

Single Rulebook Q&A

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Topic	Liquidity risk
Article	416
Paragraph	1
Subparagraph	c, i
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Delegated Regulation (EU) 2015/61 - DR with regard to liquidity coverage requirement
Article/Paragraph	10 (1) (c)
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Disclose name of institution / entity	Yes
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Country of incorporation / residence	Sweden
Type of submitter	Industry association
Subject matter	Treatment of tax accounts
Question	Can a tax account be treated as a level 1 asset according to Article 10(1)(c) Delegated Regulation (EU) 2015/16, and be included in the liquidity buffer?
Background on the question	Everyone who has to pay any form of tax to a Member State's Tax Agency is allocated a tax account. The tax account compiles taxes and fees related to income or business, irrespective of whether it concerns a private individual or a company. A surplus can arise on the tax account when in-payments that are made, e.g. tax withheld according to income statements, excess VAT, other tax-related credits exceed actual taxes and contributions charged. For savings banks it is common to place some excess liquidity on their tax accounts in their liquidity management, which then create an exposure towards the Tax Agency on the balance sheet. When needed, you can withdraw the surplus from the tax account and receive the money within three calendar days. The majority of the savings banks use the standardised

approach to calculate the capital requirements for credit risk, and the exposure towards the Tax Agency is treated as an exposure towards the central government and receives a 0 % risk weight according to Article 114 of Regulation (EU) 575/2013. The exposure is also exempted from the large exposure framework according to Article 400(1) of the same regulation. To be classified as a liquid asset in the liquidity buffer when calculating the liquidity coverage ratio, the asset must fulfil the general and operational requirements in Title II of the Delegated regulation (EU) 2015/16. Against this background, it is unclear whether an exposure towards the Tax Agency could be considered to meet the requirements and thereby be eligible to be classified as an exposure towards the Swedish central government and treated as a level 1 asset in the liquidity buffer according to Article 10(1)(c) of the Delegated Regulation.

Final answer

In order to qualify as liquid assets, general requirements for liquid assets and operational requirements according to Article 7 and 8 of the Delegated Regulation (EU) 2015/61 (LCR DA) must be fulfilled. A surplus on a tax account does not fulfil the general and operational requirements and therefore does not qualify as liquid assets.

Article 7(2) of the LCR DA stipulates that liquid assets must be legally and practically available at any time the following 30 calendar days. Article 8(2) of the LCR DA stipulates that credit institutions shall have ready access to their holdings of liquid assets and be able to monetise them at any time during the 30 calendar day stress period via outright sale or repurchase agreement on generally accepted repurchase markets. A liquid asset shall be deemed readily accessible to a credit institution where there are no legal or practical impediments to the credit institution's ability to monetise such an asset in a timely fashion. In addition, Article 8(3)(b) of the LCR DA states that, unless the liquid assets are placed in a separate pool directly under the control of the liquidity management function, internal systems and controls must be put in place to give the liquidity management function effective operational control to monetise the holdings of liquid assets at any point in the 30 calendar day stress period as well as to access the contingent funds without directly conflicting with any existing business or risk management strategies.

Although a surplus on a tax account can quickly be withdrawn at a given time, it is reasonable to assume that the institution might prioritise the use of those monies and keep them for the fulfilment of potential tax obligations in the near future. Accordingly, a surplus on a tax account does not fulfil the general requirements in this case as it is subject to restrictions that hinder the institution from using it as part of the liquidity buffer.

A surplus on a tax account is treated as an exposure towards the central government in accordance to Article 10(1)(c) of the Delegated Regulation (EU) 2015/61 and subject to Articles 7(5) and 7(6). Article 7(6) of the

	<p>Delegated Regulation (EU) 2015/61 states, that assets shall be listed on a recognised exchange or tradeable via active outright sale or via simple repurchase transactions on generally accepted repurchase market. In this context, according to Article 7(5) of the Delegated Regulation (EU) 2015/61, the value of assets shall be determined by easily available market prices or calculated by an easy-to calculate formula that uses publicly available inputs. A surplus on a tax account is neither tradeable nor listed on a recognized exchange and cannot be included in HQLA.</p>
Link	<p>https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2019_4764</p>

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