COMMISSION DELEGATED REGULATION (EU) 2023/662

of 20 January 2023

amending Delegated Regulation (EU) 2015/63 as regards the methodology for the calculation of liabilities arising from derivatives

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 of the European Parliament and of the Council ([1]), and in particular Article 103(7) thereof,

Whereas:

(1) Under Article 5(3) of Commission Delegated Regulation (EU) 2015/63 ([2]), liabilities arising from derivative contracts are one of the components of the calculation of the annual contributions to be paid by institutions to resolution financing arrangements. In particular, the yearly average amount, calculated on a quarterly basis, of the liabilities referred to in paragraph 1 of that Article, arising from derivative contracts, is to be valued in accordance with Articles 429, 429a and 429b of Regulation (EU) No 575/2013 of the European Parliament and of the Council ([3]).

(2) Prior to the entry into force of Regulation (EU) 2019/876 of the European Parliament and of the Council ([4]), Article 429, 429a and 429b of Regulation (EU) No 575/2013, obliged institutions to calculate the exposure value of their derivatives using a mark-to-market method – the Current Exposure Method ('CEM') – by virtue of a reference to Article 274 of that Regulation, related to the calculation of the Leverage Ratio Exposure.

(3) Regulation (EU) 2019/876 amended Regulation (EU) No 575/2013. In particular, Articles 429, 429a and 429b were replaced by the new Articles 429 to 429g. That amendment included, inter alia, the introduction in Article 429c of Regulation (EU) No 575/2013 of the obligation for institutions to calculate the exposure value of derivative contracts in accordance with the mark-to-market method known as the Standardised Approach – Counterparty Credit Risk (SA-CCR), which replaced the Current Exposure Method or 'CEM' with effects on the *ex-ante* contribution periods as of 2023.

(4) The Standardised Approach – Counterparty Credit Risk method is impossible to apply for the valuation of liabilities arising from derivative contracts when such valuation needs to be applied for the purposes of Delegated Regulation (EU) 2015/63. The application of that method would, in fact, distort the calculation of liabilities arising from derivative contracts, which would affect some institutions more than others. That is due, first, to the presence of a zero floor in certain formulas to be applied, which would affect institutions differently depending on whether they

([1]) OJ L 173, 12.6.2014, p. 190.

([2]) Commission Delegated Regulation (EU) 2015/63 of 21 October 2014 supplementing Directive 2014/59/EU of the European Parliament and of the Council with regard to ex ante contributions to resolution financing arrangements (OJ L 11, 17.1.2015, p. 44).

([3]) Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

([4]) Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (OJ L 150, 7.6.2019, p. 1).

use IFRS (International Financial Reporting Standards), and, second, to technical difficulties and uncertainties in the application of formulas calculating the Potential Future Exposure. It is therefore necessary to enable institutions to use the Current Exposure Method for the valuation of liabilities arising from derivative contracts and to introduce that method, previously laid down in Regulation (EU) No 575/2013, in Delegated Regulation (EU) 2015/63.

(5) Delegated Regulation (EU) 2015/63 should therefore be amended accordingly.

(6) It is necessary to provide resolution authorities with more time to adopt and notify their decisions on contributions to resolution financing arrangements in line with the amended requirements. It is therefore necessary to provide for a transitional arrangement for the year 2023 extending the deadlines for such notification.

(7) Since the resolution authorities need to apply the amended requirements in order to calculate and raise the contributions for year 2023 as soon as possible, it is necessary to provide for the entry into force of this Regulation the day following its publication.

(8) Under Article 14(4) of Delegated Regulation (EU) 2015/63, institutions are to provide resolution authorities with the information that is relevant for the calculation of the contributions by 31 January each year. It is necessary to give institutions one more month to provide that information in 2023, by means of a transitional arrangement.

(9) It is also necessary to enable resolution authorities to issue instructions to institutions for the provision of that information, consistently with the introduced amendments, well in advance of the established deadline for 2023, to avoid the creation of legal uncertainty about the method to be applied in 2023 for the valuation of liabilities arising from derivative contracts. To ensure continuity of the calculation method throughout contribution periods and to enable resolution authorities to issue, from 1 October 2022, instructions on the provision of such information in conformity with this Regulation, this Regulation should apply retroactively from that date,

HAS ADOPTED THIS REGULATION:

Article 1

Delegated Regulation (EU) 2015/63 is amended as follows:

(1) in Article 3, the following point (30) is added:

'(30) 'liabilities arising from derivative contracts' means either individual liabilities arising from a derivative contract or, where applicable, liabilities arising from a netting set of derivative contracts as listed in Annex II to Regulation (EU) No 575/2013.';

(2) in Article 5, paragraph 3 is replaced by the following:

'3. For the purpose of this Section, the yearly average amount, calculated on a quarterly basis, of the liabilities referred to in paragraph 1, arising from derivative contracts as listed in Annex II to Regulation (EU) No 575/2013, including those that are off-balance sheet, shall be valued in accordance with Articles 5a to 5e of this Regulation.

