



**Single
Rulebook
Q&A**

Question ID	2014_793
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Large exposures
Article	403
Paragraph	1
Subparagraph	(b)
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	Not applicable
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Disclose name of institution / entity	Yes
Name of institution / submitter	Hungarian Banking Association
Country of incorporation / residence	Hungary
Type of submitter	Industry association
Subject matter	The use of the Collateral Simple and Comprehensive Methods under the Large Exposure regime
Question	Does the phrase "where it is permitted to use" referred to in the third subparagraph of Article 403(1) of Regulation (EU) No 575/2013 (CRR) intend to prescribe that the treatment for collateralised exposures specified under

	<p>Article 403(1)(b) is available for: • those institutions which are allowed to use both the Financial Collateral Simple and Comprehensive Methods?; or • collateral types which are eligible for both methods?</p>
<p>Background on the question</p>	<p>Article 403(1) of the CRR reads "Where an exposure to a client is guaranteed by a third party, or secured by collateral issued by a third party, an institution may: (b) treat the portion of the exposure collateralised by the market value of recognised collateral as having been incurred to the third party rather than to the client, if the exposure is secured by collateral and provided that the collateralised portion of the exposure would be assigned an equal or lower risk weight than a risk weight of the unsecured exposure to the client under Part Three, Title II, Chapter 2." An additional condition is added: "For the purpose of this Part, an institution may use both the Financial Collateral Comprehensive Method and the treatment set out in point (b) of the first subparagraph only where it is permitted to use both the Financial Collateral Comprehensive Method and the Financial Collateral Simple Method for the purposes of Article 92." The problem is that the condition set out by the first interpretation cannot be fulfilled by any institutions, as Article 222 explicitly prohibits to apply simultaneous usage of Collateral Simple and Comprehensive Method, with the immaterial exception for portfolios under Permanent and Temporary Partial Use under the IRB approach: "Institution shall not use both the Financial Collateral Simple Method and the Financial Collateral Comprehensive Method, except for the purposes of Articles 148(1) and 150(1)". For large exposure purposes the use of the Financial Collateral Comprehensive Method is only a possibility, not a must. From another point of view, if the parallel use of both methods is restricted to a small portfolio, can an institution use for large exposure purposes the substitution approach for financial collaterals, if it does not use the Financial Collateral Comprehensive Method for large exposure purposes at all? Can it use this independently of the fact which method is applied by the institution for the capital requirement calculation?</p>
<p>EBA answer</p>	<p>The third subparagraph of Article 403(1) of Regulation (EU) No 575/2013 (CRR) restricts, for the large exposures requirements in Part Four of the CRR, the partial application of the Financial Collateral Comprehensive Method (FCCM) combined with applying the treatment set out in Article 403(1)(b) to other exposures. This is restricted to cases where the partial application of the FCCM combined with applying the Financial Collateral Simple Method (FCSM) to other exposures is permitted for purposes of calculating capital requirements under Article 92 of the CRR.</p> <p>This is only applicable in the following two cases:</p> <ol style="list-style-type: none"> 1. An institution that is required by Article 299(2)(b) of the CRR to apply the FCCM for its counterparty risk exposures in the trading book, is not prohibited by this Article from applying the FCSM to those exposures in the non-trading book to which the Standardised

Approach (SA) is applied. Consequently, the third subparagraph of Article 403(1) of the CRR allows an institution that has opted for the treatment set out in Article 403(1)(b) CRR for its SA exposures in the non-trading book, to nevertheless opt for the FCCM for its counterparty risk exposures in the trading book.

1. An institution with permission to use the IRB approach is required to apply the FCCM to its IRB exposures because Article 222(1) of the CRR limits the FCSM to SA exposures; but Article 222(1) nevertheless permits using the FCSM for the purposes of Articles 148(1) and 150(1) of the CRR, i.e. to apply the FCSM to exposures to which the SA is transitionally or permanently applied. Consequently, the third subparagraph of Article 403(1) of the CRR allows an institution that has opted for the treatment set out in Article 403(1)(b) for its SA exposures in the non-trading book, to nevertheless opt for the FCCM for its IRB exposures.

Except for these two cases, institutions are prohibited in all other cases by the third subparagraph of Article 403(1) of the CRR from partially applying the FCCM to some exposures combined with applying the treatment set out in Article 403(1)(b) to other exposures for the purposes of the large exposures requirements. This requires an institution to opt for either the FCCM or the treatment set out in Article 403(1)(b) of the CRR, and to apply the selected treatment to all of its exposures for the purposes of the large exposures requirements, regardless of the method chosen for the purposes of calculating capital requirements pursuant to Article 92.

Link

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