Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Market risk
Article	384
Paragraph	-
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	Consultancy firm
Subject matter	Maturity floor in Standard Method for CVA
Question	Shall a floor equal to 1 - according to Article 162(2)(b)CRR- be applied also for derivatives that are not subject to a master netting agreement? For example, if you have an exposure to a counterparty consisting of a single derivative not subject to a master netting agreement and expiring in 6 months, is the effective maturity to be entered equal to 0.5 or 1?
Background on the question	For institutions which do not use internal models for the compute the EAD, the effective maturity in the standard method formula for CVA is calculated as an average notional weighted maturity as described in Article 162(2)(b)CRR. This last Article provides for a floor equal to 1 and must be applied only for derivatives subject to a master netting agreement. For derivatives that are not subject to a master netting agreement, it is unclear whether the same must be applied and using a floor equal to 1. Article 384 CRR reports that for an institution that is not using any internal model the effective maturity is the average notional weighted maturity as referred to in point (b) of Article 162(2) CRR. This last article reports that effective maturity shall be the weighted average remaining maturity of the exposure, where it shall be at least 1 year, and the notional amount of each exposure

	shall be used for weighting the maturity.
Final answer	In accordance with Article 384 of Regulation (EU) No 575/2013 (CRR), for an institution not using the method set out in Section 6 of Title II, Chapter 6, the term Mi is the average notional weighted maturity as referred to in point (b) of Article 162(2) of the CRR. That provision applies also to derivatives not subject to a master netting agreement. Hence, also in those cases, the effective maturity Mi is to be floored at 1 year for the purpose of Article 384 of the CRR. Accordingly, in the example provided of an exposure to a counterparty consisting of a single derivative not subject to a master netting agreement and expiring in 6 months, the effective maturity Mi to be considered is 1 year.
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2022_6529

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