

Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 2019/2033 (IFR)
Topic	K-factor requirements
Article	19
Paragraph	1
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	-
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Disclose name of institution / entity	Yes
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Type of submitter	Investment firm
Subject matter	Valuation of ASA: financial instruments with a negative fair value
Question	What should be the treatment of the financial instruments with a negative fair value for the purposes of the measurement of client financial instruments safeguarded and administered (ASA)?
Background on the question	Pursuant to recital (4) of the Commission Delegated Regulation (EU) 2022/25 specifying the methods for measuring the K-factors, in order to ensure a consistent measurement when calculating the assets under management (AUM) and the assets under safekeeping and administration (ASA), financial instruments should be included in the calculations at their fair value in accordance with applicable accounting standards, so as to allow the reflection of the market value of the financial instruments, where available. However, the Delegated regulation does not address the issue of instruments with negative fair value to be included in the calculation of the ASA. Article 5 of the Delegated regulation clarifies two aspects of the ASA valuation: (i) fair

	<p>calculation of assets should be performed in accordance with the applicable accounting standards; and (ii) client money held that are already covered under CMH, should not be included in the calculation of ASA.</p>
Final answer	<p>Commission Delegated Regulation (EU) 2022/25 specifies the methods for measuring the K-factors. Specifically, Article 5 of the Delegated regulation deals with the calculation of the ASA, as defined in Article 4(1)(29) of the IFR, but no detail is provided for assets safeguarded and administered with negative value.</p> <p>Nonetheless, taking into account the explicit treatment of AUM under the same Delegated regulation, and the risks to clients associated to the two K-factors, the securities with negative fair value should be included in the ASA calculation in the same manner as for assets included in the AUM calculation.</p> <p>Therefore, for instruments with negative fair value, the calculation of ASA for the purposes of Article 19 of the IFR should be performed as follows: the ASA should be the sum of the assets with positive fair value and the absolute value of the assets with negative fair value.</p> <p>Example: ASA is composed of four assets with fair values equal to +10, -15, +25 and -50. The sum of the values, taking the negative values at their absolute values, is 100. The ASA, for the purposes of Article 19 of the IFR, is therefore equal to 100.</p>
Link	<p>https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2022_6449</p>

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