

Single Rulebook Q&A

Question ID	2021_5746
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	390
Paragraph	8
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) No 1187/2014 - RTS for determining the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets
Article/Paragraph	Article 6 No. 2a/b
Date of submission	17/02/2021
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Aggregation of separate client exposures for a transaction with underlying credit risk exposure
Question	Is it necessary to group and aggregate all separate client exposures from a single transaction with underlying credit risk to one exposure and, as such, treat this aggregated separate client as a single client exposure?
Background on the question	Assuming a transaction has underlying credit risk exposures to 10.000 different clients. The different client exposures are clearly separated but also anonymised by the originator. Assuming further, that the conditions in Article 6 No.2 (a) or (b) of Regulation (EU) No 1187/2014 are met, it is not entirely clear if the individual exposures would be treated as either 10.000 separate clients or grouped together to 1 separate client for this transaction.
Final answer	Regulation (EU) No 1187/2014 sets out the methodology for the calculation of the exposure value of exposures to transactions with underlying assets, the procedure for determining the contribution of underlying exposures to overall exposures to clients and groups of connected clients, and, also, the conditions under which the structure of a transaction does not constitute an additional exposure. As a general principle, institutions are expected to identify all underlying exposures of transactions in which they invest. In case

of underlying credit risk exposures, they are also expected to identify related obligors, so that such underlying credit risk exposures are taken into account when calculating the overall exposure to these obligors as individual clients or to groups of connected clients to which these obligors belong.

At the same time, where the exposure value to an underlying asset is sufficiently small to only contribute immaterially to the overall exposure to a certain client or group of connected clients, it should be sufficient to assign this exposure to the transaction as a separate client.

The immateriality condition will be fulfilled in instances where:

1. the exposure value to each underlying asset does not exceed 0.25% of the institution's Tier 1 capital (in conjunction with the reference to Tier 1 capital in Articles 392 and 395 Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/876 (CRR2)) (see Article 6(2)(a) of Regulation (EU) No 1187/2014) or
2. the underlying exposure value is equal to or exceeds 0,25% of the institution's Tier 1 capital and the institution can ensure, by means of the transaction's mandate, that the underlying exposures of the transaction are not connected with any other exposures in its portfolio, including underlying exposures from other transactions (see Article 6(2)(b) of Regulation (EU) No 1187/2014).

In both cases, the institution can assign the exposure to the transaction itself as a separate client, therefore limiting its exposure to that transaction. In such cases, there are no multiple separate clients but only one separate client representing the transaction itself.

If conditions in Article 6(2)(a) or (b) of Regulation (EU) No 1187/2014 are not met, the exposure to such underlying credit risk exposure shall be assigned to the unknown client (see Article 6(2)(c) of Regulation (EU) No 1187/2014) and added to other exposures assigned to that hypothetical client.

In addition, where an institution is not able to distinguish between the underlying assets of a transaction, the institution needs to consider the amount of the investment in the transaction as a single exposure to be assigned to a separate client - provided that the condition in Article 6(3)(a) of Regulation (EU) No 1187/2014 is fulfilled (the total value of the exposure of the transaction may not exceed 0,25% of the institution's Tier 1 capital) or to the unknown client if condition in Article 6(3)(a) of said Regulation is not fulfilled (see Article 6(3)(b) of Regulation (EU) No 1187/2014).

In the given example of a transaction with 10.000 underlying assets provided that the conditions in Article 6(2)(a) or (b) of Regulation (EU) No 1187/2014 are met, the underlying exposure needs to be assigned to one separate client representing the transaction itself.

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