

Question ID	2014_779
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Liquidity risk
Article	412, 418
Paragraph	1, 1
Subparagraph	1
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	n.a.
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Liquidity cash-flows
Question	<p>Article 418(1) of Regulation (EU) No 575/2013 (CRR) states that: “If the institution hedges the price risk associated with an asset, it shall take into account the cash flow resulting from the potential close-out of the hedge.”</p> <p>Could the EBA please confirm how this should be reflected within the liquid asset reporting?</p>
Background on the question	<p>This provision is particularly relevant for holdings of major index equities, where most institutions will seek to hedge-away the price volatility, thus making these positions liquidity neutral.</p>
Final answer	<p>As Q&A 509 sets out, for the purposes of calculating the liquidity coverage requirement under Article 412(1) of Regulation (EU) No. 575/2013 (CRR), institutions should take into account the cash flow that would arise if the hedge was to be closed out. This is additional to the haircuts to the market value of the security that are in place in the situation without any hedge.</p> <p>The cash flows from the hedge to be taken into account should only be those that would result from a close-out at the reporting reference date. This does not take into account potential future value changes in the security such as</p>

	<p>corresponding to the haircut.</p> <p>The cash flows from hedges as explained in the previous paragraph should be taken into account in C 51 72 in the column 020 010 "value according to Article 418 CRR" "<u>Amount/Market value</u>". To avoid double counting, these cash flows should not be taken into account anywhere else in the liquidity coverage reporting template, such as C52 C73 row 1.2.7 340 "net amount payable from the contracts listed in Annex II (net of collateral to be received that qualifies as liquid assets under Article 416)" "<u>Outflows from derivatives or C74 row 240 "inflows from derivatives"</u>".</p> <p>This answer is without prejudice to further guidance which may be provided in the context of the delegated act on the liquidity coverage ratio.</p>
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2014_779

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