Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	166
Paragraph	1
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	Yes
Name of institution / submitter	Commerzbank AG
Country of incorporation / residence	Germany
Type of submitter	Credit institution
Subject matter	IRB exposure value - Recognition of specific credit risk adjustment for positions measured at fair-value (e.g. IFRS category FVO, HfT and AfS)
Question	Which is the exposure value according to Article 166 (1) of Regulation (EU) No. 575/2013 (CRR) for IRB positions measured at fair value (to p+l or OCI) in the relevant accounting standard, when a separation of credit risk and market risk related fair value changes (e.g. revaluation reserve) for these positions is not possible and therefore not used to cover expected loss in accordance with Article 159 of the CRR?
Background on the question	According to Article 166(1) of the CRR, the IRB exposure value is the accounting value without taking into account any credit risk adjustments. Specific and general credit risk adjustments are used to cover the expected losses in accordance with Article 159 of the CRR. According to the CP/2012/10, the criteria for specifying a SCRA or GCRA are: 1) The adjustment relates to credit risk 2) The adjustment reduces the CET 1 3) The

	adjustment is to be included irrespective of whether it results from provisions, value adjustments or impairments A negative fair-value change, especially in case of a negative revaluation reserve (OCI), that relates to credit risk fulfils the criteria of a credit risk adjustment. Therefore, it has to be considered in the IRB exposure value according to Article 166 of the CRR and can be used to cover expected losses in accordance with Article 159 of the CRR. .
Final answer	Whether a separation of credit risk related changes from other changes (in particular market risk related changes) is possible or not, is not relevant for exposures measured at fair value for that purpose. The determining factor is that the fair value changes are recognised as impairments under IFRS, or as adjustments of a similar nature made under other applicable accounting frameworks that reflect losses related to a deterioration or a worsening of an asset's or an asset portfolio's credit quality. For instance, under current IAS 39, and in application of the RTS on the calculation of credit risk adjustments, if there is a negative fair value change for an asset which is recognised in Other Comprehensive Income (OCI), this change in fair value does not represent a credit risk adjustment, unless it represents an impairment loss that is recognised as such in the profit or loss account. If that is the case, the fair value change - in its entirety - will be considered as a credit risk adjustment.
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_101