

Indicative illustration of RWA Computation under SEC-ERBA approach⁷

- Underlying loans being securitised: INR 2000 crores;
- Issued Securitised Notes: INR 1800 crores;
- Overcollateralization: 200 crores;
- Maturity 'M' (as envisaged for use in RWA computation): 3 years;
- Total underlying pool for purpose of attachment and detachment point computation: 2000 crores;
- Calculation below is exhibited for non-STC securitisation;
- Adjustment in Risk Weight for a maturity equal to M years = $RW_{\text{year1}} + (M-1) * \frac{(RW_{\text{year5}} - RW_{\text{year1}})}{(5-1)}$ (Column 4 below);
- Risk Weight (%) = Risk weight as given in table in para 104 (depending upon senior/non-senior exposure) adjusted for maturity * (1- Minimum (T, 50%)) (Column 5 below);

RWA Computation

Securitisation Notes (1)	Determination of Tranche Thickness (2)	Rating (presumptive, not indicative) (3)	RW after interpolating linked to maturity year (4)	RW after factoring in tranche thickness (5)	Risk-Weighted Assets (RWA) [@] (6)
Note A (senior): INR 1500 crores	Attachment point*: (250+50+200)/2000 = 0.25 Detachment Point#: 1 (1500+250+50+200)/2000 Tranche thickness (T): (1-0.25) = 0.75	AA+	RW for 1 year = 15% RW for 5 year = 30% (from the table) Actual RW adjusting for maturity 15% + (30-15)%*2/4 = 22.5%	No tranche thickness adjustment requirement for senior tranche	1500 * 22.5% = 337.5 crores
Note B: 250 crores	Attachment point: (50+200)/2000 = 0.125 Detachment Point: (250+50+200)/2000 = 0.25 Tranche thickness (T): (0.25-0.125) = 0.125	AA-	RW for 1 year = 40% RW for 5 year = 140% (from the table) Actual RW adjusting for maturity 40% + (140-40)%*2/4 = 90%	90% * (1- Min(0.5,0.125)) = 78.75%	250 * 78.75% = 196.875 crores
Note C: 50 crores	Attachment point: 200/2000 = 0.10 Detachment Point: (50+200)/2000 = 0.125 Tranche thickness (T): (0.125-0.10) = 0.025	BB+	RW for 1 year = 470% RW for 5 year = 580% (from the table) 470% + (580-470)%*2/4 = 525%	525% * (1- Min(0.5,0.025)) = 511.875%	50 * 511.875% = 255.94 crores
Total Risk-Weighted Assets					790.315 crores

* Attachment point of a tranche is the fraction of pool losses to which it is *not* exposed

Detachment point of a tranche is the fraction of pool losses at which it is entirely wiped out

Attachment point of one tranche is the detachment point of the next-most junior tranche.

@ The RWA calculation indicates requirement for RBI regulated entities holding securitisation notes

⁷ Given the adoption of new BASEL regime, an indicative example of RWA computation is furnished here only for the limited purpose of lucidity. The computation above does not obviate or opine on the need of other securitisation exposures in the securitisation structure or the capital that may be required to be kept for such securitisation exposures.

While the example takes aid of a completely hypothetical securitisation structure, it is reiterated that this does not indicate any regulatory guidance, preference or opinion on any aspect of the securitisation including, but not limited to, the design of the securitisation structure, its credit worthiness and rating.