

LCR ASSESSMENT WITHDRAWAL NOTICE
Effective 3rd June 2020

As of April 30th of this year, the new LCR eligibility rules came into force. Under the new rules, the credit quality steps (“**CQS**”) required to be assigned to asset-backed securities for them to be LCR eligible, were amended to refer to CQS 1 in accordance with Article 264 of Regulation (EU) 575/2013 (the “**CRR**”). The CRR was also amended to require the European Banking Authority (the “**EBA**”) to develop implementing technical standards (the “**CQS ITS**”) setting out the applicable new mapping of such CQS. No such implementing technical standards have yet been published.

In January 2019, the EBA issued a Q&A response (2018_4274) stating that until the CQS ITS is formally adopted, a new definition of CQS is to be used for determining LCR eligibility. This Q&A sets out a different CQS grid than that used for most other CRR purposes and which is the subject of a full regulatory technical standard (rather than only a guideline).

Therefore, according to this Q&A, from the April 30th until the CQS ITS is formally adopted, references to CQS 1 for the purposes of LCR eligibility should be read as references to AAA only even though references to CQS 1 for most other CRR purposes should be read as references to both AAA and AA.

Although the EBA Q&A does not have the force of law, PCS now believes that this mapping should have been used in its LCR Assessments in light of current EBA interpretation. PCS has therefore elected to withdraw LCR Assessments granted to transactions which were not rated AAA (or which have a split rating with one non-AAA rating). Going forwards, for all transactions for which we are asked to provide an LCR Assessment, PCS will apply the current EBA interpretation of CQS until such time as the CQS ITS is formally adopted or the EBA modifies its approach.