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Capital Requirements Directive IV Framework
Standardised Approach to Credit Risk in the Banking Book

Allen & Overy Client Briefing Paper 3 | January 2014

CRD IV Framework: *Standardised Approach to Credit Risk in the Banking Book*

This briefing paper is part of a series of briefings on the implementation of Basel III in Europe via the Capital Requirements Directive IV[1] (**CRD IV**) and the Capital Requirements Regulation[2] (**CRR**), replacing the Banking Consolidation Directive[3] (**BCD**) and the Capital Adequacy Directive.[4] The legislation is highly complex: these briefings are intended to provide a high-level overview of the architecture of the regulatory capital and liquidity framework and to draw attention to the legal issues likely to be relevant to the in-house lawyer. This briefing is for general guidance only and does not constitute definitive advice.

[1] 2013/36/EU.
[2] Regulation 575/2013.
[3] 2006/48/EU.
[4] 2006/49/EU.

NOTE: In relation to the topics discussed in this briefing, the CRR contains a number of discretions for member states in relation to national implementation. The regime may therefore differ across member states in a number of respects.

We have referred to current rules and guidance of the FCA and the PRA pursuant to the UK implementation of CRD IV and national discretions set out in the CRR.

This briefing paper is based on information available as of 17 January 2014.

Background and scope

The framework for the risk weighting of credit risk in the banking book includes two approaches – the Standardised approach (**Standardised Approach**) and the Internal Ratings Based approach (**IRB Approach** which is split into the Foundation IRB approach (**FIRB approach**) and the Advanced IRB approach (**AIRB approach**)). The simplest approach – the Standardised Approach – is used by most small banks. Permission is needed from the relevant competent authority to use the IRB Approach. The IRB Approach is discussed in Client Briefing 4 (*Internal Ratings Based Approach to Credit Risk in the Banking Book*).

This briefing deals with the **banking book** risk weighting of assets under the Standardised Approach. **Trading book** risk weighting is described in Client Briefing 11 (*Trading Book*).

Sources

CRR (*Regulation 575/2013*): Recitals 48 and 124 and Articles 110-141.

UK Financial Conduct Authority (**FCA**) Policy Statement (*PS13/10*) CRD IV for Investment Firms (December 2013).

UK Prudential Regulation Authority (**PRA**) Policy Statement (*PS7/13*) Strengthening capital standards: implementing CRD IV, feedback and final rules (December 2013).

PRA Supervisory Statement (*SS10/13*) Standardised approach (December 2013).

PRA Supervisory Statement (*SS16/13*) Large exposures (December 2013).

Key changes

The Standardised Approach remains predominantly unchanged under the CRR. The application of risk weights continues to be based on the exposure class to which the exposure is assigned and its credit quality (ie utilising external credit rating agencies' credit ratings to determine risk weights, where available) – albeit that a number of areas of national discretion are moving to the European Banking Authority (**EBA**). Whilst the Standardised Approach continues to be based on external credit ratings (where available), the CRR imposes new conditions restricting the ratings that may be used.

Pre-CRR position

The recast BCD required risk-weighting of assets by category of exposure (eg sovereign, regulated entity, other corporate) with (a) a percentage risk weight determined by reference to the category of exposure and (b) (in respect of off-balance sheet exposures) a further percentage applied to off-balance sheet exposures, utilising external credit rating agencies' credit ratings.

Post-CRR position

The Standardised Approach is very similar to the pre-CRR regime. The key differences relate to (i) the use of external credit rating agencies' assessments; and (ii) changes (which are limited) to the risk weighting to be applied to exposures in certain exposure classes. After applying risk weights, credit risk mitigation may then be recognised and serve to reduce the amount of the exposure – see Client Briefing 5 (*Collateral: Funded Credit Risk Mitigation in the Banking Book*) and Client Briefing 6 (*Unfunded Credit Risk Mitigation in the Banking Book: Guarantees and Credit Derivatives*).

