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| Question ID | 2013_215 |
| Status | Final Q&A |
| Legal act | Regulation (EU) No 575/2013 (CRR) |
| Topic | Credit risk |
| Article | 128 |
| 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 | Competent authority |
| Subject matter | Items associated with particular high risk secured with eligible real estate |
| Question | <p>How do we treat the exposures that would have been otherwise categorised as "Items associated with particular high risk" and which at the same time are secured with mortgages on immovable property? a) Ignore the collateral which opposes the spirit of Regulation (EU) No 575/2013 (CRR) and Credit risk mitigation (CRM) i.e. CRM is recognised when it decreases the Credit risk? b) Recognise them in the exposure class "Secured with mortgages on immovable property"? Additionally, if these items are also in default, should they be recognised in the "In default" exposure class? c) Recognise them in the exposure class "Items associated with particular high risk" and apply the lower RW that are associated with the exposures secured with mortgages on immovable property?</p> |
| Background on the question | <p>The counterparty and exposure credit risk should be replaced by the collateral risk as it happens with the case of in default exposures i.e. the exposures are in default but the real estate collateral is recognised as a risk mitigant. The same should apply for items associated with particular high risk but they are at the same time secured with mortgages on immovable property</p> |

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| <p>Final answer</p> | <p>According to Article 128(1) of Regulation (EU) No. 575/2013 (CRR), where appropriate, institutions shall assign a 150 % risk weight to exposures that are associated with particularly high risks which are either listed in Article 128(2) or meet the criteria of Article 128(3). Consequently, these shall not be allocated to any other class of exposure, not even "in default" under Article 127, regardless of whether these exposures are securitised by collateral. Exposure types listed in Article 128 (2) and (3) are considered as having particular high risk and transferring these into other exposure classes with lower risk weights would undermine applying appropriate risk weights to cover unexpected losses related to these high risk items.</p> <p>DISCLAIMER:</p> <p>This question goes beyond matters of consistent and effective application of the regulatory framework. A Directorate General of the Commission (Directorate General for Internal Market and Services) has prepared the answer, albeit that only the Court of Justice of the European Union can provide definitive interpretations of EU legislation. This is an unofficial opinion of that Directorate General, which the European Banking Authority publishes on its behalf. The answers are not binding on the European Commission as an institution. You should be aware that the European Commission could adopt a position different from the one expressed in such Q&As, for instance in infringement proceedings or after a detailed examination of a specific case or on the basis of any new legal or factual elements that may have been brought to its attention.</p> |
| <p>Link</p> | <p>https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_215</p> |

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