

EBF response to the EBA Consultation Paper on the assignment of risk weights to specialized lending exposures under the Supervisory Slotting Criteria Approach

General overview

1. Context – Importance of specialized lending

Specialized lending (SL) plays a critical role in financing the real economy, supporting key sectors such as infrastructure, real estate development, transport and commodities. It is therefore essential that its prudential treatment remains, operationally workable and risk-sensitive across frameworks.

Specialized lending covers project finance, object finance, commodity finance and income-producing real estate. It plays a central role in financing large, capital-intensive assets that are essential for Europe's economic growth and strategic autonomy, including offshore wind farms, solar power plants, hydrogen infrastructure, electricity grids, ships, aircraft, railcars and key transport, telecommunication infrastructures and digitalization assets. In a context where around two-thirds of European corporate financing relies on the banking sector (compared with only one-third in the United States), the prudential treatment of SL has direct consequences for the EU's ability to finance its strategic priorities: energy independence, decarbonization, transport and digital infrastructure. Empirical evidence shows that many SL sectors — particularly project finance — have historically exhibited low loss rates, reflecting the essential nature of the underlying assets and the robustness of contractual frameworks including comprehensive security packages, covenants and long-term cash flow structures. Yet since the finalization of Basel 3, the EU regulatory framework has progressively failed to reflect this low-risk profile, and to allow the needed risk sensitivity, leading some European banks to reduce or exit certain SL segments and ceding ground to non-EU financiers. This trend is visible in sectors such as aviation and shipping, where European banks' share of global financing has declined significantly.

In this context, any regulatory developments affecting one component of the SL framework, including the Slotting Approach, should be carefully assessed in light of their broader implications for the overall SL ecosystem.

2. Use of the Slotting Approach

Most specialized lending portfolios are considered low-default portfolios. Unlike other asset classes, for which risk parameters may be supported by external rating agency ratings or large internal datasets, specialized lending transactions are in some cases highly bespoke and project-specific, and generally involve a combination of criteria for their assessment. Internal default and loss data on specialised lending exist, and A-IRB banks developed internal models.

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Nevertheless, developing models is constrained by EBA guidelines that were drafted for statistical models on high-default portfolios. Applied to inherently low-default SL portfolios, these guidelines impose substantial margins of conservatism, undermining the economic viability of part of these activities, notably the lowest risk transactions. While external data on specialised lending exists — notably through pooled sources such as Global Credit Data — its use is not yet sufficiently accommodated under EBA modelling guidelines. A broader recognition of external data sources in EBA guidelines, combined with more appropriate modelling rules for low-default portfolios, allowing more flexibility on modelling approaches, would help address this issue.

For institutions that were not able to develop PD models for their SL exposures, some competent authorities have authorised the use of the Supervisory Slotting Criteria Approach — a supervisory rating methodology combining default and recovery assessment (i.e. without a split between PD and LGD) — as an appropriate prudential framework for these exposures. The approach provides a supervisory-approved methodology that enables institutions to assess risk through a structured qualitative framework, while remaining within the IRB perimeter.

Moreover, the fact that a National Competent Authority has approved the use of the Slotting Criteria Approach in a particular jurisdiction does not imply that its use is limited solely to that jurisdiction. This is particularly relevant for international banking groups operating across multiple EU and non-EU jurisdictions, where the approach may be applied consistently across relevant specialized lending exposures, subject to the applicable regulatory framework and supervisory approval.

3. Key expectations from the industry

In this context, the industry's expectations can be summarized around three main principles.

First, there is a strong need to ensure consistency with observed losses and also have enough risk sensitivity in all specialized lending approaches. Regulatory developments should not result in overstated required capital under the different IRB, Standardized and Slotting methodologies.

Second, particular attention should be paid to avoiding spill-over effects. Elements introduced within the Slotting framework should not lead to implicit reinterpretation of definitions, risk drivers or supervisory expectations beyond its intended scope. The SL definition should still be limited to CRR requirements as defined in article 147 (8).

Third, the framework should remain operationally feasible and proportionate, with any increase in complexity clearly justified by a demonstrable improvement in risk sensitivity.

The consultation also provides an opportunity to highlight broader difficulties in the treatment of SL and to encourage more flexibility in modeling techniques and more extensive use of external data on the framework as a whole.

4. Cross-cutting consideration about the framework

A key concern across all questions is the risk that elements introduced in the Slotting framework could have unintended implications beyond its scope. In particular, definitions, risk drivers and

supervisory expectations should not be implicitly extended to other approaches. It is therefore essential that the Slotting Approach remains self-contained, both in its drafting and in its interpretation.

5. Conclusion – Towards a more coherent SL framework

In this context, the industry considers that there would be value in pursuing a more risk-sensitive approach to specialized lending, ensuring consistency with observed defaults and losses.

Any evolution of the Slotting Approach should therefore be consistent with these broader objectives, avoid creating additional inconsistencies and eliminating current inconsistencies within the prudential framework (for instance, article 153.5 CRR has not fully implemented the long-standing national discretion included in the Basel III framework, which allows for preferential risk weights of 50% and 70% to “strong” and “good” exposures, respectively, where a bank’s underwriting standards and other risk characteristics are materially stronger than those specified in the Slotting Criteria ([CRE 33.4](#))). In addition, the lack of recognition of financial collateral under the slotting approach for financial collateral provided outside the project.

Responses to the consultation questions

Question 1. Materiality and current implementation of the SSCA:

a. How is the materiality of the SSCA and its usage for PF, IPRE, OF and CF exposures expected to evolve in the future (grow, reduce, stable)?

The Slotting Approach use varies across jurisdictions. There are jurisdictions such as Spain, where the use of Slotting criteria is intensive within its institutions and others like France, where most institutions either do not apply it or use it only for highly specific portfolios. Said that, the fact that a National Competent Authority has approved the use of the Slotting Criteria Approach in a particular jurisdiction does not imply that its use is limited solely to that jurisdiction. This is particularly relevant for international banking groups operating across multiple EU and non-EU jurisdictions, where the approach may be applied consistently across relevant specialized lending exposures, subject to the applicable regulatory framework and supervisory approval.

Looking forward, institutions applying Slotting criteria generally expect the materiality of the approach to grow. This should not exclude the need that any regulatory developments should be guided by a **proportionate approach**.

b. What are the reasons behind this expected evolution and which role does the expected evolution of the IRB framework play, considering the amendments introduced under the CRR3 and the related Level 2 and Level 3 mandates as well as potential adjustments to the IRB framework that might result from the work on simplification?

