

# Single Rulebook Q&A

<b>Question ID</b>	2013_360
<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) No 575/2013 (CRR)
<b>Topic</b>	Market risk
<b>Article</b>	386
<b>Paragraph</b>	1
<b>Subparagraph</b>	b
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Not applicable
<b>Article/Paragraph</b>	CRR 386.1b
<b>Date of submission</b>	08/10/2013
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<b>Disclose name of institution / entity</b>	No
<b>Type of submitter</b>	Investment firm
<b>Subject matter</b>	Eligibility of index CDS hedges in Advanced CVA charge
<b>Question</b>	Please can you confirm whether Basel FAQ 2c7 published in December 2012 on page 19 of BCBS's FAQ ( <a href="http://www.bis.org/publ/bcbs237.pdf">http://www.bis.org/publ/bcbs237.pdf</a> ) is applicable under CRR?
<b>Background on the question</b>	Basel FAQ 2c7 ( <a href="http://www.bis.org/publ/bcbs237.pdf">http://www.bis.org/publ/bcbs237.pdf</a> ) states that index CDS are only eligible A-CVA hedges for proxied counterparties, if the proxy is a constituent of the index. A literal application of this FAQ severely limits the amount of CVA hedging that can be performed and therefore discourages prudent risk management. It is also not clear why there should be different requirements for proxied counterparties, compared to counterparties which do have a traded CDS. Specifically, Basel FAQs do permit index CDS to be eligible hedges for counterparties with traded credit spreads, without any requirement for the counterparty to be an index constituent.
<b>Final answer</b>	Index hedges are eligible hedges regardless of whether the counterparty (or proxy) they are hedging is an index constituent or not. However, under Article 386(1)(b) of Regulation (EU) No. 575/2013, index hedges are only eligible hedges if the basis between any individual counterparty spread and the spreads of index credit default swap hedges is reflected in the CVA-

	Value-at-Risk.
<b>Link</b>	<a href="https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_360">https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_360</a>

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