



## Single Rulebook Q&A

<b>Question ID</b>	2020_5263
<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) No 575/2013 (CRR)
<b>Topic</b>	Supervisory reporting - FINREP (incl. FB&NPE)
<b>Article</b>	430
<b>Paragraph</b>	-
<b>Subparagraph</b>	-
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Regulation (EU) No 680/2014 - ITS on supervisory reporting of institutions (as amended)
<b>Article/Paragraph</b>	16a
<b>Date of submission</b>	19/05/2020
<b>Published as Final Q&amp;A</b>	19/03/2021
<b>Disclose name of institution / entity</b>	No
<b>Type of submitter</b>	Competent authority
<b>Subject matter</b>	Treatment of derivatives not recognized on-balance under national GAAP
<b>Question</b>	In case derivatives are not recognised on the balance sheet according to national GAAP based on BAD, how should they be treated for the purpose of FINREP and asset encumbrance reporting?
<b>Background on the question</b>	The reporting instructions of derivatives, which are not recognized on-balance according to national GAAPs differ between FINREP and AE instructions. Concerning FINREP reporting, Annex V, Part 1.25 and 1.27 (cited below) state that those derivatives should be treated as on-balance

sheet items with a carrying amount of zero. (Annex V, 1.27): “Under the relevant national GAAP based on BAD, the carrying amount of derivatives shall be either the carrying amount under national GAAP including accruals, premium values and provisions if applicable, or it shall be equal to zero where derivatives are not recognised on-balance sheet.” (Annex V, 1.25): “[...] Irrespective of the measurement methodology applied under the relevant national GAAP based on BAD, all derivatives with a negative balance for the reporting institution that are not classified as hedge accounting in accordance with paragraph 26 of this Part shall be reported as trading financial liabilities. This classification shall also apply for derivatives which according to national GAAP based on BAD are not recognised on the balance-sheet, or have only the changes in their fair value recognised on-balance sheet or which are used as economic hedges as defined in paragraph 137 of Part 2 of this Annex”. According to Annex XVII, Part 1.3 (AE) institutions shall report the carrying amounts they use for the reporting in FINREP. Hence, applying these requirements consistently throughout the reporting frameworks would imply the following approach for AE reporting: Based on the principle of assigning assets in FINREP to their respective product type in the asset encumbrance templates, off-balance sheet derivatives would be reported in rows 020 and 030 of template F 32.04. In combination with the instructions in Annex V, 1.27, this would imply that derivatives not recognized on balance sheet would be reported with a carrying amount of zero in column 010 (“Matching liabilities, contingent liabilities or securities lent”). Due to margin requirements associated with these off-balance sheet derivatives, institutions have to issue/place collateral. Thus, the value (i.e. fair value in this case according to the instructions for column 030) reported in the corresponding column 030 (“Assets, collateral received and own securities issued other than covered bonds and ABSs encumbered”) would be greater than zero. In AE reporting instructions however, Annex XVII also states that row 020 of AE-SOU shall contain the “...carrying amount of the collateralised derivatives of the reporting institution that are financial liabilities, that is, with a negative fair value, insofar as these derivatives entail asset encumbrance for that institution”. This approach seems to contradict the instructions stated above as it excludes derivatives covered in Annex V, 1.25 & 1.27 of ITS on Supervisory Reporting. We propose two possible solutions to solve this contradiction, of whom we favour option A: A) Off-balance sheet derivatives are treated as if they were on-balance sheet liabilities with a carrying amount equal to zero (consistent with Annex V, 1.25 & 1.27) in all reporting frameworks. • As stated above, the derivatives would need to be reported in row 020/030 of the AE-SOU template. Hereby, a carrying value of zero should be reported in column 010 (“Matching liabilities, contingent liabilities or securities lent”) and the value of the correspondingly encumbered assets in column 030 (“Assets, collateral received and own securities issued other than covered bonds and ABSs encumbered”). • This option would ensure consistency with FINREP and the encumbered asset could be clearly linked to the derivative as the source of

	<p>its encumbrance. • Under this interpretation, point 1.27 could also be interpreted as meaning that, when derivatives are not recognized on-balance but provisions for contingent losses associated to the derivatives are recognized on-balance, the provisions increase the (zero) carrying amount of the derivatives (as liabilities) and should be reported accordingly in F 01.02, row 062 or 150 (see also Annex V, 2.8). B) The derivatives are treated as off-balance sheet items • Consequently, derivatives not recognised on balance would be reported in row 120 and row 160 of the AE-SOU template. Hereby, the nominal value of the derivatives should be reported in column 010. • This interpretation seems in line with Q&amp;A 2014_1653 and Q&amp;A 2014_1492 as well as the instructions concerning the specific rows in Annex XVII. • Under this interpretation, it would also be acceptable that provisions for contingent losses associated to derivatives not recognized on-balance are reported - according to the relevant national GAAP - in F 01.02 in rows other than 062 and 150. If reported in other rows (e.g. in row 160 - Fair value changes of the hedged items in portfolio hedge of interest rate risk), it should be clarified whether the items reported in those rows should be treated as derivatives (and their carrying amount reported in row 020) for the purpose of template AE-SOU (F 32.04).</p>
<b>EBA answer</b>	<p>According Part 1.25 and 1.27 of Annex V to Regulation (EU) No 680/2014 (ITS on Supervisory Reporting), under the relevant national GAAP based on BAD framework, derivatives should be treated as on-balance sheet items with a carrying amount of zero. These derivatives should be reported in template AE-SOU (F 32.04) of Annex XVI, in row 020/030, column 010 (“Matching liabilities, contingent liabilities or securities lent”) and the value of the correspondingly encumbered assets in column 030 (“Assets, collateral received and own securities issued other than covered bonds and ABSs encumbered”) in order to ensure consistency with FINREP.</p> <p>When provisions for contingent losses associated to the derivatives are recognized on-balance, the provisions increase the (zero) carrying amount of the derivatives (as liabilities) and should be reported accordingly in F 01.02, row 062 or 150 (see also Annex V, Part 1.26 and Part 2.8).</p>
<b>Link</b>	<p><a href="https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5263">https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5263</a></p>

European Banking Authority, 26/10/2021

[www.eba.europa.eu](http://www.eba.europa.eu)