The evolution of the SSCA is closely linked to the broader regulatory constraints introduced under CRR3/Basel 4 which have significantly affected the use of internal models for specialized lending. Several developments have reduced IRB modelling flexibility for SL: increasingly prescriptive EBA guidelines on PD and LGD estimation (drafted for high-default portfolios, and thus inadequate for SL), increased supervisory pressure on Low Default Portfolios, inflation of documentation requirements, and strict constraints on segmentation and use of external data. As a result, model structures have become insufficiently suited to SL-specific risk drivers such as residual values and contractual protections, while LGDs are artificially inflated by the application of a conservative discount rate (reference rate plus 500 basis points) that generates losses that never occurred. In some specialized lending segments, banks have reduced activity or exited entirely despite stable underlying risk profiles, not because of increased risk but because capital requirements no longer reflect the true economic risk of well-structured, collateralized transactions. This trend is particularly pronounced in areas such as aviation finance and shipping, where European banks have been losing market share to non-EU competitors.

c. What were the main reasons underlying past decisions on the usage of the SSICA?

Past decisions to use the SSICA were often driven by National Competent Authorities as the approach provided a suitable prudential treatment for these exposures when institutions were not able to develop PD models.

Most specialized lending portfolios are considered low-default portfolios. Under current EBA guidelines for modeling PD and LGD, which are drafted for high-default portfolios, modeling of SL under these guidelines results in overstated margins of conservatism, removing risk sensitivity and making the required capital overstated.

Some National Competent Authorities considered the use of the Supervisory Slotting Criteria Approach as the most appropriate prudential framework for these exposures when the institutions were not able to develop PD models. The approach provides a supervisory-approved methodology that enables institutions to assess risk through a structured qualitative framework.

Past supervisory decisions and authorizations continue to shape the current and future use of the SSICA, particularly within international banking groups operating across multiple EU and non-EU jurisdictions. In these cases, the approach may be applied consistently across relevant specialized lending exposures throughout the group, subject to the applicable regulatory framework and the approval of the relevant supervisory authorities.

Banks that applied A-IRB were generally better positioned to achieve risk-sensitive capital requirements, while those relying on SSICA faced the constraint that the lowest applicable risk weight for exposures with the strongest credit quality is 70%, which does not provide sufficient differentiation between materially different risk profiles. This resulted in some banks preferring IRB where permitted, and using the SSICA only where no IRB approval had been obtained or where portfolios were insufficiently large to justify model development. The limited granularity of Slotting also weakens risk-based decision-making and further reduces lending capacity for strategic EU assets.

d. From an industry perspective, are there any challenges or limitations you experience with the current Supervisory Slotting Criteria Approach—particularly in assessing and quantifying the risk of the exposure? Do the current assignment criteria provided in the Annexes capture all key risk dimensions effectively, or could it be enhanced by adjusting the current factors, sub factors, or sub-factor components? Please provide details, and examples where they apply, and explain the rationale for your feedback.

From an industry perspective, the main challenges and limitations relate to two areas:

- **Insufficient risk sensitivity and granularity in the Slotting Approach:** The current CRR Slotting framework does not adequately differentiate between project finance exposures with materially different risk profiles, as the lowest risk weight remains 70% even for the strongest credits. This results in an overly conservative treatment of lower-risk projects, limits alignment with the Basel framework's discretion for preferential risk weights, weakens risk-based pricing and portfolio management, and ultimately constrains lending capacity.

- **Lack of recognition of third-party financial collateral:** While CRR3 now allows recognition of eligible personal guarantees (unfunded credit protection) under the Slotting Approach, equivalent third-party financial collateral (funded credit protection), such as insurer-provided cash collateral, is not recognized. This creates an inconsistency with other CRR approaches, fails to reflect the collateral's risk-mitigating effect, and may lead to unnecessarily high capital requirements for secured exposures.

In particular:

1. The treatment of the Slotting Approach under CRR Article 153(5)

The review of the Supervisory Slotting Criteria Approach has been a long-standing issue under both the CRR framework and at Basel Committee level.

The CRR fails to recognise the need for greater granularity within the Slotting Approach, particularly for projects exhibiting stronger credit quality and lower risk profiles. Under the current framework, the lowest applicable risk weight for exposures with the strongest credit quality is 70%^[1], which does not provide sufficient differentiation between exposures with materially different risk profiles and results in an unduly conservative treatment of lower-risk exposures.

In this respect, article 153.5 CRR has not fully implemented the long-standing national discretion included in the Basel III framework, which allows for preferential risk weights of 50% and 70% to “strong” and “good” exposures, respectively, where a bank's underwriting standards and other risk characteristics are materially stronger than those specified in the Slotting Criteria ([CRE 33.4](#))^[2]. As stated in the Basel framework “*At national discretion, supervisors may allow banks to assign preferential risk weights of 50% to “strong” exposures, and 70% to “good” exposures, provided they have a remaining maturity of less than 2.5 years or the supervisor determines that banks’ underwriting and other risk characteristics are substantially stronger than specified in the slotting criteria for the relevant supervisory risk category*”. More broadly, a comprehensive review of the Slotting Approach should be undertaken to ensure that it remains appropriately risk-sensitive.

The limited granularity of the current Slotting risk-weight framework constrains banks' ability to incorporate capital consumption effectively into pricing, portfolio management and lending decisions. By insufficiently differentiating between risk profiles especially for stronger credit quality transactions, the approach weakens risk-based decision-making, and further reduces the lending capacity of EU institutions, to the detriment of EU's broader policy objectives.

2. Recognition of financial collateral under the slotting approach:

We welcome the introduction of Article 236(1d) CRR that was newly introduced by CRR3 that explicitly refers to the possibility to recognize personal guarantees outside the project (unfunded credit protection) by applying the substitution approach where the risk weights for the guaranteed exposure are determined by means of the Slotting Approach according to Article 153(5) of the CRR.

We believe that the same rationale should be extended to financial collaterals (funded credit protection) provided by third parties outside the project, such as cash collateral provided by insurers.

Chapter 4 of the CRR does not currently recognize such collateral under the Slotting Criteria, despite its risk-reducing effect being comparable to that of eligible personal guarantees and despite the fact that equivalent forms of funded credit protection are recognized under both the Standardized and IRB approaches.

In our view, this treatment should be revisited, for instance through an amendment to Article 228 CRR3, allowing institutions to recognize the financial collateral over the exposure (under the Slotting Approach an LGD is not estimated). This would allow institutions to apply the substitution approach or an equivalent recognition mechanism to third-party financial collateral and ensure consistency of the Slotting Approach with the other approaches.

Question 2. Do you have any comments on the proposed amendments to Article 1 or on the replacement of the references to ‘real estate’ by references to ‘income-producing real estate’?

We broadly support the proposed amendments to Article 1 and the replacement of references to “real estate” by references to “income-producing real estate” (“IPRE”), as this aligns the RTS terminology with the specialised lending categories introduced in Article 147(8) CRR as amended by CRR3. The consultation raises important questions regarding the interaction between IPRE and ADC-type exposures. ADC can be split in ADC non SL and in ADC SL. There are ADC transactions which are not SL and there are ADC exposures which are SL. This is the object of EBA mandate under article 147.11.

