
Public Hearing on Consultation Paper on draft RTS on CVA risk of securities financing transactions

4 September 2024

Ground rules for this virtual meeting.

Mic and video off

Please keep yourself muted and the video off while listening.

Questions/comments?

Please use the chat or raise your hand to ask for the floor.

Slides on EBA website

The presentation used today will be made available on the EBA's website after this hearing.

Contents

1 EBA Roadmap on MKR, CCR and CVA risk mandates under CRR3

2 Legal basis

3 Materiality assessment

4 Frequency assessment and questions for consultation

5 Next steps

EBA Roadmap on MKR, CCR and CVA risk mandates under CRR3¹

Market risk

Implementing essential FRTB building blocks

These mandates mostly relate to aspects of the FRTB that are essential for its sound implementation, or that may have a material impact on the own funds requirements.



Phase 1

Continuing the implementation of FRTB

Including harmonisation of options and starting the implementation of CVA rules. These mandates are meant to clarify several provisions under the FRTB where the discretion of the institution or of the competent authority applies. Furthermore, they include the first mandate relating to CVA.



Phase 2

Finalisation of CVA rules and FRTB monitoring

Most of these mandates either serve the purpose of implementing CVA rules in the EU or aim at setting out how competent authorities are supposed to monitor institutions' compliance with FRTB.



Phase 3 and later

Phase 2 deliverables	Reference	Legal deadline
RTS on data inputs	Art. 325bc(6) CRR	10 January 2026
RTS on structural FX	Art. 104c(4) CRR	10 July 2026
RTS on conditions for not counting overshootings	Art. 325bf(10) CRR	10 July 2026
RTS on extraordinary circumstances for prudent valuation	Art. 34(4) CRR	10 July 2026
RTS on CVA risk of SFTs	Art. 382(6) CRR	10 July 2026

¹ https://www.eba.europa.eu/sites/default/files/2023-12/9dc534e8-8a3d-438f-88e3-bc86e623d99e/EBA%20Roadmap%20on%20strengthening%20the%20prudential%20framework_1.pdf

Legal basis

- Article 382(2) of the CRR:

‘An institution shall include in the calculation of own funds required by paragraph 1 securities financing transactions that are fair-valued under the accounting framework applicable to the institution where the institution’s CVA risk exposures arising from those transactions are material.’

- Article 382(6) of the CRR:

‘EBA shall develop draft regulatory technical standards to specify the conditions and the criteria that institutions are to use to assess whether the CVA risk exposures arising from fair-valued securities financing transactions are material, as well as the frequency of that assessment.’

EBA shall submit those draft regulatory technical standards to the Commission by 10 July 2026.

Power is delegated to the Commission to supplement this Regulation by adopting the regulatory technical standards referred to in the first subparagraph of this paragraph in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010.’

- The combined reading of the provisions in Article 382(2) and (6) of the CRR envisage that an institution shall include in scope of the capital requirements for CVA risk the fair-valued SFTs once the CVA risk exposures arising from them is deemed material in accordance with the RTS.

Materiality assessment (1)

- The draft RTS in the Consultation Paper propose to employ a quantitative approach for the determination of the materiality of CVA risk exposures arising from fair-valued securities financing transactions, based on the following ratio. The ratio quantifies the capital requirements for CVA risk arising from fair-valued SFTs relative to the capital requirements for CVA risk of transactions in scope of those capital requirements (including the fair-valued SFTs).

$$\text{Ratio} = \frac{\text{CVA risk own funds requirement}(fair - valued SFTs)}{\text{CVA risk own funds requirement}(derivatives and fair - valued SFTs)} \geq \text{Materiality threshold}$$

- The materiality threshold is proposed to be set in the range [1 – 5%].
- The calculation of the own funds requirement for CVA risk should be performed in accordance with the requirements in the CRR applicable to the institution. This should ensure harmonisation across institutions, and consistency with the approaches and methodology otherwise used for calculating capital requirements for CVA risk.
- Fair-valued SFTs that would be excluded from the scope of the own funds requirements for CVA risk because falling under the exemptions in Article 382(3) and (4) of the CRR should not be included in the calculation of the ratio, as they would not attract capital requirements for CVA risk under the CRR (unless the institution chooses to include them in accordance with Article 382(4a) of the CRR). Similarly, the derivatives in scope of the denominator of the ratio are those that are included in scope of the own funds requirements for CVA risk.

