

<b>Question ID</b>	2017_3581
<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) No 575/2013 (CRR)
<b>Topic</b>	Credit risk
<b>Article</b>	201
<b>Paragraph</b>	2
<b>Subparagraph</b>	-
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Not applicable
<b>Article/Paragraph</b>	N/A
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<b>Disclose name of institution / entity</b>	No
<b>Type of submitter</b>	Credit institution
<b>Subject matter</b>	Eligibility of Sovereign Guarantee for which Permanent Partial Use Applies against IRB Exposure
<b>Question</b>	<p>When an institution has received permission for permanent partial use of the Standardised Approach for its home sovereign exposures under Article 150 (d) CRR2, does this violate the stipulation under Article 201(2) CRR2 that a guarantor must be internally rated by the institution where the institution uses the IRB Approach?</p> <p>If it is an eligible guarantee, should the guaranteed portion be risk weighted as a Standardised exposure?</p>
<b>Background on the question</b>	<p>The bank has received a proposal from a State guaranteed entity to partially guarantee some business loans. The guarantee would be eligible as Sovereign protection under Article 214 CRR. These exposures would be treated as IRB exposures by the Bank prior to the guarantee, and the unguaranteed portion would continue to be treated as IRB. The bank applies the permanent partial use of the Standardised Approach for its home sovereign exposures under Article 150 (d). The Bank continues to grade the home sovereign using its IRB approved Sovereign model, but treats the exposure as Standardised for COREP purposes. Article 201 (2) says that</p>

where the institution uses the IRB Approach without own estimates of LGD and CF, a guarantor must be internally rated by the institution in accordance with the provisions of the IRB Approach. Under these circumstances, it is unclear whether the Sovereign guarantee can be treated as eligible and if so whether the guaranteed portion should be treated as Standardised or IRB if it is eligible.

**EBA answer**

If the institutions have received permission to use of the Standardised Approach for exposures to the guarantor pursuant to Articles 148 and 150 of Regulation (EU) No 575/2013 as amended (CRR) , including the ones meeting the conditions set out in Article 214 CRR, they may recognise the effect of the guarantee by applying the provisions of Chapter 4 that are applicable for the Standardised Approach and which, therefore, exclude the requirements of Article 201(2) of the CRR to have a guarantor internally rated by the institution.

In accordance with Article 108(2) CRR, institutions may use credit risk mitigation in accordance with Part Three, Title II, Chapter 3 of the CRR for exposures to which institutions apply the IRB Approach by using their own estimates of LGD and conversion factors. Article 183(4) CRR clarifies that where the institution has received permission to apply the Standardised Approach for exposures to the guarantor pursuant to Articles 148 and 150, institutions may recognise the unfunded credit protection (UFCP) in accordance with the requirements of Chapter 4 (the risk-weighted exposure amounts of the guaranteed part of the exposure are calculated based on the Standardised Approach).

In accordance with Article 108(1) CRR, institutions may use credit risk mitigation in accordance with Part Three, Title II, Chapter 4 of the CRR for exposures to which institutions apply the IRB Approach without using their own estimates of LGD and conversion factors or apply the Standardised Approach. In accordance with the first subparagraph of Article 201(2) CRR, a guarantor shall be internally rated by the institution in accordance with the provisions set out in Section 6 of Part Three, Title II, Chapter 3 of the CRR to be eligible as a provider of unfunded credit protection where institutions calculate risk-weighted exposures amounts and expected loss amounts under the IRB Approach for the portion of an exposure that is covered by such unfunded credit protection.

Where the institutions have received permission for permanent partial use of the Standardised Approach in line with Article 150(1) CRR for exposures to a counterparty, including the ones meeting the conditions set out in Article 214 CRR, and that counterparty is a protection provider for an exposure subject to the IRB Approach without the use of own LGD estimates and conversion factors, for the guaranteed part of the exposure, institutions may recognise the unfunded credit protection in accordance with the requirements of Chapter 4 as applicable under the Standardised Approach.

	<p>This follows from the first subparagraph of Article 201(2) CRR.</p> <p>Therefore, in this case, the provisions in Chapter 4 that are applicable to the Standardised Approach should be applied to the guaranteed part of the exposure while the unguaranteed part of the exposure should be risk-weighted in accordance with provisions laid down in Chapter 3.</p>
<b>Link</b>	<p><a href="https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2017_3581">https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2017_3581</a></p>

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