External ratings

Risk weightings continue to rely on the external credit rating of the exposure, where possible. Various eligibility requirements apply for rating agencies (referred to as external credit assessment institutions, or **ECAIs**) to be recognised (Articles 135 to 141 CRR).[5] Export credit agency credit assessments may also be recognised for certain purposes.[6]

Under the CRR, the definition of the ECAI has been amended to create a more direct link with the concept of rating agencies within the scope of the EU Regulation on credit rating agencies (*Regulation (EC) 1060/2009* (as amended), the **CRA Regulation**). Therefore, eligible ECAIs would include an EU-registered credit rating agency, or a third country credit rating agency that is certified or whose ratings have been endorsed in accordance with the CRA Regulation.[7] The types of ratings issued by eligible ECAIs will also need to be within

[5] The EBA has published a list of ECAIs on its website (Article 135(2) CRR): http://www.eba.europa.eu/regulation-and-policy/external-credit-assessment-institutions-ecai.
[6] Article 137 CRR.
[7] Articles 135(1) and 138 CRR. Please note that certain types of central bank issuing credit ratings which are exempt from the CRA Regulation are also within the scope of the ECAI definition.

the scope of the CRA Regulation, meaning that certain types of credit ratings and assessments, such as private ratings (as defined in the CRA Regulation), that are outside the scope of the CRA Regulation, will also be outside the scope for the purposes of the CRR framework.

It should also be noted that the determination of interaction between the credit quality steps used to risk weigh the assets, as provided for in the CRR, and the corresponding credit assessments of the ECAIs (ie the so-called "**mapping**") is to be developed by the Joint Committee of the EBA, European Insurance and Occupational Pensions Authority (**EIOPA**) and European Securities and Markets Authority (**ESMA**) via draft implementing technical standards, which are required to be submitted to the European Commission by 1 July 2014.[8] In the UK, the PRA has confirmed that the mapping set out in the Credit Risk – Standardised Approach supervisory statement that accompanies the PRA Rulebook[9] will apply until it is superseded by the mapping that will be adopted by the European Commission. The FCA has also confirmed that until the European Commission adopts the Joint Committee's mapping, the mapping produced in accordance with Regulation 22(3) of the Capital Requirements Regulations 2006 should be applied.[10]

Classification of exposures

Under the CRR, the Standardised Approach divides assets into various different exposure classes (each exposure must be assigned to one of the exposure classes). These are:

- exposures to central governments or central banks;
- exposures to regional governments or local authorities;
- exposures to public sector entities;[11]
- exposures to multilateral development banks;
- exposures to international organisations;
- exposures to institutions;
- exposures to corporates;
- retail exposures;
- exposures secured by mortgages on immovable property;
- exposures in default;
- exposures associated with particularly high risk;
- exposures in the form of covered bonds;
- items representing securitisation positions (see Client Briefing 7 (*The Securitisation Framework*));
- exposures to institutions and corporates with a short-term credit assessment;
- exposures in the form of units or shares in collective investment undertakings;
- equity exposures; or
- other items.

Exposure is defined to mean an asset or off-balance sheet item.[12]

Exposures for which no calculation is provided in the CRR are assigned a risk weight of 100%.[13]

[8] Article 136 CRR.
[9] See Table 1 of the PRA Supervisory Statement SS10/13: Standardised Approach.
[10] See IFPRU 4.2.12 G and the mapping table for the purposes of the Capital Requirements Regulations 2006 is available at: http://www.fca.org.uk/your-fca/documents/fsa-ecais-standardised.
[11] A public sector entity is defined as a non-commercial administrative body responsible to central governments, regional governments or local authorities, or to authorities that exercise the same responsibilities as regional governments and local authorities, or a non-commercial undertaking that is owned by or set up and sponsored by central governments, regional governments or local authorities, and that has explicit guarantee arrangements, and may include self-administered bodies governed by law that are under public supervision.
[12] Article 5(1) CRR.
[13] Article 113(5) CRR.

