Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Leverage ratio
Article	429 and 429a
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Delegated Regulation (EU) 2015/62 - DR with regard to the leverage ratio
Article/Paragraph	1(2)
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Disclose name of institution / entity	No
Type of submitter	Competent authority
Subject matter	Leverage Ratio treatment of intragroup exposures
Question	Can an institution that uses the IRB approach for determining the risk weights for its exposures within the risk based framework apply for the exemption embedded in Article 429(7) CRR - as amended by Regulation 2015/62 - for the relevant intragroup exposures which are risk weighted under the IRB approach?
Background on the question	In the CRR framework, it is not fully clear whether institutions which determine the risk weights for their exposures according to the IRB

	approach can apply for the exemption embedded in Article 429(7) CRR, as amended by Regulation 2015/62, even though these institutions have no permission according to Article 113(6) CRR which covers these exposures and allows the institutions to use a 0% risk weight for those (since Article 113 (6) is only relevant for institutions using the Standardized Approach for determining the risk weights for their exposures).On one hand, the literal reading of Article 429(7) CRR, as amended by Regulation 2015/62, seems to explicitly require that an Article 113(6) CRR permission has been granted as a separate condition for the eligibility of those intra-group exposures for the leverage ratio exemption. If this is the case, the exemption under Article 429 (7) CRR, as amended by Regulation 2015/62, is only available for institutions using the standardised approach either in general or (based on a permanent partial use permission) for the relevant (intragroup) exposures. As IRB banks have the explicit possibility to "bring back" on the Standardised Approach (SA) several portfolios, including intragroup exposures, they would still have access to the waiver under Article 429(7) CRR, as amended by Regulation 2015/62, but only if they first obtain a permission for permanent partial use for intragroup exposures pursuant to Article 150(1)(e) of the CRR, then ask for a 0% risk weight permission under Article 113(6) CRR in order to obtain, in the end, a permission under Article 429(7) CRR, as amended by Regulation 2015/62, to exclude from the exposure measure for the calculation of the leverage ratio at the solo level those intra-group exposures. This solution however appears prudentially counter-intuitive.On other hand, taking into account the fundamental principles and objective of the leverage ratio as a prudential metric, the formal lack of a permission according to Article 113(6) CRR should not preclude granting the exemption according in Article 429(7) CRR, as amended by Regulation 2015/62, for cases where the risk weights for the relevant exposures are calculated according to the IRB approach, as long as all conditions set out in points (a) to (e) of Article 113(6) CRR are fulfilled. There is no compelling prudential reason, taking into account the above mentioned principles, to differentiate among banks which use the IRB approach and banks which use the Standardised Approach as far as this particular exemption is concerned.Finally, please note that we think the issue remains relevant also with CRR given the construction of the new Article 429a(1)(c).
EBA answer	According to Article 429(7) of Regulation (EU) No 575/2013 (CRR) - in the wording introduced by Commission Delegated Regulation (EU) 2015/62 but before being amended by Regulation (EU) 2019/876 - competent authorities may permit institutions to not include in the exposure measure exposures that benefit from the treatment laid down in Article 113(6) CRR. As Article 113 CRR belongs to Part three, Title II, Chapter 2 that refers to the standardised approach for credit risk, it does not include any provisions regarding a preferential treatment of exposures under the IRB approach. Consequently, according to Article 429(7) CRR in conjunction with Article 113(6) CRR competent authorities may only permit institutions to exclude

	exposures to a counterparty which is its parent undertaking, its subsidiary, a subsidiary of its parent undertaking or an undertaking linked by a relationship within the meaning of Article 12(1) of Directive 83/349/EEC from the exposure measure, if the exposures are treated under the standardised approach. More specifically, Article 429(7) CRR does not cover a situation, where a competent authority grants permission to an institution to exclude exposures to a counterparty which is its parent undertaking, its subsidiary, a subsidiary of its parent undertaking or an undertaking linked by a relationship within the meaning of Article 12(1) of Directive 83/349/EEC from the exposure measure in cases where these exposures are treated under the IRB approach. In this case, according to Article 429(7) CRR competent authorities may only permit the exclusion of exposures if they are subject to the partial use according to Article 150(1)(e) CRR and are thus treated under the standardised approach, given that they also qualify for the treatment pursuant to Article 113(6) CRR. An exclusion of exposures that are treated under the IRB approach but comply with the conditions set out in points (a) to (e) of Article 113(6) CRR is not possible and more specifically is not in line with the provision that a permission further to Article 113(6) is to be granted as a separate condition for the eligibility of those intra-group exposures for the leverage ratio exemption. The aforementioned clarification refers to the wording of Regulation (EU) No 575/2013 (CRR) as amended by Commission Delegated Regulation (EU) 2015/62 but it applies accordingly also to Article 429a(1)(c) of Regulation (EU) No. 575/2013 as amended by Regulation (EU) 2019/876 (CRR), which shall apply from 28 June 2021.
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