Single Rulebook Q&A

Question ID	2013_573
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	159
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) No 680/2014 - ITS on supervisory reporting of institutions (repealed)
Article/Paragraph	Annex I (Own funds templates)
Date of submission	27/11/2013
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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	Specific credit risk adjustments on exposures in default
Question	Taking into account Annex I of the own funds template (worksheet 4, line 100 and 145) it’s clear that IRB Excess (+) or shortfall (-) of defaulted and non-defaulted exposures has to be reported separately. What is not exactly clear is the fact if an IRB Excess for the non-defaulted exposure can for example be taken into account for the defaulted portfolio or not.
Background on the question	Example Provision EL Excess (+) / Shortfall (-) R 200 100 (+) 100 9 80 140 (-) 60 8 7 etc. Taking into account the simplified example above there are the following questions: 1. Is it allowed to net out the excess from the defaulted portfolio with the shortfall of the non-defaulted portfolio? In this case we would have a total excess in the amount of 40 (to be added as Tier 2). 2. Have the excess of the defaulted portfolio and the shortfall of the living portfolio be treated separately? Meaning the amount of 100 can be added as Tier 2 and the amount of 60 has to be deducted from CET1 (also simplified)?

	3. As Article 159 CRR is only mentioning that “specific credit risk adjustments on exposures in default” shall not be used to cover expected loss amounts on other exposure is it possible to use provisions from the non-defaulted exposure to cover the expected loss from the defaulted exposure (e.g. if you change the figures in the above mentioned table). 4. If a netting out between the defaulted and non-defaulted exposure is possible the only reason for Annex I of the own funds template would be to show the different amount (excess/shortfall) for defaulted non-defaulted exposure before the netting.
Final answer	According to the Regulation (EU) No 575/2013 (CRR), Regulation (EU) No 183/2014 (RTS on the calculation of specific and general credit risk adjustments) shall specify the calculation of specific credit risk adjustments (SCRAs) and general credit risk adjustments (GCRAs) under the applicable accounting framework. In particular Article 4 of these RTS provides rules on the calculation of SCRAs and GCRAs for the purpose of the treatment of expected loss amounts according to Article 159 of the CRR. However the treatment of the SCRAs and GCRAs is defined in the CRR only, as the mandates of the RTS are limited to the scope elaborated on above. Article 159 of the CRR, regarding the treatment of expected loss amounts for institutions under the IRB approach, specifies that SCRAs on exposures in default shall not be used to cover expected loss amounts on other (i.e. non-defaulted) exposures. In practice, this means that the amount of shortfall or excess of provisions should be calculated on an aggregate level for IRB exposures, separately for defaulted and non-defaulted exposures. The excess of provisions for defaulted exposures cannot be used to cover the shortfall of provisions for non-defaulted exposures. However, there is no provision in the CRR which prevents the excess of provisions for non-defaulted exposures being used to cover the shortfall of provisions on defaulted exposures. A net excess of provisions for non-defaulted exposures, i.e. above the amount which is used to cover the shortfall of provisions on defaulted exposures (if any), shall be reported under row 910 of template C 01.00 of Annex I of Regulation (EU) No 680/2014 (ITS on Supervisory Reporting) and may be added to Tier 2 items in accordance with Article 62(d) of the CRR. A shortfall of provisions for non-defaulted exposures, however, shall be deducted from Common Equity Tier 1 (CET1) items pursuant to Article 36(1)(d) of the CRR, and reported under row 380 of template C 01.00 of Annex I of the ITS on Supervisory Reporting. A net shortfall of provisions on defaulted exposures, i.e. not covered by an excess of provisions for non-defaulted exposures, shall be reported under row 380 of template C 01.00 of Annex I of the ITS on Supervisory Reporting and deducted from CET1 items pursuant to Article 36(1)(d) of the CRR. An excess of provisions for defaulted exposures shall be reported under row 910 of C01.00 and may be added to Tier 2 items in accordance with Article 62(d)

	of the CRR. To ensure that the risk related to defaulted exposures is properly covered, institutions should calculate adequate EL_{BE} (best estimate of expected loss for the defaulted exposure) and risk-weighted exposure amounts for their exposures in default in accordance with Articles 153(1)(ii), 154(1)(i) and 181(1)(h) of the CRR. This is without prejudice to any future guidance which may be issued by the EBA in this area.
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_573

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