

Public Hearing: Consultation on GLs on proportionate retail diversification methods

EBA Prudential Regulation and Supervisory Policy

Virtual meeting, 16 December 2024



Ground rules for this virtual meeting.

Mic and video off

Please keep yourself muted and the video off while listening.

Questions/comments?

Please use the chat or raise your hand to ask for the floor.

Slides on EBA website

The presentation used today will be made available on the EBA's website after this hearing.

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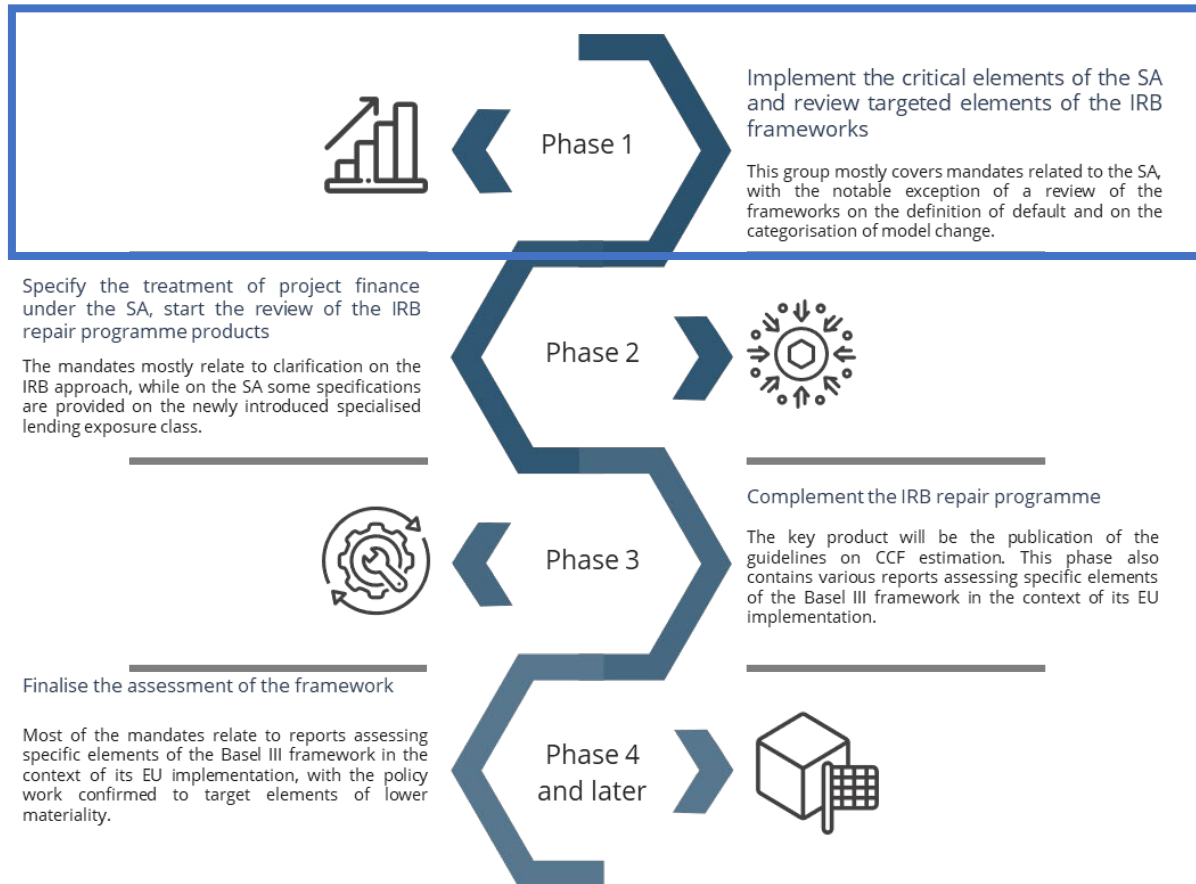
3 Next steps



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Background: EBA Roadmap on CRR3 and mandate

EBA Roadmap – Overview CR



EBA Roadmap – CR Phase 1

Area	Product	Reg.	Article	Deliverable	Legal deadline
Phase 1					
Credit risk	Report	CRR	506	Report to the Commission on the eligibility and use of policy insurance as credit risk mitigation techniques	0 months after entry into force
Credit risk	ITS	CRR	20(8)	ITS on joint decision process for internal model applications	12 months after entry into force
Credit risk	RTS	CRR	111(8)	RTS on criteria that institutions shall use to assign off-balance-sheet items, constraining factors for UCC and notification process	12 months after entry into force
Credit risk	Guidelines	CRR	123(1)	Guidelines to specify proportionate diversification methods for retail definition	12 months after entry into force
Credit risk	RTS	CRR	124(12)(sub 1)	RTS to specify the term “equivalent legal mechanism” in place to ensure that the property under construction will be finished within a reasonable time frame	12 months after entry into force
Credit risk	Guidelines	CRR	126a(3)	Guidelines specifying the terms substantial cash deposits, appropriate amount of obligor-contributed equity and significant portion of total contracts	12 months after entry into force
Credit risk	Guidelines	CRR	178(7)(sub 1)	Guidelines on the definition of default, in particular for diminished financial obligation	12 months after entry into force



Legal Basis and scope of the GLs

Mandate: Article 123(1)

*By 10 July 2025, EBA shall issue guidelines, in accordance with Article 16 of Regulation (EU) No 1093/2010, to specify **proportionate diversification methods** under which an exposure is to be considered as one of a significant number of similar exposures as specified in the first subparagraph, point (c), of this paragraph.*

Scope of the CP GLs

Objective:

- Define **proportionate retail diversification methods** under the Standardised Approach for credit risk.
- Condition to benefit from the **preferential retail risk weight** (general case: 75%), instead of 100% (natural person and unrated corporates pre-SME supporting factor)

Background:

- Basel III allows the use of the 0.2% granularity threshold as an approach, with discretion given to determine another method
- No specification in the current CRR (but general requirement already existing in Article 123(1)(b)). Follow up of Recommendation CR-SA 22 of the EBA answer to the [CfA on Basel III implementation](#)
- Already existing limit on the total amount owed (EUR 1 million, Art. 123(1)(b)) + approach based on 0.2% threshold → Relevant for small retail portfolios (below EUR 500 millions).



