



EBA publishes final draft technical standards on indirect exposures arising from derivatives underlying a debt or equity instrument

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The European Banking Authority (EBA) published today final draft regulatory technical standards (RTS) specifying how institutions should determine exposures arising from derivative and credit derivative contracts not entered directly into with a client but whose underlying debt or equity instrument was issued by a client. These draft RTS will ensure appropriate levels of consistency through different pieces of the regulatory framework for the calculation of large exposures.

As part of the Risk Reduction Measures (RRM) package adopted by the European legislators, the large exposure framework under the Capital Requirements Regulation (CRR) was amended to ensure greater alignment with the Basel standard (LEX).

These draft RTS propose a methodology for the calculation of indirect exposures for different categories of derivative contracts and credit derivative contracts with a single underlying debt or equity instrument, namely:

- options on debt and equity instruments;
- credit derivative contracts;
- other derivatives having as underlying a debt or equity instrument.

In addition, they provide a separate methodology for the calculation of exposures stemming from contracts with multiple underlying reference names. The proposed methodologies are expected to be easy to implement and applicable by all institutions in a standardised manner.

The final draft RTS have been developed in a way to ensure that they are compatible with the jump-to-default (JTD) approach under the Fundamental Review of the Trading Book (FRTB) and the CRR and the corresponding draft RTS on JTD that the EBA is currently developing. The basis of both draft RTS is the variation in price that would stem from the default of an issuer.

The EBA consulted on the draft RTS for three months, and the feedback received led to a clarification, on the treatment of derivatives and credit derivatives allocated to the trading book or non-trading book. Furthermore, the draft RTS have been amended to align the proposed rules applicable to multi-underlying derivatives with a structure (i.e. an index and collective investment undertakings) or without a structure, as well as the introduction of a partial look-through approach for this type of derivatives.

Legal basis

Article 390(5) of the CRR, as amended by Regulation (EU) 2019/876, requires institutions to add to the total exposures to a client the exposures arising from derivative contracts listed in Annex II of the CRR and credit derivative contracts, where the contract was not directly entered into with that client but the underlying debt or equity instrument was issued by that client.

Article 390(9) of the CRR mandates the EBA *“to specify how to determine the exposures arising from derivative contracts listed in Annex II and credit derivative contracts, where the contract was not directly entered into with a client but the underlying debt or equity instrument was issued by that client for their inclusion into the exposures to the client”*.

DOCUMENTS

- ▶ Final draft RTS on derivatives indirect exposures

LINKS

- ▶ Regulatory Technical standards on the determination of indirect exposures to underlying clients of derivative and credit derivative contracts
- ▶ Large exposures

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