Pills

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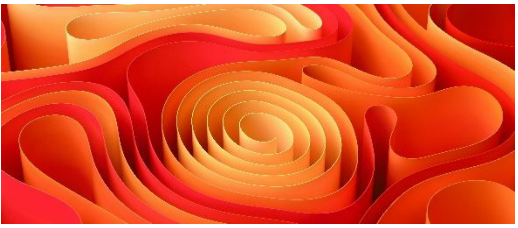

TOPICS:

Market risk

SOURCE

European Banking Authority

EBA: Final Draft Technical Standards on Criteria to Assess the Materiality of CVA Risk Exposures Arising from Securities Financing Transactions

- The EBA has issued its **final draft Regulatory Technical Standards (RTS)** under Article 382(6) of the Capital Requirements Regulation (CRR), as amended by CRR3. These standards provide a framework for determining when the **CVA risk exposures from fair-valued securities financing transactions (SFTs)** should be included in capital requirements. The RTS responds to the mandate to specify the conditions, criteria, and frequency for assessing the materiality of CVA risk arising from SFTs.
- Under Article 382(2) CRR, **institutions must include fair-valued SFTs in CVA risk capital requirements if** the related exposures are **material**. The RTS defines materiality through a quantitative ratio comparing the CVA own funds requirements including and excluding such SFTs. If the ratio equals or exceeds 5%, SFTs are deemed material and must be capitalised. This assessment is to be conducted quarterly, aligning with the existing supervisory reporting (COREP) schedule.
- The preferred **approach** - purely **quantitative** - was selected over qualitative or mixed models to ensure objectivity, consistency, and reduced supervisory burden.

The EBA rejected alignment with non-EU jurisdictions (e.g. US, UK), citing divergent regulatory frameworks and existing EU CVA exemptions.

- The RTS specify that fair-valued SFTs already exempt under Articles 382(3) and (4) CRR remain out of scope unless institutions elect otherwise under Article 382(4a). Following public consultation, **several changes were made**, notably the simplification of the assessment to a single quarterly ratio instead of a multi-period threshold and refinement of the calculation to reflect CVA formulas' non-linearity.
- The EBA's impact assessment found that the 5% threshold would apply to approximately 8% of institutions surveyed under the Basel III monitoring exercise. Despite some industry concerns over competitive impact and proportionality, the EBA maintained that **the RTS promote legal certainty, comparability, and prudent capitalisation** across EU institutions.