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Response to the EBA consultation on draft RTS on the permanent and temporary uses of the IRB approach

ESBG welcomes the opportunity to react to the consultation launched by the EBA on draft regulatory technical standards specifying the conditions for the permanent and temporary uses of the Standardised Approach (SA) by institutions that have received permission to use the Internal Ratings Based (IRB) Approach aimed at establishing a set of criteria that institutions using the IRB approach should fulfil when they apply the Standardised Approach for the calculation of their capital requirements for credit risk, on a temporary or permanent basis respectively (EBA/CP/2014/10).

The responses to the questions submitted with the consultation paper are as follows:

Q3: Do you agree with the proposed draft RTS regarding permanent partial use of the SA for the exposures specified in Article 150(1)(c) of the CRR? Which of the two alternative proposals presented in the impact assessment section under 'Technical options considered' do you prefer?

Concerning the ceiling proposed in Article 3 ESBG takes the view that the maximum ratio should reflect the share of exposures an institution is not treating with internal rating systems in those exposures for which the capital requirements can, in principle, be calculated using internal rating systems. In most cases it is therefore correct to look at the share of "relevant exposures" treated under the Standardized Approach in all "relevant exposures".

Regarding the definition of "relevant exposures" ESBG nevertheless thinks that certain adjustments should be made in order to capture the share of exposures not treated with internal rating systems correctly and to provide incentives to treat as many portfolios as possible under with internal rating system.

It is, in principle, adequate not to count exposures to institutions belonging to the same group or institutional protection scheme among the "relevant exposures" if an institution has exempted these exposures from the IRBA according to Art. 150 (1) (e) or (f). However, banks often apply to these exposures internal rating systems for which they have obtained supervisory approval. So they are in a position to calculate the risk weighted exposure amounts for these exposures according to the IRBA. They, however, do not use these RWA for the calculation of capital requirements because the treatment under the Standardized Approach (no RWA) better reflects the true amount of risk involved in these exposures. Because of the minimum PD of 0.03% and a supervisory LGD of 45% they would have to apply a risk weight of approximately 15%. In order to honour the use of such

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supervisory approved ratings systems it should be allowed to count these exposures among the relevant IRBA exposures.

For securitizations, capital requirements are usually not calculated using internal rating systems. Except for the Internal Assessment Approach (IAA) the differentiation between Standardized Approach and IRBA exposures is based on the approach that is used for the predominant part of the securitised exposures (Art. 109 CRR). Ironically enough, in either approach risk weights for securitisation exposures will in most cases be determined using external ratings. For this reason the use of Standardized Approach exposures in the numerator of the maximum ratio is not a reliable indicator for the share of securitisations an institution treats with internal rating systems. Therefore securitisations should be exempted from the "relevant exposures" altogether.

Expiring business units, i. e. business units where no new loans are extended, should be exempted from the "relevant exposures" as well. From our point of view it would be completely disproportionate if internal rating systems would have to be developed for these units. At least those units should be exempted where no new business is done after the implementation of the CRR.

Q4: Do you agree with the quantitative thresholds proposed in Articles 2(1), 3 and 4(2) of these draft RTS? If not, what thresholds do you consider more suitable?

In line with article 2 (1), the number of material counterparties in an exposure class is deemed to be limited if 3 conditions (a, b and c) are met. For exposures on 'central governments and central banks' this might lead to a situation in which a small number of significant counterparties with a zero risk-weight (i.e. conditions b and c being met) should be treated under IRB as the total exposure might exceed 8% of the total relevant EAD (condition (a) not being met). ESBG would be in favour of an exception to this rule if this exposure on 'central governments and central banks' existed out of exposure on central EU/eurozone governments.