As recognised in the Consultation Paper, the current assessment criteria generally capture the risk characteristics of land acquisition, construction and development transactions, whose risk drivers may be economically similar to those of IPRE or construction-stage real estate lending, even where the exposures do not formally meet the CRR definition of IPRE. The EBA mandate will enable to formalise which ADC exposures are SL and thus go in the IPRE category of article 147.8 (SL).

The slotting approach is applicable for specialized lending transactions and regarding ADC ones, applies only to SL ones.

In particular, the final RTS should clarify that the applicable slotting criteria should be determined consistently with the categorization framework to be developed under Article 147(11) CRR and that the replacement of the term “real estate” with “IPRE” should not result in the unintended exclusion or inappropriate treatment of ADC exposures. Such clarification would provide greater legal certainty and promote a consistent application of the slotting criteria across institutions.

This is particularly important because ADC exposures often require assessment criteria that capture construction risk, permitting risk, pre-sale or pre-let risk, refinancing risk, market risk and the expected value of the asset at completion.

We also agree that, where the applicable slotting criteria do not adequately reflect the risk profile of a particular exposure, any departure from the standard assignment process should be treated as an override and appropriately documented. However, overrides should remain exceptional and exposure-specific rather than becoming the primary mechanism for addressing structural ambiguities in the categorization of IPRE and ADC exposures.

Question 3. Do you have any comment on paragraph 3 that was newly introduced to Article 3 regarding the consideration of UFCP?

The treatment of guarantees and other credit risk mitigation techniques within the Slotting framework remains **insufficiently clear**. In particular, institutions face uncertainty as to how guarantees should be reflected in the allocation of slotting categories and how they interact with the underlying risk assessment.

Clarification is needed to avoid **inconsistent application or double counting effects**, and to ensure alignment with broader prudential principles governing CRM. In this regard, as being raised in Q1, while we welcome the introduction of Article 236(1d) CRR (via CRR3), which explicitly allows recognition of personal guarantees outside the project (unfunded credit protection) through the substitution approach where the risk weights for the guaranteed exposure are determined under the Slotting Approach in accordance with Article 153(5), the same logic should be extended to financial collateral (funded credit protection) provided by third parties outside the project — such as cash collateral provided by insurers.

Chapter 4 of the CRR does not currently recognize such financial collateral under the Slotting Approach, despite its risk-reducing effect being comparable to that of eligible personal guarantees, and despite equivalent forms of funded credit protection being recognized under both the Standardized and other IRB approaches.

We therefore call on the EBA to recommend that Article 228 CRR be amended to allow institutions to recognize third-party financial collateral under the Slotting Approach, thereby ensuring consistency with the other credit risk frameworks. Without such an amendment, there is an asymmetric treatment of economically equivalent risk-mitigants that is difficult to justify on prudential grounds.

Question 4. Consideration of ESG risk:

a. Do you have any comment on paragraph 6, on the consideration of ESG risks that is newly introduced to Article 3 of the RTS?

The integration of ESG risk factors is acknowledged as an important development. However, in the context of the Slotting Approach, it raises **significant implementation challenges**, notably in relation to data availability, methodological consistency, model governance and operational feasibility. Introducing ESG criteria at this stage may require substantial adjustments to internal processes and data infrastructures, including the collection of historical information that is often not available.

A key concern associated with the proposed modifications to the project assessment questionnaires is **the potential interpretation that such changes constitute a model change**, rather than a refinement of the existing assessment process. If the changes were considered to affect the underlying methodology, risk drivers, rating logic or calibration of the Slotting Criteria framework, institutions could be required to initiate formal model change procedures. Even where the changes are ultimately classified as non-material or subject only to prior notification, institutions would still need to perform impact assessments, potentially including a full portfolio reassessment, and comply with the associated governance, validation and supervisory requirements. This would generate additional operational burden, require significant expert resources and extend implementation timelines. In addition, modifications of this nature often extend beyond methodology and governance considerations and may require significant changes to technology infrastructures. Assessment questionnaires are typically embedded within risk management systems, workflows, data repositories, reporting processes and control frameworks supporting multiple legal entities across international banking groups. Consequently, even limited amendments may require system developments, testing activities, user training, process updates and coordinated implementation across jurisdictions.

A principles-based and proportionate approach should therefore be preferred, avoiding overly prescriptive requirements. It is also essential to ensure that ESG elements introduced in Slotting do not become **de facto standards across other credit risk frameworks**.

For internationally active banking groups, these changes require adequate implementation lead times. Institutions need sufficient time to assess impacts, define technical requirements, secure budget allocations, prioritize developments within broader transformation programs and coordinate implementation across business units and jurisdictions. Regulatory and methodological stability is therefore essential to support effective planning and efficient resource allocation. Frequent or insufficiently anticipated changes may disrupt established implementation roadmaps and create unnecessary pressure on technology and risk management resources.

Accordingly, we recommend that the EBA clearly documents the scope and rationale of the proposed questionnaire amendments and confirms that they do not alter the approved Slotting Criteria methodology where this is not intended.

In any case, **institutions require a significantly longer implementation period than currently envisaged**. Implementing such changes would involve assessing the impact on the rating methodology, designing and developing the necessary technological changes to risk and reporting systems, securing budget and resources, re-rating the relevant specialized lending portfolio, completing the internal model validation process, obtaining the required governance and management approvals, addressing any supervisory interactions where applicable, and deploying the changes across the organization.

These activities are complex, resource-intensive and highly interdependent, particularly for internationally active banking groups. Consequently, they cannot reasonably be completed within the 20-day period following publication in the Official Journal of the European Union. In our view, a realistic implementation timeline would not allow application before the second quarter of 2028 (Q2 2028).

b. Do you have any comment on the treatment of ESG- related factors or on the ESG-related clarifications for the assessment criteria provided in the annexes of the RTS? Do you have any concerns in terms of feasibility of the assessment considering ESG related factors and do you expect the consideration of ESG-related factors to lead to a better risk differentiation of the SSICA?

We support the proposed integration of ESG-related clarifications into the annexes, because many of these elements are already part of sound credit assessment practices. Institutions' internal rating guidance already requires analysts to assess, among others, stress analysis, cash-flow predictability, force majeure risk, legal and regulatory stability, design and technology risk, construction risk, O&M arrangements, operator strength, sponsor support, insurance coverage, reserve funds and covenant packages. It also requires analysts to justify the assigned assessment and to rely, where relevant, on technical, legal, market or insurance due diligence.

