IACPM

June 4, 2024

**Subject:** EBA consultation paper EBA/CP/2024/08 on draft Regulatory Technical Standards on the allocation of off-balance sheet items and UCC considerations under article 111(8) of Regulation (EU) No 575/2013

The International Association of Credit Portfolio Managers (IACPM) is an industry association gathering 145 global and regional financial institutions active in origination, management, investment, and protection of loans originated by banks.

The Association has been very active during the review process of CRR mostly on the treatment of risk sharing transactions to collaborate with EU policy makers through data collection, simulations and insights around funded and unfunded credit protections like synthetic securitisations and credit insurance.

For this specific consultation, we refer to the responses made by other associations like AFME on the appropriateness and the feasibility of EBA proposed approach for allocating off-balance sheet items and UCC under article 111(8) of Regulation (EU) No 575/2013.

However, in this response, the IACPM would like to specifically highlight the consequences of changes in allocation of off balance-sheet items on the ability of banks to share risk on an unfunded basis with investors and insurers, in order to mitigate risk and release capital effectively and thereby enable further lending growth. The cost of buying protection can actually be very negatively affected by increases in exposure amount / exposure at default (EAD) flowing from, e.g., 1) the apparent potential for capture of financing commitments in 100% or 50% CCF buckets (whereas Basel proposes a 40% CCF for commitments unless subject to a *lower* CCF) and 2) the extremely broad and vague nature of the considerations (reputational risk, legal risk, etc) proposed to lead to unconditionally cancellable commitments ceasing to count as unconditionally cancellable.

When banks are buying credit protection on credit facilities which are partially or totally undrawn, the full RWA can be released by protecting the EAD on these credit facilities. Banks execute transactions on such credit facilities at loan-by-loan level (via financial guarantees or credit private risk insurance - CPRI), at borrower level (via credit default swaps) or at portfolio level (via synthetic securitisations).

Credit protection offered by non-banks like insurers and investors is critical particularly in Europe, which is the dominant market for credit insurance and synthetic securitization.

- In **loan-by-loan credit insurance**, the 2023 survey conducted by the IACPM and ITFA highlighted that close to €220Bn of credit facilities granted in the EU were partially protected by credit insurers, 84% of these transactions aiming also at regulatory capital release.

## CPRI Volume in the EU and Purpose of Insured Exposure

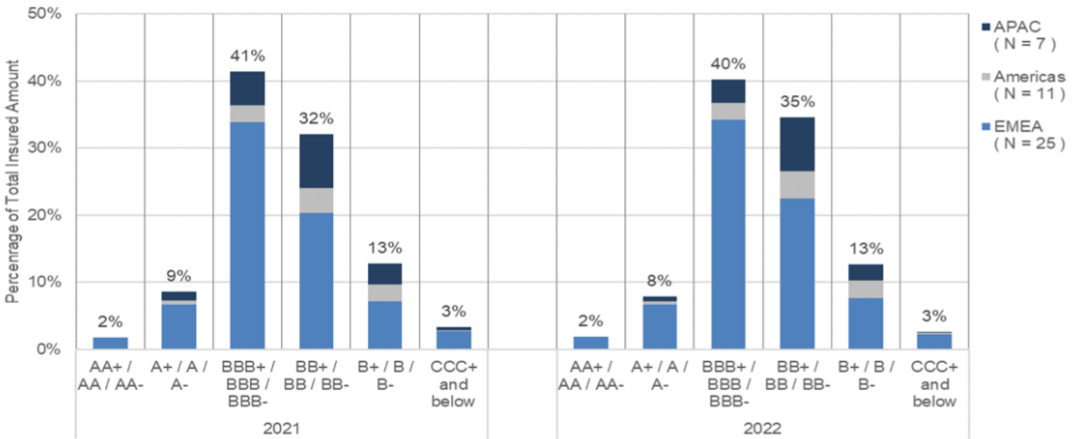
| CPRI Volume (US$ Billion) - Data reflects CPRI volume for the 16 contributing firms Domiciled in the EU* | 2021 | Delta 2022-2021 | 2022 | Insured Exposure Ratio 2022 |
|---|---|---|---|---|
| Total Aggregate Insured Exposure (US$ Billion) (1) | 76.8 | +29% | 99.4 | |
| Total Transaction Amount Facilitated (US$ Billion) (2) | 167.0 | +32% | 219.6 | |
| Insured Ratio: (1) / (2) | 46.0% | -1.7% | 45.2% | |
| Exposure Insured for Credit Risk Mitigation Purpose only | Information not available | | 16.2 | 16% |
| Exposure Insured to obtain Capital Relief ** | Information not available | | 83.2 | 84% |

*(*) Firms' principal region of domicile.* | (**) The sum of the exposure insured to obtain (i) Capital Relief only; (ii) Credit Risk Mitigation and Capital Relief; or (iii) Credit Risk Mitigation, Capital Release and Improvement of Return on Capital.
*Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Questions: Please indicate the total aggregate amount of your **insured exposure** (Q13) / **underlying credit facilities** held by your institution for which CPRI is used as a CRM technique (Q14) at the end of 2021 and 2022 (in US$ Million). Please estimate to the best of your knowledge the percentage split of your aggregate insured exposure as of December 31, 2022, based on the reasons for obtaining the CPRI cover. (Q15)*

