



TOPICS:

CREDIT RISK, IRB, SA, LGD, IMMOVABLE PROPERTIES

SOURCE:



European Banking Authority

EBA Publishes Final Draft Technical Standards Specifying How to Identify the Appropriate Risk Weights and Conditions when Assessing Minimum LGD Values for Exposures Secured by Immovable Property

Institutions Applying the Standardised Approach (SA)

- These draft RTS **specify the types of factors to be considered** during the appropriateness assessment of risk weights **on the basis of the loss experience and forward-looking immovable property market developments**. In particular, the draft RTS delineate the types of factors to be taken into account in the determination of the loss expectation

Institutions Applying the Internal Ratings-Based (IRB) Approach

- To retail exposures secured by residential or commercial immovable property, these draft RTS **provide three conditions to be considered** when assessing the appropriateness of minimum LGD values.
- In particular, the draft RTS **emphasise the systemic risk approach** of such an appropriateness assessment.
- This is due to:
 - a) the existing approval, validation and close monitoring of rating systems under the IRB Approach by competent authorities;
 - b) the requirements for institutions to use LGD estimates that are appropriate for an economic downturn if these are more conservative than the long-run average LGD, which is further specified in regulatory technical standards and EBA guidelines.

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