

Single Rulebook Q&A

Question ID	2019_4666
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/876 (CRR2)
Topic	Credit risk
Article	123
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	EBA/GL/2016/07 - Guidelines on the application of the definition of default under Article 178 CRR
Article/Paragraph	No applicable
Date of submission	11/04/2019
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Absolute materiality threshold for Retail based on the new RTS
Question	How to apply Article 123(c) CRR to set the absolute component of the materiality threshold in the case of transition of exposures to or from Retail.
Background on the question	The question is on the application of Definition of Default and in particular on the threshold used for DoD for retail exposures. Article 1(4) of RTS 2018/171 on the materiality threshold for credit obligations past due under Article 178 of Regulation (EU) No 575/2013 (CRR) references Article 123 CRR for the definition of retail or institutions that apply the Standardised Approach and, hence, the 100 EUR vs 500 EUR minimum amount (i.e. absolute component). Article 123 CRR lists a number of conditions that must be met in order for an exposure to be classified as Retail. Given that according to paragraph (c) the classification depends on the total exposure to a group of connected clients, it is not clear how this should be applied to set the absolute component of the materiality threshold in the case of transition of exposures to or from Retail, as defined in Article 123. There are cases when it is unclear how to apply the materiality threshold for all exposures, at any point in time, in accordance

	<p>with the classification of an obligor as retail or as corporate, in particular when the exposures are to a group of connected clients. For example: 1: an exposure of 500,000 Euro to a natural person, classified as retail on a standalone basis, but part of a group of connected clients with an overall exposure of over 1 million; 2: a similar case to example 1, but where the retail client's exposure is 20,000 Euro and the client has 200 Euro past due, which is 1% and above 100 EUR; 3: a similar type of client as above with an exposure of 30,000 Euros fully secured by a mortgage 4: a group of connected clients with a total exposure of 1.5 million Euros, of which 700,000 fully and completely secured on residential property collateral. One of the clients in this group has an exposure of 20,000 EUR. It is unclear whether this exposure would qualify as retail, as the unsecured part is below 1 million. Also, it is unclear what would happen if the collateral becomes ineligible.</p>
EBA answer	<p>For all past-due exposures, at any point in time, the materiality threshold should be applied in accordance with the current classification of an obligor as retail or as non-retail.</p> <p>Where a client is part of a group of connected clients, the total amount owed for the purpose of classification as retail under Article 123(c) of Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/876 (CRR2) is calculated at the level of the group of connected clients . Conversely, the materiality threshold for the purpose of the default definition under Articles 127 and 178 CRR is assessed separately at the level of each individual obligor or, where applicable, separately at the level of each individual credit facility of such obligors.</p> <p>Moreover, pursuant to paragraph 61 of the EBA Guidelines 2016/07 on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013, when specifying the criteria for unlikeliness to pay, institutions should take into consideration the relations within the groups of connected clients as defined in Article 4(1)(39) CRR2. In particular, institutions should specify in their internal policies when the default of one obligor within the group of connected clients has a contagious effect on other entities within this group. Such specifications should be in line with the appropriate policies for the assignment of exposures to individual obligor to an obligor grade and to groups of connected clients in accordance with Article 172(1)(d) CRR2 and with EBA Guidelines 2017/15 on connected clients. Where such criteria have not been specified for a non-standard situation, in the case of default of an obligor that is part of a group of connected clients, institutions should assess the potential unlikeliness to pay of all other entities within this group on a case-by-case</p>

	<p>basis.</p> <p>In addition, as clarified in paragraph 86 and following of the EBA Guidelines 2016/07 on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013, institutions that use the Standardised Approach may apply the definition of default at the level of an individual credit facility. Institutions that use the Standardised Approach may apply this treatment for all exposures that meet the criteria specified in Article 123 CRR2, even where some of those exposures have been assigned to a different exposure class for the purpose of assigning a risk weight, such as exposures secured by mortgages on immovable property. The level of application of the definition of default should then be consistently used for all retail exposures, unless other approach is well justified by internal risk management practices (as clarified in paragraph 88 of the EBA Guidelines 2016/07).</p> <p>On how to calculate the total amount owed to the institution by an obligor and parent undertakings and its subsidiaries under Article 123(c) CRR2 in order to determine whether an exposure can be classified as Retail under the Standardised Approach, see also Q&A 4012.</p>
Link	https://eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2019_4666

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