[](http://www.google.co.uk/url?sa=i&source=images&cd=&cad=rja&docid=oJTsgfmpBUSx-M&tbnid=9S2RgW491nPd4M:&ved=0CAgQjRwwAA&url=http://www.ey.com/&ei=hCoWUovfM-LN7Aba44GoBg&psig=AFQjCNFPHRePQhqWj2MYPCkAKRKGFa0RTw&ust=1377270788911516)

MHF

4 February 2015

EY France welcomes the opportunity to ask a question regarding the EBA’s Consultation Paper on the specification of the assessment methodology for competent authorities regarding compliance of an institution with the requirements to use the IRB Approach in accordance with Articles 144(2), 173(3) and 180(3)(b) of Regulation (EU) No 575/2013.

From article **60 of EBA/CP/14/36 §(e)**, i.e. the institution applies the IRB method either IRBF or IRBA (to use “Basle 2 language”), we understand that :

* When a guarantor is internally rated,  the guarantee meets the requirement specified in article 183 1 (c),
* When the guarantor is in the standardized method (permanently or during the roll-out period), the guarantor is classified according to the standardized exposures classes, and it must meet the requirements applicable to the standardized approach.

**This article seems very clear to us.**

But the box below this article seems less clear.

According to article 183 - 4, knowing that the institution applies the IRBA method (effect of guarantees on LGD own estimates), if the guarantor is in standardized method, it applies the requirements of article chapter 4 on CRM: this seems very clear.

The text points out the fact that this may be in contradiction with article 201 – 2 which asks for an internal rating for the guarantor (which is not the case when the guarantor is in the standardized method).

*Article 201 – 2*

*Where institutions calculate risk-weighted exposure amounts and expected loss amounts under the IRB Approach, to be eligible as a provider of unfunded credit protection a guarantor shall be internally rated by the institution in accordance with the provisions of Section 6 of Chapter 3*.

By comparison, we can refer to the Basel text:

*Treatment of guarantees and credit derivatives*

*(…)*

*Recognition under the foundation approach*

*302. For banks using the foundation approach for LGD, the approach to guarantees and credit derivatives closely follows the treatment under the standardised approach as specified in paragraphs 189 to 201. The range of eligible guarantors is the same as under the standardised approach except that companies that are internally rated and associated with a PD equivalent to A- or better may also be recognised under the foundation approach. To receive recognition, the requirements outlined in paragraphs 189 to 194 must be met.*

In that case, to be eligible the guarantor must be either externally rated or internally rated (equivalent or above A-).

* Why does the CRR require only an internal rating?

Moreover, we don’t understand these sentences:

1. “If it is assumed that under article 183 - 4, the effect of a funded guarantee will be reflected in the LGD of the exposure whereas under article 201, the effect of the unfunded guarantee will be reflected in the PD estimate of the guaranteed exposure”.

* Does “funded guarantee” mean funded credit protection? We  had understood that the guarantees referred to in article 183 – 4 were unfunded credit protections and not funded credit protections.
* Why does the effect of the unfunded guarantee have to be taken into account in the PD instead of the LGD?

1. “In the case of article 183 – 4 for funded guarantees or credit derivatives, only the requirements of the standardized approach should be met.”

* The same question as above: why a reference to “funded guarantees or credit derivatives”? We would have expected to have a reference to unfunded credit protection and credit derivatives.

Thank you very much for taking into consideration our questions.

Yours faithfully