At the same time, implementation feasibility should not be underestimated. The availability, granularity and reliability of ESG data varies significantly by geography, sector, asset type, project stage and counterparty. For some exposures, particularly older transactions or transactions in jurisdictions with less developed ESG data infrastructure, institutions may not have sufficient historical or forward-looking information to perform a fully quantitative ESG assessment.

We therefore recommend that the EBA avoids overly prescriptive ESG metrics in the RTS and allows institutions to use a combination of quantitative data, qualitative expert judgment, due diligence reports and documented mitigants. This is particularly relevant for forward-looking physical and transition risk assessments, where external data sources and methodologies are still evolving.

We also recommend that the EBA clarifies that the absence of a specific ESG data point should not automatically lead to a worse category where the institution can demonstrate, through other reliable evidence, that the risk is not material or is adequately mitigated. This would be consistent with a risk-based approach and would avoid excessive conservatism driven by data availability rather than actual credit risk.

In our view, the incorporation of ESG considerations should improve the risk differentiation achieved by the SSICA only where those considerations are demonstrably relevant to the underlying credit risk of the transaction. The objective should be to enhance risk sensitivity rather than to introduce additional assessment requirements that are not supported by reliable and proportionate information.

c. Specifically for the newly specified sub-factor component on the CPI: Do you think the cut-off values for the CPI allow for a reasonable risk differentiation? If not, please provide cut-off values that would be meaningful for your specialized lending portfolios.

We do not consider that the appropriateness of the proposed cut-off values can be assessed in isolation from the way in which the Corruption Perceptions Index (CPI) is used within the assessment framework. Corruption risk may be relevant for specialised lending, particularly

where the transaction depends on public concessions, permits, subsidies, regulated tariffs, public-private partnership income streams or public sector counterparties.

However, we would caution against applying the CPI as a purely mechanical criterion. The CPI is a country-level indicator and may not fully capture the specific risk of an individual transaction, sector, contractual framework, public authority, concession regime or mitigation package.

For this analysis, institutions should be allowed to consider additional evidence, including legal due diligence, the track record of the relevant public authority, transparency of the procurement process, robustness of contractual protections, availability of international arbitration, strength of covenants, the existence of multilateral or export credit agency involvement and other transaction-specific mitigants.

Rather than relying on fixed CPI cut-off values as a standalone determinant, we believe that the CPI should be used as one input into a broader qualitative assessment of political and institutional risk.

We propose to include the qualitative assessment of the corruption risk within the existing Political Risk/Transfer Risk subfactor by widening its scope, rather than introducing a separate mechanical assessment based solely on CPI thresholds.

This approach would better reflect the economic substance of specialised lending transactions and improve risk differentiation by taking into account transaction-specific circumstances and available risk mitigants, rather than relying exclusively on a country-level index.

d. With specific regard to CF, given the current low uptake of the CF criteria: Do you support the specification of the additional sub-factors for CF, or do you believe that the low uptake of SSCA for CF portfolios indicates the need for simpler criteria? What aspect(s) would be crucial to include in such simpler criteria?

We support, in principle, the inclusion of key additional risk drivers for Commodity Finance, particularly market price volatility and transportation risk, as these are relevant to the self-liquidating nature of CF transactions and to the value and monetisation of the financed commodity.

However, given the low uptake of the CF criteria, we would encourage the EBA to ensure that the CF framework remains simple, operationally feasible and focused on the most material risks. Excessive granularity may create disproportionate implementation costs and may reduce consistency where portfolios are small, heterogeneous or managed primarily through transaction-level controls.

With regard to ESG-related sub-factors specifically, we acknowledge that their introduction raises significant concerns in terms of data availability. The collection of ESG data only began a few years ago, and coverage remains uneven across commodities, jurisdictions and counterparties. It would therefore be appropriate to provide for a transitional regime following the entry into force of the RTS, during which banks can continue to apply the current version of the Regulation, in order to avoid undue penalisation of transactions where ESG data cannot yet be reliably obtained.

Overall, we support the EBA's objective of enhancing the risk sensitivity of the CF slotting criteria. ESG-related and CF-specific factors should improve risk differentiation where they are material, but the final RTS should avoid excessive complexity, mechanical outcomes and requirements that cannot be supported by reliable data across all portfolios and jurisdictions.

Question 5. Documentation: Do you have any comments on the clarifications for the documentation of overrides and validation results that were introduced to Article 6 of the RTS, also in view of the supervisory best practices outlined in the Supervisory Handbook on IRB Validation (EBA/REP/2023/29)?

We broadly support the proposed clarifications introduced to Article 6 regarding the documentation of overrides. In our view, robust documentation is essential to ensure consistency, traceability and sound governance in the assignment of risk weights under the Supervisory Slotting Criteria Approach (SSCA).

We agree that overrides are a key area of supervisory relevance, given that specialised lending assessments inherently rely on a combination of quantitative analysis and expert judgement. Institutions should therefore maintain clear policies governing the use of overrides, including the circumstances in which they may be applied, the applicable approval process, the rationale supporting the override and the evidence underpinning the decision.

The proposed clarification regarding the documentation of overrides appears broadly **consistent with existing practices**. Institutions already implement structured processes to document and justify overrides, particularly in response to supervisory expectations.

As long as the requirements remain aligned with current practices, and do not introduce additional documentation or governance obligations beyond those already embedded in institutions' internal frameworks, they are not expected to create material additional burden.

Question 6. Did you face challenges to achieve sufficient risk sensitivity under the RTS as laid down in CDR 2021/598? If yes,

a. would these challenges remain under the proposal to remove the floor for the factor weights and the proposed amendments to the Annexes?

b. please specify in detail, which amendments (removal of caps, removal of the linear aggregation, structural changes or other) would, in your assessment, most effectively enhance risk sensitivity under the SSCA?

Elements of increased flexibility introduced in the proposal are welcome, as they may contribute to improving alignment with internal risk assessments.

At the same time, it is important to ensure that gains in risk sensitivity are not achieved through **excessive complexity or granularity**, which could ultimately reduce the usability of the framework.

More fundamentally, the most effective way to enhance risk sensitivity under the SSCA would be to fully implement the national discretion provided under Basel III (CRE 33.4), which allows supervisors to assign preferential risk weights of 50% to “strong” exposures and 70% to “good” exposures, where banks’ underwriting standards and other risk characteristics are substantially stronger than those specified in the slotting criteria. The current Article 153(5) CRR does not reflect this discretion. Empirical evidence from Global Credit Data confirms that observed LGDs for project finance and object finance (aviation, shipping) are systematically below regulatory floors: for project finance, 71% of observed LGDs fall below the 25% regulatory floor; for aircraft finance, approximately three-quarters of historical LGDs fall below the floor estimated for a typical loan. This demonstrates that the current calibration results in structural overstatement of risk that is not justified by observed data. Revisiting the risk-weight calibration for selected SL sub-classes — particularly High Quality Project Finance and High Quality Object Finance — would constitute the most meaningful enhancement to risk sensitivity under the SSCA. This should be pursued alongside the ongoing EBA work under Article 495b CRR.

