Single Rulebook Q&A

Question ID	2019_5020
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Liquidity risk
Article	423
Paragraph	3
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) 2017/208 - RTS for additional liquidity outflows corresponding to collateral needs resulting from the impact of an adverse market scenario on an institution's derivatives transactions
Article/Paragraph	2/1
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Disclose name of institution / entity	Yes
Name of institution / submitter	European Central Bank
Country of incorporation / residence	Germany
Type of submitter	Competent authority
Subject matter	LCR treatment of settled-to-market derivatives
Question	Should settlement payments (or receipts) made in the context of derivatives structured as "settled-to-market" (or "STM") be considered under Article 2(1) of Delegated Regulation (EU) 2017/208?

Background on the question	In accordance with Article 30(3) of Delegated Regulation (EU) 2015/61, for the purpose of the calculation of the Liquidity Coverage Ratio (LCR), credit institutions shall add an additional outflow corresponding to collateral needs that would result from the impact of an adverse market scenario on the credit institution's derivatives transactions, financing transactions and other contracts if material. The calculation of this additional outflow has been specified in Delegated Regulation (EU) 2017/208. In accordance with Article 2(1) of this Regulation, the additional outflow shall be the largest absolute net 30-day collateral flow realized during the 24 months preceding the date of calculation of the LCR. It is not fully clear to what extent flows associated with derivatives structured as "settled-to-market" (or "STM") should be considered when calculating the largest absolute net 30-day collateral flow realized during the 24 months preceding the date of calculation of the LCR. To recall, under STM, daily payments of mark-to-market variation margin are recorded as settlements of the derivatives transactions rather than transfers of collateral and the market value of the derivatives is reset daily to zero.
EBA answer	In accordance with Article 30(3) of Delegated Regulation (EU) 2015/61 as amended by Delegated Regulation (EU) 2018/1620 (hereinafter ‘LCR DR’), credit institutions shall add an additional outflow corresponding to collateral needs that would result from the impact of an adverse market scenario on the credit institution's derivatives transactions, financing transactions and other contracts if material. The calculation of this additional outflow is further specified in Delegated Regulation (EU) 2017/208. In accordance with Article 2(1) of this Regulation, the additional outflow, to the extent it is material and to be considered in the LCR, shall be the largest absolute net 30-day collateral flow realised during the 24 months preceding the date of calculation of the LCR. While derivatives structured as "settled-to-market (STM) do not include a transfer of collateral, the economic cash flows exchanged between parties in relation to STM and non-STM derivatives are identical and therefore the collateral flows referred to in Article 2(1) of Delegated Regulation (EU) 2017/208 should be understood as also capturing payments and receipts which are deemed to settle outstanding exposures from derivatives structured as STM.
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2019_5020