

Question ID	2013_565
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	501
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	Yes
Name of institution / submitter	Austrian Federal Economic Chamber, Division Bank and Insurance
Country of incorporation / residence	Austria
Type of submitter	Industry association
Subject matter	Treatment of SME-supporting factor in the case of secured exposures.
Question	<p>I. How should the SME-supporting factor be treated relating to secured exposures? a) Including all collaterals, i.e. also for guarantees. Thus risk weighted assets of inflow in asset class sovereigns or institutes will also be reduced? b) Only for those collaterals which cause no risk transfer (meaning which are interred directly in the RWA formula)? c) Only for the non-secured part of the exposure?</p> <p>II. General question when the SMR supporting factor can be used: a) To our understanding a risk transfer is only allowed in the case that the risk transfer is leading to a reduction of the RWA. Taking this into account it should always be compared “the total SME exposure with the supporting factor and without a risk transfer” to “the exposure with the SME supporting factor (only for the non-secured part) and the risk transfer without the supporting factor”. b) To consider the above mentioned point under II. a) it</p>

	seems that banks under the IRB-A approach are by tendency favored as there is no risk transfer (e.g.in cases of a guarantee by a government) but the effect of the collateral is considered in the total LGD of the exposure.
Background on the question	On closer examination of CRR and Annex II Instructions (templates) some questions of interpretation come up how the SME-supporting factor has to be applied.
Final answer	<p>Further to Q&A 257, the factor of 0,7619 defined in Article 501(1) of Regulation (EU) No. 575/2013 (CRR) applies to the risk-weighted exposure amounts for credit risk on <u>non-defaulted</u> exposures to SMEs which meet the eligibility requirements under Article 501(2). Eligibility is based on the nature of the counterparty and on some characteristics of the exposure (e.g. classification according to the CRR and amount).</p> <p>Accordingly, where an exposure to an SME is eligible, capital requirements are calculated by multiplying <u>applying</u> the factors defined in Article 501(1) of 0,7619 <u>by</u> to the risk-weighted exposure value after taking into account value adjustments and credit risk mitigation techniques permissible under Article 108 of the CRR. Pursuant to Article 501(2)(a) of the CRR, in order to meet the eligibility requirements, the exposures shall <u>should</u> always be included either in the 'retail' or in the 'corporates' or 'secured by mortgages on immovable property' classes irrespective of whether credit risk mitigation techniques with substitution effects (e.g. guarantees) are reclassified for reporting purposes to another exposure class.</p>
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_565

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