



**Single
Rulebook
Q&A**

Question ID	2020_5331
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	153
Paragraph	1
Subparagraph	(ii)
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	Not applicable
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	RWA formula for defaulted exposures where institutions use own estimates of LGDs
Question	At which level should the flooring in the RWA formula for defaulted exposures (Articles 153(1)(ii) and 154(1)(i) of CRR2) be applied?
Background on the question	According to Article 153(1)(ii) and Article 154(1)(i) of CRR2, the risk weight on defaulted exposures where the institution use own estimates of LGDs equals 12.5 times the difference between downturn LGD and EL-BE, floored at zero. However, the CRR is silent on the level at which flooring of the RWA

	<p>formula should be applied. Also the two additional relevant documents issued by the EBA (EBA/RTS/2016/03 - RTS on the specification of the assessment methodology for the IRB approach - and EBA/GL/2017/16 - Guidelines on PD/LGD estimation and the treatment of defaulted assets) do not explicitly mention the level of application of the RWA formula for defaulted exposures. Finally, in our view, EBA Q&A 144 is only relevant for non-defaulted loans, since it only refers to PD, LGD and maturity (the input parameters for the RWA calculation of a non-defaulted loan) and not to EL-BE or the RWA for defaulted loans.</p>
EBA answer	<p>For the calculation of risk-weighted exposure amounts for defaulted exposures it follows directly from Article 153(1)(ii) and 154(1)(i) of Regulation (EU) No.575/2013 (CRR) as amended and in accordance with Article 5(1) CRR that such calculation shall be based on the relevant parameters associated with the exposure in question. It subsequently follows that the risk weight and the risk-weighted exposure amount that have to be applied pursuant to Articles 153(1)(ii) and 154(1)(i) CRR have to be calculated at individual exposure level. This is also in line with the treatment for non-defaulted exposures as clarified by Q&A 144.</p> <p>Moreover, please note that the calculation of risk weights and risk-weighted exposure amounts based on risk parameters is beyond the scope of the Guidelines on PD estimation, LGD estimation and the treatment of defaulted Exposures (EBA/GL/2016/17).</p>
Link	<p>https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5331</p>

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