Comments

Consultation Paper on Guidelines on proportionate retail diversification methods (EBA/CP/2024/22)

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks.

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Overview of questions for consultation

Q1. What is the percentage of exposures within your retail portfolio that are part of a group of connected clients?

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Q2. Do you identify any implementation issue in implementing the diversification method?

We want to emphasise that the two proposed diversification tests would have a material impact almost exclusively on small and smallest credit institutions. These institutions would be burdened with considerable procedural effort and restricted by the proposed tests in terms of the retail business threshold. We, therefore, do not consider the application of a 0.2% limit adapted for this target group appropriate. For this reason, we see no need to introduce an additional diversification test.

Article 123 (1) of the CRR requires the EBA to develop guidelines for proportionate diversification methods. This requirement does not necessarily include specifying a quantitative threshold. It would be sufficient and expedient for the target group mentioned above to allow only qualitative criteria as the sole diversification method. These qualitative criteria could also be based, for example, on the requirement of Article 123 (1) (d) CRR (see question 3).

Due to the two-tier structure, conducting the proposed diversification test on each reporting reference date would require considerable work. To reduce this burden, institutions whose RWA from the CRSA retail business is less than 10% of the total RWA (de minimis limit 1) or a certain amount (de minimis limit 2) should only have to conduct the test once a year at the end of the year.

Since the structure of the relevant credit portfolio is generally not expected to change significantly within a quarter, the annual calculation should also be permitted for institutions where, in the last survey, the proportion of loans exceeding the 0.2% criterion in the CRSA retail business was significantly below the 10% threshold (suggested figure: 6%).

Please bear in mind that quarterly calculation and the resulting active intervention by adding/removing large loans from the retail portfolio would complicate planning and, consequently, pricing for the retail portfolio.

The EBA's proposed regulation would also impact on the calculation of the output floor. Banks that apply the IRBA would be forced to subject their IRBA retail exposures to the diversification test. It would make the output floor calculation considerably more difficult due to the iterative approach and the possible reallocation of exposure classes. To reduce the reporting burden, we, therefore, advocate not applying the diversification test when calculating the output floor. It should apply to IRBA institutions with a retail portfolio of more than €500 million since these institutions would always meet the stricter Basel diversification test due to the €1 million cap on loans to individual groups of connected clients.

For reasons of simplification, institutions should also have the discretion to exclude from the diversification test risk positions from the CRSA retail business that receive the risk weight of the guarantor due to a guarantee without collateral (e.g., guarantees) from guarantors outside the risk position class 'retail business'.

Q3. Which methods do you currently use to assess retail diversification? Please elaborate.

Currently, a variety of methods are being used in practice. These range from the application of the 0.2% criterion to qualitative criteria. This diversity allows institutions with different business models to determine the appropriate granularity threshold for their needs. In particular, using of qualitative differentiation criteria ensures consistent treatment of loans remaining in the retail portfolio by small and smallest institutions. This flexibility is also necessary to accommodate the specific characteristics of business areas and the varying sizes of institutions.

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?

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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?
- Please fill in the amounts in the table below using as reference date end-2023 and please report the amounts in EUR millions.
To ensure comparability between all the amounts provided, please report all the amounts using the CRR III rules as of 1st January 2025.

Particularly for small and medium-sized institutions, the methods set out in the guidelines would significantly and negatively affect the allocation to the retail portfolio and, consequently, the core business of these institutions. The following examples illustrate the effects on three institutions:

Figures as at 31 December 2023	Bank 1	Bank 2	Bank 3
Current diversification criteria			
Total assets (€m)	82	187	352
Risk exposure in retail business (€m)	30,4	85,1	145,6
Of which SME loans (€m)	14,5	28,4	30,3
Capital ratio	23,07 %	20,81 %	17,60 %
Iterative approach			
Exclusion of SME loans (€m)	12,6	20,5	16,7
Exclusion of loans to retail customers (€m)	7,5	21,7	31,3
Remaining retail portfolio (€m)	10,3	42,9	97,6
Capital ratio	20,58 %	19,10 %	16,82 %

Alternative approach			
Exclusion of loans to SMEs (€m)	12,8	18,6	18,2
Exclusion of loans to retail customers (€m)	8,8	28,2	37,4
Remaining retail portfolio (€m)	8,8	38,3	90,0
Capital ratio	18,93 %	18,90 %	16,70 %

Given the limitations described, we ask the EBA to conduct an impact study with the affected institutions before to finalising the guidelines.