



Commission de Surveillance
du Secteur Financier

Circular CSSF 26/916

Application of the Guidelines of
the European Banking
Authority on proportionate
retail diversification methods
under Article 123(1) of
Regulation (EU) No 575/2013
(EBA/GL/2026/02)

Circular CSSF 26/916

Application of the Guidelines of the European Banking Authority on proportionate retail diversification methods under Article 123(1) of Regulation (EU) No 575/2013 (EBA/GL/2026/02)

To all credit institutions designated as Less Significant Institutions¹ under the Single Supervisory Mechanism and to all CRR investment firms incorporated under Luxembourg law.

Luxembourg, 15 September 2026

Ladies and Gentlemen,

The purpose of this circular is to inform you that the CSSF, in its capacity as competent authority, applies the Guidelines (EBA/GL/2026/02) of the European Banking Authority (the "EBA") on proportionate retail diversification methods under Article 123(1) of Regulation (EU) No 575/2013 (the "Guidelines"), published on 5 February 2026. Consequently, the CSSF has integrated the Guidelines into its administrative practice and regulatory approach with a view to promoting supervisory convergence in this field at the European level.

All entities in the scope of application (as defined below) shall duly comply with the Guidelines.

1. The Guidelines

The Guidelines specify proportionate diversification methods under the Standardised Approach for credit risk, for the purpose of identifying retail exposures, which are considered as being one of a significant number of similar exposures, such that the risks associated with such exposure are substantially reduced as specified in the first subparagraph, point (c), of Article 123(1) of Regulation (EU) No 575/2013 (the "CRR").

In the Basel III framework, a retail portfolio is deemed to have sufficient granularity if no aggregate exposure to one counterparty exceeds 0.2% of the overall regulatory retail portfolio. The Guidelines specify that less diversified portfolios (i.e. with exposures exceeding the 0.2% threshold) can still be considered sufficiently diversified and benefit from the preferential 75% risk weight applicable under Article 123(3) of the CRR, provided that no more than 10% of the institution's eligible retail portfolio exceeds 0.2% of the overall regulatory retail portfolio.

The Guidelines also specify that diversification may be achieved by excluding one or more large retail exposures from the eligible retail portfolio and provide clarifications on how securitised exposures shall be treated with regard to this assessment.

The Guidelines are attached to this circular and are available on the EBA's website².

¹ In line with the concept of "Significant supervised entities" as defined in Article 2, point (16) of Regulation (EU) No 468/2014 of the European Central Bank (ECB) of 16 April 2014 (the SSM Framework Regulation) shall refer to the relevant ECB rules.

² [EBA/GL/2026/02 – Guidelines on proportionate retail diversification methods](#)

2. Scope of application

This circular shall apply to Less Significant Institutions and CRR investment firms incorporated under Luxembourg law.

3. Date of application

This circular shall apply with immediate effect.

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Annex EBA Guidelines (EBA/GL/2026/02) on proportionate retail diversification methods under Article 123(1) of Regulation (EU) No 575/2013

EBA/GL/2026/02

05/02/2026

Final Report on

Guidelines on proportionate retail diversification methods under
Article 123(1) of Regulation (EU) No 575/2013

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1. Executive Summary

The EBA is mandated under Article 123(1) of Regulation (EU) No 575/2013 (CRR) to issue Guidelines to specify proportionate diversification methods under the Standardised Approach of credit risk, for the purpose of identifying retail exposures, which are considered as being one of a significant number of similar exposures, such that the risks associated with such exposure are substantially reduced as specified in the first subparagraph, point (c), of Article 123 (1) of the CRR. The reason for this requirement is that the capital requirements set out for the retail exposure class require that exposures eligible for the preferential 75%¹ risk weight represent one of a significant number of exposures with similar characteristics, such that the risks associated with such exposure are substantially reduced as a result of diversification.

In the Basel III framework, a retail portfolio is deemed to have sufficient granularity if no aggregate exposure to one counterparty exceeds 0.2% of the overall regulatory retail portfolio, unless national supervisors have determined another method to ensure satisfactory diversification. In the EU, Article 123 of the CRR requires the EBA to specify the method to be used for assessing whether the retail portfolio is sufficiently diversified.

