European Banking Authority

Public Hearing on Consultation Paper on draft RTS and ITS on Structural FX (S-FX) positions

03 December 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

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ROADMAP on MKR, CCR, CVA

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

Market risk

Phase 1

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 2

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 3 and later

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 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*

02

CP on Structural FX

RTS part of the package

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Background (1)

- EBA publishes GLs in 2020, applicable from Jan 2022
- Significant impact of the provision on credit institutions
- CRR3 includes mandate for EBA to develop RTS
- CP transposes GLs into RTS, taking into account:
    - lessons learnt in 3 years
    - CRR3 changes

Background (2)

- CRR3 changes:
    - Article 325b introduces clear summation approach when permission to offset positions between entities of the group is not given (in full). Parent bank currency to be used as reporting currency for the calculation of all entities, for the purpose of the consolidated calculation.
    - Items that are deducted from own funds are not part of the FX charge.
    - Introduction of “Base currency” approach.
    - Partial hedge of the ratio directly recognised in level 1, along with possibility to hedge any of the three capital ratios

Background (3)

- Lessons learnt relating to:
  - Currencies for which institutions seek waiver’s approval
  - Practices on the transfer of risk between BB and TB
  - Currency crisis, e.g. Ruble following invasion of Ukraine

Legal basis

Article 104c(4)

EBA shall develop draft regulatory technical standards to specify:

(a) the risk positions that an institution can deliberately take in order to hedge, at least partially, against the adverse movements of foreign exchange rates on any of an institution's capital ratios referred to paragraph 1, first subparagraph;

(b) how to determine the maximum amount referred to in paragraph 1, point (a), and the manner in which an institution shall exclude this amount for each of the approaches set out in Article 325(1);

(c) the criteria that shall be met by an institution's risk management framework referred to in paragraph 1, point (c), in order to be considered appropriate for the purpose of this Article

Definition: overall risk position

- Article 1: definition of "overall risk position". Institutions can use either the net unweighted delta sensitivity or the net open position as prescribed under Article 352(1).

While the two approaches are expected to lead to the same result (i.e. the delta sensitivity towards the FX risk factor is de-facto equivalent to the net open position computed in accordance with Article 352), the RTS include this provision setting out the meaning of "overall risk position" in the context of both approaches to ensure a sound application of the S-FX provision.

Question in the CP

Q1. Do you agree with the clarification provided in Article 1 of these proposed RTS?

Conditions for a risk position to be considered for the waiver

The position:

- Is in a significant currency
- Hedges the ratio
- Is structural
- It is managed in accordance with a risk-management fulfilling several conditions

Condition 1: position is in a significant currency

A currency shall be considered as significant where any of the following conditions is met:

(a) The currency is one of the ten foreign currencies for which the total credit risk weighted amounts in the institution are the largest;

(b) The ratio of the total credit risk weighted amounts in the currency to the total credit risk weighted amounts in all currencies other than the reporting currency is equal to or higher than 1%.

Question in the CP

Q2. Do you agree with the criteria to identify the significant currencies for an institution? Do you agree with a threshold set at 1% or do you deem that a higher threshold (e.g. 2%) would create more level playing field across institutions? If not, what would be alternative criteria? Please elaborate.

Condition 2: position hedges the ratio

- All requirements as in the GLs (e.g. position must be net long)
- Addition: *The overall risk position does not include positions resulting from internal trades between the trading book and non-trading book business of the institution.* See example in next slide

Question in the CP

Q3. Do you agree that internal trades cannot be considered as taken for hedging the ratio? Please elaborate.

Example on transactions that cannot be considered as hedging the ratio: Transactions between banking and trading book

Institutions may do internal transactions between BB and TB, with the objective of closing the TB position, and having open only a BB position. In this way, the net open position is all in the BB and may be eligible to be recognised as structural.

Example:

	Long	Short
BB	100	80
TB	40	0
BB internal	0	0
TB internal	0	0

Net BB position	20
Net TB position	40
Max waiver	20

vs.

Net BB position	60
Net TB position	0
Max waiver	60

	Long	Short
BB	100	80
TB	40	0
BB internal	40	0
TB internal	0	40

Supervisors can already remove these internal transactions from the waiver on the basis of current GLs: The transaction itself (being internal) **does not have any impact** when it comes to changes in the ratio due to changes in the FX rate. Accordingly, it is **impossible to argue** that the position is kept there for the purpose of hedging the ratio.

However, **a general principle** stating that internal transaction between TB and BB cannot be considered as taken to hedge the ratio **is now included in the RTS to ensure that this practice is avoided**.

