

Single Rulebook Q&A

Question ID	2020_5482
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	275
Paragraph	3
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	Not applicable
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Disclose name of institution / entity	No
Type of submitter	Individual
Subject matter	Formula to be applied in case of a switch from multiple netting sets to a single netting set
Question	<p>Which formula shall or may be applied in case of a switch from multiple netting sets to a single netting set?</p> <p>Is it allowed to continue application of Formula 3 on single netting sets,</p> <ul style="list-style-type: none"> - if the single netting set is covered by a margin agreement, which allows coverage for multiple netting sets? - If the singularity of the netting set is just temporary, eg due to the fact that further transactions have been closed or not yet opened?
Background on the question	<p>Article 275 of Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/876 defines the application of formulas for the calculation of the replacement cost for derivative risk positions. According to Article 275(2), replacement costs for single netting sets that are subject to a margin agreement shall be calculated in accordance with the formula described therein ("Formula 2"). According to Article 275(3), institutions shall calculate the replacement cost for multiple netting sets that are subject to the same margin agreement in accordance with the formula described therein ("Formula 3"). During its lifetime, a transaction may be included into multiple netting sets subject to the same margin agreement or only a single</p>

	netting set - if no further transaction is open at that time. However, we assume that this change in number of transactions does not require a change in the applicable formula.
Final answer	When institutions calculate the replacement cost RC in accordance with Article 275 of Regulation (EU) No 575/2013, institutions should consider whether a given margin agreement allows coverage of one single or several nettings sets. In the first case, paragraph 2 of Article 275 applies, whereas otherwise paragraph 3 applies irrespective of a temporary reduction of open transactions to one netting set.
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