In addition, as flagged in our response to Question 1(d) and Question 3, the current framework does not recognise third-party financial collateral (funded credit protection) under the Slotting Approach, despite its risk-reducing effect being comparable to that of eligible personal guarantees. We call on the EBA to recommend an amendment to Article 228 CRR to address this inconsistency.

Question 7. Do you have any comments

a. on the newly introduced sentence to Article 3(1) of the RTS to clarify the attribution of categories to sub-factors or sub-factor components,

The proposed increase in the number of sub-factors and the refinement of existing criteria raise concerns regarding **complexity and operational impact**.

Institutions highlight that the introduction of additional factors may require new data, adjustments in processes and closer interaction with front-office teams, without a clear demonstration that such changes significantly improve risk differentiation. In addition, while we understand the EBA’s objective of promoting a more harmonized and prudent attribution of categories where a sub-factor comprises several sub-criteria, we do not support the proposed requirement to assign the category automatically based on the worst fulfilled sub-criterion in all cases. Such an approach may lead to overly conservative and insufficiently risk-sensitive outcomes. Specialized lending transactions are highly structured, and the relevance of individual sub-criteria may vary significantly depending on the asset class, contractual framework, project phase, available risk mitigants and the overall transaction structure. A weakness in one sub-criterion should not automatically determine the overall category where that weakness is not material, is temporary or is adequately mitigated by other contractual protections or structural features.

Institutions should therefore retain the ability to exercise expert judgement, supported by appropriate documentation and governance, when determining the overall category of a sub-

factor. This would preserve both consistency and risk sensitivity while avoiding unduly mechanical outcomes.

In this context, the **added value of each new element should be clearly justified**, and unnecessary complexity should be avoided.

b. to the introduction of descriptions for each factor, or

We support the introduction of descriptions for each factor. Clear factor descriptions are useful to define the purpose of each assessment area and to promote consistency in methodology design, validation and documentation.

We would nevertheless recommend that the EBA clarifies that these descriptions are intended to guide the assessment and should not be interpreted as creating additional mandatory assessment criteria beyond those set out in the annexes.

c. to the implementation of category 4 as residual category, as well as to the quantitative threshold introduced for the assessment of the DSCR as criterion for category 4, in particular on the need of providing further clarifications on the treatment of missing information and its documentation?

We understand the EBA's prudential rationale for implementing category 4 as a residual category where no other category applies. We also recognise that, where information is materially missing or unreliable, a conservative treatment may be appropriate for the purpose of assigning an exposure to a category.

However, we have concerns with the proposed implementation if category 4 is applied too broadly or mechanically. In our view, treating category 4 as a general residual category may reduce the explanatory power of the SSICA assignment. Category 4 could capture very different situations, including genuinely weak credit quality, lack of relevant information, information that is temporarily unavailable, information that is not applicable to the specific exposure, or cases where the prescribed criteria do not adequately reflect the transaction structure. These situations do not have the same risk meaning and should not necessarily lead to the same interpretation.

A broad residual use of category 4 may therefore reduce transparency and risk differentiation. From a credit risk management and validation perspective, it is important to understand whether an exposure is assigned to category 4 because the underlying risk is weak, because a critical data point is missing, because the information is not applicable, or because the methodology does not adequately capture the risk profile of the transaction. If these cases are all treated in the same way, institutions and supervisors may lose relevant information on the actual risk driver behind the assignment.

This concern is particularly relevant for specialised lending, where transactions are highly structured and may differ significantly by asset type, revenue model, construction phase, contractual framework and available mitigants. Institutions' Specialised Lending guidance are

designed to ensure that rating assessments are commented on and justified, precisely to preserve traceability and explainability of the assigned assessment.

Regarding the DSCR threshold, we understand the benefit of introducing a quantitative backstop for category 4. However, we have concerns about applying a single DSCR threshold of 1.15 across all specialised lending exposures and revenue models. The appropriate DSCR level depends significantly on the type of project, volatility of revenues, contractual structure, availability-based versus demand-based revenues, tenor, amortisation profile, resilience under stress and quality of mitigants.

For example, institution's guidance may differentiate DSCR expectations by project risk profile and revenue model. Using higher DSCR levels for projects with demand risk and lower DSCR levels for projects with availability payments, reflecting the lower volatility and greater predictability of availability-based cash flows.

Therefore, a fixed 1.15 threshold could lead to overly conservative outcomes for low-risk availability-based projects or public-private partnership structures with highly predictable revenues, while potentially being insufficiently conservative for more volatile merchant or demand-risk projects. We recommend removing any DSCR threshold and let banks assess its levels as the slotting approach is an IRB approach and specialised lending assessment requires to take into consideration combination of criteria (contractual structure, asset types, quality of counterparts, etc) when considering the appropriate level of DSCR. Also, the DSCR is not adequate for object finance transactions with lease payments mirroring the debt service repayment.

Finally, we note more broadly, as highlighted in reference to Q4, that several internally developed SSCA methodological manuals will need to be revised to reflect these changes. A phase-in period following the entry into force of the RTS would therefore be appropriate to allow institutions sufficient time to adapt their processes and documentation without disruption.

Question 8. Specification of new sub-factors and amendments to the sub-factors and sub-factor components:

At this stage, the full impact of the proposed changes remains difficult to assess. Institutions are still analysing the implications in terms of model adjustments, operational changes and data requirements.

A cautious approach is therefore required to ensure that the framework evolves in a way that remains **proportionate and implementable**, without triggering disproportionate model revisions or operational burdens.

a. Do you have any comments on the specification of the new sub-factors and the amendments introduced to the sub-factors and sub-factor components? Do you expect an improvement in risk differentiation by the specification of new sub-factors and sub-factor components, and do you expect material model changes introduced by newly specified sub-factors or sub-factor components (related to ESG aspects or other)? Specifically for CF, given the current low usage of the CF criteria: Do you support the specification of additional sub-factors for CF or would it be more commensurate to maintain the current criteria?

We support the separation of market conditions into “market competition” and “demand”. These two dimensions may evolve differently and may have different implications for risk. We therefore expect this amendment to improve the risk differentiation of the SSCA without requiring material changes to our existing assessment framework.

We acknowledge the EBA’s objective of making the assessment of refinancing risk more explicit. In our view, the current wording better captures the nature of refinancing risk in specialised lending transactions, as it is broader, more descriptive and more directly linked to the credit assessment. Refinancing risk depends not only on leverage at maturity or expected debt yield, but also on the repayment profile, balloon size, market conditions, remaining asset life, cash-flow robustness and visibility of refinancing or take-out options. We therefore recommend retaining the current wording. Metrics such as debt-to-equity at maturity or debt yield may be useful as complementary indicators, but should not replace the existing concepts of amortisation schedule, market/cycle risk and refinancing risk.

