

Question ID	2014_950
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	159
Paragraph	1
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	N/A
Date of submission	17/03/2014
Published as Final Q&A	11/07/2014
Disclose name of institution / entity	Yes
Name of institution / submitter	Jyske Bank
Country of incorporation / residence	Denmark
Type of submitter	Credit institution
Subject matter	Inclusion of additional value adjustments in the IRB treatment of expected loss
Question	In CRR article 159 we read the following: "Institutions shall subtract the expected loss amounts calculated in accordance with Article 158 (5), (6) and (10) from the general and specific credit risk adjustments and additional value adjustments in accordance with Articles 34 and 110 and other own funds reductions related to these exposures." Due to the wording and the grammatical structure of the above sentence we are having doubts as to which amounts should actually be used in the IRB treatment of expected losses.
Background on the question	When we read the above sentence, gramatically it is as if the sentence consist of 3 parts each seperated by the word "and". The first part is clear and we understand that EL should be calculated for the exposure classes mentioned in art. 158 (5), (6) and (10) and subtracted from the general and

	<p>specific credit risk adjustments. The second part of the sentence is unclear as it only contains the wording: "and additional value adjustments in accordance with Articles 34 and 110" and our question is therefore if the additional value adjustments should be all the additional value adjustments that we have or if the additional value adjustments should be limited by the wording at the end of the sentence "related to these exposures". From the structure of the sentence it seems that the wording "related to these exposures" only refers to "other own funds reductions". We have noted that the EBA in your answer to question ID 2013_245 writes: Article 159 of Regulation (EU) No 575/2013 (CRR) states that institutions shall subtract the expected loss amount from the general and specific credit risk adjustment and additional value adjustment and "other own funds reductions related to these exposures". Where the EBA's use of "" seems to indicate that the wording "related to these exposures" is indeed only related to "other own funds reductions".</p>
<p>Final answer</p>	<p>The phrase "related to these exposures" in Article 159 of Regulation (EU) No. 575/2013 (CRR) is not limited to "other own funds reductions" but applies to the whole part "the general and specific credit risk adjustments and additional value adjustments in accordance with Articles 34 and 110 and other own funds reductions".</p> <p>This follows immediately from the restriction of expected loss amounts to those calculated in accordance with Article 158(5), (6) and (10) of the CRR. The whole treatment of expected loss amounts specified by Article 159(1) of the CRR is deliberately restricted to those exposures for which expected loss amounts are calculated in accordance with Article 158(5), (6) and (10) of the CRR. This is the reason why general and specific credit risk adjustments and additional value adjustments in accordance with Articles 34 and 110 and other own funds reductions are taken into account only to the extent they are related to these exposures.</p> <p>See also Q&A 933.</p>
<p>Link</p>	<p>https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2014_950</p>

European Banking Authority, 30/06/2022
www.eba.europa.eu