



## Single Rulebook Q&A

<b>Question ID</b>	2020_5422
<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) No 575/2013 (CRR)
<b>Topic</b>	Supervisory reporting - COREP (incl. IP Losses)
<b>Article</b>	99
<b>Paragraph</b>	-
<b>Subparagraph</b>	-
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Regulation (EU) No 680/2014 - ITS on supervisory reporting of institutions (as amended)
<b>Article/Paragraph</b>	Annex II
<b>Date of submission</b>	07/08/2020
<b>Published as Final Q&amp;A</b>	19/03/2021
<b>Disclose name of institution / entity</b>	No
<b>Type of submitter</b>	Competent authority
<b>Subject matter</b>	Treatment of deducted exposures in the calculation of memo items "Risk-weighted exposure amount under SEC-ERBA" and "Risk-weighted exposure amount under SEC-SA" ({C14.01 c447} and {C14.01 c448} respectively)
<b>Question</b>	How to treat deducted exposures in the calculation of the mentioned memo items, to allow for a coherent and homogeneous comparison between the own funds required by the different methods?
<b>Background on the question</b>	When calculating the risk-weighted exposure for the positions in a securitization, for the purpose of own funds requirements, as well as for the

	<p>columns 447 and 448, a number of positions might be classified as having a 1.250% risk weight, that is, they may be considered for deduction from own funds according to point (k) of Article 36(1) of CRR. The number of such positions may be different depending on the method used, so, in order to carry out the comparison between methods, objective of columns 447 and 448, the treatment of such positions in the calculation should be coherent and homogeneous. Let's consider an institution that holds a position consisting of 1,000 EUR of securitization bonds, it calculates its own funds requirement using SEC-SA. According to this method, a number of bonds worth 900 EUR should be risk-weighted at 100%, while 100 EUR should be risk-weighted at 1.250%. The institution opts for deducting them from the exposure value, so the final RWE is 900 EUR * 100% = 900 EUR. Exposure Value --&gt; 1000 Deduction from own funds --&gt; -100 Total RWE --&gt; 900 In order to fill in column 447, the institution applies SEC-ERBA to the same position. In this way, only 80 EUR are classified as having 1.250% risk weight, while the remaining 920 EUR are risk weighted at an average of 200%. The institution would deduct those 80 EUR from the exposure value instead of risk weighting them at 1.250%, rendering the final RWE 920 EUR * 200% = 1.840 EUR. This amount would not be comparable with the 900 RWE calculated with the SEC-SA method, since the deductions are different. What is more, the analyst of this information does not know the amount of exposure value deducted for the SEC-ERBA calculation. Therefore, how should such deductions be considered for the memo calculations?</p>
<p><b>EBA answer</b></p>	<p>'Following Annex II, Part2, section 3.9.3 of Regulation (EU) No 680/2014 (ITS on Supervisory Reporting), institutions are required to report in column 0447 and 0448 the risk weighted exposure amounts that would result from the use of the SEC-ERBA and SEC-SA approaches respectively. However, a clear guidance on the treatment of exposures deducted from own funds from this purpose is not explicitly stated in the instructions.</p> <p>Considering the importance of having comparable results, no exposure value amount shall be considered as deducted from own funds for the calculations of the risk-weighted exposures reported in the memo items {C14.01 c447} and {C14.01 c448}. Exposures classified as having a risk weight of 1.250% shall be risk-weighted and included in the risk-weighted exposure, irrespectively of whether those exposures have been deducted or not with the method relevant for the calculation of the own funds requirements. The instruction will be updated to clarify that values reported in {C14.01 c447} and {C14.01 c448} should include risk-weighted amounts corresponding to the deduction from own funds, under each approach.</p>
<p><b>Link</b></p>	<p><a href="https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5422">https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5422</a></p>