The EBA has adopted an approach whereby institutions that do not hold a sufficiently granular portfolio under the Basel 0.2% criterion may still qualify that portfolio for the preferential risk weight. Specifically, less diversified portfolios (i.e. with exposures exceeding the 0.2% threshold) can still be considered sufficiently diversified, provided that no more than 10% of the institution's eligible retail portfolio exceeds this threshold. This approach promotes harmonisation across the EU through objective metrics, while ensuring that the methods remain proportionate to the size of institutions.

¹ Except 1) transactor exposures, which are assigned a 45% risk weight and 2) exposures due to loans granted by an institution to pensioners or employees with a permanent contract against the unconditional transfer of part of the borrower's pension or salary to that institution, which are assigned a 35% risk weight, if meeting the conditions set out in Article 123(4).

2. Background and rationale

These Guidelines address the mandate granted to the EBA under Article 123(1) of the CRR to specify proportionate diversification methods for retail exposures under which an exposure is to be considered as one of a significant number of exposures with similar characteristics, such that the risks associated with such exposure are substantially reduced. Satisfactory diversification is one of the mandatory requirements for retail exposures to be assigned the preferential retail risk weight, as set out under Article 123(1) of the CRR.

The Basel III international standards set out a granularity criterion, whereby no aggregated exposure to one counterparty may exceed 0.2% of the overall regulatory retail portfolio, unless national supervisors have determined another method to ensure satisfactory diversification of the regulatory retail portfolio. These Guidelines make use of this discretion.

Smaller institutions tend to have more concentrated retail portfolios than larger institutions. The diversification methods proposed in these Guidelines allow institutions whose retail portfolio is not granular enough to still apply the preferential risk weight, subject to meeting a diversification test where all the inputs are readily available for institutions.

The use of simple methods that require straightforward inputs from institutions contributes to meeting the proportionality principle as defined in the mandate and in line with recital 46 of the original CRR as of 26 June 2013², while ensuring harmonisation in the EU and supervisory convergence through objective metrics³.

The proposed diversification test requires an institution to compare the share of retail exposures that exceed the 0.2% granularity threshold at the level of groups of connected clients (GCCs) in the retail portfolio against the predefined threshold. Under this approach, the calculation of the 0.2% threshold is carried out only once, with reference to the eligible retail portfolio⁴, without excluding exposures exceeding the 0.2% threshold. Specifically, the denominator used for the calculation

² Extract from recital 46 of CRR: 'The provisions of this Regulation respect the principle of proportionality, having regard in particular to the diversity in size and scale of operations and to the range of activities of institutions. Respect for the principle of proportionality also means that the simplest possible rating procedures, even in the Internal Ratings Based Approach ('IRB Approach'), are recognised for retail exposures.'

³ The Guidelines accordingly take into account the guidance received from the EBA Advisory Committee on Proportionality, in particular the recommendations for 2024 in the credit risk area so that the guidance it delivers are drafted in a way that is consistent with and uphold the principle of proportionality without damaging the prudential objectives: [EBA Work programme 2024 \(europa.eu\)](https://www.eba.europa.eu/en/press/2024/01/24).

⁴ Excluding exposures risk weighted under Chapter 5 of Title II of Part III of the CRR (i.e. the securitisation framework).

corresponds to the sum of the exposure values of all exposures in the original retail portfolio. The associated threshold for the diversification assessment is set at 10%.

The scope of retail exposures under assessment for ensuring diversification are the retail exposures as already characterized under Article 123 paragraphs (1) and (2) of the CRR.

Specifically, institutions should:

- Identify the full set of exposures that meet the criteria set out in Article 123 (1), points (a), (b) and (d) of the CRR.
- Exclude any exposures as specified in Article 123(2) of the CRR.