We support, in principle, the inclusion of a criterion that captures the position of the exposure in the transaction’s loss waterfall. The ranking of the exposure is a relevant risk driver in Project Finance, as a senior exposure, a mezzanine exposure, a junior tranche or a first-loss position may be exposed to materially different levels of loss severity and recovery prospects.

However, we recommend reviewing the proposed wording referring to “exposures with securitisation position characteristics”. In our view, this terminology may create unnecessary ambiguity in the context of specialised lending and, in particular, Project Finance. References to securitisation may be interpreted as linking the criterion to the securitisation framework or to transactions that have the legal or regulatory features of securitisations, which would not usually be the case for ordinary Project Finance transactions.

We understand that the underlying objective is to capture the existence of contractual subordination, tranche seniority or different positions in a loss waterfall. We agree with that objective. However, the wording should be framed in Project Finance terms and should not suggest that the exposure needs to have securitisation features in a regulatory sense.

This clarification is important to avoid unintended application of the criterion to standard syndicated Project Finance transactions where lenders rank *pari passu* and share the same security package and payment waterfall. In such cases, the presence of several lenders or a common intercreditor agreement should not, by itself, imply the existence of securitisation-like characteristics. The relevant distinction should be whether the exposure is contractually senior, subordinated, mezzanine, junior or otherwise exposed to a different allocation of losses compared with other lenders.

Overall, we support the risk-sensitive distinction between senior and junior positions. We therefore recommend referring directly to contractual ranking, subordination and the transaction loss waterfall, rather than to securitization position characteristics, unless the transaction genuinely has securitization features.

For Commodity Finance, we support the inclusion of market price volatility and transportation risk as they are material risk drivers in self-liquidating commodity transactions. However, given the low uptake of the CF criteria, we recommend that the EBA keeps the CF framework simple and focused on the most material dimensions: over-collateralisation, liquidity and hedgeability of the commodity, price volatility, margining or haircut practices, asset control, insurance, transport and logistics, trader strength, and country/export restriction risk. Excessive granularity could reduce operational feasibility without necessarily improving risk differentiation.

b. Specifically, for the clarifications to the DSCR for the sub-factor ‘financial ratios’, do you have any concerns about reducing the financial ratios to consider just to the DSCR? Are there other products than operational leases, where the DSCR does not allow unbiased risk assessment?

We agree that DSCR is a central metric in specialised lending and is generally the most relevant financial ratio for assessing the ability of the asset to generate sufficient cash flows to service debt. We also support the EBA’s clarification that material balloon payments should be excluded from the DSCR calculation, as these are typically subject to refinancing and may otherwise distort the ratio.

However, we would not support an overly mechanical reduction of the financial ratios assessment to DSCR only. DSCR should be the primary metric, but it should not be the only relevant metric in all structures. Depending on the transaction, DSCR may need to be complemented by other measures such as LLCR, PLCR, debt yield, LTV, debt-to-equity at maturity.

c. Specifically for the sub-factors that refer to the loan-to-value, could you please provide insights in how far the determination of the loan-to-value used is aligned with the exposures-to-value according to Article 124(6) CRR?

The loan to value (LTV) ratio used in specialised lending slotting may not always be identical to the exposure-to-value concept used under Article 124(6) CRR. While both metrics seek to assess the relationship between the exposure and the underlying asset value, they serve different regulatory purposes and are therefore not necessarily calculated on the same basis.

The slotting LTV is typically transaction-specific, the level of leverage against the financed asset, the recovery prospects of the lenders and the residual value of the asset under the contractual structure.

Differences may arise due to:

- the perimeter of debt included in the numerator, for example senior debt only versus total debt ranking ahead of or pari passu with the institution;

- the treatment of undrawn commitments, accrued interest, break costs or prepayment penalties;
- the type of value used in the denominator, for example market value, mortgage lending value, appraised value, resale value, forced-sale value or completion value;

d. For the newly specified sub-factor market price volatility, how could the different levels of volatility (low/ moderate/ high) be further specified? For IPRE and OF, is the short-term volatility of market prices a risk driver that is frequently considered in practice as additional information when assessing the assignment criteria? Do you support the specification of a new sub-factor or sub-factor component to capture short-term volatility of market prices for IPRE or OF and if so, why?

For Commodity Finance, we support the introduction of market price volatility as a specific sub-factor. However, we recommend that the EBA avoids hard quantitative thresholds that would apply uniformly across all commodities, geographies and transaction tenors. Commodity markets differ significantly in terms of liquidity, seasonality, hedging instruments, storage capacity, transportation constraints and historical volatility.

The levels of volatility could be specified through a combination of quantitative and qualitative criteria. For example:

- **low volatility** could refer to commodities with deep and liquid markets, transparent pricing, reliable hedging instruments, low historical and stressed price volatility, and collateral haircuts or margining practices that comfortably absorb adverse price movements;
- **moderate volatility** could refer to commodities with observable market prices and some hedging availability, but with higher historical or stressed price movements that require active collateral monitoring, margining or conservative haircuts;
- **high volatility** could refer to commodities with limited liquidity or hedging availability, significant historical or stressed price movements, high basis risk, high seasonality or insufficient collateral coverage under plausible adverse price scenarios.

Institutions should be allowed to use historical realised volatility, stressed price movements, value-at-risk, haircut models, margining frequency, hedging availability, market liquidity and tenor of the transaction to classify volatility.

For IPRE and OF, short-term market price volatility is generally less frequently used as a standalone driver than in CF. In IPRE and OF, the credit assessment usually focuses on medium- to long-term cash-flow generation, asset quality, market liquidity, refinancing risk, residual value, tenant or lessee quality, and enforceability of security. Short-term market price volatility may be relevant in specific cases, such as bridge financings, transactions relying on asset sale or refinancing at maturity, aircraft or shipping portfolios, or assets with highly liquid secondary

markets. However, it should not be introduced as a mandatory standalone sub-factor for all IPRE and OF exposures.

We would therefore not support a general mandatory new sub-factor for short-term market price volatility in IPRE or OF. Instead, institutions should be allowed to consider it as an additional risk driver where it is material, for example within asset value, market liquidity, refinancing risk or stress analysis.

We would like to add some additional comments regarding other minor changes in the factor / components included in the Annex.

Regarding Annex I, referring to Project Finance analysis: a) foreign risk; b) status of permits for construction; c) construction risk; d) Transaction governance risk

- a) In reference to FX risk, we do not support the removal of foreign exchange risk as a standalone sub-factor, or its full absorption into the integrated stress analysis.

