

Content of question:

Is the list of recognised unfunded protection providers stated in Annex 15, B, c) relevant also to liable entities applying the AIRB Approach?

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Approved by: **Pavel Vacek**

Date: **18 August 2008**

Piece of law	Decree No. 123/2007 Coll.
Provision	Annex 15, B, c)
Explanation	<p>When the Standardised Approach or the FIRB Approach is applied the protection provider (hereinafter the "provider") must satisfy the requirements stated in Annex 15 to the Decree, which include a list of recognised providers. For providers – "other legal persons" – these requirements include conditions regarding their rating. For the purpose of applying the double default treatment within the IRB Approach the requirements on the provider are laid down in Annex 15, B, f) to the Decree in more detail.</p> <p>When the AIRB Approach is applied the establishment of specific criteria for assessing providers remains up to the liable entity to a certain degree. This is also endorsed by the provision of point 98 of Part 4 of Annex VII to the Directive, which is transposed into Annex 10, B, q), 1 to the Decree, which states that the liable entity shall have clearly specified criteria regarding the providers which it recognises in its calculation of the risk-weighted exposure amounts. However, the provider must be able to cover the liability of the obligor at any time the obligor defaults on the payment of any amount and the conditions imposed on guarantees stated in Annex 10, B, q) and possibly in other relevant provisions must be met as well.</p> <p>The approaches regarding the use of credit risk mitigation techniques are assessed by the relevant competent authority during the assessment of an application for the approval of the IRB Approach (as part of the so-called validation). That is to say, credit risk mitigation would become reflected in some of the risk parameters (PD, LGD, CCF), while the liable entity demonstrates on the basis of relevant data, as part of the validation process, that the estimates of risk parameters (including a proper margin of conservatism) are convincing and credible and that the estimates appropriately reflect relevant loan granting procedures and recovery procedures applied by the liable entity. The criteria and the way of assessing providers can be further examined during CNB on-site inspections where the liable entity is supposed to be able to demonstrate that the basic prerequisites and eligibility conditions stated in Article 103 of the Decree are met.</p> <p>On the whole, it can be said that as long as the liable entity uses, in the application of the AIRB Approach, a scope of credit risk mitigation</p>

	<p>techniques that satisfy the general conditions for credit risk mitigation and are listed in Annex 15 as eligible for all approaches, or for the IRB Approach, these credit risk mitigation techniques will be accepted for regulatory purposes. However, any "extended" scope of credit list mitigation techniques exceeding these lists would need to be approved by the relevant competent authority as part of the IRB Approach approval.</p>
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