Use of Credit Ratings in CCR III Standardised Approach

Educational Series #11

EUROPEAN ASSOCIATION OF CREDIT RATING AGENCIES

CRR III: Exposures to Corporates
Risk Weights (RW) by Credit Rating

	CQS 1 (AAA - AA)	CQS 2 (A)	CQS 3 (BBB)	CQS 4 (BB)	CQS 5 (B)	CQS 6 (CCC - C)	Unrated	CRR Article Reference
Corporates	20%	50%	75%	100%	150%	150%	100%*	CRR Art. 122

** If an unrated corporate is internally assessed as investment-grade quality (Probability of Default ≤ 0.5%), a 65% risk weight can be used for output floor purposes during a transitional period until 31 December 2032 (CRR Art. 465). Outside of output floor calculations, however, the unrated corporate's own risk weight under the standardised approach remains at 100%.*

External ratings materially influence capital: a better rating can lower the bank's capital charge, while a poor rating raises it, reflecting the obligor's credit risk. If an obligor lacks an external rating, the standardised approach assigns a 100% RW rather than assuming the worst rating.

Illustrative example:

- EUR 100 lended to a **A-rated Corporate** will have a RW of 50%, hence a capital charge of (8% x 50% x 100) **EUR 4**.
- EUR 100 lended to an **Unrated Corporate** will have an RW of 100%, hence a capital charge of (8% x 100% x 100) **EUR 8**.
- EUR 100 lended to a **C-rated Corporate** will have an RW of 150%, hence a capital charge of (8% x 150% x 100) **EUR 12**.

Under the Basel III/CRR III standardised approach, external credit ratings directly affect the risk weights assigned to exposures, which in turn determine the required regulatory capital.

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