

Question ID	2014_940
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Market risk
Article	355
Paragraph	1
Subparagraph	-
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	Choice of method for commodities risk when an entity has 2 different business lines
Question	Is it possible for an entity to chose 2 different methods of calculating requirement for commodities risk whereby the entity has 2 individual business lines that are seperated from each other. 1 being Futures, Options and OTC derivatives and the other being a pure Stock Financing book?
Background on the question	Article 355 of the CRR states "institutions shall calculate the own funds requirement for commodities risk with one of the methods set out in Article 359, 360 or 361". We apply method 359 Maturity Ladder Approach for our Futures, Options and OTC derivative business however we also have a Stock Financing book which is completely separated out and accounted for uniquely where it would make more sense to apply method 360 Simplified Approach. The question is really whether an only 1 method is applicable to an entity or where it can be demonstrated to be a appropriate more than 1 method?
Final answer	Regulation (EU) No 575/2013 (CRR) does not seem to exclude the possibility of using two different methods for calculating own fund requirements for commodities risk.

However, it must be highlighted that in order to apply the "extended maturity ladder approach" in Article 361 CRR, a series of conditions must be met. These conditions refer to certain characteristics which regard to the whole commodities portfolio of the financial institution, basically: undertaking significant commodities business and having an appropriately diversified commodities portfolio. Fulfilling these conditions, what allows institutions to qualify for the use of this method, and then, applying this method only to a portion of the commodities portfolio does not seem to be in line with the spirit of the regulation. Therefore, it would not be consistent to allow a combination of the approach in Article 361 CRR and the other ones in Articles 359 and 360 CRR respectively.

DISCLAIMER:

This question goes beyond matters of consistent and effective application of the regulatory framework. A Directorate General of the Commission (Directorate General for Internal Market and Services) has prepared the answer, albeit that only the Court of Justice of the European Union can provide definitive interpretations of EU legislation. This is an unofficial opinion of that Directorate General, which the European Banking Authority publishes on its behalf. The answers are not binding on the European Commission as an institution. You should be aware that the European Commission could adopt a position different from the one expressed in such Q&As, for instance in infringement proceedings or after a detailed examination of a specific case or on the basis of any new legal or factual elements that may have been brought to its attention.

Link

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