Single Rulebook Q&A

Question ID	2020_5303
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Supervisory reporting - COREP (incl. IP Losses)
Article	99
Paragraph	1
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) No 680/2014 - ITS on supervisory reporting of institutions (as amended)
Article/Paragraph	Annex I, C 32.01
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Fair value changes of the hedged items in portfolio hedge of interest rate risk in Prudent Valuation
Question	How should fair value changes of the hedged items in portfolio hedge of interest rate risk be reported in the context of Prudent Valuation in COREP C 32.01?
Background on the question	Commission Implementing Regulation (EU) No 680/2014, as amended, Annex I C 32.01 requires the reporting of fair value changes of the hedged items in portfolio hedge of interest rate risk in column 0010 row 120 (for assets) and row 200 (for liabilities). Annex II of that regulation clarifies that these rows shall correspond to row 250 of template F 01.01 and row 160 of template F 01.02, respectively, of Annex III and IV of that regulation. The fair value changes of the hedged items in portfolio hedge of interest rate risk should not be included in calculating the threshold for the use of the simplified approach or be subject to Additional Value Adjustments for two reasons: (i) For institutions applying IAS 39 for hedge accounting, even though these amounts can be presented on a separate line item, these amounts are integral element of the carrying amount of the hedged item (refer to IAS 39 paragraph 89(b) and 89A). Where the hedged items are not measured at fair value (e.g. mortgages in a Held-to-Collect business model),

	these positions are not subject to Additional Value Adjustments pursuant Regulation (EU) No 575/2013 article 34 and 105. (ii) The effect on Common Equity Tier 1 (CET1) capital of changes in the value of these positions are always offset by corresponding changes in the hedging instrument. As a result, even when reason (i) does not apply, a change in accounting valuation of these positions has a zero impact on CET1 capital and should therefore be excluded in accordance with Commission Delegated Regulation (EU) 2016/101 articles 4(2) and 8(1). The corresponding derivative in the hedge accounting relationship will be subject to Additional Value Adjustments proportionate to the ineffective part of the hedge. From the above it follows that fair value changes of the hedged items in portfolio hedge of interest rate risk should not be included in the calculating the threshold for the use of the simplified approach or be subject to Additional Value Adjustments. C 32.01 gives four options to exclude amounts reported in column 0010 to be excluded, none of which are appropriate for excluding fair value changes of the hedged items in portfolio hedge of interest rate risk: • Column 0030 'Exactly Matching' cannot be used for this purpose as EBA Q&A 2015_1715 clarifies that only "positions for which all contractual future cash flows are identical and in opposite direction under all circumstances" can be considered 'exactly matching'. This condition is not met for fair value changes of the hedged items in portfolio hedge of interest rate risk. • Column 0040 'Hedge accounting' is blocked for both rows 120 and 200. • Column 0050 'Prudential filter' cannot be used for this purpose as these positions are not subject to a prudential filter. • Column 0060 'Other' cannot be used for this purpose as the instructions for this column prescribe that this column "shall only be populated in rare cases". Portfolio hedges of interest rate risk are commonly used by institutions and can therefore not be considered "rare". Hence, while it is clear that fair value changes of the hedged items in portfolio hedge of interest rate risk should not to the full extent be included in the calculation of the threshold for the use of the simplified approach or be subject to Additional Value Adjustments, it appears that C 32.01 does not provide an appropriate option to report the excluded amounts.
EBA answer	In accordance with Annex II and Annexes III and IV of Regulation (EU) No 680/2014 amended by Regulation (EU) No 429/2020, rows 120 and 200 of C 32.01 are equivalent to rows 250 and 160 of F 01.01 and F 01.02, respectively. According to Commission Delegated Regulation (EU) 2016/101 art 4(2), for fair-valued assets and liabilities for which a change in accounting valuation has a partial or zero impact on Common Equity Tier 1 ('CET1') their values shall only be included in proportion to the impact of the relevant valuation change on CET1 capital. These items shall be reported in column 060 of C 32.01 template following its instructions. Column 60 shall only be populated in rare cases where elements excluded in accordance with Article 4(2) cannot be assigned to columns 0030, 0040 or

	0050 of this template (i.e. “rare cases” shall not be understood from a business perspective but from a regulatory approach). Additionally, details regarding column 060 shall be provided in column 070.
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5303

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