instance, occur if loans are regularly granted in March, whereas a large share of these loans usually defaults before December, and the institution, for instance, calculates one-year DRs using non-overlapping windows coinciding with calendar years.	

Comments	Summary of responses	EBA analysis	Amendments to the proposal
		'The GL specify that institutions should analyse, inter alia, if there is bias due to the share of short-term and terminated contracts that cannot be observed during the relevant one-year periods. The GL also specify that, if such bias is found to exist, institutions should apply appropriate adjustments and MoC. Even though most respondents argue that they do not apply a specific treatment where these short- term contracts are present, the above requirement is necessary to ensure that the observed average DR is comparable across institutions and portfolios. 'Regarding the request for greater clarity on which adjustments would be allowed to correct the bias due to short-term contracts, it is deemed that institutions should choose the most appropriate method themselves, and therefore the GL avoid including specific approaches, since not every approach may be suitable for all types of bias introduced by short-term contracts.'	
	Estimating PD/LGD based on static vintage data. There is no mention in the regulation of how to use static performance data to derive regulatory compliant PD/LGD under PuRa. Against this background, it is proposed that how institutions are allowed to estimate PD/LGD from static data be	The EBA considers that the estimation of risk parameters is already dealt with in the Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures, the Guidelines on the application of the definition of default under Article 178 of the CRR, and the RTS on the specification of the assessment methodology for CA regarding compliance of an institution with the	Additional paragraph added to Article 12: 6. Institutions calculating K_{IRB} are allowed to use, for the purposes of model development, quantification of risk parameters and application of the internal model for calculating K_{IRB}, the data on static and dynamic historical default and loss

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	clarified and, in particular, the following are suggested: - Extrapolate recent vintages based on the weighted average performance of older vintages. - Derive annual pool of static data using an annualisation formula. - Derive LGD by dividing gross default by net default - Use well-established industry practices to derive a margin of conservatism estimation based on vintage performance variability. This would include deriving gross loss data from net loss data. - Gross up PD based on default definition other than 90+ using roll rate data/benchmarks to estimate 90+ PD.	requirements to use the IRB approach in accordance with Article 144(2), Article 173(3) and Article 180(3)(b) of the CRR. However, the RTS clarify that the data on static and dynamic historical default and loss performance made available by originators and sponsors fulfilling the requirements of Article 22 and Article 24(14) of the Securitisation Regulation are allowed to be used for the purposes of model development, quantification of risk parameters and application of the internal model for calculating K_{IRB}. It should also be noted that: • Article 61 of the RTS on the specification of the assessment methodology for CA regarding compliance of an institution with the requirements to use the IRB approach in accordance with Article 144(2), Article 173(3) and Article 180(3)(b) of the CRR sets out the methodology to be used for the estimation of risk parameters for purchased corporate receivables. • Paragraph 91(d) of the Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures specifies the requirement for the calibration of the	performance made available by originators and sponsors in accordance with Articles 22 and 24(14) of Regulation (EU) 2017/2402 irrespective of whether they meet the requirements of simple, transparent and standardised securitisations of that Regulation.

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		long-run default average for corporate purchased receivables. • The treatment of retail purchased receivables does not differ from that of ordinary retail exposures in those guidelines and RTS.	
	Estimating PD/LGD based on dynamic default data. There is no mention in the regulation of how to use dynamic performance data to derive regulatory compliant PD/LGD under the securitisation PuRa. Against this background, it is proposed that: - it be clarified that institutions are allowed to estimate pool PD from dynamic default data, including acceptable estimations/benchmarks for cure rate; - it be clarified that institutions are allowed to estimate pool LGD from dynamic data, and guidance be provided on how to adjust for downturn effects, the time discounting for the recovery period, the inclusion of recovery costs and adjustments for a default definition other than 90+.	See the EBA's analysis above.	See above.

