11.2.2025

**EBA consultation   
on Guidelines on proportionate retail diversification methods**

**Comments of the Austrian Banking Industry**

1. **Introductory remarks**

It should be borne in mind that there where solid reasons why the granularity criterion (Para 55 - 3. Bullet Point Basel IV-Standard) was not implemented in Article 123 CRR III by the European legislator. The criterion does not fit for smaller banks and the Basel framework is designed for large banks that are operating cross-border. We perceive the proposed 10 % exemption as an inappropriate attempt to make the 0.2 % granularity criterion applicable to smaller banks via the backdoor.

EBA’s preliminary method negatively surprised us a bit. Because in its policy advice on the Basel III reforms even EBA stated that ‘the proposed granularity criterion of 0.2 % of the overall regulatory retail portfolio is neither necessary nor sufficient for ensuring adequate diversification of institutions’ regulatory retail portfolios[[1]](#footnote-1).’

It is important to be aware that the EBA requirements laid down in the draft guidelines have a massive impact on capital ratios for smaller banks. In addition, the guidelines lead to a considerable effort in particular for smaller banks. Furthermore, those institutions are confronted with an avoidable competitive disadvantage in comparison to US and UK banks as in both countries no comparable requirements are implemented.

For example, a bank that only has a retail portfolio of EUR 100 million would be able to grant retail loans of up to EUR 200.000 granularly. This leads to strong distortions of competition to the disadvantage of small banks and thus blatantly contradicts the level playing field concept. It should be borne in mind that this does not only affect consumer loans to natural persons. Rather, it also concerns working capital loans to SMEs.

Based on Article 123 (1) subpara 2 CRR III EBA shall issue guidelines to specify proportionate diversification methods under which a retail exposure is to be considered as one of a significant number of similar exposures with similar characteristics. Applying proportionality shall result in reliefs and not in additional operational and financial burden. Hence, the EBA draft guidelines are not in line with the guiding principles of the mandate in Article 123(1) subpara 2 CRR III.

**In short: The proposed guidelines disproportionately disadvantage smaller banks and should be reconsidered.**

1. **Proposed Solutions**

It is therefore necessary to develop different solutions which take the principle of proportionality into account.

**As a reasonable approach small and non-complex institutions according to Article 4 (1) (145) CRR (balance sheet total up to EUR 5 bn) should be out of scope.**

**If EBA cannot agree on this, at least very small institutions with a balance sheet total not more than EUR 3 bn should be exempted from the EBA guidelines.**

**In any event, the guiding principle ‘the smaller the balance sheet total, the larger the relief’ should be implemented.**

A conceivable alternative approach would be to focus on the membership in an institutional protection scheme (IPS) pursuant to Article 113 (7) CRR. Following this approach, it should be necessary to ensure a sufficient diversified retail portfolio on the level of an IPS, reducing the operative burden and the impact to the single institution.

1. **Clarifications**

Regardless of the final approach chosen, it should be clarified in the guidelines that the retail portfolios in terms of exposure value shall be calculated **before credit risk adjustments** as gross amounts.

In addition, the **threshold of 10 % should be calculated using the one-step approach.** The proposed iterative approach would effectively result in a lower threshold and is associated with avoidable operational implementation costs, particularly for LSIs. Consequently, the currently proposed one-step approach with a threshold of 5 % would become obsolete.

In addition, the retail portfolio as of December 31 of the previous year should be used as the basis for calculation. It is far to burdensome if the values change constantly.

1. *EBA*, policy advice on the basel iii reforms: credit risk standardised approach and irb approach EBA-Op-2019-09a, page 67. [↑](#footnote-ref-1)