Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Market risk
Article	352
Paragraph	1
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	Not applicable
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Disclose name of institution / entity	No
Type of submitter	Competent authority
Subject matter	Determination of own funds requirements for gold positions denominated in foreign currency
Question	How does the own funds requirements for gold positions denominated in a foreign currency have to be determined in the market risk standardised approach?
Background on the question	Example (domestic currency is EUR):Long gold position of 1000 USD, EUR/USD exchange rate: 1.10The net open position for each currency and in gold shall be calculated according to 352 (1) CRR. Due to the fact that a long

	gold position of 1000 USD is exposed to two different risks (the movement of the gold price and the movement of the EUR/USD exchange rate), the positions subject to FX own funds requirements have to be determined as follows:a) Position belonging to net open foreign exchange position: 1000 USD/1.1 = 909,1 EURb) Position belonging to net open gold positon 1000 USD/1.1 = 909,1 EURSum of positions subject to own funds requirements for foreign exchange risk: 909.1 EUR + 909.1 EUR = 1,818.2 EURThis treatment (“double counting”) is risk adequate, because it is connected to two different risks, which both have to be addressed separately even if – due to the special treatment of gold – both different risks are calculated within the foreign exchange position. Furthermore, there could be an economical correlation between FX risk and gold price risk. But according to the prescribed calculation method for the FX risk in the standardised approach and apart from the exemptions of closely correlated currencies which are not relevant for the above mentioned example, this correlation is not considered in general. To underline the treatment specified above, a long silver position in USD would also be exposed to two different risk factors (silver price and the EUR/USD exchange rate). The only difference would be that here the risks are covered by two different market risk categories (commodity risk (silver) and foreign exchange risk (EUR/USD)).
EBA answer	Article 352(1) of the Regulation (EU) No 575/2013 (CRR) provides the same set of rules for the calculation of an institution’s net open position in each currency and in gold. In particular, Article 352(1) states that an institution’s net open position in gold is computed as a sum of different elements including the “net spot position in gold”. Furthermore, Article 352(4) of the CRR then states that, for the calculation of the overall net foreign exchange position, “the net long or short position in gold shall be converted at spot rates into the reporting currency”. Therefore, a spot position in gold should be converted at spot rates into the reporting currency, where computing the institution’s net open position in gold. Accordingly, no own funds requirements should be computed to reflect the fact that this position in gold is denominated in a currency other than the institution’s reporting currency. If the institution took a position in gold via a derivative, the institution must take into account also other foreign-exchange risk factors affecting the derivative’s price. For example, if an institution with EUR as reporting currency entered in a future contract that implies the exchange of gold for a fixed strike price and that strike price is in USD, the institution must take into account the EUR/USD foreign-exchange risk stemming from the strike price.
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	7

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