

## Facilitate Social Lending By Using The Infrastructure Supporting Factor

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### Background & Objective

Under the revised Capital Requirements Regulation (CRR2), an Infrastructure Supporting Factor (ISF) was introduced that is similar to the already existing SME Supporting Factor implemented in the EU in 2014. It consists in an adjustment to own funds requirements for credit risk for exposures to entities that operate or finance physical structures or facilities, systems and networks that **"provide or support essential public services"**.

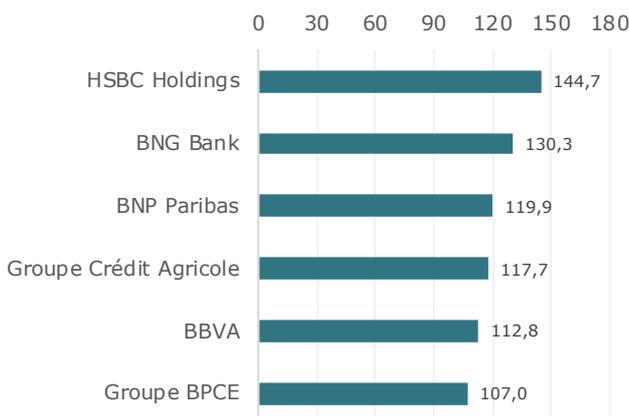
In response to the COVID-19 pandemic, the European Commission brought forward the application date of the ISF to June 2020 as part of the CRR "Quick Fix" legislation. Its primary purpose is to **facilitate bank lending** to public services deemed essential through lower capital requirements from 2020 onwards to **mitigate** the adverse **social impacts** of the pandemic.

**Own funds requirements** for banks' **Specialised Lending exposures** reported as such, or as part of **Corporate exposures**, infrastructure projects considered eligible will be multiplied by the **factor of 0,75**, provided that they comply with a set of conditions reducing their risk profile and enhancing predictability of cash flows.

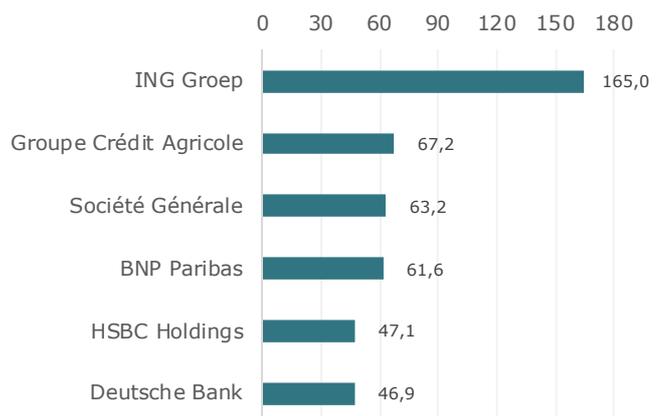
### Our Understanding

Figure 1a and 1b indicate the **potentially eligible scope** and need for a more in-depth analysis to benefit from a reduction in risk-weighted assets (RWA) across EU banks. While Figure 1a shows overall Corporate exposures under the Standardised Approach (SA), only those in the **Specialised Lending subset** are potentially eligible.

**Figure 1a:** Top 6 Corporate Exposures (SA)  
(in EUR bn)<sup>1</sup>



**Figure 1b:** Top 6 Specialised Lending Exposures (IRB)  
(in EUR bn)<sup>1</sup>



Both figures suggest that **French banks** in particular could **increase their lending capacity in support of the EU economy** through the application of the ISF.

Based on our initial discussions with major banks, we understand that banks have started **investigating the key eligibility conditions** alongside the **evaluation and documentation efforts** that drive the application of the ISF in 2020 or 2021.

<sup>1</sup> Figures as of 12/2019 from the 2020 EBA Transparency Exercise. SA = Standardised Approach, IRB = Internal Rating-Based Approach.

While banks will need to comply with all **eligibility conditions** put forward, **three conditions<sup>2</sup>** present challenges:

1. **Agree on a definition of "(...) provide or support essential public services", refer to criteria 1(b):** This includes activities related to communication (post, telecommunications, television etc.), culture, education (state education establishments excluding universities), energy (fuel, petrol stations), health (hospitals, social security bodies), and transport (motorways, railways, ports etc.)<sup>3</sup>. This preliminary selection is non-exhaustive and subject to discussion.
2. **Assess the predictability of future cash flows, refer to criteria 1(e):** The cash flows generated by the obligor must be predictable and cover all future loan repayments. If revenues do not stem from a large number of users, banks will be required to have a good knowledge of the off-taker's (i.e. client of the obligor) credit profile.
3. **Obtain an environmental assessment, refer to criteria 1(o):** Banks will be required to request from the obligor an environmental assessment of the asset financed. Irrespective of its conclusion, the assessment has to be performed. At this stage, we believe that the evidence in terms of documentation required from the obligor will be stringent.

## Our Approach

In order to document whether an exposure is eligible and can benefit from the application of Article 501a, banks will need to structure an approach that leverages the knowledge of internal regulatory experts and credit risk experts.

We have developed an approach in four steps through which we can assist you in **preparing the relevant documentation** (including credit data, credit files) for the regulator and **implementing a process** that allows for the evaluation of eligible exposures on an ongoing basis:



In addition, banks will need to **integrate** the ISF eligibility criteria into their overall **credit origination process** and **credit management framework**.

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<sup>2</sup> Please refer to conditions 1(b), 1(e) with 2, and 1(o) respectively in Article 501a in the revised Capital Requirements Regulation (CRR2).

<sup>3</sup> Definition of 'essential public services' according to Eurofound (European Foundation for the Improvement of Living and Working Conditions).