However, the value assigned to liabilities arising from derivative contracts may not be less than 75 % of the value of the same liabilities resulting from the application of the accounting provisions applicable to the institution concerned for the purposes of financial reporting.

Where, under national accounting standards applying to an institution there is no accounting measure of exposure for certain derivative instruments because those derivative instruments are held off-balance sheet, the institution shall report to the resolution authority the sum of the fair values of those derivatives, where the sum is negative, as the replacement cost and add those derivatives to its on-balance sheet accounting values.';

(3) the following Articles 5a to 5e are inserted:

'*Article 5a*

Exposure value of derivatives

1. Institutions shall determine the exposure value of the derivate contracts listed in Annex II to Regulation (EU) No 575/2013, including those that are off-balance sheet, in accordance with the Mark-to-Market Method set out in Article 5b.

When determining the exposure value, institutions may take into account the effects of contracts for novation and other netting agreements in accordance with Article 5d. Cross-product netting shall not apply. However, institutions may net within any single product category included in Annex II to Regulation (EU) No 575/2013 when they are subject to a contractual cross-product netting agreement.

2. Where the provision of collateral related to derivative contracts reduces the amount of liabilities under the applicable accounting framework, institutions shall reverse that reduction.

3. For the purposes of paragraph 1, institutions may deduct from the current replacement cost portion of the exposure value the variation margin paid in cash to the counterparty in so far as under the applicable accounting framework the variation margin has not already been recognised as a reduction of the exposure value and provided that all of the following conditions are met:

(a) for trades not cleared through a qualifying central counterparty as defined in Article 4(1), point (88), of Regulation (EU) No 575/2013, the cash given to the recipient counterparty is not segregated;

(b) the variation margin is calculated and exchanged on a daily basis, based on a mark-to-market valuation of derivative positions;

(c) the variation margin given in cash is in the same currency as the currency of settlement of the derivative contract;

(d) the variation margin exchanged is the full amount that would be necessary to fully extinguish the mark-to-market exposure of the derivative subject to the threshold and minimum transfer amounts applicable to the institution;

(e) the derivative contract and the variation margin between the institution and the counterparty to that contract are covered by a single netting agreement that the institution may treat as risk-reducing in accordance with Article 5d.

For the purposes of point (c) of the first subparagraph, where the derivative contract is subject to a qualifying master netting agreement, the currency of settlement means any currency of settlement specified in the derivative contract or the governing qualifying master netting agreement.

Where under the applicable accounting framework an institution recognises the variation margin received in cash from the counterparty as a payable liability, it may exclude that liability from the exposure measure provided that the conditions set out in the first subparagraph, points (a) to (e), are met.

4. For the purposes of paragraph 3, the following shall apply:

(a) the deduction of variation margin paid shall be limited to the negative current replacement cost portion of the exposure value;

(b) an institution shall not use variation margin paid in cash to reduce the potential future credit exposure amount, including for the purposes of Article 5e(1), point (b)(ii).

5. By way of derogation from paragraph 1, institutions may use the Simplified Exposure Method set out in Article 5c to determine the exposure value of derivative contracts listed in points 1 and 2 of Annex II to Regulation (EU) No 575/2013, provided that the size of the on- and off-balance-sheet derivative business of those institutions meets the conditions set out in Article 273a(2) of that Regulation.

Institutions that apply that Simplified Exposure Method shall not reduce the exposure measure by the amount of variation margin received in cash.

Article 5b

Mark-to-Market Method

1. The current replacement cost of liabilities arising from derivative contracts at netting set level shall be the absolute value of the net market value of those contracts within the netting, gross of any collateral held or posted where positive and negative market values are netted in computing the net market value. For that purpose, institutions shall treat an individual derivative transaction as its own netting set.

2. In order to determine the potential future credit exposure, institutions shall multiply the notional amounts or underlying values, as applicable, by the percentages set out in Table 1 and in accordance with the following:

(a) derivative contracts which do not fall within one of the five categories set out in Table 1 shall be treated as contracts concerning commodities other than precious metals;

(b) for derivative contracts with multiple exchanges of principal, the percentages shall be multiplied by the number of remaining payments still to be made in accordance with the contract;

(c) for derivative contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset so that the market value of the derivative contract is zero on those specified dates, the residual maturity shall be equal to the time until the next reset date; in the case of interest-rate contracts that meet those criteria and have a remaining maturity of over one year, the percentage shall be no lower than 0,5 %.

Table 1

Residual maturity	Interest-rate contracts	Contracts concerning foreign-exchange rates and gold	Contracts concerning equities	Contracts concerning precious metals other than gold	Contracts concerning commodities other than precious metals
1 year or less	0 %	1 %	6 %	7 %	10 %
Over 1 year, not exceeding 5 years	0,5 %	5 %	8 %	7 %	12 %
Over 5 years	1,5 %	7,5 %	10 %	8 %	15 %

3. The exposure value shall be the sum of current replacement cost and potential future credit exposure.

Article 5c

Simplified Exposure Method

1. Under the Simplified Exposure Method, institutions shall determine the exposure value by multiplying the notional amount of each instrument by the percentages set out in Table 2.

