

General remarks

Sberbank welcomes EBA initiative to bring more clarity to the treatment of structural currency position as well as respective exemptions for capital requirements calculation purposes.

At the same time, we believe it would be beneficial for all market participants, if EBA could have provided a comprehensive example on how exactly open currency position shall be computed on the group consolidated level for capital requirements calculation purposes, and demonstrate the correlations with the IFRS accounting consolidation process. At the moment the approach can only be derived from the examples and might be understood differently by different stakeholders.

Specific comments

On Example 2: Identification of positions of type A and B at consolidated level (page 68)

As mentioned in *general remarks* above, more comments on the example would be helpful. At the moment, our interpretation of the suggested calculation is as follows:

The *Parent Bank* has open FX positions:

- In GBP of 50 (corresponds to assets denominated in GBP, including participation),
- In EUR (reporting currency): short position equal to -50.

The *Subsidiary* at solo level has open FX positions:

- In GBP of -80 (100 assets – 200 liabilities – 180 CET1),
- In USD position is long, equal to 80 (assets – liabilities denominated in USD).

As a result, total open position on the consolidated level shall be:

- In EUR: short, equal to -50 (stemming from Parent Bank only);
- In GBP: short, equal to -30 (Parent's position 50 *plus* Subsidiary's position -80);
- In USD: long, equal to 80 (Subsidiary's position of 80).

Such logic of positions' consolidation can be tested by comparing profit and loss (P&L) result stemming from GBP appreciation of each entity on solo level and consolidated level.

Assuming that GBP appreciated vs. USD by 10% (consequently, USD depreciates vs. GBP by 9.1%), the P&L results will be the following (for simplicity, it is assumed that before the appreciation, exchange rates of all three currencies were equal: 1 EUR = 1 USD = 1 GBP; after the appreciation 1,1 EUR = 1 GBP = 1,1 USD or 1 EUR = 0.91 GBP = 1 USD):

- (A) In the *Parent Bank*: EUR 50 [long position in GBP] * (1.1-1) = EUR 5
- (B) In the *Subsidiary*: GBP 80 [long position in USD] * (1/1.1-1) = GBP -7.28 = EUR -8
- (C) *Consolidated*: EUR -30 [short position in GBP] * (1.1-1) = EUR -3

Sum of A and B is equal to C, hence the approach chosen for the position consolidation is correct.

On contrary, in the example given the open FX position on the consolidated level is equal to:

- In EUR: -210;
- In GBP: 130;
- In USD: 80.

In case of above-mentioned theoretical scenario of GBP appreciation, the P&L effect from such position is equal to 13 (stemming from long GBP position only), that does not correspond to the sum of P&L of stand-alone entities. However, the difference between this result (13) and consolidated result computed above (-3) is exactly the revaluation of subsidiaries' retained earnings:

- Difference in P&L results: $13 - (-3) = 16$;
- Retained earnings (computed as difference between participation and subsidiary's equity): $180 - 20 = 160$. The revaluation of retained earnings therefore is: $EUR 160 * (1.1 - 1) = 16$.

Therefore, as per our interpretation of the example, the suggestion is that on consolidated level retained earnings stemming from subsidiaries with non-EUR reporting currencies will contribute to the long positions in the respective currencies, as soon as retained earnings are positive. In case retained earnings are negative, short position will occur on the consolidated level. At the same time, long position will serve as a hedge of capital ratios, as with change of currency rates the valuation effect (booked in Other Comprehensive Income, OCI) occurs. Therefore, this position can be excluded, subject to the approval of competent authorities, and within the level of maximum currency position.

In case retained earnings are negative and respective position is short, the bank may counterbalance the potential negative impact by entering into the long position that will serve as a hedge.

[On Example 4: Computation of the maximum open position \(page 71\)](#)

We have understood, that the CET1 position in the example is meant to be denominated in EUR, not GBP.

[On Currency peg](#)

We would like to note, that the framework shall be extended with regard to the treatment of currencies with pegged exchange rate (for example, BAM). Positions in such currencies, including equity positions, behave like positions in currencies they are linked to (for example, position in BAM behaves like EUR position), therefore shall be excluded from the capital charge.

[On Sensitivity range](#)

In bank's view suggested formula for the sensitivity range is too restrictive. We would propose to leave it up to the institution and its competent authority to decide how effective the hedge shall be (or, on other words, in which range the sensitivity might fluctuate), as it might be specific to the institution's business strategy.

[On Material currencies \(questions 3 and 4\)](#)

In our view, the selection of the material currencies shall be based on the assessment on institution's business model. Typically, currencies in which there is a significant amount of foreign currency business or foreign currencies that are reporting currencies for institution's subsidiary are significant. The proposed measures (A and B) might not provide the relevant list of currencies; moreover both measures would give the same result.

As an alternative, we would suggest to consider the following measures:

1. Percentage of foreign currency denominated subsidiary equity to the consolidated equity in the reporting currency;
2. Percentage of total credit RWAs in the foreign currency to the total RWA of the institution.