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## 2022 ex-ante contributions to the SRF Additional Guidance

The objective of this document is to clarify how to fill in some parts of the SRF 2022 Data Reporting Form taking into consideration the Commission Delegated Regulation (EU) 2015/63 (hereafter “DR”).

This document provides additional guidance on the following topics:

- 1. Intragroup deduction**
- 2. IPS deduction**
- 3. Derivative adjustment**

## 1. Intragroup deduction

The deductions referred to in Article 5(1)(a) of DR cannot be applied when assessing whether a small institution qualifies for the lump-sum approach in accordance with Article 10(1-6) of the DR.

The intragroup liabilities can only be deducted from the total liabilities:

- After the derivative adjustment referred to in Article 5(3)-(4) of the DR has been applied;
- If they meet all the conditions listed in Article 5(1)(a) of the DR<sup>1</sup>; and
- If the even deduction referred to in Article 5(2) of the DR is applied.

The deduction of intragroup liabilities as per Article 5(1)(a) of DR does not apply between an institution established in a Member State and an institution which is part of the same group and established in an EEA-EFTA country, until Directive 2014/59/EU (the BRRD) has been incorporated into the EEA Agreement.

### 1. Deduction of eligible intragroup liabilities

Each group entity must identify the intragroup liabilities arising from intragroup transactions that meet all the conditions listed in Article 5(1)(a) of the DR. Among these intragroup liabilities, the ones arising from derivative contracts must be isolated.

#### *(a) Eligible intragroup liabilities arising from derivative contracts<sup>2</sup>*

Before any deduction is applied, liabilities arising from derivative contracts are adjusted in accordance with the Article 5(3)-(4) of the DR. This means that they are valued in accordance with the leverage ratio methodology<sup>3</sup> to which a floor is applied<sup>4</sup>. Consequently, eligible intragroup liabilities arising from derivative contracts must be a subset of the leverage value of derivative liabilities. If the floor was applied, intragroup derivatives will be deducted proportionally to their share of the floor.

#### *(b) Eligible intragroup liabilities not arising from derivative contracts*

The source for the eligible intragroup liabilities not arising from derivatives must be the annual financial statements (accounting value), as for 'Total Liabilities'.

#### *(c) Total eligible intragroup liabilities and deductible amount by group entity*

Eligible intragroup liabilities in (a) and (b) must be added up in order to obtain the total eligible intragroup liabilities (c). In accordance with Article 5(2) of the DR, the total eligible intragroup liabilities (c) shall be evenly deducted, meaning that the group counterparts of these liabilities (c) can benefit from this deduction too,

<sup>1</sup> Article 5(1)(a) of the DR: (a) the intragroup liabilities arising from transactions entered into by an institution with an institution which is part of the same group, provided that all the following conditions are met: (i) each institution is established in the Union; (ii) each institution is included in the same consolidated supervision in accordance with Articles 6 to 17 of Regulation (EU) No 575/2013 ("CRR") on a full basis and is subject to an appropriate centralised risk evaluation, measurement and control procedures; and (iii) there is no current or foreseen material practical or legal impediment to the prompt repayment of the liability when due.

<sup>2</sup> Derivatives are defined in the Article 3(22) of the DR.

<sup>3</sup> As defined in the Article 429 and 429a CRR, as applicable at the time of the reference date for the data required for the 2022 contributions period.

<sup>4</sup> 75% of the accounting value of derivative liabilities held on- and off-balance sheet

therefore they are divided by two by each group entity (only half of the total eligible intragroup liabilities (c) can be deducted by each group entity from its total liabilities after derivative adjustment).

## 2. Deduction of eligible intragroup assets

As mentioned above, Article 5(2) of the DR requires that eligible intragroup liabilities are evenly deducted, meaning that intragroup assets that meet all the conditions referred to in Article 5(1)(a) of the DR can also be deducted by each group entity provided that:

- It represents an eligible intragroup liability for their intragroup counterpart(s);
- The value of the latter replaces the value of the corresponding intragroup asset in case of mismatch; and
- The even deduction is also applied to eligible intragroup assets (half of them are deductible by each group entity).

