

Single Rulebook Q&A

Question ID	2019_4687
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Own funds
Article	45
Paragraph	a
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) No 241/2014 - RTS for Own Funds requirements for institutions
Article/Paragraph	n.a.
Date of submission	29/04/2019
Published as Final Q&A	01/04/2022
Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Fulfilment of conditions reported under Article 45(a) CRR for a synthetic holding held in the banking book and with a maturity less than 1 year
Question	Can a Bank calculate the amount of the position subject to FSE thresholds' mechanism for CET1 capital purposes for a synthetic holding as the net position resulting after offsetting the long position in equity and the short position from the forward sale agreement with a maturity less than 1 year?
Background on the question	Reference is made to Q&A 2785. In the case at hand: 1. A Bank holds a long equity position in a financial sector entity (FSE). 2. In order to cover the long position the Bank entered into a forward sale agreement on the equity position in the FSE and with a maturity less than 1 year, having the following characteristics: a. the Bank has the contractual right/obligation to sell the long equity position at a specific point in time; b. pursuant to the forward sale agreement, the bank's counterparties have the contractual obligation to purchase the long equity position if the Bank exercised its right to sell/deliver the shares; c. the long equity position and the forward sale agreement are both held in the banking book. The question relates to the application of Article 45(a) of Regulation (EU) No 575/2013 (CRR), considering that: <ul style="list-style-type: none"> • while condition (ii) is met, given that the long and the short positions are both held in the same book; • condition (i), i.e. "the

	<p>maturity of the short position matches the maturity of the long position”, needs to be addressed in presence of a long equity position as traditionally equity has no maturity. For the sake of completeness, it is worth mentioning that:- Q&A 1658 explicitly states that the form of settlement (delivery vs cash) does not matter for the requirements of Article 45(a) CRR;- Q&A 2785 says that if the conditions reported in point 2 of Q&A 1658 are met “the maturity of the forward sell can be treated as the maturity of the hedged equity position, and therefore the maturity of the long position and the short position are deemed to be matched for the application of Article 45(a) CRR even if the maturity of the short position is lower than one year.”</p>
Final answer	<p>In accordance with Article 45(a) CRR, for the purposes of the deductions required by points (h) and (i) of Article 36(1) CRR, institutions may calculate direct, indirect and synthetic holdings of CET1 instruments of the financial sector entities on the basis of the net long position in the same underlying exposure provided that:</p> <ul style="list-style-type: none"> - the maturity date of the short position is either the same as, or later than the maturity date of the long position or the residual maturity of the short position is at least one year; - either both the long position and the short position are held in the trading book or both are held in the non-trading book. <p>As indicated in EBA Q&A 2785, if the institution has a contractual right/obligation at a specific point in time to sell a long position and the counterparty has an obligation to purchase the long position if the institution exercises its right to sell, the maturity of the long position and the short position are deemed to be matched for the application of Article 45(a) CRR in case both positions are held in the trading book, even if the maturity of the short position is lower than one year.</p> <p>This treatment is also aligned with Basel FAQ 6 to CAP 30.22 (https://www.bis.org/basel_framework/chapter/CAP/30.htm?inforce=20191215), in which the Basel Committee concluded that the above treatment could be applied for positions in the trading book.</p> <p>Therefore, in the case at hand, the deductions required by points (h) and (i) of Article 36(1) CRR shall be done without netting the long and short positions (i.e. on a gross basis).</p>
Link	<p>https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2019_4687</p>