



## Single Rulebook Q&A

<b>Question ID</b>	2019_4600
<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) No 575/2013 (CRR)
<b>Topic</b>	Credit risk
<b>Article</b>	124
<b>Paragraph</b>	2
<b>Subparagraph</b>	-
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Not applicable
<b>Article/Paragraph</b>	n.a.
<b>Date of submission</b>	11/03/2019
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<b>Disclose name of institution / entity</b>	Yes
<b>Name of institution / submitter</b>	Austrian Federal Economic Chamber, Division Bank and Insurance
<b>Country of incorporation / residence</b>	Austria
<b>Type of submitter</b>	Industry association
<b>Subject matter</b>	Application of national decisions pursuant to Article 124(2) CRR
<b>Question</b>	Is it mandatory pursuant to Article 124(5) CRR for an institution in another member state to apply national decisions, which purport to be released pursuant to Article 124(2) CRR, but are not published on the EBA website under Rules and Guidance?

	<p>Furthermore, if such national decisions are not published under Rules and Guidance, but e.g. under Options and national discretions only, is it mandatory that institutions from other member states apply such decision pursuant to Article 124(5) CRR?</p>
<p><b>Background on the question</b></p>	<p>As a macro-prudential instrument, Article 124 (2) CRR permits a (limited) departure of the full harmonization, i.e. the tightening of European requirements through national measures, existing within the scope of application of the CRR under certain conditions. However, a tightening of the risk weight for exposures fully secured by mortgages on residential property or on commercial immovable property located in its territory, is only permitted if loss experience show that the risk weights referred to in Article 125 (2) and/or Article 126 (2) CRR, taking into account forward-looking immovable property markets developments and financial stability considerations, do not correspond to the actual risk of such exposures. The consultation paper on regulatory technical standards pursuant to Article 124(4) CRR that has been published by EBA on 6 July 2015, specifies particular aspects of the criteria set in Article 124(2). As the foreign currency risk is not mentioned as relevant criterium in Article 124(2) CRR, consequently, the consultation paper does not consider such aspect. Q&amp;A 2894 states that it is a requirement that competent authorities regularly assess whether the risk weights are appropriately based on loss experience and forward looking immovable property markets developments. The competent national authorities should consult the EBA on the changes to the risk weights and criteria applied. Compliance to this requirement is necessary in order to ensure consistency in the application of higher risk weights and stricter criteria. It could be argued that a national decision, which is not based on the criteria set out in Article 124(2) CRR, cannot comply with the consistency requirement set out Q&amp;A 2894. Furthermore, such consultation procedure should allow the EBA to publish the changes to the risk weights and stricter criteria on its website, such that institutions in all EU Member States can apply these changes to the risk weights as required by Article 124(5) CRR. It is therefore unclear whether an institution in another member state shall apply a national decision, pursuant Article 124(2) CRR, in particular in case such decision: is not confirmed by the publicly available analysis of the same national competent authorities stating that the requirements of Article 124(2) CRR for an increase of risk weights are not fulfilled for the immovable property market segment for which a higher risk weight had been determined; or is based only on foreign currency risk considerations and not on immovable property market risk.</p>
<p><b>EBA answer</b></p>	<p>In accordance with Article 124(2) of Regulation (EU) No 575/2013 (CRR) as amended, the designated authorities shall periodically assess whether the risk-weight for the exposures referred to in Article 125 and 126 CRR located in one or more parts of their territory are appropriately based on the loss experience of exposures secured by immovable property and forward-looking</p>

	<p>immovable property markets developments.</p> <p>The same provision states that the designated authorities may set a higher risk weight or stricter criteria than those set out in Article 125(2) and Article 126(2), where appropriate, on the basis of the described financial stability considerations.</p> <p>Article 124(6) CRR clarifies that the institutions of a Member State shall apply the risk weights and criteria that have been determined by the authorities of another Member State in accordance with paragraph (2) to all their corresponding exposures secured by mortgages on residential property or commercial immovable property located in one or more parts of that Member State.</p> <p>The competent authorities shall notify EBA and the ESRB on the adjustments to the risk weights and criteria applied and EBA and the ESRB shall provide their opinion to the Member State concerned. EBA and ESRB shall publish the risk weights and criteria that the relevant authorities set for exposures referred to in Articles 125, 126 and 199(1)(a). As clarified in <a href="#">Q&amp;A 2894</a>, compliance to this requirement is irrespective of the possible lack of regulatory standards.</p> <p>Institutions should not put into doubt the correctness of the assessment and consultation on the adjustment of the risk weights published by the EBA and the ESRB and available on the website under the section <a href="#">Rules and Guidance - List of changes to risk weights or stricter criteria for exposures secured by immovable property (Article 124 CRR)</a>.</p>
<b>Link</b>	<a href="https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2019_4600">https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2019_4600</a>

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