

Single Rulebook Q&A

Question ID	2013_245
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Own funds
Article	159
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	Not Applicable
Date of submission	13/09/2013
Published as Final Q&A	20/12/2013
Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Inclusion of incurred (IFRS) CVA in the IRB Provision shortfall calculation
Question	Can the incurred CVA charge related to IRB exposures be treated as an eligible provision for the purposes of calculating the own funds reduction for IRB provision shortfall (per Article 159 of Regulation (EU) No 575/2013 (CRR))?
Background on the question	Article 159 of CRR states that "other own funds reductions related to these exposures" can be included in the calculation of the IRB provision shortfall. The incurred CVA charge has gone through the P/L into the equity and hence has reduced the own funds.
Final answer	<p>Article 159 of Regulation (EU) No 575/2013 (CRR) states that institutions shall subtract the expected loss amount from the general and specific credit risk adjustment and additional value adjustment and "other own funds reductions related to these exposures".</p> <p>Incurred CVA is not considered as a general and specific credit risk adjustment and additional value adjustment that are subject to the provision defined in Article 159 of the CRR.</p>

	Instead, incurred CVA shall be recognised as a reduction in exposure at default (EAD) when calculating the default risk capital as set out under Article 273(6). Accordingly, expected losses can be calculated in all the instances they are used based on the reduced outstanding EAD which reflects incurred CVA.
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_245

European Banking Authority, 04/12/2023
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