Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/876 (CRR2)
Topic	Large exposures
Article	400, 213
Paragraph	1, 1
Subparagraph	d, b
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	n.a.
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Disclose name of institution / entity	Yes
Name of institution / submitter	ACPR
Country of incorporation / residence	France
Type of submitter	Competent authority
Subject matter	Recognition for large exposure purposes of a guarantee granted by the central government on an equity exposure
Question	Can an equity exposure guaranteed by a central government be exempted from the large exposure framework or can only debt instruments be exempted? In particular, would such guarantees be compliant with the eligibility requirement set in Article 213(1)(b) CRR?
Background on the question	This question seeks to clarify if the large exposure framework allows the recognition of the effects of guarantees on equity exposures or if this framework limits the recognition of guarantees to debt instruments. It would be useful to clarify whether equity exposures can benefit from guarantees as defined under Articles 400(1)(d) and 399(2) CRR, or if the nature of such instruments prevents them from benefiting from this

	framework in the context of the large exposure framework. If the guarantee is provided by a central government, its recognition could result in the guaranteed exposures being exempted from the large exposure framework according to Article 400(1)(d) CRR. According to Article 400(1)(d), “exposures” guaranteed by central governments, central banks, international organisations, multilateral development banks or public sector entities shall be exempted from the large exposure regime when these entities receive a 0% risk-weight. The general term ‘exposures’ used in this article covers equity exposures and allows them in principle to be exempted if all the existing eligibility requirements are met. Indeed, in order to be eligible and to benefit from the treatments of Article 400(1), guarantees have to comply with the eligibility requirements and other requirements set out in Part Three, Title II, Chapter 4, according to Article 399(2). When considering these requirements, and in particular Article 215, some of them seem to be tailored for debt instruments: in particular, the provisions of Article 215(1)(c)(i) uses the term “claim”. It would be useful to clarify the scope of this notion. Considering that the Article 133 of the CRR defines “equity exposures” as “non-debt exposures conveying a subordinated, residual claim on the assets or income of the issuer” it could be understood that guarantees covering equity exposures are considered as “eligible unfunded credit protection”, if all other eligibility criteria are met.
EBA answer	Article 399 of Regulation (EU) No 575/2013, by making reference to the provisions of Part 3, Title II, Chapter 4, clarifies that to be eligible a guarantee shall comply, inter alia, with the common requirements to guarantees and credit derivatives of Article 213 CRR, and the additional requirements for guarantees of Article 215 CRR. Similarly, under Article 399 of Regulation (EU) No 575/2013, as amended by Regulation (EU) 2019/876 (CRR2) and applicable from 28 June 2021, the recognition of funded or unfunded credit protection is permitted, where that credit risk mitigation technique has been used to calculate capital requirements for credit risk and subject to compliance with the eligibility requirements and other requirements set out in Part Three, Title II. With specific regard to equity exposures, a guarantee could, in case of the qualifying default of the issuer, cover for instance the initial amount of the investment, the nominal amount of the instrument, its market value - at the moment of default or at a different point in time -, or the claim that the equity holder has towards the issuer. Consequently, the value of unfunded credit protection, calculated according to Article 233 CRR, could be greater than zero. That would for example be the case when a guarantee refers to a determined payment amount, such as the initial or the nominal amount of investment or the value of subordinated debt instruments subject to amortisation, rather than to the sole value of the equity position at default or the residual claim. In any case, this amount

	has to be clearly defined and incontrovertible as required by Article 213(1)(b) CRR. Exposures guaranteed by central governments, central banks, international organisations, multilateral development banks or public sector entities, where unsecured claims on the central government would be assigned a 0% risk weight according to the provisions on the Standardised Approach for credit risk, are exempted from the large exposures limits, pursuant to Article 400(1)(d) CRR. Therefore, as long as the guarantee meets the requirements for unfunded credit protection according to Article 399 CRR, equity exposures would fall under such exemption.
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