# Single Rulebook Q&A

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| **Question ID** | 2013_464 |
| **Status** | Final Q&A |
| **Legal act** | Regulation (EU) No 575/2013 (CRR) |
| **Topic** | Credit risk |
| **Article** | 384 |
| **Paragraph** | 1 |
| **Subparagraph** | n/a |
| **COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations** | Not applicable |
| **Article/Paragraph** | n/a |
| **Date of submission** | 31/10/2013 |
| **Published as Final Q&A** | 16/05/2014 |
| **Disclose name of institution / entity** | Yes |
| **Name of institution / submitter** | British Bankers' Association |
| **Country of incorporation / residence** | UK |
| **Type of submitter** | Industry association |
| **Subject matter** | Standardised Method |
| **Question** | If the derivative exposure is guaranteed, can the weight be determined based on guarantor's rating instead of counterparty's rating, i.e. do we use the counterparty's credit rating or the guarantor's rating? |
| **Background on the question** | Illustrative example: Credit institution 'A' trades with the fully owned subsidiary of credit institution 'B'. The subsidiary does not have an external credit rating and its internal credit rating is lower than that of 'B'. Credit institution 'B' provides guarantee to its subsidiary. If 'A' wants to hedge its exposure to the subsidiary of 'B', it should buy CDS protection on 'B' (since subsidiary is guaranteed by credit institution 'B'). When 'A' calculates CVA capital charge for its exposure to the subsidiary of 'B' under the standardised approach, it should use the credit rating of 'B'. Is it correct to determine the weight based on credit rating of 'B' rather than 'B''s subsidiary? |

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| **Final answer** | In accordance with Article 384 of Regulation (EU) No.575/2013 (CRR), if a credit assessment by a nominated ECAI for credit institution 'B''s subsidiary is not available, and if credit institution 'A' uses the Standardised Approach for calculating capital requirements for credit risk, it shall assign a weight of $w_i$=1% to the credit institution 'B''s subsidiary, or, if credit institution 'A' uses Article 128 of the CRR to risk weight counterparty credit risk exposures to the credit institution 'B''s subsidiary, a weight of $w_i$ =3% shall be assigned.<br><br>If a credit assessment by a nominated ECAI for credit institution 'B''s subsidiary is not available, and if credit institution 'A' uses the IRB Approach for calculating capital requirements for credit risk, it shall map the internal rating of credit institution 'B''s subsidiary to one of the external credit assessments, which shall be mapped to one of the six weights $w_i$ as set out in Table 1 of Article 384 of the CRR. |
| **Link** | https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_464 |

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