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Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Liquidity risk
Article	428q
Paragraph	3
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
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Disclose name of institution / entity	Yes
Name of institution / submitter	Intesa Sanpaolo
Country of incorporation / residence	ITALY
Type of submitter	Credit institution
Subject matter	Treatment of Repo and Reverse repo with bilateral early termination option
Question	A supervised institution has entered a reverse repo with a financial counterparty which features an early termination option exercisable at the supervised institution's discretion. In order to be able to map the reverse repo on the option date for the purpose of NSFR - RSF calculation, how are the supervised institution and the competent authorities supposed to assess the reputational factors that may limit the institution's ability to exercise the option? [ref. Article 428q 3.]
Background on the question	Article 428q 3. refers to "markets' and clients' expectations that the institution should extend the maturity of certain assets at their maturity". For reverse repos with bilateral early termination option this provision is not applicable since the transaction is not extended, but early terminated. For bilateral SFT between financial institutions there are neither "market expectations" about probability of early termination nor client franchise to

	<p>safeguard. Both parties enter the transaction in the full knowledge that the option will be rationally exercised. Given the expectation of rational exercise, the market normally prices this feature in terms of a lower rate asked by the lender to the borrower for SFT where the former has the option to early terminate the deal.</p>
Final answer	<p>Following Article 428q(1) of Regulation (EU) No 575/2013 (CRR) the residual contractual maturity of assets and off-balance-sheet transactions needs to be taken into account for the determination of the relevant required stable funding factors to be applied on them. The existence of an early termination option exercisable at the supervised institution's discretion does not alter this rule.</p> <p>Therefore, when calculating the residual maturity of a repurchase agreement or reverse repo agreement, where the institution has an early termination option, the residual contractual maturity of the reverse repo needs to be taken into account for the determination of the applicable required stable funding factor.</p> <p>Article 428q(3) CRR does not address cases of early termination options over assets with specific contractual maturities but cases of options to extend the specific contractual maturity of an asset.</p>
Link	<p>https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5588</p>

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