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2017_3375

### Status
Final Q&A

### Legal act
Regulation (EU) No 575/2013 (CRR) as amended

### Topic
Credit risk

### Article
220

### Paragraph
- 

### Subparagraph
- 

### COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations
Not applicable

### Article/Paragraph
- 

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### Disclose name of institution / entity
No

### Type of submitter
Credit institution

### Subject matter
Use of Maturity Mismatch for Exposures arising under Master Netting Agreements

### Question
Do the requirements to adjust the value of collateral for maturity mismatch (Article 239) apply when using the supervisory volatility adjustments approach for Master Netting Agreements under Article 220?

### Background on the question
Master Netting Agreements (MNAs) for repurchase, securities or commodities borrowing / lending and margin lending transactions which meet the conditions in Article 206 result in a single close-out amount upon counterparty default. Therefore, it could be taken that a maturity mismatch adjustment for the collateral value under Article 220 is not necessary because any default by the counterparty would immediately see the termination under the MNA of any longer term exposures (e.g. margin loans extended for a given period, typically less than one year) that would otherwise lead to a maturity mismatch haircut being applied to the collateral (e.g. long security positions or overnight cash deposits in the same prime brokerage account). Note, that since these agreements are not secured lending transactions, per Article 192 (2), they do convey the right to receive margin at least daily. When considering the future exposure that a bank might be exposed to under MNAs, the right to...
receive margin at least daily, along with applying the volatility adjustments from Article 224 or an approved own estimates of volatility adjustments permission, protects the bank from having insufficient collateral relative to the exposure at any future point in time such that an additional haircut to reflect any maturity mismatch would be similarly unwarranted. While the same considerations as above can be made in relation to the application of Article 223, sub-paragraph 5 of Article 223 requires that the collateral value be further adjusted in accordance with Section 5, Maturity mismatches. Therefore, the Level 1 text forces banks to apply maturity mismatch adjustments to collateral values when using the Financial Collateral Comprehensive Method to calculate exposure at default. There is no equivalent Level 1 instruction in relation to the application of Article 220 for MNAs. This distinction between the approaches in Article 220 and Article 223 is justifiable because exposure and credit protection which fall under Article 223 would not be held under a master netting agreement that meets the conditions in Article 206.

**EBA answer**

Institutions using the Supervisory Volatility Adjustment Approach or the Own Estimates Volatility Adjustments Approach for master netting agreements (MNAs) do not have to take into account the requirements of Section 5 of Chapter 4 of Regulation (EU) No 575/2013 (CRR) as amended when calculating the 'fully adjusted exposure value' (E*).

As set out in Article 196 CRR, MNAs may be taken into account as credit risk mitigation by institutions adopting the Financial Collateral Comprehensive Method (FCCM) set out in Article 223 CRR. Article 220 CRR further specifies how the calculation of the effects of this mitigation shall be performed in such cases.

Article 220(1) CRR specifies however that the ‘fully adjusted exposure value’ (E*) for the exposures subject to an eligible master netting agreement shall be calculated based on the provisions of Article 220 and Articles 223 to 226 CRR. However, Article 223(2) of the CRR clarifies that “[...] for those transactions subject to recognised master netting agreements [...] the provisions set out in Articles 220 and 221 apply.” Therefore, in accordance to Article 220(4) institutions shall use E* - as calculated in accordance with the formula in Article 220(3) CRR – “as the exposure value of the exposure to the counterparty arising from the transactions subject to the master netting agreement for the purposes of Article 113 under the Standardised Approach or Chapter 3 under the IRB Approach” where according to Article 220(1) the volatility adjustment to be used in that calculation (i.e. in the formula) shall be calculated as set out for the FCCM in Articles 223 to 226.

The general definition of the ‘fully adjusted exposure value’ (E*) (pursuant to Article 223(5) CRR) does therefore not apply, where an institution is using the Supervisory Volatility Adjustment Approach or the Own
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