Single Rulebook Q&A

Question ID	2016_2848
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Own funds
Article	52, 63
Paragraph	1
Subparagraph	g and h
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) No 241/2014 - RTS for Own Funds requirements for institutions
Article/Paragraph	20(2)(a)
Date of submission	28/07/2016
Published as Final Q&A	21/07/2017
Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Taps on callable instruments
Question	If a tap of an instrument is priced at a lower credit spread than the initial spread of the original issue, would the reset of the margin at the first call date to the initial spread of the original issue be considered an incentive to redeem as per Article 20 of EBA RTS for Own Funds requirements for institutions?If a tap of an instrument is priced at a lower credit spread than the initial spread of the original issue, would the reset of the margin at the first call date to the initial spread of the original issue be considered an incentive to redeem as per Article 20 of EBA RTS for Own Funds

	requirements for institutions?
Background on the question	Article 20(2)(a) of RTS for Own Funds requirements for institutions defines an incentive to redeem as "a call option combined with an increase in the credit spread of the instrument if the call is not exercised". A particular case where Article 20(2)(a) may be applicable is when a bank issues a callable instrument with a fixed credit spread not subject to any step-up at any time (the 'Initial Credit Spread'), and a few months later, when the secondary spread of the initial tranche has tightened, issues a new tranche to be merged with the original instrument at a credit spread lower than the Initial Credit Spread (i.e. a tap). In this case, at the first call date, the reset mechanism would technically result in an increase in the credit spread for the tapped amount.
EBA answer	A tap of an instrument shall be considered as a new issuance (see Q&A 2013_238). The first call date has to be a minimum five years after the date of the tap (and not five years after the issuance date of the original bonds). Therefore, if the first call date of the original bonds associated with the reset mechanism is set five years after the issuance of the original bonds, the tap will not be subject to the same reset mechanism than the original bonds. If the reset mechanism of the original bonds is set more than five years after the tap issuance and that it applies also to it, there is an incentive to redeem in the sense of Article 20(2)(c) of the Commission Delegated Regulation (EU) No 241/2014 if the credit spread for the tapped amount increased due to the fact that it was lower than the credit spread of the original bonds.
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2016_2848

European Banking Authority, 06/05/2021
www.eba.europa.eu