Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	153
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	No
Type of submitter	Consultancy firm
Subject matter	IRB Approach
Question	Regarding the IRB approach for the calculation of capital requirements for preventing credit risk, where should the weighting formula be applied? Is it contract by contract, or is it a weighted average of the probability of default (PD) and loss given default (LGD) for each pool and then apply the risk weight formula to this mean?
Background on the question	The weighting formula is the formula that allows institutions to calculate the risk weight of a pool. RW (PD,LGD,M).
EBA answer	As set out under Article 151(3) of Regulation (EU) No.575/2013 (CRR), the calculation of risk-weighted exposure amounts for credit risk and dilution risk shall be based on the relevant parameters associated with the exposure in question. Only where the relevant parameters, namely (1) probability of default (PD); (2) loss given default (LGD); and (3) maturity, associated with the exposures in question are identical for each exposure category in question may the credit institution aggregate a number of individual exposures in order to calculate the risk-weighted exposure amount for that group of exposures.

Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_144

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