The retail diversification test is to be performed:

- Excluding defaulted retail exposures.
- For each reference date and at the level of application of the prudential requirements as required by the CRR. Specifically, the assessment is to be carried out at the level for which minimum own funds requirements are calculated. Where minimum own funds requirements are calculated at the level of the individual institution, the exposures included in the assessment are those of the individual institution. In contrast, where minimum own funds requirements are calculated at consolidated level, the exposures included in the assessment are exposures of all entities included in the scope of the prudential consolidation.
- At GCCs' level. It is recalled that institutions are already mandated to identify GCCs in the retail portfolio through the retail size criterion specified under Article 123(1)(b) of the CRR. Hence, identification of such GCCs does not represent any additional burden for institutions⁵.
- It is recalled that CRR Articles 124(1)(a), 125(1), last sub-paragraph and 126(1), last sub-paragraph specify that certain exposures secured by mortgages on immovable property should be assigned the risk weight applicable to the unsecured exposures of the counterparty involved. Whenever the exposure to that counterparty qualifies as retail exposure, those exposures are to be assigned the appropriate risk weight based on the specifications of Article 123 of the CRR. Hence exposures secured by immovable property that are to be risk weighted as retail should also be subject to the retail diversification test, as this is required to assign the relevant retail risk weight.

Mathematical formulation and application of the diversification method:

⁵ [RTS on the identification of a group of connected clients.](#)

For illustrative purposes, the mathematical derivation of the diversification approach outlined in these guidelines is presented below, together with a practical application thereof.

Mathematical formulation:

$$\frac{\sum_{i=1}^n EAD_i \times 1_{\left\{ \frac{EAD_i}{\sum_{j=1}^n EAD_j} > 0.2\% \right\}}}{\sum_{i=1}^n EAD_i}, \text{ to be compared with the 10\% threshold}$$

With the following notation:

- EAD_i is exposure value of the exposure i ;
- $\sum_{j=1}^n EAD_j$ is sum of the exposures in the original retail portfolio;
- 1 is an indicator function, which returns the value 1 for exposures exceeding the 0.2% threshold;
- n is the total number of exposures in the **original** retail portfolio, before any exclusions (in the legal text, 'all the institution's eligible retail exposures'⁶).

Stylised example of proposed calculation method:

Subsets	A	B	C	D	Total
Number of exposures	360	500	10	50	920
Exposure value of each individual exposures	€10	€20	€40	€200	/
Total exposure value	€3 600	€10 000	€400	€10 000	€24 000

The first step is to calculate the 0.2% threshold and the maximum exposure value below which the whole portfolio is considered to be diversified. In this original retail portfolio, any exposure exceeding €48 is above the 0.2% granularity threshold ($0.2\% \times \text{total exposure value} = 0.2\% \times €24\,000 = €48$). Hence, the exposures in the subset D exceed the threshold of €48.

The second step is to calculate the 10% threshold, which defines the maximum aggregate exposure value of exposures exceeding the 0.2% threshold that may be retained in the portfolio for diversification purposes. In this original retail portfolio, this maximum amount is €2 400 (i.e. $10\% \times €24\,000$).

No exclusions of exposures are necessary in subsets A, B and C of the retail portfolio, as the exposures in these subsets have an exposure value below the 0.2% granularity threshold (hence they will be assigned the preferential retail RW). In addition, up to 10% of the total exposure values of the portfolio can exceed the 0.2% threshold. This means that up to €2 400 in subset D can be considered to be diversified, which corresponds to 12 exposures ($€2\,400 / €200$). The remaining 38 exposures in subset D are excluded from this preferential treatment and must instead be risk weighted in accordance with Article 123(4) of the CRR. No more calculations are necessary.

⁶ Excluding exposures risk weighted under Chapter 5.

