Single Rulebook Q&A

Question ID	2013_355
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Liquidity risk
Article	423
Paragraph	4
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	n.a.
Date of submission	08/10/2013
Published as Final Q&A	21/02/2014
Disclose name of institution / entity	Yes
Name of institution / submitter	HSBC Holidng plc
Country of incorporation / residence	UK
Type of submitter	Credit institution
Subject matter	LCR outflow to report for shorts under Article 423(4) of Regulation (EU) No. 575/2013 (CRR)
Question	We assume we should be symmetrical in terms of the outflow reported for shorts (to be delivered within 30 days) and the inflows reported for the corresponding short covering trades (reverse repo/stock borrow) that mature within 30 days, since the two transactions are reported gross and independently of each other, and it is the maturity of the reverse repo/stock borrow that gives rise to the need to deliver within 30 days. We believe that the outflow to report under Article 423(4) of the CRR should be weighted consistently in line with reverse repo inflows per Article 425(2)(d): 0% for assets listed under Article 416(1)(a), (1)(b) and (1)(c) At least 15% for assets listed reported under Article 416(1)(d) 100% for any other asset not qualifying under Article 416(1)
Background on the	Set out above

question	
Final answer	The Delegated Regulation (EU) 2015/61 envisages two different treatment for the cases that the short sales are covered by security borrowings or by reverse repos. In the case that the short sales are covered by security borrowings, outflows should be recognised by 100% of the market value of the securities borrowed and sold if need to be returned within the following 30 calendar days. Article 30(5) of the Delegated Regulation (EU) 2015/61 specifies that “Where the credit institution has a short position that is covered by an unsecured security borrowing, the credit institution shall add an additional outflow corresponding to 100 % of the market value of the securities or other assets sold short, unless the terms upon which the credit institution has borrowed them require their return only after 30 calendar days”. If the short sales are covered by reverse repos, the reverse repos are expected to be renewed over time and no outflow or inflow should be considered. Article 30(5) establishes that “Where the short position is covered by a collateralised securities financing transaction, the credit institution shall assume the short position will be maintained throughout the 30 calendar day period and will receive a 0 % outflow”. Symmetrically, the last paragraph of Article 32 (3) sets out that “no inflow shall be recognised where the collateral is used by the credit institution to cover a short position”. ~~Article 423(4) of Regulation (EU) No. 575/2013 (CRR) specifies that "an institution shall add an additional outflow corresponding to the market value of securities or other assets sold short and to be delivered within the 30 days horizon unless the institution owns the securities to be delivered or has borrowed them at terms requiring their return only after the 30 day horizon and the securities do not form part of the institutions liquid assets".~~ ~~In accordance with Article 425(2)(d) of the CRR, monies due from secured lending and capital-market driven transactions, as defined in Article 192(3), if they are collateralised by liquid assets as referred to in Article 416(1), shall not be taken into account up to the value net of haircuts of the liquid assets and shall be taken into account in full for the remaining monies due.~~
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_355