Fundamentals: the risk weight calculation

The risk weight is calculated by multiplying (a) the value of the asset[14] by (b) the risk weight of the asset (expressed as a percentage) by (c) a credit conversion factor (if the asset is off-balance sheet). This is then multiplied by (d) 8% to come up with the amount of Pillar One capital required to be held against the relevant exposure.

Valuation

Derivatives, stock-lending, repurchase and long settlement transactions are subject to specific valuation procedures under Chapters 4 (starting at Article 192 of the CRR) and 6 (starting at Article 271 of the CRR) of Title II of the CRR. Other assets are to be valued at their accounting value, net of general and specific credit risk adjustments.

Risk weights

Risk weights are determined by reference to the type of exposure and rating of the relevant counterparty – see Annex 1 of this briefing.

Subject to the prior approval of the relevant competent authority, certain intra-group exposures may be exempted from the risk weighting requirement (through the application of a 0% risk weighting) where the relevant group entity satisfies certain conditions (see Article 113(6) of the CRR).

Credit conversion factors

In respect of off-balance sheet items, a further credit conversion factor is applied to the exposure, reflecting the lower likelihood of an exposure existing at the time of a default by the counterparty. The credit conversion factors are set out in Annex 2 of this briefing.

[14] General and specific credit risk adjustments should be applied to the accounting value of the exposure to obtain the exposure value (see Articles 110 and 111 CRR).

Conclusion

The Standardised Approach remains predominantly the same under the CRR. The areas of change of most relevance are (a) the use of credit ratings will generally be limited to ECAIs falling within the scope of the CRA Regulation and (b) the adaption to terminology changes.

Technical standards and guidelines

In connection with the Standardised Approach, the following standards and guidelines must be produced:

CRR SOURCE	TECHNICAL STANDARDS/ GUIDELINES REQUIRED	DEADLINE FOR SUBMISSION TO THE EUROPEAN COMMISSION	EBA AND OTHER PUBLICATIONS
Article 110(4) (*Exposure value*)	Draft regulatory technical standards to specify the calculation of specific credit risk adjustments and general credit risk adjustments.	28 July 2013 (see Corrigendum published in August 2013 to the CRR).	Commission Delegated Regulation (EU) No../.. of 20.12.2013 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments. EBA final draft regulatory technical standards on specification of the calculation of specific and general credit risk adjustments in accordance with Article 110(4) of the draft Capital Requirements Regulation (CRR) (July 2013) (*EBA/RTS/2013/04*). Consultation on the specification of the calculation of specific and general credit risk adjustments (July 2012) (*EBA/CP/2012/10*).
Article 124(4) (*Exposures secured by mortgages on immovable property*)	Draft regulatory technical standards to specify: (a) the rigorous criteria for the assessment of the mortgage lending value; (b) the conditions that a competent authority shall take into account when determining higher risk weights, in particular the term of "financial stability considerations".	31 December 2014.	None to date.

CRR SOURCE	TECHNICAL STANDARDS/ GUIDELINES REQUIRED	DEADLINE FOR SUBMISSION TO THE EUROPEAN COMMISSION	EBA AND OTHER PUBLICATIONS
Article 128(3) (*Items associated with particular high risk*)	Guidelines specifying which types of exposures are associated with particularly high risk and under which circumstances.	Not specified.	None to date.
Articles 136(1) and 136(3) (*Mapping of ECAIcredit assessments*)	Implementing technical standards from the Joint Committee of the EBA, EIOPA and ESMA to specify for all ECAIs what credit quality steps the relevant credit assessments of the ECAI correspond (ie map) to. Implementing technical standards from the Joint Committee of the EBA, EIOPA and ESMA on quantitative and qualitative factors and the benchmark used to determine the mapping of credit assessments.	1 July 2014.	None to date.

