

BPF Response to the EBA's Consultation Paper dated 11 May 2015 (EBA/CP/2015/09): Draft Regulatory Technical Standards on Assigning Risk Weights to Specialised Lending Exposures under Article 153(9) of Regulation (EU) No. 575/2013 (CRR)

Introduction

The British Property Federation (**BPF**) is the voice of property in the UK, representing businesses owning, managing and investing in property. This includes a broad range of businesses, comprising commercial property developers and owners, financial institutions, corporate and local private landlords and those professions that support the industry, including law firms, surveyors and consultants.

Key points

We welcome the opportunity to comment on the EBA's draft RTS on assigning risk weights to specialised lending exposures (SLEs). SLEs relate to a range of key 'real economy' activities, including infrastructure and commercial real estate construction and investment: maintaining a sustainable and responsible flow of credit to them is important.

Our comments below are informed by our experience of supervisory slotting as introduced by the UK's regulator in 2011-12. We have also had sight of the response to this consultation by CREFC Europe and support the points made in that submission.

1. Operational challenges (Question 1)

Following the introduction of slotting almost four years ago, UK lending institutions have generally adjusted their systems and methodologies to its requirements. This suggests that from a purely operational perspective the transition to supervisory slotting can be carried out in a relatively short space of time.

However, of far more concern is the limited number of risk weight categories under slotting, which gives rise in many cases to a **significant mismatch between true economic risk and regulatory capital** outcomes.

A related consequence is the introduction of **significant competitive distortions** as a result of the very great differences in regulatory capital requirements between banks using slotting and A-IRB/F-IRB. This is especially so for exposures at the 'strong'/'good' end of the spectrum. This has noticeably compromised the competitive position of UK firms relative to the UK branches of overseas banks subject to different methods of calculating regulatory capital.

In our view these distortions **are more problematic and deserving of the EBA's attention** than any differences in the way different firms apply the slotting criteria to assign risk weights to SLEs.

If the EBA is keen to improve consistency of approaches for determining risk weighted assets (RWAs) for SLEs across the EU, it should explore how the Basel framework might be adapted so as to reduce the differences in RWA outcomes under slotting and under IRB models. One way of doing that might

be to introduce one or two additional and lower risk weight categories within the slotting framework.

2. Assigning SLEs to a slotting category – combination of factors (Question 2)

Slotting is already a highly prescriptive risk weighting methodology and it is hard to understand why the EBA feels the need to impose further prescription in how SLEs are assigned to particular slotting categories. Real estate lending exposures are highly diverse and the weight of each slotting sub-factor can differ dramatically from one exposure to another for good reasons.

Accordingly, we would recommend that the EBA **retains the small measure of flexibility** that slotting currently allows firms when it comes to appropriately weighting different slotting factors and sub-factors. Institutions should be encouraged to use reasoned and documented judgment rather than having a mechanistic approach imposed on them.

If the EBA is nevertheless determined to choose either Option 1 or Option 2, our preference would be for Option 2 because it is more sensitive and better able to accommodate the diversity of IPRE than Option 1. **Option 2 should be improved** by removing (or at least substantially reducing) the proposed 10% minimum weighting for any factor.

We remain at your disposal should you wish to discuss any of the above.

Ion Fletcher

Director of Policy (Finance), BPF

+44 (0)20 7802 0105

ionfletcher@bpf.org.uk