

Single Rulebook Q&A

Question ID	2017_3280
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Liquidity risk
Article	423
Paragraph	5
Subparagraph	c
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Delegated Regulation (EU) 2015/61 - DR with regard to liquidity coverage requirement
Article/Paragraph	30 (6) (c)
Date of submission	02/05/2017
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Disclose name of institution / entity	No
Type of submitter	Consultancy firm
Subject matter	Liquid asset received as a component of a pool of collateral in securities transaction (reverse repo or collateral swap).
Question	Is Article 30(6)(c) of the DR(EU) 2015/61 also applicable to Level 1 HQLA that can be substituted by Level 2 HQLA?
Background on the question	<p>An institution has entered into a tri-party reverse repo or collateral swap. The institution receives collateral in a form of a pool of assets including non-liquid assets. In such a transaction, the composition of the pool may vary at any time. The question is about the case of liquid assets of a pool of collateral (which comply with Articles 7 and 8 of the DR(EU) 2015/61 with regard to LCR) being substitutable with non-liquid assets and additional outflows must be calculated and on whether Article 30(6)(c) of the DR(EU) 2015/61 can also be applied to potential collateral substitution of HQLA for other HQLA collateral of a lower liquidity value. In tri-party operations, institutions receive a pool of collateral. Depending on the contracts, assets of the pool may not be all commensurate with the “high quality” definition. The Basel Committee on Banking Supervision published a FAQ in which it states that “if HQLA collateral (eg Level 1 assets) may be substituted for other HQLA collateral (eg Level 2A assets), an outflow amounting to the market value of the received collateral multiplied by the difference between the haircuts of</p>

	<p>the received collateral and the potential substitute collateral should be applied". Article 30(6)(c) of the DR(EU) 2015/61 refers only to the substitution of HQLA for non-HQLA collateral. We wonder if it can also be applied to potential collateral substitution of HQLA for other HQLA collateral of a lower liquidity value.</p>
Final answer	<p>Article 30(6)(c) of Commission Delegated Regulation (EU) 2015/61 applies to cases where assets that would qualify as liquid assets for the purposes of Title II of that Regulation can be substituted by assets that would not qualify as liquid assets for the purposes of that Title without the consent of the credit institution. Level 2 HQLA qualify as liquid assets for the purposes of that Title. Therefore, Article 30(6)(c) is not applicable to a situation where Level 1 HQLA assets are substituted by Level 2 HQLA assets.</p> <p>Disclaimer:</p> <p>The answers clarify provisions already contained in the applicable legislation. They do not extend in any way the rights and obligations deriving from such legislation nor do they introduce any additional requirements for the concerned operators and competent authorities. The answers are merely intended to assist natural or legal persons, including competent authorities and Union institutions and bodies in clarifying the application or implementation of the relevant legal provisions. Only the Court of Justice of the European Union is competent to authoritatively interpret Union law. The views expressed in the internal Commission Decision cannot prejudge the position that the European Commission might take before the Union and national courts.</p>
Link	<p>https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2017_3280</p>

European Banking Authority, 25/05/2022

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