European Commission implementing acts

The CRR mandates that the following European Commission implementing acts are produced:

CRR SOURCE	EUROPEAN COMMISSION IMPLEMENTING ACTS	DEADLINE	EUROPEAN COMMISSION PUBLICATIONS
Articles 114(7) *(Exposures to central governments or central banks)*, 115(4) *(Exposures to regional governments or local authorities)*,116(5) *(Exposures to public sector entities)* and 132(3) (*Exposures in the form of unites or shares in CIUs)*	The European Commission may adopt a decision by way of implementing acts as to whether a third country applies supervisory and regulatory arrangements at least equivalent to those applied in the Union.	1 January 2015.	None to date.

National discretions and UK implementation

The CRR provides competent authorities with certain discretions:

CRR SOURCE	NATURE OF DISCRETION	FCA/PRA APPROACH
Article 113(6) (*Intra group exposures*)	A competent authority may grant prior approval for an institution to disapply risk weights applicable to intra-group exposures providing certain conditions are met.	The FCA and PRA have exercised this discretion to enable a 0% risk weight to be applied to certain intra-group exposures where the conditions they set out are met, including obtaining their prior approval.[15]

[15] The PRA sets out the approach to be followed in relation to risk weighting intra-group exposures as 0% in Supervisory Statement: Large Exposures: SS16/13, see paragraph 2.1. See IFPRU 8.1.14 G to IFPRU 8.1.21 G in relation to the FCA approach to the risk weighting of intra-group exposures.

CRR SOURCE	NATURE OF DISCRETION	FCA/PRA APPROACH
Articles 124(2) *(Exposures secured by mortgages on immovable property)*, 125 *(Exposures fully and completely secured by mortgages on residential property)* and 126 (*Exposures fully and completely secured by mortgages on commercial immovable property)*	A competent authority may increase the risk weights on residential mortgages (35%) and commercial immovable property (50%) within certain thresholds or set stricter criteria than those in Articles 125(2) and 126(2) CRR. The EBA has to be consulted if this is exercised. In addition, an institution may derogate from the condition set out in Article 125(2)(b) in relation to whether an exposure can be considered as fully and completely secured where the member state (where the residential property secured by the mortgage is located) publishes evidence showing a well-developed and long-established residential property market with loss rates that do not exceed specified limits.	The FCA and the PRA have indicated that they each intend to exercise the discretion in relation to commercial immovable property. In respect of PRA authorised firms, the PRA has exercised the discretions to enable buy-to-let residential mortgage exposures to be treated as 35% risk weighted exposures (on the basis of the derogation set out in Article 125(3) of the CRR which enables a competent authority to derogate from Article 125(2)(b) on the basis of evidence showing a well-developed and long-established residential property market in the UK with loss rates which do not exceed certain limits) and to set stricter criteria so that commercial exposures are risk weighted 100% (unless loss experience criteria are satisfied so that a 50% risk weight can be applied).[16] In respect of FCA authorised firms, the FCA maintains a default risk weight of 100% for exposures to UK commercial immovable property (unless data published by the FCA under Article 101 of the CRR reflecting the loss rate to UK commercial property exposures implies that a 50% risk weight is appropriate).[17]
Article 129 (*Covered bond exposures*)	A competent authority may, after consulting the EBA, allow credit quality step 2 for up to 10% of the total exposure of the nominal amount of outstanding covered bonds of the issuing institution, provided significant potential concentration problems (due to the application of the credit quality step 1 requirement) are evidenced.	The FCA and PRA have not exercised this discretion.[18]

Further reading

Client Briefing 1 (*Introduction to Regulatory Capital and Liquidity*)

Client Briefing 4 (*Internal Ratings Based Approach to Credit Risk in the Banking Book*)

Client Briefing 5 (*Collateral: Funded Credit Risk Mitigation in the Banking Book*)

Client Briefing 6 (*Unfunded Credit Risk Mitigation in the Banking Book: Guarantees and Credit Derivatives*)

Client Briefing 7 (*The Securitisation Framework*)

Client Briefing 11 (*Trading Book*)

