



**Single
Rulebook
Q&A**

Question ID	2019_4472
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	155
Paragraph	2
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	No
Type of submitter	Competent authority
Subject matter	Meaning of “portfolio” within “sufficiently diversified portfolios” in Article 155(2)
Question	How should the term “portfolio” be understood in the context of the 190% risk weight for private equity exposures in “sufficiently diversified portfolios” in Article 155(2) of the CRR? Does it refer to the whole institution’s portfolio of private equity? Or to any of the “portfolios” that an institution has identified for internal risk management purposes instead?
Background on the	Article 155(2) of the CRR establishes a risk weight of 190% for private equity

<p>question</p>	<p>exposures in “sufficiently diversified portfolios”. Although there is no specific definition in the CRR of the concept of “portfolio”, it can be argued, according to the wide range of uses of this term throughout the CRR, as well as Basel standards, that a “portfolio” is any pool of exposures with common features based on a diverse set of criteria. There seems to be two general principles embedded throughout the CRR: Institutions’ estimates and internal models used in the calculation of own funds requirements shall be closely integrated into the risk management and decision-making process of the institution. Institutions shall not use the regulation in a selective way with the purpose of achieving reduced own funds requirements or with the purpose of conducting regulatory arbitrage. Furthermore, Article 73 of the EBA “Regulatory Technical Standards on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB Approach” establishes that competent authorities shall verify that the application of different approaches for different equity portfolios where the institution itself uses different approaches for internal risk management in accordance with Article 155 of Regulation (EU) No 575/2013 is correct, in particular considering that the choice of the approach: i. does not lead to underestimation of own funds requirements; ii. is made consistently, including over time; iii. is justified by internal risk management practices. This implies that institutions may actually apply different approaches in their own funds requirements calculations for the private equity portfolio under the IRB approach, but just as long as they use those different approaches also for the internal management of that portfolio and this does not lead to an underestimation of capital requirements. It seems adequate and prudent to require also these criteria in the application of the simple risk weight approach. On the other hand, the EBA RTS on assessment methodology for IRB approach establishes as well that competent authorities should also verify that the risk weight of 190% is used only for “sufficiently diversified portfolios”, where the institution has proven that significant reduction of risk has been achieved as a result of the diversification of the portfolio in comparison to the risk of individual exposures in the portfolio. This might imply the need to consider the whole private equity portfolio for the purpose of Article 155, given the fact that the beneficial 190% risk weight is only granted when the diversification in the portfolio has achieved a significant reduction of risk.</p>
<p>EBA answer</p>	<p>Article 155(2) of Regulation (EU) No 575/2013 (CRR) establishes a risk weight of 190% for private equity exposures in “sufficiently diversified portfolios” but does not provide a definition for said portfolios and does not specify whether the RW can be applied to portfolios made up for internal risk management purposes.</p> <p>However Article 155(1) CRR specifies that an institution may apply different approaches (including the simple RW approach) to different equity portfolios “when it uses different approaches for internal risk management purposes”,</p>

	<p>provided it is done consistently over time and with the approach used for internal risk management for the exposures, and provided the choice of approach is not determined by regulatory arbitrage considerations. The provision does not specify the level at which the various treatment can be applied. Article 155(2) CRR specifies that the 190% RW applies to diversified portfolios, thus to any portfolio identified by the institution for internal risk management purposes, whether it be sub-portfolio level for private equity or to the whole private equity portfolio. Nevertheless, the institution should be able to prove, to the satisfaction of the competent authority, that diversification of the portfolio has been assessed and considered appropriate for the purpose of Article 155(2) CRR.</p>
Link	<p>https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2019_4472</p>

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