The portfolio eligible for the preferential risk weight is as follows:

Subsets	A	B	C	D	Total
Number of exposures	360	500	10	12	882
Exposure value of each individual exposures	€10	€20	€40	€200	/
Total exposure value	€3 600	€10 000	€400	€2 400	€16 400

Treatment of securitised exposures

The Guidelines specify that, for institutions that originate or invest in securitisations backed by retail exposures, the diversification assessment must be carried out through three distinct calculations, each referring to a separate sub-portfolio:

- (i) First, the institution⁷ performs the diversification test on the portfolio of eligible retail exposures that are risk weighted under Chapter 2 of the CRR, excluding securitised exposures for which positions are risk weighted under Chapter 5 of the CRR. This assessment applies to the institution's own retail portfolio and is performed irrespective of whether the institution acts as originator or investor in any securitisation.
- (ii) Second, where the institution acts as originator, the diversification condition must also be assessed with respect to the underlying securitised exposures. In accordance with Article 255(6) of the CRR, these underlying exposures are to be treated as if they had not been securitised. Therefore, the institution carries out a dedicated calculation on a combined sub-portfolio that includes: the retail exposures underlying the securitisation and all other non-securitised eligible retail exposures. This ensures that originators assess diversification on the full set of retail exposures for which they hold complete obligor information.
- (iii) Third, for institutions, who are investors of securitisations with retail exposures, the diversification assessment should be performed exclusively at the level of the securitised portfolio, based only on the underlying securitised exposures of the securitisation for which positions are risk weighted under Chapter 5 of Part Three, Title II of the CRR. Furthermore, in order to limit operational burden, the Guidelines will automatically consider the diversification condition as fulfilled, if information on the obligor and exposure value is not available in the disclosure templates referred to in Article 7. This derogation should apply only as long as the templates mandated under Article 7(4) of

⁷ Irrespective of whether the institution acts as an originator or as an investor in securitisations backed by retail exposures.

Regulation (EU) 2017/2402 do not foresee the information on obligor and on the size of the obligor.

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3. Guidelines

on proportionate retail diversification methods under
Article 123(1) of Regulation (EU) No 575/2013

2. Compliance and reporting obligations

Status of these guidelines

1. This document contains guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010⁸. In accordance with Article 16(3) of Regulation (EU) No 1093/2010, competent authorities and financial institutions must make every effort to comply with the guidelines.
2. Guidelines set the EBA view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. Competent authorities as defined in Article 4(2) of Regulation (EU) No 1093/2010 to whom guidelines apply should comply by incorporating them into their practices as appropriate (e.g. by amending their legal framework or their supervisory processes), including where guidelines are directed primarily at institutions.

Reporting requirements

3. According to Article 16(3) of Regulation (EU) No 1093/2010, competent authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise with reasons for non-compliance, by 19.05.2026. In the absence of any notification by this deadline, competent authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the form available on the EBA website with the reference 'EBA/GL/2026/02'. Notifications should be submitted by persons with appropriate authority to report compliance on behalf of their competent authorities. Any change in the status of compliance must also be reported to EBA.
4. Notifications will be published on the EBA website, in line with Article 16(3).

3. Subject matter, scope and definitions

Subject matter

5. In accordance with Article 123(1) of Regulation (EU) No 575/2013 as amended by Regulation (EU) 2024/1623 (CRR), these guidelines specify proportionate diversification

⁸ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC, (OJ L 331, 15.12.2010, p.12, ELI: <http://data.europa.eu/eli/reg/2010/1093/oj>).

methods under which an exposure is to be considered as one of a significant number of similar exposures as specified in point (c) of Article 123(1) of Regulation (EU) No 575/2013.

Scope of application

6. Competent authorities should apply these guidelines in accordance with the scope of application of Article 123(1) of Regulation (EU) No 575/2013.

Addresses

7. These guidelines are addressed to competent authorities as defined in Article 4, point (2)(i) of Regulation (EU) No 1093/2010 and to financial institutions as defined in Article 4(1) of Regulation (EU) No 1093/2010.

