

Chapter 3

Standardised credit risk



3.5 Simplified method of calculating risk weights

3.5.1 **G** This section (■ BIPRU 3.5) sets out a simplified approach to calculating *risk weights*. This approach is only relevant to an *exposure* class for which *risk weights* are determined by the ratings of a *nominated ECAI* or an export credit agency. For other *exposure* classes a *firm* should use the normal approach under the *standardised approach*.

3.5.2 **G** The approach in this section is only likely to be relevant for a *limited licence firm* or a *limited activity firm* that has only incidental credit *exposures* and for whom it would be prohibitively costly to establish the systems needed to include the credit assessments of *ECAIs* and export credit agencies in its regulatory capital calculations. However the approach may be used by other *firms* if appropriate. A *firm* should notify the *appropriate regulator* if it adopts the approach in this section.

3.5.3 **G** Rather than *risk weighting exposures* individually, a *firm* eligible to apply the simplified approach should apply a single *risk weight* to all *exposures* in each *exposure* class. The simplified *risk weight* for *exposures* in a particular class will be the *risk weighting* for unrated entities for each *exposure* class in which the external credit assessments influence *risk weights*.

3.5.4 **G** The table in ■ BIPRU 3.5.5 has a summary of the *risk weights* that a *firm* should use if it uses the simplified method of calculating *risk weights* referred to in ■ BIPRU 3.5.1 G.

3.5.5 **G** Table : Simplified method of calculating risk weights

This table belongs to ■ BIPRU 3.5.4 G.

Exposure class	Exposure sub-class	Risk weights	Comments
Central government	<i>Exposures to United Kingdom government or Bank of England in sterling</i>	0%	

Exposure class	Exposure sub-class	Risk weights	Comments
Regional/local governments	<i>Exposures to United Kingdom government or Bank of England in the currency of another EEA State</i>	0%	See Note 2.
	<i>Exposures to EEA State's central government or central bank in currency of that state</i>	0%	
	<i>Exposures to EEA State's central government or central bank in the currency of another EEA State</i>	0%	See Notes 2 and 3.
	<i>Exposures to central governments or central banks of certain countries outside the EEA in currency of that country</i>	See next column	The risk weight is whatever it is under local law. See BIPRU 3.4.6 R for precise details.
	<i>Exposures to European Central Bank</i>	0%	
	<i>Other exposures</i>	100%	
	<i>Exposures to the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly in sterling</i>	0%	
	<i>Exposures to the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly in the currency of another EEA State</i>	0%	See Note 2.
	<i>Exposures to EEA States' equivalent regional/local governments in currency of that state</i>	0%	See BIPRU 3.4.17 R for details of type of local/regional government covered.

Exposure class	Exposure sub-class	Risk weights	Comments
	<i>Exposures to EEA States' equivalent regional/local governments in the currency of another EEA State</i>	0%	See BIPRU 3.4.17 R for details of type of local/regional government covered. See Notes 2 and 3.
	<i>Exposures to local or regional governments of certain countries outside the EEA in currency of that country</i>	0%	See BIPRU 3.4.19 R for details of type of local/regional government covered. See Note 1.
	<i>Exposures to United Kingdom or EEA States' local/regional government in currency of that state if the exposure has original effective maturity of 3 months or less</i>	20%	
	<i>Exposures to United Kingdom or EEA States' local/regional government in the currency of another EEA State if the exposure has original effective maturity of 3 months or less</i>	20%	See Note 2. See Note 3 for local/regional government of an EEA State other than the United Kingdom
	<i>Exposures to local or regional governments of countries outside the EEA in currency of that country if the exposure has original effective maturity of 3 months or less</i>	20%	See Note 1.
	<i>Other exposures</i>	100%	

Exposure class	Exposure sub-class	Risk weights	Comments
<i>PSE</i>	<i>Exposures to a PSE of the United Kingdom or of an EEA State if that PSE is guaranteed by its central government and if the exposure is in currency of that PSE's state.</i>	0%	BIPRU 3.4.24 R describes the <i>United Kingdom PSEs</i> covered and BIPRU 3.4.25 R describes the <i>EEA PSEs</i> covered.
	<i>Exposures to PSE of a country outside the EEA if that PSE is guaranteed by the country's central government and if the exposure is in currency of that country.</i>	0%	See BIPRU 3.4.26 R and Note 1.
	<i>Exposures to a PSE of the United Kingdom or of an EEA State in currency of that state if the exposure has original effective maturity of 3 months or less</i>	20%	
	<i>Exposures to a PSE of the United Kingdom or of an EEA State in the currency of another EEA State if the exposure has original effective maturity of 3 months or less</i>	20%	See Notes 2 and 3.
	<i>Exposures to PSE of a country outside the EEA in currency of that country if the exposure has original effective maturity of 3 months or less</i>	20%	See Note 1.
	<i>Other exposures</i>	100%	