Table 2

Original maturity	Interest-rate contracts	Contracts concerning foreign-exchange rates and gold
1 year or less	0,5 %	2 %
Over 1 year, not exceeding 2 years	1 %	5 %
Additional allowance for each additional year	1 %	3 %

2. Institutions may, when calculating the exposure value of interest-rate contracts, use either the original or residual maturity.

Article 5d

Recognition of contractual netting as risk-reducing

Institutions may treat as risk reducing in accordance with Article 5e only the following types of contractual netting agreements where such netting agreement has been recognised by competent authorities in accordance with Article 296 of Regulation (EU) No 575/2013 and where the institution meets the requirements set out in Article 297 of that Regulation:

(a) bilateral contracts for novation between an institution and its counterparty under which mutual claims and obligations are automatically amalgamated in such a way that the novation fixes one single net amount each time it applies so as to create a single new contract that is binding on the parties and replaces all former contracts and all obligations between parties pursuant to those contracts;

(b) other bilateral agreements between an institution and its counterparty.

Article 5e

Effects of recognition of netting as risk-reducing

1. Institutions shall treat contractual netting agreements as follows:

(a) in the case of contracts for novation, institutions may weigh the single net amounts fixed by such contracts rather than the gross amounts involved;

In the application of Article 5b, institutions may take the contract for novation into account when determining:

— the current replacement cost referred to in Article 5b(1);

— the notional principal amounts or underlying values referred to in Article 5b(2).

In the application of the Simplified Exposure Method, in determining the notional amount referred to in Article 5c(1), institutions may take into account the contract for novation for the purposes of calculating the notional principal amount. In such cases, institutions shall apply the percentages of Table 2.

(b) in the case of other netting agreements, institutions shall apply Article 5b as follows:

(i) the current replacement cost referred to in Article 5b(1) for the contracts included in a netting agreement shall be obtained by taking account of the actual hypothetical net replacement cost which results from the agreement; in the case where netting leads to a net receivable for the institution calculating the net replacement cost, the current replacement cost shall be calculated as '0';

(ii) the figure for potential future credit exposure referred to in Article 5b(2) for all contracts included in a netting agreement shall be reduced in accordance with the following formula:

$PCE_{red} = 0,4 \bullet PCE_{gross} + 0,6 \bullet NGR \bullet PCE_{gross}$

where:

PCE_{red} = the reduced figure for potential future credit exposure for all contracts with a given counterparty included in a legally valid bilateral netting agreement;

PCE_{gross} = the sum of the figures for potential future credit exposure for all contracts with a given counterparty which are included in a legally valid bilateral netting agreement and are calculated by multiplying their notional principal amounts by the percentages set out in Table 1;

NGR = the net-to-gross ratio calculated as the quotient of the net replacement cost for all contracts included in a legally valid bilateral netting agreement with a given counterparty (numerator) and the gross replacement cost for all contracts included in a legally valid bilateral netting agreement with that counterparty (denominator).

2. When calculating the potential future credit exposure in accordance with the formula set out in paragraph 1, point (b)(ii), institutions may treat perfectly matching derivative contracts included in the netting agreement as if those contracts were a single contract with a notional principal equivalent to the net receipts.

When applying Article 5c(1), institutions may treat perfectly matching derivative contracts included in the netting agreement as if those contracts were a single contract with a notional principal equivalent to the net receipts, and the notional principal amounts shall be multiplied by the percentages laid down in Article 5c, Table 2.

For the purposes of this paragraph, perfectly matching derivative contracts mean forward foreign-exchange contracts or similar contracts in which a notional principal is equivalent to cash flows if the cash flows fall due on the same value date and are fully in the same currency.

3. For all other derivative contracts included in a netting agreement, institutions may reduce the percentages applicable as indicated in Table 3.

Table 3

Original maturity	Interest-rate contracts	Foreign-exchange contracts
1 year or less	0,35 %	1,50 %
More than 1 year but not more than 2 years	0,75 %	3,75 %
Additional allowance for each additional year	0,75 %	2,25 %

4. In the case of interest-rate contracts, institutions may choose either original or residual maturity.';

(4) in Article 20 the following paragraphs 6 and 7 are added:

'6. By way of derogation from Article 13(1), in the 2023 contribution period the resolution authorities shall notify each institution referred to in Article 2 of their decisions determining the annual contribution due by each institution by 31 May 2023.

7. By way of derogation from Article 14(4), and with regard to the information to be provided to the resolution authority in 2023, the information referred to in that paragraph shall be provided at the latest by 28 February 2023'.

Article 2

Entry into force and application

This Regulation shall enter into force on the day following that of its publication in the *Official Journal of the European Union*.

It shall apply from 1 October 2022.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 20 January 2023.

For the Commission
The President
Ursula VON DER LEYEN