

Question ID	2014_704
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	123
Paragraph	a, b, c
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	Deutsche Bank
Country of incorporation / residence	Poland
Type of submitter	Credit institution
Subject matter	Retail exposure class and risk weight for exposure value of derivative instruments
Question	Should the credit risk exposures and counterparty credit risk exposures for the same customer be classified as retail exposures if the criteria from Article 123 points (a) to (c) of Regulation (EU) No 575/2013 (CRR) are met and they are classified neither as exposures in default nor as exposures secured by mortgages on immovable property? Are there any restrictions in assigning derivative instrument to the retail exposures class and to use <u>one of the preferential risk weights of 75% except criteria</u> from Article 123?
Background on the question	According to Article 274 of CRR exposure value is the sum of current replacement cost and potential future credit exposure and all of those exposures shall be assigned to one of the 16 (in Standardised Approach) exposure classes in order to calculate the own funds requirements. The only restriction according to the Article 123 of CRR is not to classify securities to

	<p>the retail exposure class. e.g. Exposure A - credit exposure Gross exposure value = 700 000 EUR, credit risk adjustments = 5 000 EUR, net exposure value = 695 000 EUR Exposure B - derivative instrument Current replacement cost = 5 000 EUR, potential future credit exposure = 50 000 EUR exposure value = 55 000 EUR</p>
Final answer	<p>Article 123 of Regulation (EU) No 575/2013 (CRR) sets out criteria which must be adhered to in order for an exposure to be eligible for the retail exposures class. All three criteria in points (a) to (c) of Article 123 are applicable and must be satisfied. Whereas securities are explicitly excluded from eligibility for the retail exposure class, all other exposures to be covered by Article 123 shall satisfy all the aforementioned criteria in order to be assigned a risk weight of 75% <u>or 35% should the additional criteria specified in Article 123 be met</u>, provided the CRR does not require or allow for the exposure to be assigned to a different exposure class.</p> <p>The assignment of a derivative instrument to the retail exposure class, having met the criteria set out in Article 123(a) to (c) of the CRR, is without prejudice to requirements set out under consumer protection and related legislation.</p>
Link	<p>https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2014_704</p>

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