Definitions

8. Unless otherwise specified, terms used and defined in Regulation (EU) No 575/2013 have the same meaning in the guidelines. Additionally, the following definitions apply:

Eligible retail exposure	<i>Any exposure that fulfils the requirements set out in Article 123(1), points (a), (b) and (d) of Regulation (EU) No 575/2013.</i>
Securitised exposure	<i>Any exposure underlying a securitisation, for which exposures arising from a position in this securitisation are risk weighted under Chapter 5 of Part Three, Title II of Regulation (EU) No 575/2013.</i>
Non-securitised exposure	<i>Any exposure that is risk weighted under Chapter 2 of Part Three, Title II of Regulation (EU) No 575/2013. For the sake of clarity this includes exposures that form part of a securitised portfolio where significant risk transfer has not been achieved.</i>

4. Implementation

Date of application

9. These guidelines apply from 19.05.2026.

5. Proportionate retail diversification methods

10. For the purpose of Article 123(1), point (c) of Regulation (EU) No 575/2013, an exposure should be considered as representing one of a significant number of exposures with similar characteristics, such that the risks associated with such exposure are substantially reduced, where it belongs to a sufficiently diversified portfolio in accordance with paragraph 11.
11. A portfolio should be considered sufficiently diversified where the ratio of the sum of the exposure values of the large eligible retail exposures, as defined in paragraph 12, over the sum of the exposure values of all the institution's eligible retail exposures does not exceed 10%.
12. An eligible retail exposure should be considered a large eligible retail exposure when the ratio of its exposure value over the sum of the exposure values of all the institution's eligible retail exposures exceeds the threshold of 0.2%. For the purpose of identifying large eligible retail exposures, the institution should treat the eligible retail exposures to a client or to a group of connected clients, as applicable, as a single exposure, summing their exposure values.
13. The institution should first assess whether the portfolio composed of all the institution's eligible retail exposures meets the condition set out in paragraph 11.
14. Where the portfolio composed of all the institution's eligible retail exposures does not meet the condition set out in paragraph 11, the institution may exclude from it one or more large eligible retail exposures as defined in paragraph 12.
15. The portfolio resulting from the exclusion of exposures carried out in accordance with paragraph 14 should be considered as sufficiently diversified if it meets the condition set out in paragraph 11.
16. The exposures excluded in accordance with paragraph 14 should not be considered as representing one of a significant number of exposures with similar characteristics for the purpose of Article 123(1), point (c) of Regulation (EU) No 575/2013.
17. In case of a portfolio including securitised exposures, the assessment of compliance with the diversification condition referred to in paragraph 11 should be carried out with regard to the retail exposures underlying the securitisation as if those underlying exposures were not securitised, in accordance with Article 255(6) of Regulation (EU) No 575/2013. Therefore, the calculation of the ratios referred to in paragraphs 11 and 12 should not be done for the whole portfolio of the institution's eligible retail exposures but should be done separately for three sub portfolios. More specifically:

- a) For the sub-portfolio consisting of non-securitised exposures, the numerator and the denominator should include only non-securitised exposures.
 - b) For the sub-portfolio consisting of securitised exposures where the institution acts as originator, the numerator and the denominator should include both those securitised exposures and all the non-securitised exposures.
 - c) For the sub-portfolio consisting of securitised exposures where the institution acts as investor, the numerator and the denominator should include only the underlying securitised exposures.
18. Notwithstanding paragraph 17, for securitised exposures where institutions act as investors, institutions may alternatively use the following guidance: the above-described assessment of diversification should be deemed as automatically fulfilled in the case of an institution's investor position in a securitisation, to the extent that the latter is comprised of underlying exposures, for which, in line with the due diligence and transparency requirements set out in Articles 5 and 7 of Regulation (EU) 2017/2402, information on the obligor and on the exposure value of the underlying exposures of that securitisation positions is not requested in the templates referred to in Article 7 of that Regulation. This derogation should apply only in the sole cases where the templates mandated under Article 7(4) of Regulation (EU) 2017/2402 do not foresee the information on obligor and on the size of the obligor.