[16] See the PRA Supervisory Statement: Standardised Approach: SS10/13 paragraphs 5.3 to 5.5 in relation to buy-to-let mortgages and see the Credit Risk Sourcebook of the CRR Firms Rulebook paragraph 4.1 in relation to exposures to UK commercial immovable property.
[17] See paragraph 2.41 of FCA PS13/10 and IFPRU 4.2.3 R.
[18] PRA consultation paper CP5/13, Chapter 7 (Credit Risk), paragraphs 7.13 to 7.14 (http://www.bankofengland.co.uk/pra/Documents/publications/policy/2013/implementingcrdivcp513.pdf); FCA consultation paper CP13/6, Annex 3 (http://www.fca.org.uk/static/documents/consultation-papers/cp13-06.pdf).

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Annex 1

Risk weights of exposure classes

Exposure class	Risk weighting[19]							
Central governments and central banks[20]	Credit quality step	1 (eg S&P: AAA to AA-)	2 (eg S&P: A+ to A-)	3 (eg S&P: BBB+ to BBB-)	4 (eg S&P: BB+ to BB-)	5 (eg S&P: B+ to B-)	6 (eg S&P: CCC+ and below)	Unrated
	Risk weight	0%	20%	50%	100%	100%	150%	100%
Public sector entities with no ECAI credit rating	Credit quality step assigned to central government	1	2	3	4	5	6	Unrated
	Risk weight	20%	50%	100%	100%	100%	150%	100%
International organisations[21]	The European Union	IMF[22]	BIS[23]	The European Financial Stability Facility	The European Stability Mechanism	An international financial institution established by two or more member states, which has the purpose to mobilise funding and provide financial assistance to the benefit of its members that are experiencing or threatened by severe financing problems.		
	0%	0%	0%	0%	0%	0%		
Institutions[24], regional governments or local authorities (unless treated as	**Exposures to institutions with an original effective maturity of more than three months where a credit assessment is available**							
	Credit quality step	1	2	3	4	5	6	

[19] The mapping of credit quality steps to the example Standard & Poor's (S&P) ratings are indicative only and are based on the mapping set out in the PRA Supervisory Statement: Credit Risk – Standardised Approach: SS10/13. Pursuant to Article 136(1) CRR, the Joint Committee of the EBA, EIOPA and ESMA are to publish draft implementing standards on such mapping.

[20] Regional governments and local authorities may be treated as central governments in some circumstances – the EBA shall maintain a publicly available database of all regional governments and local authorities within the EU which competent authorities treat as exposures to their central government (Article 115(2) CRR). The PRA and FCA have listed the Scottish Parliament, the National Assembly for Wales and the Northern Ireland Assembly as UK regional governments which may be treated as exposures to the UK central government (see the Credit Risk Sourcebook of the CRR Firms Rulebook paragraph 2.1 (PRA rules) and IFPRU 4.2.1 R (FCA rules)). Exposures to member states' central governments and central banks denominated and funded in the domestic currency of that central government and central bank are 0% risk weighted (Article 114(4) CRR). Exposures to the European Central Bank are assigned a 0% risk weight (Article 114(3) CRR). Until 31 December 2017, the same risk weight shall apply in relation to exposures to the central governments or central banks of a member state denominated and funded in the domestic currency of any member state as would be applied to such exposures denominated and funded in their domestic currency; after this date, different risk weights will apply: in 2018 (20%), 2019 (50%) and from 2020 (100%) (Articles 114 (6) and 495(2) CRR – see Corrigendum).

[21] Article 118 CRR.

[22] International Monetary Fund.

[23] Bank for International Settlement.

[24] "Institution" includes banks and investment firms (Article 4(1)(13) CRR). Investments in equity or regulatory capital instruments issued by institutions must be risk weighted at 100% unless deducted from capital resources.