As you can see from the rating distribution below, the borrowers are mostly unrated corporates and SMEs which do not have access to Capital Markets and play a very important role in the EU real economy:

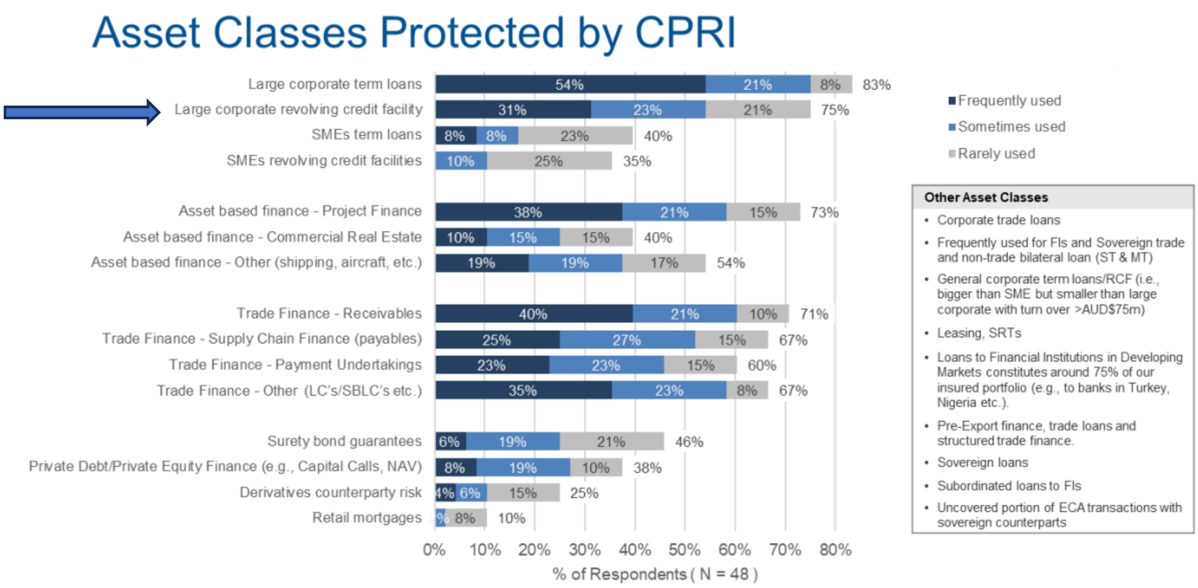
## Rating Distribution of Insured Exposures

Ratings weighted by insured amount; N = 43




*Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Question: Please indicate the underlying borrowers' average equivalent credit rating for your bank's portfolio of insured exposure at the end of 2021 / 2022 (in %). Please use internal equivalent where appropriate. (Q18 / Q19)*

Moreover, revolving credit facilities represent an important asset class in insurance protection, particularly for large corporates:




*Source: IACPM / ITFA Credit and Political Risk Insurance Survey 2023 | Question: For which of the following asset classes has your bank used CPRI over the past 1-2 years, including today? Please weight frequency relative to your bank's lending volumes and proportion of overall insured portfolio. (Q16)*

- In relation to **synthetic securitization**, the 2016-2023 survey conducted by the IACPM highlighted also that the EU share of the whole market exceeds 50%. In fact, close to 80% of the underlying assets are loans granted to corporates and SME clients in the EU.

| Global - €bn | | Inception | YE 2023 |
|---|---|---|---|
| Underlying pools of loans | 2016-2023 | 1,024 | 614 |
| | 2023 | 207 | 197 |
| Protected tranches | 2016-2023 | 82 (8.0%) | 55 (8.9%) |
| | 2023 | 18.5 (8.9%) | 18.2 (9.2%) |

| EU - €bn | | Inception | YE 2023 |
|---|---|---|---|
| Underlying pools of loans | 2016-2023 | 572 | 299 |
| | 2023 | 102 | 98 |
| Protected tranches | 2016-2023 | 42 (7.3%) | 24 (7.9%) |
| | 2023 | 7.5 (7.3%) | 7.3 (7.5%) |

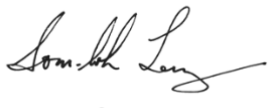
*Source: IACPM Synthetic Securitization Market Volume Survey 2016-2023*

Any increase in the EAD on commitments, including those already accepted by the client, due to CCF increase will affect banks' ability to obtain effective protection, mitigate credit risk and release capital whatever the product and the approach, particularly in the EU.

The impact of the proposed technical standards on credit risk transfer is not a question specifically raised by the EBA but is highly relevant for all banks, which currently get full RWA release on the credit facilities by protecting the EAD in loan insurance and in SRT synthetic securitisation.

We thank you for your consideration and stand ready to engage with you to provide further data to estimate the impact of RTS proposals on banks’ ability to share risk with other market stakeholders, to calibrate a solution which fits the specific needs of the European market and economy.

Yours sincerely,



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