Accompanying document

Cost-benefit analysis / impact assessment

Article 123(1) of Regulation (EU) No 575/2013 as amended by Regulation (EU) 2024/1623 (CRR) mandates the EBA to issue Guidelines to specify proportionate diversification methods under the Standardised Approach for credit risk under which the exposure should be considered as one of a significant number of exposures with similar characteristics; satisfactory diversification is one of the mandatory criteria set out under Article 123(1) of the CRR to be fulfilled for the application of a preferential risk weight of 75%.⁹

As per Article 16(2) of the ESAs regulation (Regulation (EU) No 1093/2010, (EU) No 1094/2010 and (EU) No 1095/2010 of the European Parliament and of the Council), any guidelines developed by the ESAs should be accompanied by an Impact Assessment in the Annex which analyses ‘the potential related costs and benefits’ of the Guidelines. Such Annex should provide the reader with an overview of the findings as regards the problem identification, the options identified to remove the problem and their potential impacts.

The EBA has prepared the Impact Assessment contained in the Guidelines, which analyses the policy options considered. Given the nature of the topic, the Impact Assessment is qualitative, and the limited data received during the consultation is not considered representative of the European context.

Problem identification and baseline scenario

The Basel III international accords determine the ‘diversification condition’ for retail exposures eligible to the 75% preferential risk weight as the ‘granularity criterion’, where it is noted that no aggregate exposure to one counterparty can exceed 0.2% of the overall portfolio excluding defaulted exposures, unless the national supervisor has determined another method to ensure satisfactory retail diversification.

To retain the possibility that institutions which do not hold a granular enough retail portfolio can still apply the preferential risk weight, a diversification test is introduced that allows an objective quantitative assessment of no material correlation. The diversification test in its final, simplified version can be seen as a granularity test with additional flexibility, which does not impose significant additional burden on institutions, as it is based on already available information. In practice,

⁹ Except 1) transactor exposures, which are assigned a risk weight of 45% and 2) exposures due to loans granted by an institution to pensioners or employees with a permanent contract against the unconditional transfer of part of the borrower’s pension or salary to that institution, which are assigned a risk weight of 35% when meeting the conditions set out in Article 123(5) of the CRR (Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1, ELI: <http://data.europa.eu/eli/reg/2013/575/oj>).

institutions simply are to compare the share of their retail exposures that exceed the 0.2% granularity criterion to a pre-specified threshold.

Larger institutions can be in a better position to have less concentrated retail portfolios, in case retail exposures are a relevant part of the business activities of this institution, and in such case are expected to meet the 0.2% granularity criterion more easily compared with smaller institutions. Thus, diversification concerns are limited for larger retail portfolios, and the introduced measure is of particular relevance and provides flexibility for those institutions with retail portfolios with obligors for which the total amount owed by all these obligors or groups of connected clients to the institution, its parent and its subsidiaries (other than for RRE) is lower than EUR 500 million.

Policy objectives

The main objective of these guidelines is to provide harmonised guidance at European level for appropriate retail diversification methods that are required to fulfil the mandatory criterion for satisfactory diversification for an exposure to be granted a preferential risk weight treatment and ultimately achieving a level playing field across the EU. In particular, this instrument should retain the possibility also for institutions that are not holding a granular enough retail portfolio to apply the preferential retail risk weights to that part of the portfolio, which is sufficiently diversified.

Options considered

In preparing the present guidelines, the EBA considered two policy options:

- a. non-iterative process: Multiplying 0.2% by the sum of the exposure values of those exposures belonging to the original portfolio (i.e. to the portfolio without excluding any large) exposures);
- b. iterative process: Multiplying 0.2% by the sum of the exposure values of those exposures belonging to the final portfolio that is being assessed (i.e. the original portfolio after excluding any (large) exposures).

Assessment of the options and the preferred option(s)

Taking into account proportionality and ensuring strict prudential standards, the assessment considers (i) operational practicability, (ii) risk management incentives, and (iii) comparability across institutions.

Under option a., exposures exceeding the 0.2% granularity criterion are retained in the denominator. The removal of exposures that exceed the 0.2% granularity criterion from the portfolio therefore automatically leads to satisfactory diversification. By applying a non-iterative process, the granularity criterion is only verified once, which avoids circular calculations as the denominator always refers to the original portfolio from which no exposures have been removed.

