

Question ID	2013_249
Status	Final Q&A
Legal act	Directive 2013/36/EU (CRD)
Topic	Supervisory review and evaluation (SREP) and Pillar 2
Article	79
Paragraph	b
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	Individual
Subject matter	Meaning of Article 79 (b) of Directive 2013/36/EU (CRD)
Question	<p>What should standardised banks do in order to live up to CRD Article 79 (b)? Should standardised banks make their own assessment of the risk weights assigned to unrated counterparts? I.e. If a banking counterpart (institution) in a 0 % risk weight country is unrated and therefore assigned a risk weight of 20 % according to Article 121 of Regulation (EU) No 575/2013 (CRR), but an internal assessment shows that other comparable counterparts with a rating get assigned a 50 % risk weight according to Article 120 of CRR, what should the calculating institution do? Should the calculating institution overwrite the 20% with 50 % or should the calculating institution add the difference in risk weighted assets under Pillar II?</p>
Background on the question	<p>Clarification of what CRD Article 79 (b) means for standardised banks. Our understanding is that CRD Article 79 (b) has its origin in Basel III Para. 733 about incentives to avoid getting rated.</p>
Final answer	<p>Article 79(b) of Directive 2013/36/EU (CRD) relates to the arrangements, processes and mechanisms of institutions and aims at ensuring that institutions have in place sound credit risk management practices. The provisions of this article apply to all institutions and is independent from</p>

	<p>the approach adopted by an institution to risk-weight its credit risk exposures.</p> <p>Accordingly, in the situation described in the question, the institution should not overwrite the risk-weight specified in CRR for the calculation of the capital requirements, but take into account its internal assessment in the allocation of internal capital as required by Article 79(b) of CRD.</p>
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_249

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