Foreign exchange risk is a distinct and transaction-specific risk driver in Project Finance. Where the currency of the debt differs from the currency of the project revenues, FX movements may directly affect debt service capacity, covenant headroom, reserve account sufficiency, refinancing capacity and, ultimately, the resilience of the project's cash flows. This risk has a specific nature and should remain separately identifiable in the assessment framework.

While we agree that integrated stress analysis is an important tool to assess the resilience of the transaction under adverse scenarios, it should not replace a dedicated assessment of FX risk. Stress analysis typically captures several risk drivers together, such as volume, price, operating cost, interest rate, environmental or macroeconomic assumptions. If FX risk is only considered within a broader stress framework, there is a risk that the specific source of vulnerability becomes less transparent, less comparable and less consistently documented across institutions.

In addition, FX risk has clear and observable mitigants, including contractual hedging, natural hedges, indexation mechanisms, pass-through arrangements, currency matching between revenues and debt service, and the tenor and notional coverage of hedging instruments. These mitigants can be assessed directly and should not be diluted within a broader stress assessment. In this respect, a dedicated sub-factor allows institutions to distinguish between fully hedged, substantially hedged, partially hedged and unhedged currency mismatches in a more operational and risk-sensitive manner.

In summary, we consider that integrated stress analysis should complement, but not replace, a dedicated and traceable assessment of foreign exchange risk. Retaining a specific FX risk assessment would better preserve risk sensitivity, comparability and supervisory transparency in Project Finance exposures.

- b) Regarding the subfactor “Status of permits for construction”, we support the inclusion of the status of construction permits as a relevant risk driver in the Project Finance assessment framework. The availability, timing and robustness of permits may have a direct impact on the ability of the project to start construction, progress according to schedule, avoid cost overruns and reach completion within the agreed time and budget.

However, we recommend that this criterion is included within the **Construction Risk** sub-factor, rather than being presented as a separate sub-factor under Asset / Transaction Characteristics. Permitting risk is intrinsically linked to the construction phase and should be assessed together with the other construction-related elements, such as the construction contract structure, contractor experience, construction timetable, likelihood of completion at agreed time and cost, interface risk, contingency arrangements and completion support.

Treating the status of permits as a standalone sub-factor may create unnecessary fragmentation and could reduce the operational traceability of the assessment. In practice, the relevance of outstanding permits depends on their criticality for construction, whether the permitting process is routine or discretionary, the existence of appeals or conditions, the expected timing for obtaining the permits, and the potential impact on the construction schedule and budget. These aspects are better captured as part of the broader construction risk assessment.

We would also caution against wording that mixes the status of construction permits with the overall construction status of the project. For example, whether construction has already started or is close to completion is relevant, but it should not replace the assessment of whether the necessary permits are material, pending, routine, subject to conditions or exposed to a meaningful risk of delay or refusal.

In summary, we agree that permitting risk should be explicitly captured in the Project Finance slotting criteria. However, we recommend that it is treated as a component of Construction Risk, rather than as a standalone sub-factor, in order to preserve consistency, risk sensitivity and operational clarity.

- c) We recommend reviewing the proposed wording of the Construction Risk sub-factor to ensure that the type and robustness of the construction contract remain explicitly captured in the assessment.

We understand the EBA’s objective of simplifying the construction risk criteria and embedding the construction contract structure within the broader assessment of the likelihood to complete the project on time and on budget. However, we believe that the explicit reference to the type of construction contract — in particular, whether the project benefits from a fixed-price date-certain turnkey EPC contract — should not be removed or diluted.

The construction contract structure is a key and objective risk driver in Project Finance. It directly affects the allocation of construction cost overrun risk, delay risk, interface risk, contractor responsibility, completion certainty and the effectiveness of liquidated damages or completion support. A fixed-price date-certain turnkey EPC contract, particularly where supported by a creditworthy contractor and adequate liability provisions, provides materially stronger risk mitigation than a structure involving multiple contractors, partial fixed-price arrangements, unresolved interface issues or material items still to be negotiated.

In our view, merging the construction contract type into a broader “likelihood to finish” criterion may reduce operational clarity and comparability. The likelihood of completing the project on time and on budget is an outcome-based assessment, while the construction contract structure is one of the key contractual mitigants supporting that outcome. Treating both concepts within the same wording may make the criterion less objective and could lead to inconsistent assessments across institutions.

- d) Regarding the new subfactor “Transaction governance risk”, we do not support the introduction of the **Transaction Governance Risk** sub-factor as currently drafted, where the assessment appears to be driven primarily by whether the institution is the sole holder of a senior claim, one of several senior lenders, or the sole holder of subordinated claims.

In our view, this approach is not sufficiently risk-sensitive in the context of Project Finance. Whether a transaction is bilateral or syndicated is generally neutral from the perspective of the borrower’s ability to repay. The primary source of repayment remains the project’s cash flows, supported by the contractual framework, revenue structure, debt service profile, construction and operating arrangements, sponsor support and security package. The mere fact that the institution is not the sole senior lender does not, in itself, weaken the project’s repayment capacity.

We acknowledge that transaction governance and creditor decision-making rights may be relevant in certain cases, particularly where they affect enforcement, waiver processes, amendments, control over cash flows, step-in rights or the ability to take timely remedial action. However, these risks depend on the quality of the finance documentation and intercreditor arrangements, not simply on the number or identity of lenders in the transaction.

In standard syndicated Project Finance transactions, lenders typically benefit from common finance documents, a shared security package, facility agent and security agent structures, majority lender voting mechanisms, reserved matters and clear enforcement procedures. Where these arrangements are robust, the presence of multiple senior lenders should not be viewed as a weaker governance position compared with a bilateral senior exposure. In some cases, the involvement of

multiple lenders, export credit agencies, multilaterals or institutional investors may even strengthen due diligence, monitoring and discipline around the transaction.

Conversely, a bilateral senior exposure should not automatically be considered stronger solely because the institution is the sole senior lender. Sole lender status does not improve the project's economics, the borrower's cash-flow generation or the legal enforceability of the security package. Any benefit would arise only if the institution has materially stronger control rights, more effective enforcement capacity or better access to information, and these elements should be assessed directly.

We therefore recommend that the EBA does not retain this sub-factor in its current form. If the EBA considers that transaction governance should be explicitly captured, the criterion should be reformulated to focus on the effectiveness of creditor governance rights, rather than on whether the transaction is bilateral or syndicated.

In summary, we consider that transaction governance should only affect the assessment where it has a demonstrable impact on creditor control, enforcement effectiveness or recovery prospects. A mechanical distinction between bilateral and syndicated transactions would not appropriately reflect the borrower's repayment capacity and could reduce the risk sensitivity of the Project Finance slotting framework.

