



TOPICS:

Banking System

SOURCE:

European Banking Authority

The EBA Publishes Final Draft Technical Standards on Structural Foreign Exchange

- The structural FX provision allows banks, with supervisory approval, **to exclude specific FX risk positions from own funds requirements** when those positions are deliberately held to hedge the sensitivity of capital ratios to exchange rate movements.
- The EBA **RTS formalise conditions under which such positions can be excluded**, ensuring a harmonised framework across EU jurisdictions. Notably, the RTS remove the previously suggested materiality threshold for eligible currencies and allow institutions to base calculations solely on credit risk requirements where those are the primary driver of FX sensitivity.
- **To qualify for exemption**, a position must meet **three cumulative conditions**: (1) it must hedge the capital ratio, (2) it must be structural in nature, and (3) it must be managed under a robust risk management framework. Importantly, only banking book positions are considered eligible, with trading book and internal hedging transactions explicitly excluded. Positions must also be net long and must reduce the sensitivity of capital ratios - typically CET1 - to FX volatility.
- The RTS differentiate between Type A positions (e.g. participations in subsidiaries with a foreign reporting currency) and Type B (requiring deeper supervisory scrutiny). A formula is provided to calculate the **maximum net open position** that may be exempted, based on CET1 capital and risk-weighted assets excluding FX requirements. An allowance is made for additional exclusions of non-monetary items held at historical cost and other items that do not impact CET1.
- Institutions are required **to maintain a detailed, board-approved risk management strategy outlining hedging objectives and actions under stressed conditions**. Any changes to the approved framework or failure to meet objectives must be reported to supervisors and may result in revocation of permission.

