Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Supervisory reporting - Leverage ratio
Article	99
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Draft ITS on Supervisory Reporting of Institutions
Article/Paragraph	Annex 11, C 47.00, r 0061 c 0010
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Disclose name of institution / entity	No
Type of submitter	Consultancy firm
Subject matter	Consideration of posted variation margin in LRCalc, when conditions of Article 429c (3) point (a) to (e) are met
Question	Following the second sentence of Article 429c (3) provided cash collateral, which meets all the conditions set out in points (a) to (e) of Article 429c (3), shall be considered as variation margin posted to the counterparty and shall be included in the calculation of the replacement cost of the netting set under SA-CCR for leverage ratio. We kindly ask EBA for instructions how to consider cash variation margin provided to the counterparty, when points (a) to (e) of Article 429(c) are met,

	in LRCalc.
Background on the question	The instruction for position {0061;0010}-LRCalc states that the replacement costs shown in this cell should not include the effect of any variation margin. Our question now is whether this also concerns the effect of provided cash collateral which meet all the conditions set out in Article 429c(3)(a) to (e). Even in the case, where provided cash collateral meets all the conditions set out in points (a) to (e) of Article 429c (3), the posted collateral may exceed the net market value (CMV) and thus lead to replacement costs > 0. This is possible due to the fact that e.g. the daily margining process (as required in Article 429c (3) point (b)) is based on the previous end of day's net market value (CMV). In this case the replacement costs without effect of posted variation margin would be lower than the replacement costs considering it. As LRCalc provides no separate cell to show this effect, it is unclear, how to recognize it for LRCalc purposes. Following the CRR 2 instructions, which state that cash collateral eligible under Article 429c Abs. (3) has to be included in the calculation of the replacement cost , we expect that the effect of provided cash collateral eligible under Article 429c (3) has to be included in the value of cell {0061;0010}-LRCalc.
EBA answer	Annex XI of amended Regulation (EU) No 680/2014 (ITS on Supervisory Reporting) defines data point {0061; 0010} in C 47.00 (LRCalc) as “the Replacement Cost as per Article 275 CRR (…) without the effect of any variation margin”. CCR exposures from both variation margin and independent collateral amounts are mandatorily measured and aggregated on a net basis, cancelling posted and received amounts. Both these components of the Replacement Cost are allowed to take any sign in netting sets subject to margin agreements. The applicable definition of replacement cost in Article 275 CRR defines the VM component as “the volatility-adjusted value of the net variation margin received or posted, as applicable, to the netting set on a regular basis to mitigate changes in the netting set's CMV”. Article 429c(3) CRR, referred in the ITS, is also in line with this definition: “Where an institution provides cash collateral to a counterparty and that collateral meets the conditions set out in points (a) to (e), the institution (…) shall include it in the calculation of the replacement cost.” Therefore, reporting positive net adjustments of replacement costs is necessary to ensure consistency of CCR exposure totals given in positions {0290;0010} and {0300;0010} of C 47.00. On the other hand, the reporting template assumes that the effect of the

	eligible variation margin applied pursuant to Article 429c(3) and reported in row 0071 can only have the effect of reducing the exposure. In the rare case that a posted variation margin contributes to a positive exposure, as in the case described by the submitter, ITS instructions do not determine where that net adjustment should be reported. In a future taxonomy, a new row will be introduced in the template for the positive amounts (variation margin posted) increasing replacement costs. In the current template structure, the effect eligible variation margin provided in cash shall be included in row 0071. This shall be as an exception of the sign convention for row 0071, and as an exception to the validation rule v4452_s (consistent with the ‘Warning’ severity), After this adjustment to row 0071, deductions shall then be reported as usual: 1) First, The positive part of NICA (if any) should be deducted by reporting it in row 0065 with negative sign; 2) Then, the variation margin received (if any) should be deducted by reporting it in row 0071 with negative sign. Both adjustments only apply up to the amount that reduces the replacement cost to zero.
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5617

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