Exposure class	Risk weighting[19]							
exposures to central governments), rated public sector entities and multilateral development banks[25] (other than those listed in Article 117(2) CRR which have a 0% risk weighting)[26]	Risk weight	20%	50%	50%	100%	100%	150%	
	Exposures to institutions with an original effective maturity of three months or less where a credit assessment is available for the institution[27]							
	Credit quality step	1	2	3	4	5	6	
	Risk weight	20%	20%	20%	50%	50%	150%	
	Exposures where no credit assessment is available[28]							
	Credit quality step assigned to the central government	1	2	3	4	5	6	Unrated
	Risk weight	20%	50%	100%	100%	100%	150%	100%
Corporates	Credit quality step	1	2	3	4	5	6	Unrated
	Risk weight	20%	50%	100%	100%	150%	150%	At least 100%[29]
Retail exposures[30]	Risk weight: 75%							
Exposures secured by mortgages on immovable property[31]	Exposures fully and completely secured by mortgages on commercial immovable property				Exposures fully and completely secured by mortgages on residential property[32]			
	50%[32]. Where required criteria are not met, a 100% risk weight applies.[33]				35%. Where required criteria are not met, a 100% risk weight applies.			

[25] A risk weight of 20% is assigned to the portion of unpaid capital subscribed to the European Investment Fund (Article 117(3) CRR).
[26] The preferential treatment for short-term exposures must not be applied in relation to exposures to multilateral development banks (Article 117(1) CRR).
[27] This treatment depends on there not being a short-term rating for the relevant institution's short-term exposures. If there is a short-term rating it (i) must be used for weighting the rated exposure only, if more favourable than the application of rates above: or (ii) must be used for all short-term exposures if less favourable – see Article 120(3) CRR. In addition, short-term sterling exposures to a UK institution or short-term exposures to certain EEA institutions denominated in their domestic currency attract a weighting, regardless of the rating of the institution, of one rating below that of the state's government – see Article 119(2) CRR. Exposures to public sector entities with an original maturity of three months or less are risk weighted 20% (Article 116(3) CRR).
[28] Exposures to unrated institutions with an original effective maturity of three months or less have a 20% risk weighting (Article 121(3) CRR). Specific risk weightings apply in relation to trade finance exposures (Article 121(4) CRR).
[29] The higher of 100% or the risk weight of exposures to the central government of the jurisdiction in which the corporate is incorporated shall be assigned to the exposure (Article 122(2) CRR).
[30] To be eligible for the retail exposure class, an exposure must meet the following conditions: (a) the exposure must be either to a natural person(s) or to a small or medium sized enterprise; (b) the exposure must be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced; and (c) the total amount owed to the institution, its parent undertakings and its subsidiaries, including any exposure in default, by the obligor client or group of connected clients, but excluding exposures fully and completely secured on residential property collateral, must not, to the knowledge of the institution, exceed EUR1 million. Securities are not eligible for the retail exposure class (Article 123 CRR).
[31] Note that competent authorities may set higher risk weights for these exposures/stricter criteria for treating an exposure as this type (Article 124(2) CRR). For exposures in EEA jurisdictions outside an institution's competent authority's jurisdiction, institutions should use the risk weights determined by the competent authority of the member state within which the exposure is based. For exposures in non-EEA jurisdictions, the EBA Single Rulebook Q&A provides that competent authorities may set higher risk weights or apply stricter criteria for exposures secured by immovable property located in third countries based on financial stability considerations (See question 2013_66:)
[32] A number of conditions apply to risk weight residential mortgages at the 35% risk weight – see Article 125(2) CRR.
[33] Any part of an exposure that exceeds the mortgage value of the property shall be assigned the risk weight applicable to the unsecured exposures of the counterparty (Article 124(1) CRR).

