



## Single Rulebook Q&A

<b>Question ID</b>	2013_99
<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) No 575/2013 (CRR)
<b>Topic</b>	Market risk
<b>Article</b>	382
<b>Paragraph</b>	-
<b>Subparagraph</b>	-
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Not applicable
<b>Article/Paragraph</b>	N/A
<b>Date of submission</b>	26/07/2013
<b>Published as Final Q&amp;A</b>	15/11/2013
<b>Disclose name of institution / entity</b>	No
<b>Type of submitter</b>	Credit institution
<b>Subject matter</b>	Exclusion of provisioned counterparties from the CVA capital charge
<b>Question</b>	Could you confirm that a defaulted or doubtful counterparty that is subject to specific provisions/cost of risk shall not be subject to the CVA capital charge?
<b>Background on the question</b>	When a counterparty X with whom an institution has derivative contracts becomes doubtful or defaulted, then the practice is that the institution stops computing Credit Valuation Adjustments (incurred CVA) and starts computing specific provisions (Credit Valuation Impairment or cost of risk). The provisions are computed as the Mark-to-Market times a provisioning rate and floored at zero. Such counterparties either trade at extremely high spread levels or do not trade at all, which is the most frequent situation.

	They are removed from the B2 capital calculation for counterparty risk but are subject to a capital charge to account for the volatility of the loss given default.
<b>EBA answer</b>	For derivative contracts with a defaulted counterparty no CVA capital charge according to Part Three, Title VI of Regulation (EU) No. 575/2013 (CRR) is required, where, as a result of the default, these derivative contracts are converted into a claim of a fixed amount and therefore the derivative contract ceases to exist. In all other cases an own funds requirement for CVA risk has to be calculated.
<b>Link</b>	<a href="https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_99">https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_99</a>

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