Single Rulebook Q&A

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Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Market risk
Article	274
Paragraph	2 and 3
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	na
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Disclose name of institution / entity	Yes
Name of institution / submitter	ECB Banking Supervision DGMS4/SPO/RA
Country of incorporation / residence	EU
Type of submitter	Competent authority
Subject matter	Mark-to-Market Method: remaining maturity for early-termination clauses (ETC)
Question	For the purpose of determining the percentage applicable under the Mark-to-Market Method according to Article 274(2) or (3) CRR, how should the residual maturity be determined for contracts with an early-termination

	clause?
Background on the question	Four cases of early-termination clauses (ETC) can be distinguished.1. Optional ETC: right to terminate the transaction earlier at discretion of (a) the institution or (b) the counterparty;2. Mandatory ETC: mandatory earlier termination of the transaction (a) once certain conditions are met or (b) without additional conditions to be met.From the perspective of the institution, cases 1(b) and 2(a) do not allow relying on the assumption that the maturity will necessarily be shortened, because early termination depends on circumstances that the institution cannot influence. Should the counterparty abstain from cancellation in case 1(b) or should the necessary conditions not arise in case 2(a), the institution cannot cancel the transaction earlier at its own discretion, thus cannot avoid that the exposure lasts over the full remaining contractual maturity.In contrast, a shorter maturity can be reliably achievable in cases 1(a) and 2(b), by exercising the institution's discretion in case 1(a) or by the simple arrival at the date of unconditional mandatory early termination in case 2(b). However, whether this indeed results in a shorter remaining maturity depends on when the cancellation by the institution or the unconditional mandatory cancellation would become effective. Considering how long it takes until the cancellation finally becomes effective is also consistent with the principle applied for EBA Q&A 2014_883 for exposures with undefined maturity.However, the percentages to be applied under the Mark-to-Market Method according to Article 274(2) or (3) CRR could be understood as reflecting not only the length of the period over which changes in market value could still increase the replacement costs, but also that the uncertainty about potential fluctuation in market values typically decreases closer to the final settlement date, due to reduced uncertainty about relevant risk drivers. The uncertainty about relevant risk drivers might be greater if the period from effective termination of the contract until the final settlement date is longer than the period until effective termination. This could justify using the longer of (i) the remaining maturity until the early-termination clause becomes effective and (ii) the maximum remaining maturity of the original contract at this effective termination date.
EBA answer	For the purpose of determining the percentage applicable under the Mark-to-Market Method according to Article 274(2) or (3) CRR, the residual maturity is the period until the latest date when the contract may still be active for the institution. For example in the abovementioned case of an early termination clause that can be unilaterally triggered by the institution without any constraint, the residual maturity is 10 years. On the contrary, in case the obligations in the contract imply a mandatory termination of the contract without additional conditions to be met at a certain termination date, the residual maturity is the period until that termination date (since that termination date is the last date at which the contract may still be active).

	When determining the remaining maturity Q&A 2014_883 shall be taken into account.
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2018_4329

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