Single Rulebook Q&A

Question ID	2018_4285
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR) as amended
Topic	Liquidity risk
Article	412
Paragraph	1
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Delegated Regulation (EU) 2015/61 - DR with regard to liquidity coverage requirement
Article/Paragraph	Article 10(1)(d)
Date of submission	23/09/2018
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Disclose name of institution / entity	Yes
Name of institution / submitter	Interim Assignments Limited
Country of incorporation / residence	United Kingdom
Type of submitter	Consultancy firm
Subject matter	HQLA treatment of euro-denominated assets held in 3rd Countries
Question	In the LCR DA, and subject to compliance with the caps in Article 17, can all Euro denominated net liquidity outflows of a credit institution, irrespective of where they arise, be covered by euro denominated Level 1 HQLA envisaged in Article 10(1)(d) and by Level 2b HQLA envisaged in Article 12(1)(c)(ii), in the latter case if not denominated in euro nor in the currency of the credit institution's home Member State?
Background on the question	[Cognisant of question 2016_3048] Article 10(1)(d) of Delegated Regulation (EU) 2015/61 (DR with regard to liquidity coverage requirement) permits deposits held with the (unrated) Central Banks of 3rd countries to be included in Level 1 HQLA, subject to the following restriction: "where the asset is not denominated in the domestic currency of the third country, the credit institution may only recognise the asset as level 1 up to the amount of the credit institution's stressed net liquidity outflows in that foreign currency corresponding to its operations in the jurisdiction where

	the liquidity risk is being taken". Similarly Art 12(1)(c) permits (demonstrably liquid) shares listed on a Stock Exchange in a 3rd country to be included in Level 2b HQLA, subject to (inter alia) the following restriction: "they are denominated in the currency of the credit institution's home Member State or, where denominated in a different currency, they count as level 2B only up to the amount to cover stressed net liquidity outflows in that currency or in the jurisdiction where the liquidity risk is taken". For illustration: A Credit Institution operating in a non-Eurozone Member State, with Euro-denominated net outflows arising primarily (but not exclusively) in 3rd Country ('X'), the domestic currency of which is neither Euro, nor the home currency of the Credit Institution. Net Outflows are assumed to total €100.00, of which €86.00 relate to operations in Country 'X'. 1. The Credit Institution holds €86.00 'sight' deposits with the Central Bank of Country 'X' (which is not assigned a credit quality step 1 credit assessment by a nominated ECAI in accordance with Article 114(2) of Regulation (EU) No 575/2013). 2. The Credit Institution also holds shares listed on the primary Stock Exchange in Country 'X', which are denominated in the domestic currency of Country 'X', and which meet the "highly liquid" criteria set out in EU 2015/61 Art 12.1 c (iii); a haircut is applied in accordance with EU 2015/61 Art. 12.2 c, such that the Euro-equivalent market value of these assets amounts to €14.00.The Credit Institution proposes to aggregate qualifying Level 1 (Euro) and Level 2b (non-Euro) HQLA in order to offset its Euro-denominated Net Outflows arising both within Country ('X') and elsewhere, in order to maintain and LCR = (86 + 14) / 100 = 100%
EBA answer	According to subparagraph 2 of Article 10(1)(d) of Delegated Regulation (EU) 2015/61 (LCR DA) assets issued or guaranteed by the central government or the central bank of a third country which is not credit quality step 1, that are denominated in a currency other than the domestic currency of such third country (i.e Euros in the question submitted), can qualify as level 1 HQLA up to the amount of the credit institution's stressed net liquidity outflows denominated in that currency (i.e. Euros) that correspond to the credit institution's operations in that third country. According to Article 12(1)(c)(ii) of the LCR DA a credit institution can only include level 2B shares, that are not denominated in the currency of its home Member State or in the currency of the net outflows, up to the amount to cover stressed net liquidity outflows in the country of the currency of denomination of the shares. Overall the eligibility of these HQLA is subject to meeting the conditions in Article 7, 8, 10(1)(d), 12(1)(c) and 17 of the LCR DA. Generally, for the eligibility of HQLA held in third countries special attention should be paid to the operational requirements in Article 8 LCR

	DA, for example: - the required diversification of HQLA by geographical location in Article 8(1); - the required ready access by the institution to the liquid assets without any type of impediment for their liquidation, as required in Article 8(2); - the required effective control of the liquid assets by a specific liquidity management function in the institution, as required in Article 8(3); and - the required consistency by currency between the liquidity buffer and the net outflows, as required in Article 8(6).
Link	https://eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2018_4285

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