

**CRR FIRMS: NON-PERFORMING EXPOSURES SECURITISATION (CRR 2 MODIFICATIONS)
INSTRUMENT 2021**

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (The PRA’s general rules);
 - (2) section 137T (General supplementary powers);
 - (3) section 144H(1) and (2) (Relationship with the CRR); and
 - (4) section 192XA (Rules applying to holding companies).
- B. The rule making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

- C. In accordance with sections 144C (3) of the Act the PRA consulted the Treasury about the likely effect of the rules on relevant equivalence decisions within the meaning of section 144C (4) of the Act.
- D. In accordance with section 138J(1)(a) of the Act (consultation by the PRA), the PRA consulted the Financial Conduct Authority.
- E. The PRA published a draft of the proposed rules in accordance with section 138J(1)(b) of the Act, accompanied by the information listed in section 138J(2) and the explanation referred to in section 144D of the Act insofar as that section is applicable to the rules.
- F. The PRA had regard to representations made.

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- G. The PRA makes the rules in the Annex to this instrument.

Commencement

- H. This instrument comes into force on 1 January 2022.

Citation

- I. This instrument may be cited as the PRA Rulebook: CRR Firms: Non-Performing Exposures Securitisation (CRR2 Modifications) Instrument 2021.

By order of the Prudential Regulation Committee

18 October 2021

Annex

Non-Performing Exposures Securitisation (CRR) Part

In this Annex the text is all new and is not underlined.

Part

Non-Performing Exposures Securitisation (CRR)

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. CALCULATION OF RISK WEIGHT**

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

- (1) a *CRR firm*; and
- (2) a *CRR consolidation entity*;

for the purpose of its obligations under Parts Two and Three of the *CRR*.

1.1A (1) A *firm* must comply with this Part on an individual basis.

(2) A *CRR consolidation entity* must comply with this Part on a consolidated basis, and for this purpose, references to a *firm* in this Part (other than in 1.1 and 1.1A) are to a *CRR consolidation entity*.

1.2 In this Part, the following definitions apply:

non-performing exposure or NPE

means an exposure that meets any of the conditions set out in Article 47a(3) of the *CRR*.

non-refundable purchase price discount

means the amount arrived at by subtracting the amount referred to in point (b) from the amount referred to in point (a), where:

(a) is the outstanding amount of the underlying exposures of the *NPE securitisation* at the time those exposures were transferred to the *SSPE*; and

(b) is the sum of the following:

(i) the initial sale price of the tranches or, where applicable, parts of the tranches of the *NPE securitisation* sold to third party investors; and

(ii) the outstanding amount, at the time the underlying exposures were transferred to the *SSPE*, of the tranches or, where applicable, parts of tranches of that securitisation held by the originator.

Where a discount is structured in such a way that it can be refunded in whole or in part to the originator or the original lender, such discount shall not count as a non-refundable purchase price discount.

NPE securitisation

means a securitisation backed by a pool of non-performing exposures the nominal value of which makes up not less than 90% of the entire pool's nominal value at the time of origination and at any later time where assets are added to or removed from the underlying pool due to replenishment or restructuring.

Qualifying NPE securitisation

means an *NPE securitisation* that is a traditional securitisation as defined in point (9) of Article 2 of Regulation (EU) 2017/2402 where the *non-refundable purchase price discount* is at least 50% of the outstanding amount of the underlying exposures at the time they were transferred to the *SSPE*.

SSPE

has the meaning given by point (2) of Article 2 of Regulation (EU) 2017/2402.

2 CALCULATION OF RISK WEIGHT

- 2.1 Subject to 2.2 and 2.4, the risk weight for a position in an *NPE securitisation* calculated by a *firm* in accordance with Article 254 or 267 of the *CRR* is subject to a floor of 100%, save where Article 263 of the *CRR* applies.
- 2.2 Where the risk weight for a *qualifying NPE securitisation* is calculated by a *firm* in accordance with Article 254 or 267 of the *CRR*, the *firm* must assign a risk weight of 100% to the senior securitisation position, save where Article 263 of the *CRR* applies.
- 2.3 A *firm* that applies the IRB Approach to any exposures in the pool of underlying exposures in accordance with Chapter 3 of Title II of Part Three of the *CRR* and that is not permitted to use, or does not use, own estimates of LGD and conversion factors for such exposures, must not use the SEC-IRBA for the calculation of risk-weighted exposure amounts for a position in an *NPE securitisation*.
- 2.4 By way of derogation from 2.1 and 2.2, save where 2.3 applies, a *firm* may calculate the maximum capital requirement for a position in an *NPE securitisation* in accordance with Article 268 of the *CRR*.