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	<u>EL approach</u>. Article 160(2) of the CRR shows two options relating to the EL approach. It is suggested that: - the conditions under which and in which contexts banks could use Article 160(2) of the CRR be clarified; - the minimum requirement for LGD assessment under Article 160(2)(c) of the CRR and the meaning of the ability to decompose the EL, since the EL and LGD would be known, be clarified; - the criteria to fall back on the EL decomposition method be clarified; - the criteria to estimate the margin of conservatism for the decomposition approach be clarified.	<u>The EBA considers that the CRR is clear in this respect:</u> A) <u>Corporate purchased receivables.</u> Article 160(2) of the CRR sets out that 'For purchased corporate receivables in respect of which an **institution is not able to estimate PDs or an institution's PD estimates do not meet the requirements set out in Section 6**, the **PDs for these exposures shall be determined in accordance with the following methods**: '(a) for **senior claims** on purchased corporate receivables PD shall be **the institutions estimate of EL divided by LGD** for these receivables; '(b) for **subordinated claims** on purchased corporate receivables PD shall be the **institution's estimate of EL'** Regarding Article 160(2)(c), it makes an exception of the previous rule when 'an institution that has received the permission of the competent authority to use own LGD estimates for corporate exposures pursuant to Article 143 and that can decompose its EL estimates for purchased corporate receivables into PDs and LGDs in a manner that the CA considers to be reliable' only in such a case the institution '**may** use	No change introduced to the draft RTS with respect to the CP version.

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		the PD estimate that results from this decomposition'. Article 161(2): 2. 'For dilution and default risk if an institution **has received permission from the competent authority to use own LGD estimates for corporate exposures pursuant to Article 143 and it can decompose its EL estimates for purchased corporate receivables into PDs and LGDs in a manner the competent authority considers to be reliable**, **the LGD estimate for purchased corporate receivables may be used**.' And Article 180(1)(c): 'If an institution derives long run average estimates of PDs and LGDs for purchased corporate receivables from an **estimate of EL**, and an appropriate estimate of PD or LGD, the process for estimating total losses shall meet the overall standards for estimation of PD and LGD set out in this part, and the **outcome shall be consistent with the concept of LGD as set out in Article 181(1)(a)**' <u>B) Retail purchased receivables</u> In the case of retail purchased receivables, the CRR is also clear. There is no different treatment with regard to ordinary retail exposures: in accordance with Article 180(2)(b) 'PD estimates **may** also be derived from an estimate of total losses and appropriate	

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		estimates of LGDs'; and in accordance with Article 181(2)(a) **may** 'derive LGD from realised losses and appropriate estimates of PDs'. C) Neither the CRR nor the Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures establish any margin on conservatism in the decomposition approach. Finally, the Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures set out that 'the calculation of total losses has to be consistent with the concept of economic loss used for the purpose of workout LGD'.	
	Downturn LGD. The EBA RTS and Guidelines on the estimation and identification of economic downturn in IRB modelling have been designed more for on-balance-sheet exposures and not for purchased receivables exposures. Against this background, it is proposed that how these regulations apply in the context of purchased receivables and in particular for the estimation of the downturn LGD be clarified.	The EBA considers that the RTS and guidelines on estimation and identification of economic downturn have the same scope of application as Articles 181 and 182 of the CRR, which apply to any type of exposures, as they are related to the requirement set out in those articles that institutions shall use LGD and conversion factor estimates that are appropriate for an economic downturn if those are more conservative than the long-run average.	No change introduced to the draft RTS with respect to the CP version.
	P-value. It is requested that how the *p*-value in the SEC-IRBA formula for the non-credit obligation part of the pool is determined be clarified. This is a	The EBA consider this recommendation to be beyond the scope of the CRR mandate, as it is not limited to securitised exposures under PuRa. It would affect all	No change introduced to the draft RTS with respect to the CP version.