Regarding Annex II, referring to IPRE analysis: a) indicators of a borrower's ability and willingness to repay their obligation; b) debt value to resale value; c) debt yield that can be expected by an investor refinancing the loan at maturity; d) Transaction governance risk

- a) In reference to "indicators of a borrower's ability and willingness to repay their obligation", we suggest clarifying the wording and scope of the new sub-factor **"indicators of a borrower's ability and willingness to repay their obligation (applicable for properties under construction)"**.

We understand that the EBA's objective is to capture, for IPRE properties under construction, whether the borrower, developer or sponsor has sufficient financial commitment to the project. This may include the equity portion relative to debt funding, the adequacy of committed funding for the construction and development budget, the loan-to-cost profile, cost-to-complete funding, budget contingencies and the visibility of pre-sales, pre-leases or take-out arrangements. We agree that these elements are relevant to the assessment of financial strength during the construction phase.

However, the current wording may be interpreted too broadly. The concepts of ability and willingness to repay are already reflected across several areas of the IPRE slotting framework, including financial ratios, LTV / incentive to repay, sponsor or developer support, cash-flow visibility and construction risk. Without

further clarification, there is a risk of overlap, double counting or inconsistent allocation of the same risk driver across different factors.

In particular, we recommend that the EBA clarifies whether this sub-factor is intended to assess the financial structure and borrower/developer commitment during the construction phase, or whether it is intended to capture construction execution risk more generally. If the criterion is intended to assess construction budget robustness, technical hazards, contractor quality, cost overrun risk, delay risk or completion risk, these elements appear more naturally located under the Construction Risk sub-factor. By contrast, if the criterion is retained under Financial Strength, its scope should be limited to financial indicators such as equity injected or irrevocably committed, availability of committed debt funding, loan-to-cost, cost-to-complete coverage, budget contingencies and visibility of pre-sales, pre-leases or binding take-out arrangements.

We also recommend clarifying the role of pre-sales and pre-leases in this assessment. These elements are relevant because they support cash-flow visibility, exit strategy and refinancing or take-out capacity. However, they should not automatically be interpreted as indicators of the borrower's willingness to repay. Their relevance depends on the creditworthiness of buyers or tenants, enforceability of commitments, cancellation rights, conditions precedent and the maturity of the sale or lease-up process.

- b) In reference to “debt value to resale value”, we do not support the introduction of “debt value to resale value” as a standalone sub-factor in its current wording.

We acknowledge that the relationship between debt outstanding and the value of the underlying real estate asset is a relevant credit risk driver for IPRE exposures. It may provide information on the borrower's incentive to repay, the collateral cushion available to lenders, refinancing capacity and potential recovery prospects in a downside scenario.

However, the proposed wording appears to rely on resale value as if it were a single and objective amount. In practice, resale value is highly dependent on the valuation basis, the assumed disposal scenario and the time horizon considered. For the same asset, materially different values may arise depending on whether the valuation reflects market value, mortgage lending value, vacant possession value, forced-sale value, stabilised value, completion value, distressed disposal value or a value net of disposal costs. The result may also vary depending on assumptions around lease-up, occupancy, cap rates, market liquidity, asset condition, environmental constraints, planning status, interest rates and the expected time required to execute a sale.

This is particularly relevant in IPRE, where asset values are often sensitive to market cycle conditions and forward-looking assumptions. A property may have a resale value “above debt value” under an orderly-sale base case, but a materially lower value under a stressed or accelerated enforcement scenario.

Conversely, a property under development or repositioning may have several relevant values at the same time, including current as-is value, cost-to-complete-adjusted value, value at completion and stabilised value. Without specifying which value should be used, institutions may apply the criterion inconsistently and supervisors may find it difficult to compare outcomes across portfolios and jurisdictions.

We also note that this sub-factor may overlap with existing or related concepts, in particular LTV, collateral valuation, refinancing risk and security package assessment. If the purpose is to measure leverage against the property value, the criterion is closer to an LTV or advance-ratio assessment. If the purpose is to assess recoverability in an enforcement scenario, it should be clearly linked to the security package, valuation haircut, liquidation assumptions and enforcement costs. As currently drafted, the criterion risks mixing borrower incentive, collateral cushion and recovery severity without sufficient operational clarity.

- c) Regarding “debt yield that can be expected by an investor refinancing the loan at maturity”, we do not support the introduction of “debt yield that can be expected by an investor refinancing the loan at maturity” as a standalone sub-factor in its current wording.

We acknowledge that the ability to refinance the loan at maturity is a relevant risk driver for IPRE exposures, particularly where the transaction includes a bullet repayment, a material balloon, a short-term bridge structure or a business plan that relies on future market access. We also recognise that debt yield may provide useful information on the attractiveness of the asset to potential lenders or investors at refinancing.

However, we consider that the proposed criterion is not sufficiently objective or risk-sensitive if assessed in isolation. The debt yield that may be acceptable to an investor refinancing the loan at maturity is not a single, observable or transaction-neutral metric. It may vary materially depending on the investor’s strategy, target return, funding cost, leverage appetite, hold period, regulatory constraints, portfolio diversification objectives, capital structure, market entry considerations and risk appetite at the relevant point in the cycle.

As a result, the expected debt yield may reflect the preferences and strategy of a potential refinancing investor more than the intrinsic credit quality of the borrower or the underlying real estate asset. Two investors may require different debt yields for the same asset and transaction, without this necessarily implying a different credit quality of the exposure itself. This creates a risk of inconsistent application across institutions, portfolios and jurisdictions.

In addition, we consider that this criterion overlaps with refinancing risk, which is a broader and more comprehensive concept. Refinancing risk should not be

assessed only by reference to expected debt yield. It also depends on the repayment profile, balloon size, remaining loan-to-value at maturity, stabilised cash flows, tenant quality, lease maturity profile, occupancy, capex needs, market liquidity, interest rate environment, credit spreads, asset quality, sponsor support, availability of take-out options and the depth of the refinancing market.

Debt yield may therefore be a useful input, but it should not replace a holistic assessment of refinancing risk. A transaction could show an apparently acceptable debt yield under one market scenario but still present material refinancing risk due to weak market liquidity, short lease terms, concentration of tenants, high capex needs, uncertain valuation assumptions or adverse interest rate conditions. Conversely, a lower debt yield may be mitigated by strong asset quality, long-term leases with creditworthy tenants, conservative leverage, sponsor support or credible refinancing commitments.

In summary, we agree that refinancing capacity should be assessed explicitly. However, we do not support a standalone criterion based on the debt yield expected by a refinancing investor, as this metric may depend on investor strategy rather than credit quality and may duplicate or fragment the broader refinancing risk assessment.

- d) Same comments as for Project Finance, for the new subfactor “Transaction governance risk”, same comments as for Project Finance Annex.