Exposure class	Risk weighting[19]						
Exposures in default	If specific credit risk adjustments are less than 20% of the unsecured part of the exposure value.			If specific credit risk adjustments are no less than 20% of the unsecured part of the exposure value. The exposure value remaining after specific credit risk adjustments of exposures fully and completely secured by mortgages on residential or commercial property if a default has occurred.			
	150%			100%			
Items associated with particular high risk (including investments in (certain) Alternative Investment Funds, venture capital, private equity)	150%						
Covered bonds[34]	Credit quality step	1	2	3	4	5	6
	Covered bond risk weight	10%	20%	20%	50%	50%	100%
Securitisation positions	See Client Briefing 7 (*The Securitisation Framework*)						
Short-term claims on institutions and corporates	Credit quality step	1	2	3	4	5	6
	Risk weight	20%	50%	100%	150%	150%	150%
Collective investment undertakings (**CIUs**)[35]	Credit quality step	1	2	3	4	5	6
	Risk weight	20%	50%	100%	100%	150%	150%
Equity Exposures[36]	100% (unless deducted under Part II of the CRR or falling within another exposure category).						
Tangible assets	100%						
Prepayments and accrued income	100%						

[34] Preferential treatment applies to covered bonds where no credit rating is available or where certain conditions are not satisfied. Unrated covered bonds are assigned the risk weight of senior unsecured exposures to the institution that issues them, which is modified so that a 20% risk weighting of the institution is a 10% risk weighting for the covered bond; a 50% risk weighting of the institution is a 20% risk weighting for the covered bond; a 100% risk weighting of the institution is a 50% risk weighting for the covered bond; and a 150% risk weighting of the institution is a 100% risk weighting for the covered bond.

[35] Also see the high risk exposure items. Exposures in shares or units in CIUs are assigned a 100% risk weight unless rated or look through provisions apply. Look through to the underlying exposures of a CIU can apply where the underlying exposures are shares in another CIU.

[36] Equity exposures are defined as (i) non-debt exposures conveying a subordinated, residual claim on the assets or income of the issuer; and (ii) debt exposures and other securities, partnerships, derivatives or other vehicles, the economic substance of which is similar to the exposure in (i).

Exposure class	Risk weighting[19]
Cash	20% if in the process of collection; 0% if cash in hand/equivalent cash items.
Gold bullion	0%
Asset sale and repurchase agreement	Asset specific
Any other item	100%

Annex 2

Credit conversion factors for off-balance sheet items (Annex I CRR)

Full risk at 100%	Medium risk at 50%	Medium/Low risk at 20%	Low risk at 0%
– Guarantees having the character of credit substitutes – Credit derivatives – Acceptances – Endorsements on bills not bearing the name of another credit institution – Transactions with recourse – Irrevocable standby letters of credit having the character of credit substitutes – Assets purchased under outright forward purchase agreements – Forward deposits – The unpaid portion of partly-paid shares and securities – Asset sale and repurchase agreements – Other items also carrying full risk	– Documentary credits issued or confirmed – Shipping guarantees, customs and tax bonds – Undrawn credit facilities (agreements to lend, purchase securities, provide guarantees or acceptance facilities) with an original maturity of more than one year – Note issuance facilities (NIFs) and revolving underwriting facilities (RUFs) – Other items also carrying medium risk and as communicated to EBA	– Documentary credits in which underlying shipment acts as collateral and other self-liquidating transactions – Warranties (including tender and performance bonds and associated advance payment and retention guarantees) and guarantees not having the character of credit substitutes[37] – Irrevocable standby letters of credit not having the character of credit substitutes[38] – Undrawn credit facilities (agreements to lend, purchase securities, provide guarantees or acceptance facilities) with an original maturity of up to and including one year which may not be cancelled unconditionally at any time without notice or that do not effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness – Other items also carrying medium/low risk and as communicated to EBA	– Undrawn credit facilities (agreements to lend, purchase securities, provide guarantees or acceptance facilities) which may be cancelled unconditionally at any time without notice, or that do effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness. Retail credit lines may be considered as unconditionally cancellable if the terms permit the credit institution to cancel them to the full extent allowable under consumer protection and related legislation – Undrawn credit facilities for tender and performance guarantees which may be cancelled unconditionally at any time without notice, or that do effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness – Other items also carrying low risk and as communicated to EBA

[37] This has been changed from a medium risk item.
[38] This has been changed from a medium risk item.

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