

Question ID	2013_99
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Market risk
Article	382
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	N/A
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Exclusion of provisioned counterparties from the CVA capital charge
Question	Could you confirm that a defaulted or doubtful counterparty that is subject to specific provisions/cost of risk shall not be subject to the CVA capital charge?
Background on the question	When a counterparty X with whom an institution has derivative contracts becomes doubtful or defaulted, then the practice is that the institution stops computing Credit Valuation Adjustments (incurred CVA) and starts computing specific provisions (Credit Valuation Impairment or cost of risk). The provisions are computed as the Mark-to-Market times a provisioning rate and floored at zero. Such counterparties either trade at extremely high spread levels or do not trade at all, which is the most frequent situation. They are removed from the B2 capital calculation for counterparty risk but are subject to a capital charge to account for the volatility of the loss given default.
Final answer	For derivative contracts with a defaulted counterparty no CVA capital charge according to Part Three, Title VI of Regulation (EU) No. 575/2013 (CRR) is required, where, as a result of the default, these derivative contracts are converted into a claim of a fixed amount and therefore the derivative contract ceases to exist. In all other cases an own funds requirement for CVA

	risk has to be calculated.
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_99

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