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	general issue in the SEC-IRBA but it might be particularly relevant for the securitisation PuRa. A potential solution could be to use the 50% LGD referred to in Article 259 of the amended CRR. This solution could be applied also to exposures to which slotting methods apply.	type of non-credit obligation underlying assets in a securitisation, in particular exposures to the residual value of leases assets. See Q2B.	See Q2B.
Dilution risk	The draft RTS do not provide specific guidance on the estimation of dilution risk and its potential substitution by risk parameters of protection providers. Clarification in this area is requested due to the significant impact it may have on trade receivables securitisations. In particular, it is proposed that: - the eligibility criteria for the use of protection from sellers to substitute underlying dilution risk be clarified; - the advanced IRB approach for rating restrictions for corporate sellers of purchased receivables be not applied.	The EBA consider this recommendation to be beyond the scope of the CRR mandate, as it is not limited to securitised exposures and it is more specific to the treatment of trade receivables under the general credit risk framework. However, the EBA notes that the treatment of the dilution risk of purchased receivables is clearly set out in Article 157, Article 159(6), Article 161(1)(g) and (2) and Article 163(3). It should be noted that the two last sentences of Article 160(6) specify that for purchased corporate receivables 'Institutions may recognise unfunded credit protection in the PD in accordance with the provisions of Chapter 4. For dilution risk, in addition to the protection providers referred to in Article 201(1)(g), the seller of the purchased	No change introduced to the draft RTS with respect to the CP version.

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		receivables is eligible provided that the conditions set out in paragraph 4 are met.’	
	The view is also taken that the application of IRB methodology to estimate dilution risk produces results that are not commensurate with other modelling approaches and underlying real risk for corporate purchased receivable transactions. Against this background, it is proposed that an option for an alternative estimation of capital requirements for dilution risk in the RTS be included. Such a methodology can be based on an external rating methodology approach that is commonly used in the industry to define the reserves for dilution risk.	The EBA considers this recommendation to be beyond the scope of the CRR mandate.	No change introduced to the draft RTS with respect to the CP version.
	It is requested that the EBA : - clarify that, for institutions using the advanced IRB approach, corporate sellers providing recourse for dilution (and for which the institution has internal PD and LGD) shall be treated as eligible unfunded credit protection providers without a floor rating; - provide guidance on the compliant representation of dilution rate and recourse to the seller.	See the EBA’s analysis above.	No change introduced to the draft RTS with respect to the CP version.

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Margin of conservatism	It is suggested that the EBA develop guidelines on the appropriate range for the margin of conservatism, taking into account data limitations for PD and LGD estimations, particularly for limitations inherent to purchased receivables, such as default definition, aggregated data or shorter data horizon.	The EBA considers that the Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures extensively address the issue of data limitations when using external data, and the adjustment and MoC to be applied. However, regarding the shorter data horizon, see the EBA's analysis above.	No change introduced to the draft RTS with respect to the CP version.
Third-party data	One respondent stresses that it is unclear whether institutions can use internal data as an input in models for third-party data, as this seems contrary to eliminating the use of a shared model for third-party pools. In particular, it takes the view that, in considering the use of external data for estimating IRB inputs, there is a relative lack of readily available external data on UK transactions, which do not feed into the European DataWarehouse. Against this background, it is proposed that the 5% limit for 'mixed pool' treatment under the SEC-IRBA be reviewed and a higher limit such as 10% or 15% be set.	Article 10 of the draft RTS sets out that proxy data can be internal, external or pooled data. In this regard, internal or pooled data from exposures of similar characteristics to the securitised exposures can be used as proxy data, with the corresponding adjustments and MoC, in the internal model for calculating K_{IRB}. The EBA considers the recommendation of increasing the limit of 5% of non-IRB exposures to be beyond the scope of the CRR mandate under Article 255, as it will imply a change in Article 258.	No change introduced to the draft RTS with respect to the CP version.

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Unclear references	In Article 4(1), the reference to 'paragraph 2 to 7' of the draft RTS should be 'paragraph 2(a)-(f)', and in Article 4(2) the reference to 'Article 2(2)' should be 'Article 2'.	The EBA agrees with this comment.	Article 5(1) is amended as follows: 1. Institutions shall comply with the requirements specified in paragraph **2(a) to (f)**, instead of Article 184 of Regulation (EU) No 575/2013. Article 5(2) is amended as follows: 2. In quantifying the risk parameters to be associated with rating grades or pools for exposures meeting the conditions set out in point (a) of Article 2~~**(2)**~~, institutions calculating K_{IRB} for the purposes of this Regulation shall ensure, on their own or through a party to the securitisation acting for and in the interest of the investors in the securitisation in accordance with the terms of the related securitisation documents, that all of the following requirements are met: