Single Rulebook Q&A

Question ID	2021_6300
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Supervisory reporting - COREP (incl. IP Losses)
Article	430
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) 2021/451 – ITS on supervisory reporting of institutions
Article/Paragraph	Annex II, C 34.02, EXPOSURE VALUE PRE-CRM and POST-CRM columns 150,160
Date of submission	30/11/2021
Published as Final Q&A	21/04/2023
Disclose name of institution / entity	Yes
Name of institution / submitter	Wolters Kluwer UK Ltd
Country of incorporation / residence	United Kingdom
Type of submitter	Industry association
Subject matter	In template C 34.02, the column Exposure Pre-CRM (column 150) aims to report EAD of all CCR exposures following articles 274 or 281 or 282 (according respective CCR method) and sub-sequent articles defining the effects of margin agreements or aims to report a new EAD value gross of all forms of collaterals and margins included in the margin agreement
Question	To comply with the requirement of columns 150, 160 of C 34.02 of Annex 1 of Regulation (EU) 2021/451 (ITS on Supervisory Reporting) we seek clarification regarding what is expected to be delivered in these 2 columns. Does any of the below 3 scenarios describe correctly the interpretation of the ITS guidance? If none of below scenarios reflect the correct interpretation, what is the calculation expected to be performed to derive the EAD Pre-CRM and EAD

Post-CRM?

Scenario 1: for EAD Pre-CRM value apply all SACCR formulas as if the netting set is unmargined and no form of collateral is accepted

For banks under SACCR, for margined and un-margined netting sets the EAD should be calculated as follows:

1. Maturity factor at trade level should use the following formula:
2. MF(unmargined) = sqt root [(min {M;1year})/ 1year]
3. RC (replacement Cost) = max { sum V; 0}
4. Multiplier = min { 1; Floor + (1-Floor)*exp[sum(V)/(2*(1-Floor)*AddOnaggregate)]

Exclude from all steps of the EAD calculation:

- Initial margin given or received
- Variation margin given or received
- Any instrument identified as NICA:Collaterals or guarantees received
- Collaterals or guarantees given

Scenario 2: For EAD Pre-CRM value, apply all SACCR formulas as if the netting set is unmargined

For banks under SACCR, margined netting sets will be treated as unmargined netting sets. The EAD should be calculated as follows:

1. Maturity factor at trade level should use the following formula:
2. MF(unmargined) = sqt root [(min {M;1year})/ 1year]
3. RC (replacement Cost) = max { sum V-C; 0}
4. Multiplier = min { 1; Floor + (1-Floor)*exp[sum(V-C)/(2*(1-Floor)*AddOnaggregate)]

Where V includes:

- initial margin given
- Collaterals or guarantees given identified as NICA

Where C includes:

- Collaterals or guarantees received identified as NICA
- Initial margin received

According to scenario 2, exclude from all steps of the EAD calculation (RC or PFE multiplier) the following items:

- Variation margin given
- Variation margin received

Scenario 3: For EAD Pre-CRM (col150), apply all SACCR formulas as prescribed in Chapters 4 and 6 of Title II of Part Three CRR, and for EAD

	Post-CRM (col160) show the effects of a third-party collateral/guarantee received pledging the netting set(s), mitigants of which, are out of the netting or margin agreement with the counterparty EAD Pre-CRM (col 150 of c34.02) calculation follows the respective formulas for SACCR (simplified SACCR or OEM according to Chapters 6 of Title II of Part Three CRR articles 274 or 281 or 282 accordingly) depending if margined or unmargined netting sets. Therefore, EAD Pre-CRM includes all the below items which are contractually part of the margining agreement with the counterparty, and which intrinsically are part of the EAD calculation and do not constitute an actual transfer of risk as per credit risk mitigation: • Initial margin given or received to/from • Variation margin given or received • Any instrument identified as NICA:Collaterals or guarantees received • Collaterals or guarantees given EAD Post-CRM (C34.02 col160) reflects the effects of any mitigants given by a third-party (different entity from margin agreement counterparty). These mitigants may pledge one or more, derivative or SFT's netting sets. As these mitigants are given by a different counterparty from the counterparty with who the reporting entity has a margin agreement, and consequently the covered portions by these mitigants are subject to different risk weight and there is an actual transfer of risk, it is relevant to trace what is the EAD Post-CRM value net of the effects of these mitigants.
Background on the question	According with ITS of DPM 3.0, EBA reporting framework 3.0 comprises amendments linked to the CRR2/CRD5 effective from 30/06/2021, it is stated: "The exposure value pre-CRM for CCR netting sets shall be calculated in accordance with the methods laid down in Chapters 4 and 6 of Title II of Part Three CRR taking into account the effect of netting, but disregarding any other credit risk mitigation techniques (e.g. margin collateral)" And "Furthermore, collateralised business shall be handled as uncollateralised, i.e. no margining effects apply"
Final answer	According to Regulation 451/2021, the exposure value pre-CRM (column 0150) shall be calculated in accordance with the methods laid down in Chapters 4 'Credit Risk Mitigation' and 6 'Counterparty Credit Risk' of Title II of Part Three CRR taking into account some additional instructions: • It has to be taken into account the effect of netting (which is, in fact, a CRM technique), but it has not to be taken into account any other credit risk mitigation techniques (e.g. margin collateral). • In the case of SFTs the security leg shall not be considered in the

	determination of the exposure value pre-CRM when collateral is received and therefore shall not decrease the exposure value. On the contrary, the SFTs security leg shall be considered in the determination of the exposure value post-CRM in the regular way when collateral is posted. • Furthermore, collateralised business shall be handled as uncollateralised, i.e. no margining effects apply. • The exposure value pre-CRM shall not consider the deduction of the incurred CVA loss in accordance with Article 273(6) CRR, which will be deducted to calculate the Exposure value for column 0170. • The exposure value pre-CRM for transactions where specific wrong way risk has been identified must be determined in accordance with Article 291 CRR. The same instruction applies for the calculation of the Exposure value post-CRM (column 0160) and the Exposure value (column 0170). On the other hand, the exposure value post-CRM (column 0160) shall be calculated in accordance with the methods laid down in Chapters 4 'Credit Risk Mitigation' and 6 'Counterparty Credit Risk' of Title II of Part Three CRR. The following additional instructions that apply to column 0150 also apply to this column: • The exposure value post-CRM shall not consider the deduction of the incurred CVA loss in accordance with Article 273(6) CRR, which will be deducted to calculate the Exposure value for column 0170. • The exposure value post-CRM for transactions where specific wrong way risk has been identified must be determined in accordance with Article 291 CRR. The same instruction applies for the calculation of the Exposure value in column 0170. To sum up, according to ITS, for the calculation of EAD Pre-CRM value, entities should apply EAD formulas as if the netting set is unmargined and no form of collateral is accepted. Additionally, the differences between column 0150 and 0160 are related to: • The application of any other CRM techniques apart from the effect of netting in the calculation of EAD in accordance with the methods laid down in Chapters 4 and 6 of Title II of Part Three CRR • The consideration of only one leg of the transaction in SFTs
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2021_6300