

Question ID	2014_1155
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Supervisory reporting - Asset Encumbrance
Article	99
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) No 680/2014 - ITS on supervisory reporting of institutions (as amended)
Article/Paragraph	Annex XVI - F35.00
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Disclose name of institution / entity	Yes
Name of institution / submitter	British Bankers' Association
Country of incorporation / residence	UK
Type of submitter	Industry association
Subject matter	Over collateralising on template 35 incorporation of present value of swaps (F35.00)
Question	<p>Template F35.00 is requesting fields to be populated for Row 020 in columns 080, 210, and 220-250. Although col 080 sits within the "Covered Bond Liabilities" section of the template, the caption itself (and definition) are specific to "cover pool derivative positions". Accordingly, we assume this could potentially relate only to derivatives associated with the underlying mortgage assets which are included in the cover pool (i.e. as security for the covered bonds in issue) and would not include any derivative positions associated with the covered bond liabilities themselves. (If our assumption in #1 is correct), the definitions of row 20 and columns 080 and 210 further make reference to only those derivative positions that are determined in accordance with the relevant statutory covered bond regime's rules to be included in the cover pool, are subject to the respective CB protective measures, and are included in determining sufficient coverage - please refer</p>

	<p>to full definitions below. Asset Specific Value (row 030), col's 150, 220-250 are not included in the CB regime rules for asset coverage calculations. If this is the case, on the basis of the definitions included, does this mean that our "cover pool derivative positions" for purposes of reporting within this template are nil? If so, then there would be nothing for us to report here. Can the EBA please confirm the position?</p>
<p>Background on the question</p>	<p>Example: Template Part D 35 AE-CB Issuance row 020 and columns 080, 210, and 220-250. Present value (swap)</p>
<p>EBA answer</p>	<p><u>Population rules for cover pool derivative positions (c080, c210)</u> Columns 080 and 210 of template F 35.00 of Annex XVI to Regulation (EU) No 680/2014 (ITS on Supervisory Reporting) single out derivative positions in case of statutory covered bond regimes allowing for inclusion of such positions with positive market values in cover pools (c210) and correspondingly extending the covered bond regime's protective measures to counterparties of such derivatives with - from the covered bond issuer's perspective - negative market values in that coverage of such contingent liabilities is required by the statutory covered bond regime (c080). The template further levels off of the assumption that in such cases, nominal values would not be used by a relevant statutory covered bond regime as a meaningful dimension for assessing adequate coverage (negativemarket value derivatives / c080) or contribution to coverage (positive market value derivatives / c210), but that market value be used instead (cf. Annex XVII, chapter, 5.2.2, instructions on r020). Consequently, c080 and c210 are to be left blank for reported covered bonds (z-axis) where such an inclusion / extension of protective measures as per the relevant statutory covered bond regime does not apply. Where such an inclusion / extension of protective measures as per the relevant statutory covered bond regime applies, but the reported covered bond's (z-axis) cover pool as per the reporting date does not include derivative positions or where these as of the reporting date have a zero market value, a value of zero is to be reported.</p> <p>For the avoidance of doubt, if a relevant statutory covered bond regime allows for inclusion of derivative positions in cover pools (in that positive market values would contribute to coverage) and consequently extends its protective measures to these cover pool derivatives' counterparties (in that negative market values contribute to liabilities to be covered), the derivative positions should solely be reported in c080 and c210 (but not be included in c020 to c070, and c150 to c200, respectively). Further, the caption of c080 and c210 of '...net [negative/positive]market value' is to be read in conjunction with the respective relevant statutory covered bond regime: if the relevant statutory covered bond regime does not allow for the netting of multiple cover pool derivatives with the same counterparty, then this shall be reflected in that gross cover pool derivatives with negative</p>

market values would supply c080, and those with positive market value would supply c210.

Population rules for asset-specific values (r030) in c150, c220-c250

In c150 of template F 35.00, the asset-specific value (r030) of the cover pool (excluding cover pool derivatives with a (net) positive market value which, in accordance with the guidance above, are to be reported solely in c210) is to be reported according to the following rules:

- for covered bonds (z-axis) where the relevant statutory covered bond regime requires coverage (also) on the basis of an asset-specific value of the cover assets (e.g. an

IFRS 13 or local GAAP fair value, or market value, or a present value determined on the basis of an interest rate curve adjusted for the current level of risk incurred by an

individual cover asset), the value determined in accordance with the corresponding relevant statutory covered bond regime's coverage principle is to be reported,

- otherwise, the asset-specific value, determined along the principles provided for in Annex XVII, chapter 5.2.2, instructions on r030 and this guidance, of the cover pool is to be reported.

To the extent statutory covered bond regimes are meant to ensure timeliness of payment to covered bond holders (whether outright, or contingent in case of mandatory or

discretionary extension), the cover pool, depending on the stringency of asset-liability mismatch treatment / liquidity stress testing, may be exposed to market price risk of cover

assets if the cover pool administrator had to refer to sale of cover assets to fund liquidity needs. Even if not necessary to monitor compliance with relevant statutory covered bond

regimes' requirements, the information of the coverage on the basis of the cover asset's 'asset-specific value' (that, for the avoidance of doubt, has to be assessed for all cover

assets regardless of their individual tradability; in the extreme, the asset-specific value is to be determined by discounting future cash flows by a interest rate curve reflecting the

appropriate rate-of-return for the current level of risk, cf. IFRS 13, B.18) is of high importance for covered bond special public supervisors, both in their own right, as well as

in light of upcoming supervisory resolution powers (cf. Article 44 (2) third sub-paragraph of Directive 2014/59/EU (BRRD)).

In c220 to c250 of F 35.00, an amount by which the asset-specific value (r030) of the cover pool (c150) exceeds a threshold amount (determined to capture mainly the same notion of exit price-like value that the asset-specific value captures) provided

	<p>by either the statutory covered bond regime or at least one (of up to three) relevant credit rating agencies, is to be reported only, if such threshold is relevant for the covered bond reported (i.e. if neither the statutory covered bond regime's coverage principle, nor the rating agencies' methodologies refers to a minimum coverage based on a concept of 'value' similar to the 'asset-specific value', then no asset-specific value excess amount is to be reported in c220 to c250, but the asset-specific value of the entire cover pool is still to be reported in c150).</p>
Link	<p>https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2014_1155</p>

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