Exposure class	Exposure sub-class	Risk weights	Comments
<i>Multilateral development banks</i>	<i>Exposures to multilateral development banks listed in paragraph (1) of the Glossary definition</i>	0%	Simplified approach does not apply. Normal rules apply.
	<i>Other exposures</i>	Various	Treated as an <i>institution</i>
<i>EU, the International Monetary Fund and the Bank for International Settlements</i>		0%	Simplified approach does not apply. Normal rules apply.
<i>Institutions</i>	<i>Exposures to United Kingdom institution in sterling with original effective maturity of three months or less</i>	20%	
	<i>Exposures to United Kingdom institution in the currency of another EEA State with original effective maturity of three months or less</i>	20%	See Note 2.
	<i>Exposures to institution whose head office is in another EEA State in the currency of that state with original effective maturity of three months or less</i>	20%	
	<i>Exposures to institution whose head office is in another EEA State in the currency of another EEA State with original effective maturity of three months or less</i>	20%	See Notes 2 and 3.

Exposure class	Exposure sub-class	Risk weights	Comments
	<i>Exposures to institution with a head office in a country outside the EEA in the currency of that country with original effective maturity of three months or less</i>	20%	See Note 1.
	<i>Exposures to United Kingdom institution in sterling with original effective maturity of over three months</i>	50%	
	<i>Exposures to United Kingdom institution in the currency of another EEA State with original effective maturity of over three months</i>	50%	See Note 2.
	<i>Exposures to an EEA institution with a head office in another EEA State in the currency of that state with original effective maturity of over three months</i>	50%	
	<i>Exposures to an EEA institution with a head office in another EEA State in the currency of another EEA State with original effective maturity of over three months</i>	50%	See Notes 2 and 3.

Exposure class	Exposure sub-class	Risk weights	Comments
	<i>Exposures to institution with a head office in a country outside the EEA in the currency of that country with original effective maturity of over three months</i>	50%	See Note 1.
	<i>Other exposures</i>	100%	
<i>Corporates</i>		100%	
<i>Retail exposures</i>		75%	Simplified approach does not apply. Normal rules apply.
Mortgages on residential or commercial property		Various	Simplified approach does not apply. Normal rules apply.
Past due items		Various	Simplified approach does not apply. Normal rules apply.
High risk items		150%	Simplified approach does not apply. Normal rules apply.
<i>Covered bonds</i>		Various	<i>Risk weights</i> are based on the <i>risk weight</i> of issuer as described in BIPRU 3.4.110 R. The <i>risk weight</i> of the issuer for this purpose should be calculated under the simplified approach.
<i>Securitisation exposures</i>		Generally 1250%. May look through to underlying exposures if BIPRU 9 allows.	Use the BIPRU 9 rules for unrated exposures under the standardised approach
Short term exposures with rating			See BIPRU 3.4.112 R. Not applicable as uses ECAI ratings.

Exposure class	Exposure sub-class	Risk weights	Comments
CIUs	May look through to underlying under BIPRU 3.4.123 R	Various	Simplified approach does not apply. Normal rules apply. May use simplified approach to underlying if simplified approach applies to underlying.
	May use average risk weight under BIPRU 3.4.124 R	Various	Simplified approach does not apply. Normal rules apply. May use simplified approach to underlyings if simplified approach applies to underlying.
	High risk under BIPRU 3.4.118 R	150%	Simplified approach does not apply. Normal rules apply.
	Others	100%	
Other items under BIPRU 3.2.9 R (16)		Various	Simplified approach does not apply. Normal rules apply.

Note 1: The *risk weight* should not be lower than the *risk weight* that applies for national currency *exposures* of the central government of the third country in question under BIPRU 3.5. That means that this *risk weight* only applies if the third country is one of those to which BIPRU 3.4.6 R (Preferential *risk weight* for *exposures* of the central government of countries outside the EEA that apply equivalent prudential standards) applies.

Note 2: This is a transitional measure. It lasts until 31 December 2012.

Note 3: The *risk weight* should not be lower than the *risk weight* that applies for *exposures* of the central government of the EEA State in question in the currency of another EEA State under BIPRU 3.5.

- 3.5.6 G If an *exposure* is guaranteed and if under ■ BIPRU 5 the *firm* may treat the *exposure* as being to the guarantor, the simplified approach may be used for the guarantor. The key provisions are ■ BIPRU 5.7.23 R to ■ BIPRU 5.7.25 R.
- 3.5.7 G If an *exposure* is collateralised and if under ■ BIPRU 5 the *firm* may recognise the collateral, the simplified approach may be used to determine the *risk weight* to be applied to the collateralised *exposure*. The key provisions are ■ BIPRU 5.4.18 R to ■ BIPRU 5.4.21 R.
- 3.5.8 R If a *firm* does not nominate one or more *eligible ECAs* as referred to in ■ BIPRU 3.6.4 R the *firm* must not use the *financial collateral comprehensive method*.