Condition 3: position is structural

- Content of the GLs have been kept, while doing some streamlining on the drafting (e.g. removing the “presumptive” tone from the draft).
- EBA seeks feedback on the type of positions that institutions currently consider structural and that are not “positions of type A”

Question in the CP

Q4. What do you think should be cases of positions potentially exempted under the provisions included in Article 5(c)? Please elaborate.

Condition 4: appropriate risk-management framework

- Conditions on the risk-management framework are to assess the intention of hedging the ratio (a condition that is in the Level 1)

- Same conditions as in the GLs (monitoring included in the GLs directly transposed in the conditions applicable to the risk-mgmt framework), except following addition:

    ✓ Ability to perform the strategy to hedge the ratio (also when there are divergencies between on-shore and off-shore version of the foreign currency). Institution to consider also liquidity of the currency, potential significant volatility in the rate, the presence of restrictive measure targeting a country that may impact tradability of its currency.

Question in the CP

Q7. Do you agree with the requirements set out in Article 7(1)(j), and in Article 7(3)? Do you see the need to introduce additional safeguards to address, for example, currency crisis? Please elaborate.

Amount neutralising the sensitivity

- As for the GLs, the RTS have been drafted to ensure that the following items can be removed without caps (as long as all other conditions in the RTS are met):

    - Non-monetary at historical costs
    - Items leading to gains/losses due to changes in the exchange rate that do not impact the CET1

- For all other items, a cap applies (i.e. the $MaxOP_{FC}$). $MaxOP_{FC}$ formulae and derogation based on simplification and conservatism are as provided in the GLs.

- In addition, RTS provide simplified formulae. Where overall risk position stemming from BB items is at least 80% of the overall risk position, bank can use CR-RWA only.

Questions in the CP

Q5. Do you agree with the simplification allowing institutions to use only credit risk RWA in the determination of the MAX_OP? Please elaborate.

Q6. Do you expect that institutions currently using the derogation referred to in Article 6(4) would qualify for the treatment referred to in paragraph 3 of that Article? Please elaborate.

Removal of position (1)

- Provisions in the GLs are kept. Provision clarifying that where the permission in 325b has not been granted, the removal shall still be done on a net basis.

Example:

Take a group. Assume that no 325b permission has been granted. The parent bank hedges with a short position of 20 GBP, a long position stemming from the subsidiary of 50 GBP. Suppose that the maximum position is 10.

The bank can remove the short position of 20 GBP, and a long position of 30 GBP, as the net position removed is 10 (i.e. the max_OP). As a result, the bank will capitalise a long position 20 GBP.

In other words, the capital benefit resulting from the waiver can be higher than the max_OP for banks without 325b permission (however, recall that for institution without 325b the starting point of FX risk capitalisation is more conservative than for a bank with 325b permission).

Removal of position (2)

- SSA banks to remove the position from the net open position referred to in Art. 352
- FRTB-SA banks to remove from delta risk in FX
- FRTB-IMA banks to remove the position from RTPL, APL, HPL, VaR and ES/SSRM for NMRF

Banks with mixed approaches should remove the position consistently with the approach used

03

CP on Structural FX

ITS part of the package

Guidelines vs. ITS

Current Guidelines

- Current Guidelines specify the information to be reported by institutions…
- … but every NCA had/has to implement it separately

Future ITS

- Integrate the reporting requirement into COREP,
  - Because of significance of the S-FX positions
  - To **close a data gap** (S-FX is not captured anywhere else in the prudential templates)
  - To **harmonise** and **facilitate compliance** with the reporting requirement (e.g. use of established processes and channels for ITS data collection)
- Design inspired by list of items that institutions are required to monitor (see draft RTS) and existing template used by SSM
- First reference date:
  - depending on entry into force of RTS;
  - indicative target: 30 June 2026 (release 4.2) (tentative!)

Who reports when at which level?

Reporting population

Any entity that has at least one valid S-FX permission

(i.e. template only covers permission granted, not permissions in the process of being granted or permissions withdrawn)

Level of reporting

Aligned with the level at which the permission was granted

(i.e. permissions granted for compliance at individual level in individual reports, permissions granted for compliance at consolidated level in consolidated reports)

Frequency and reference dates

Quarterly reporting, (Mar, Jun, Sep, Dec)

Questions for consultations (on reporting ITS)

Questions in the CP

Q8. Did you identify any issues regarding the representation of the RTS policy framework for S-FX in the ITS reporting requirement?

Q9. Are the scope of application of the reporting requirements, the template itself and instructions clear?

Q10. Does the reporting of the net reduction in own funds requirements (c0130) by currency, or any other element of the reporting requirement, trigger a particularly high, or in your view disproportionate, effort or cost of compliance? If yes, please explain the trigger/source of the cost and offer suggestions on alternative ways to achieve the same/a similar result with lower cost of compliance.

Thank you!

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