

Regulatory Blog

By PwC Deutschland | 24 February 2026

New EBA Guidelines: Simplified Retail Diversification Methods for Preferential Risk Weights

Final Report on Guidelines on proportionate retail diversification methods (EBA/GL/2026/02)

Content

Introduction	3
Background: Why Retail Diversification?	3
Key Features of the Consultation Paper	3
Feedback from Consultation	3
The Final Report: Key Changes and Rationale	4
Practical Example: Portfolio Calculation	4
Summary: Key Differences	5
Conclusion: What does this mean for Institutions?	5

Introduction

With the publication of the Final Report on Guidelines on proportionate retail diversification methods ([EBA/GL/2026/02](#)), the European Banking Authority (EBA) has concluded its consultation process and finalized the Report on Guidelines for the assessment of retail portfolio diversification under Article 123(1) of the Capital Requirements Regulation (CRR). This Blog provides a structured comparison between the initial **Consultation Paper** and the Final Report, highlighting key changes, the rationale for adjustments, and the implications for institutions.

Background: Why Retail Diversification?

Under the Basel III framework and CRR, exposures in the retail exposure class can benefit from a preferential risk weight of 75%, but only if they are part of a sufficiently diversified portfolio. The EBA's mandate was to specify proportionate methods for this diversification test, especially to accommodate smaller institutions that might not meet the strict Basel granularity criterion (no exposure to any single counterparty >0.2% of the portfolio).

Key Features of the Consultation Paper

1. Iterative Diversification Test

The Consultation Paper proposed an iterative approach: Institutions would repeatedly exclude those exposures above 0.2% of the portfolio and recalculate the test until the remaining portfolio met the diversification threshold.

The threshold was set to ensure that exposures exceeding the 0.2% limit make up no more than 10% of the portfolio's total exposure value. An alternative one-step approach was also discussed, with a stricter 5% threshold, but this was not the preferred option at the time.

2. Proportionality

The approach aimed to ensure that smaller institutions, with less granular portfolios, could still access preferential risk weights if they met objective, proportionate criteria.

3. Collateralized Exposures

The Consultation Paper outlined that exposures secured by mortgages, if risk-weighted as retail, should also be included in the diversification test.

Feedback from Consultation

Industry feedback (especially from small and medium-sized institutions) was clear: the iterative approach was perceived as overly complex and operationally burdensome, particularly due to the need for repeated recalculation and quarterly testing.

Respondents strongly preferred the one-step approach and advocated for raising the threshold from 5% to 10% to better reflect the realities faced by smaller banks.

The Final Report: Key Changes and Rationale

1. Adoption of the One-Step Approach

The EBA responded to the feedback received by replacing the iterative approach with the one-step method. Now, the calculation is performed in one step, using the overall portfolio (before any exclusions), which greatly simplifies the process.

The threshold for large eligible retail exposures was increased to 10% (from the 5% discussed for the alternative in the Consultation Paper), making it less restrictive for smaller institutions.

2. Simplified Calculation

Large eligible retail exposures are now defined as those exceeding 0.2% of the total eligible portfolio. The test is passed if the sum of all such exposures does not exceed 10% of the total portfolio value.

If the portfolio fails the test, exposures above the threshold can be excluded from the preferential risk-weighted portfolio; the remaining portfolio is then assessed.

3. Securitised Exposures: Clearer Guidance

In case of retail loans underlying a securitization, the final guidelines clarify that the diversification test must be performed separately for the sub-portfolios:

- Non-securitised exposures,
- Securitised exposures where the institution is the originator (including both securitised and non-securitised exposures),
- Securitised exposures where the institution acts as investor (based only on the underlying securitised exposures).

Practical Example: Portfolio Calculation

Subset	Number of Exposures	Exposure Value (each)	Total Value
A	360	10 €	3.600 €
B	500	20 €	10.000 €
C	10	40 €	400 €

D	50	200 €	10.000 €
Total	920	/	24.000 €

- The 0.2% threshold is €48 (0.2% of €24,000).
- Only exposures in subset D exceed this threshold.
- Up to €2,400 (10% of €24,000) in subset D can be retained for diversification; the remaining must be excluded from the preferential portfolio.

Summary: Key Differences

Topic	Consultation Paper	Final Report
Method	Iterative (multi-step recalculation)	One-step (single calculation)
Threshold	10 % (iterative), 5 % (alternative one-step)	10 % (one-step, final)
Securitised exposures	General mention	Three distinct sub-portfolios
Operational complexity	High (iterative)	Lower (one-step)

Conclusion: What does this mean for Institutions?

- The EBA's final guidelines are **simpler and more proportionate** than the initial proposal, directly responding to industry concerns.
- The **one-step, 10% threshold** method reduces operational burden and increases accessibility to preferential risk weights, especially for smaller and medium-sized institutions.
- The guidelines maintain robust prudential safeguards against concentration risk, ensuring harmonisation across the EU.
- Institutions should review their retail portfolios and update internal processes to align with the new, streamlined requirements.

Do you have questions about the new EBA Guidelines on retail diversification or want to discuss the implications for your institution? Feel free to reach out — our regulatory experts are ready to support you with practical insights and tailored guidance!

Get ongoing updates on the topic via regulatory horizon scanning in our research application, PwC Plus. Read more about the opportunities and offerings [here](#).

To further PwC Blogs

Keywords

Bankenaufsicht (Europäische und Internationale Organisationen), Capital Requirements Regulation (CRR

III), Credit Risk, Securitisation / Verbriefung

Contact



Martin Neisen

Frankfurt am Main

martin.neisen@pwc.com



Christoph Himmelmann

Frankfurt am Main

christoph.himmelmann@pwc.com