- I. Concerning (i): this option can be considered as a proportionate and harmonised approach toward ensuring satisfactory retail diversification.
- II. Concerning (ii): from a risk management perspective, this approach could incentivise the construction of artificially large non-granular retail exposures that inflate the denominator as reference is only made to the original portfolio. While incentives for such practices could be limited to a certain extent as the institution would have to bear the cost of such artificial exposure inflation in terms of RWEA, these capital costs might, however, rather not be sufficient for discouraging this regulatory arbitrage, due to being relatively minor compared to the reduction in capital costs for the difference between a 100% risk weight and the preferential retail risk weight, in particular if unconditionally cancellable commitments with only 10% conversion factor are used for this purpose.
- III. Concerning (iii): from a comparability perspective, the approach would treat the same portfolios differently for different banks, depending on the existence of excluded exposures, as the reference is always to the original portfolio. While excluding large eligible retail exposures allows bank A to treat the whole remaining portfolio as sufficiently diversified, this remaining portfolio might be identical with the original portfolio of another bank B which, however, would need to exclude additional large eligible retail exposures under option a.

Under option b., exposures exceeding the 0.2% granularity criterion are removed from the denominator. Put differently, the denominator is updated to reflect removed exposures and exposures, which will belong to the eligible retail portfolio. The removal of exposures that exceed the 0.2% granularity criterion from the portfolio does not necessarily lead to satisfactory diversification for the remaining portfolio. For this reason (i.e. updating the denominator), the iterative nature of this option comes into play to determine the retail exposures that are eligible for the preferential risk weight. Generally, it should be noted that, by construction, the resulting granularity is systematically higher with this option than with option a., as the denominator becomes smaller due to the iterative process.

- I. Concerning (i): this option can also be considered as a proportionate and harmonized approach toward ensuring satisfactory retail diversification, but its implementation is more complex due to the iterative process. However, since this approach is also based solely on readily available information, the additional burden can be deemed relatively modest.
- II. Concerning (ii) and (iii): from a risk management and comparability perspective, this option does not incentivise an artificial inflation of exposures and treats the same portfolios equally as the denominator takes into account the excluded exposures.

Following also the feedback received during the consultation, the retained option is option a., as it provides a proportionate, operationally simple, and harmonised approach, while still ensuring satisfactory retail diversification with acceptable prudential safeguards for exposures to be granted a preferential risk weight of 75% as set out under Article 123(1) of the CRR.

Feedback on the public consultation

The EBA publicly consulted on the draft proposal contained in this paper. The consultation period lasted for three months and ended on 12 February 2025. Thirteen answers have been received on a non-confidential basis, which were published on the [EBA website](#), and one on a confidential basis.

This paper presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments and the actions taken to address them if deemed necessary.

In many cases several industry bodies made similar comments, or the same body repeated its comments in the response to different questions. In such cases, the comments and EBA analysis are included in the section of this paper where EBA considers them most appropriate.

Following the responses received during the public consultation, the draft has been revised to move from the iterative approach to the one-step approach, which is considered, among other things, simpler to implement. In addition, the threshold has been increased, from 5% to 10%, compared to the consultation phase, in order to alleviate the impact on small and medium-sized institutions.

Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
General comments			
Preferred methodology (iterative vs. one-step)	Respondents, particularly from small and medium-sized institutions, generally favoured the one-step approach due to its simplicity and lower operational burden. The iterative method was seen as overly complex, requiring multiple recalculations, and was considered disproportionately demanding for smaller entities. Many respondents also called for an increase in the threshold from 5% to 10% under the one-step approach, noting that the lower threshold could significantly hinder access to the preferential risk weight and negatively affect lending capacity, especially to SMEs. Some suggested alternative criteria, such as absolute thresholds (e.g. 1,000 retail loans) or qualitative measures, although these were not clearly defined.	Taking into account the feedback received during the public consultation, the EBA decided to accommodate the industry's requests to a certain extent by converging on the adoption of the one-step approach. This method was generally preferred by respondents, particularly small and medium-sized institutions, for its greater simplicity and operational ease compared to the iterative approach. To alleviate the capital impact on smaller institutions, the EBA decided to set the diversification threshold at 10%. This calibration strikes a balance between facilitating the implementation for institutions and preserving sufficient granularity in the retail portfolio to control concentration risk in line with prudential standards.	One-step approach with 10% threshold
Frequency, basis and level of calculation	Respondents questioned the need for quarterly testing, stating that it would impose	Despite industry concerns, the EBA supported maintaining the quarterly frequency, using	None