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Proposed approach

Approach proposed

Diversification Test

❖ Perimeter of application of the Test

- Excluding defaulted retail exposures, including the part of the exposures risk-weighted as retail exposures in the case of immovable property collateral (Art. 124(1)(a), Art. 125(1) last paragraph and Art. 126(1) last paragraph)
- At the level of consolidation for which minimum own funds requirements are calculated.
- At Group exposures to connected clients (GCCs).

❖ Calculation Steps

- **Step 1:** Compute 0.2% of the total eligible retail portfolio.
 - **Step 2:** Identify exposures exceeding this threshold at GCC-level.
 - **Step 3:** Assess whether sum of large eligible exposures (those exceeding the 0.2% threshold) > 10% of total retail portfolio.
 - If >10%, exclude exposures and recalculate (step 1) → the approach is hence **iterative**.
 - The final portfolio (after exclusion of large exposures) qualifies for the preferential 75% risk weight.
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Alternative approach

One Step approach

❖ Perimeter of application of the Test

- Same as under the baseline approach

❖ Calculation Steps

- **Step 1:** Compute 0.2% of the total eligible retail portfolio.
 - **Step 2:** Identify exposures exceeding this threshold at GCC-level.
 - **Step 3:** Assess whether sum of all large eligible exposures (those exceeding the 0.2% threshold) > 5% of total retail portfolio.
 - If > 5%, exclude exposures such that the non excluded large exposures are below the 5% threshold.
 - The remaining portfolio (after exclusion of large exposures) qualifies for the preferential 75% risk weight.
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Questions for consultation

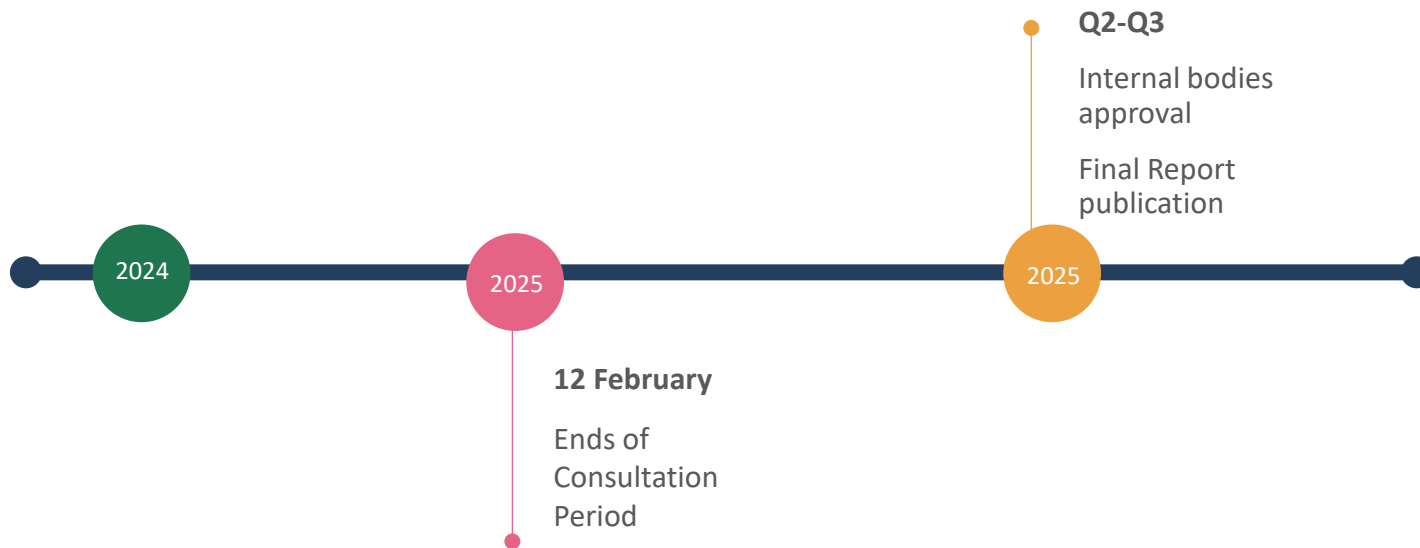
- Q1.** What is the percentage of exposures within your retail portfolio that are part of a group of connected clients?
- Q2.** Do you identify any implementation issue in implementing the diversification method?
- Q3.** Which methods do you currently use to assess retail diversification? Please elaborate.
- Q4.** Under the proposed approach, in the first step of the calculation before any exclusion, what is the share in terms of exposure value of the large eligible retail exposures as defined under the proposed approach compared to all the eligible retail exposures?
- Q5.** What is the impact of the proposed diversification assessment set out in these Guidelines compared to the diversification assessment that you currently perform on your retail portfolio?



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Next Steps

Next steps



The background features a repeating pattern of various white geometric shapes, including hexagons, squares, diamonds, and circles, some of which contain smaller symbols like plus signs or dots. These shapes are scattered across the dark blue field, creating a textured, crystalline effect.

Thank you!



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