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Status

Final Q&A

Legal act

Regulation (EU) No 575/2013 (CRR) as amended

Topic

Accounting and auditing

Article

473a

Paragraph

7

Subparagraph**COM Delegated or Implementing Acts/RTS/ITS/GLs**

Not applicable

Article/Paragraph

Not applicable

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Subject matter

Interaction between Articles 473a and 127 of the CRR (risk weight factor for exposures in default under the

standardised approach)

Question

Do banks in order to calculate the thresholds of Article 127 of Regulation (EU) No 575/2013 (CRR) have to consider all IFRS 9 provisions (without applying any scaling factor) or the amount of IFRS 9 provisions reduced by applying the scaling factor as per Article 473a?

Background on the question

According to Article 127 of the CRR:

"The unsecured part of any item where the obligor has defaulted in accordance with Article 178, or in the case of retail exposures, the unsecured part of any credit facility which has defaulted shall be assigned a risk weight of:

(a) 150%, where specific credit risk adjustments are less than 20% of the unsecured part of the exposure value if these specific credit risk adjustments were not applied;

(b) 100%, where specific credit risk adjustments are no less than 20% of the unsecured part of the exposure value if these specific credit risk adjustments were not applied."

In order to assess whether the specific credit risk adjustments are higher or lower than 20% of the unsecured part of the exposure value, shall the institution consider all IFRS 9 provisions (without applying any scaling factor) or instead reduce the amount of IFRS 9 provisions by applying the scaling factor?"

Two alternative views are possible to answer to this question.

1) According to the first view, banks have to consider all IFRS 9 accounting provisions as specific credit risk adjustments. In particular, Article 473a(7)(b) does not include any reference to the risk weight for exposures in default among those items that need to be recalculated to not take into account the effect of the portion of the expected credit loss that is included in CET1 based;

2) According to an alternative view, the scaling factor should be applied when determining the specific credit risk adjustments according to the intent of Article 473a(7)(b) in conjunction with Recital 8 of Regulation 2017/2395 which states that "Institutions that decide to apply transitional provisions should be required to adjust the calculation of the regulatory elements directly affected by the expected loss of credit provisions to ensure that they do not receive an inappropriate capital reduction".

EBA answer

Banks should consider all IFRS 9 accounting provisions as specific credit risk adjustments (as noted in the March 2017 Opinion of the European Banking Authority on transitional arrangements and credit risk adjustments due to the introduction of IFRS 9 ([EBA/OP/2017/02](#))) when applying CRR requirements.

Article 473a(7) CRR requires to recalculate all requirements laid down in the CRR that use any of the items listed in points (a) to (c) of this Article, where point (b) refers to the exposure value as determined in accordance with Article 111(1) CRR.

The exposure value used in Article 127(1) CRR is that determined in accordance with Article 111(1) CRR, thus this exposure value is to be recalculated as required by Article 473a(7) CRR. For this recalculation, Article 473a(7) CRR requires to not take into account the effects that the expected credit loss provisions that the institution included in its Common Equity Tier 1 capital have on the exposure value. For this purpose, Article 473a(7)(b) CRR specifies a scaling factor to be multiplied with the specific credit risk adjustments by which the exposure value shall be reduced.

Starting from this reduced exposure value, Article 127(1) CRR requires determining the exposure value if these specific credit risk adjustments were not applied. Consequently, the amount of specific credit risk adjustments for Article 127(1) CRR is the one considered in the calculation of the exposure value in accordance with Article 111(1) CRR, which is the amount after applying the scaling factor required by Article 473a(7)(b) CRR.

Link

[EBA website link](#)