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	a heavy operational burden, especially when combined with the iterative approach. Thus, they propose limiting the calculation to year-end to reduce complexity. In addition, submitters suggest using the 'amount owed' instead of exposure at default (EAD) to assess portfolio diversification, aligning with Article 123(1)(b). Finally, submitters find dual assessment at both individual and consolidated levels is not only overly complex but also prone to inconsistencies. They recommend performing the test solely at consolidated level.	exposure at default (EAD) as the basis for calculation and performing the test both at individual and consolidated level. Regarding the industry requests for a reduction in frequency, the EBA recognised that regular quarterly calculations are important to ensuring ongoing portfolio granularity, especially in light of potential fluctuations in the composition of retail exposures throughout the year. Further, the EBA considers that using exposure at default (EAD) reflects the exposure value defined at facility level, in line with the Basel standards. Moreover, EBA does not consider the test to be particularly burdensome, as once it is implemented at IT level, it should not pose an issue to perform it at each reporting date alongside the RWA calculation. Finally, the policy decision regarding the level of calculation is grounded in the principles outlined in the CRR, which require own funds requirements to apply at both levels.	
Treatment of securitised exposures	One association raised the issue of how securitised exposures should be treated within the retail diversification test. They noted the difficulty of applying the test to securitisation	The EBA acknowledges the complexity of such cases and has made explicit the approach in the final Guidelines. In particular, the Guidelines require institutions to carry out the assessment	Treatment for securitised exposure made explicit

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	pools, particularly when banks act as investors or retain only a portion of the securitised loans.	of the diversification condition separately for three sub-portfolios: • First, for the sub-portfolio consisting of non-securitised exposures, the numerator and denominator should include only non-securitised eligible retail exposures. • Second, for securitised exposures where the institution acts as originator, the numerator and denominator should include both those securitised exposures and all non-securitised eligible retail exposures. • Third, for securitised exposures where the institution acts as investor, the numerator and denominator should include only the underlying securitised exposures. Finally, to accommodate operational limitations, an alternative provision is introduced for securitised exposures where institutions act as investors. In such cases, the diversification	

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		assessment is deemed to be fulfilled when the securitisation positions are backed by underlying exposures for which information on the obligor and on the exposure value is not available in the templates referred to in Article 7 of Regulation (EU) 2017/2402, in line with the due diligence and transparency requirements set out in Articles 5 and 7 of that Regulation. This derogation applies only for as long as the templates mandated under Article 7(4) of Regulation (EU) 2017/2402 do not include such information.	
Responses to questions in Consultation Paper EBA/CP /2024/22			
Question 1. What is the percentage of exposures within your retail portfolio that are part of a group of connected clients?	Only two associations provide data.	-	

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Question 2. Do you identify any implementation issue in implementing the diversification method?	Most associations highlighted that the proposed diversification method is particularly burdensome.	Refer to the EBA analysis in the 'General Comment' section.	
Question 3. Which methods do you currently use to assess retail diversification? Please elaborate.	The majority of medium-large banks use the 0.2% criterion, a quantitative measure, while small banks, in particular, mainly use qualitative criteria. The qualitative criteria were not further specified.	Refer to the EBA analysis in the 'General Comment' section.	
Question 4. 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?	Only four institutions provide data.		
Question 5. What is the impact of the proposed	It was highlighted that the proposed diversification tests could disproportionately		

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
diversification assessment set out in these Guidelines compared to the diversification assessment that you currently perform on your retail portfolio?	penalise smaller banks, increasing their capital requirements and potentially reducing their ability to offer credit. Only three institutions provide supporting data.		