Materiality assessment (2)

- The draft RTS in the Consultation Paper propose that the last four ratios – referring to the four most recent quarters of a year – should each be lower than the materiality threshold, in order not to consider the CVA risk exposures arising from fair-valued SFTs to be material. This should ensure some stability and avoid frequent cliff effects with regard to the inclusion/exclusion of the fair-valued SFTs in scope of the CVA capital requirement, and to the impact that this would produce on that requirement.
- This would mean that, at the end of every reporting quarter, it should be determined the ratio on the basis of the portfolio of transactions that is held at that date, and this is compared against the materiality threshold. If such ratio was lower than the threshold, to exclude the fair-valued SFTs from the scope of the capital requirement for CVA risk, also the three preceding ratios – referring to the previous three quarters – would each need to be lower than the threshold.

Frequency assessment and questions for consultation

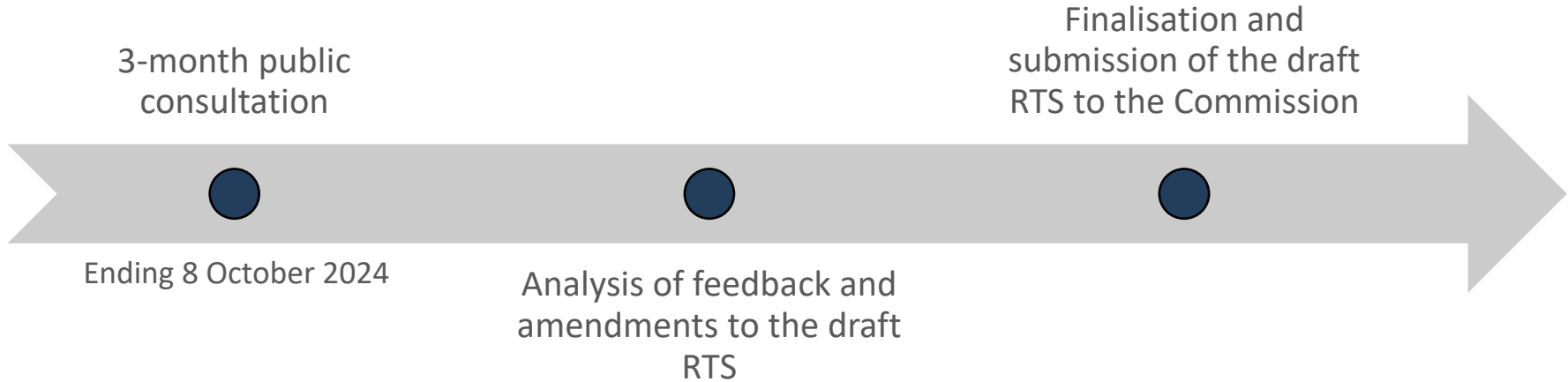
- In terms of frequency of the materiality assessment, the draft RTS envisage that this is to be performed at the end of every quarter of the year, that is on 31 March, 30 June, 30 September and 31 December, to ensure consistency with the frequency of calculation and reporting of capital requirements for CVA risk for supervisory reporting (COREP).
- In terms of the ratios to be quantified at the time when the draft RTS will enter into force, a transitional arrangement is introduced whereby quarters that ended prior to the one in which the RTS entered into force will not be considered for the purposes of the materiality assessment.

Questions for consultation:

Q1. At which level would you suggest to set the materiality threshold? When providing your answer, please provide any rationale and evidence supporting your proposal.

Q2. Do you have any additional comments on this consultation paper? If yes, please specify and motivate.

Next steps





Floor 24-27, Tour Europlaza
20 Avenue André Prothin
92400 Courbevoie, France

Tel: +33 1 86 52 70 00
E-mail: info@eba.europa.eu

<https://eba.europa.eu/>