Single Rulebook Q&A

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Legal act	Regulation (EU) No 575/2013 (CRR) as amended
Topic	Supervisory reporting
Article	99
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) No 680/2014 - ITS on supervisory reporting of institutions (as amended)
Article/Paragraph	99
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Disclose name of institution / entity	Yes
Name of institution / submitter	SAS R&D
Country of incorporation / residence	United States
Type of submitter	Consultancy firm
Subject matter	Substitution approach for exposure and guarantor under different approaches
Question	In case a bank has both SA and IRB positions is it possible to apply the substitution approach when the exposure and the guarantor are treated by the institution under different approaches? In this sense, can the substitution approach be applied if the exposure is under the IRB approach and the guarantor under the SA? If so, for the reporting purposes, 1) Can Inflow arise on CR-IRB columns from CR-SA (outflow) columns? 2) How CRMs under IRB approach are reported when related exposure is reported on CR-SA?
Background on the question	Our question steams from the reporting of the inflows and outflow connected to the use of CRM. In particular, if a bank has both (SA and IRB) types of positions, SA positions are reported according to the SA exposure classes and the SA templates, while IRB positions have to be reported

	according to the IRB exposure classes and templates. The columns of outflows and inflows thus belong to different templates, depending on the approach of the position used for the position. If for instance exposure is under the SA and the guarantor is under the IRB, part of the amounts reported in the outflows column in the IRB template would correspond to inflows columns in the SA template (or the other way round with an opposite example), but this “mismatch” in case of “cross approach” CRM would not be highlighted anywhere in the templates.
EBA answer	In case a bank has both SA and IRB positions it is possible to apply the substitution approach when the exposure and the guarantor are treated by the institution under different approaches. If the exposure is under the F-IRB approach and the guarantor under the SA the substitution approach may be applied pursuant to Article 108(1) and Article 235 CRR; if the exposure is under A-IRB approach and the guarantor under the SA the substitution approach can be applied in accordance to Article 108(2) and Article 183(4) CRR. The reporting of CRM techniques with substitution effect is explained in section 3.1.1 of Annex II to Regulation (EU) No 680/2014 (ITS on Supervisory Reporting). If a bank applies the IRB and an IRB exposure guaranteed by a guarantor that is under the SA and they apply the substitution approach at the level of the exposure, this guarantee is shown in the column outflows (070) and also included in the column original exposure amount pre conversion factor (020) of templates C 08.01 and C 08.02 (see Annex II, Part 2, sections 3.3.3.1 and 3.3.4, columns 070-080). The corresponding inflow is reported in the columns inflow (100) of template C 07.00. In the breakdown by obligor grades or pools (C 08.02 Template), the exposure is broken down according to the PD of the obligor in columns 020 and 030, before the application of the substitution approach. From column 070 (outflows) onwards it is broken down according to the PD of the obligor taking into account the effect of the guarantee (if applicable).
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