Therefore, each group entity should follow the following steps:

- a) Identification of intragroup assets that meet all the conditions referred to in Article 5(1)(a) of the DR in its financial statements (accounting value);
- b) Verification if they correspond well to an intragroup liability for each of their counterparts. If not, they cannot be deducted;
- c) If the intragroup asset does not arise from a derivative, verification of the liability value booked in the financial statements of the group counterpart (see '*Eligible intragroup liabilities not arising from derivative contracts*'). In case of mismatch, the value booked by the group counterpart as a liability prevails.
- d) If the intragroup asset arises from a derivative, application of the leverage ratio methodology<sup>5</sup>, and verification if it matches the leverage value after floor calculated by the group counterpart (see 1(a) in this document). In case of mismatch, the value calculated by the group counterpart as a liability prevails.
- e) Eligible intragroup asset amounts in (c) and (d) are added up in order to obtain the total eligible intragroup asset amount (e).
- f) The latter amount (e) is divided by two (only half of the total eligible intragroup asset amount (e) can be deducted by each group entity from its total liabilities after derivative adjustment).

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<sup>5</sup> As defined in Article 429 and 429a CRR, as applicable at the time of the reference date for the data required for the 2022 contributions period.

## 2. IPS deduction

The deductions referred to in Article 5(1)(b) of DR (liabilities related to an Institutional Protection Scheme (“IPS”)) cannot be applied when assessing whether a small institution qualifies for the lump-sum approach in accordance with Article 10(1-6) of the DR<sup>6</sup>.

The IPS liabilities can only be deducted from the total liabilities:

- After the derivative adjustment referred to in Article 5(3)-(4) of the DR has been applied;
- If they meet the conditions listed in Article 5(1)(b) of the DR<sup>7</sup>; and
- If the even deduction referred to in Article 5(2) of the DR is applied.

### 1. Deduction of eligible IPS liabilities

Each institution (IPS member) must identify the IPS liabilities arising from transactions with other members of an IPS that meet all the conditions listed in Article 5(1)(b) of the DR. Among these IPS liabilities, the ones arising from derivative contracts must be isolated.

#### *(a) Eligible IPS liabilities arising from derivative contracts<sup>8</sup>*

Before any deduction is applied, liabilities arising from derivative contracts are adjusted in accordance with the Article 5(3)-(4) of the DR. This means that they are valued in accordance with the leverage ratio methodology<sup>9</sup> to which a floor is applied<sup>10</sup>. Consequently, eligible IPS liabilities arising from derivative contracts must be a subset of the leverage value of derivative liabilities. If the floor was applied, IPS derivatives will be deducted proportionally to their share of the floor.

#### *(b) Eligible IPS liabilities not arising from derivative contracts*

The source for the eligible IPS liabilities not arising from derivatives must be the annual financial statements (accounting value), as for ‘Total Liabilities’.

#### *(c) Total eligible IPS liabilities and deductible amount by group entity*

Eligible IPS liabilities in (a) and (b) must be added up in order to obtain the total eligible IPS liabilities (c). In accordance with Article 5(2) of the DR, the total eligible IPS liabilities (c) shall be evenly deducted, meaning

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<sup>6</sup> These investment firms fall within the definition of Article 96(1)(a) or (b) of Regulation (EU) No 575/2013 or carry out activity 8 of Annex I Section A of Directive 2004/39/EC but do not carry out activities 3 or 6 of Annex I Section A of that Directive.

<sup>7</sup> Article 5(1)(b) of the DR: the liabilities created by an institution, which is member of an IPS as referred to in point (8) of Article 2(1) of Directive 2014/59/EU and which has been allowed by the competent authority to apply Article 113(7) of CRR, through an agreement entered into with another institution which is member of the same IPS.

<sup>8</sup> Derivatives are defined in the Article 3(22) of the DR.

<sup>9</sup> As defined in the Article 429 and 429a CRR, as applicable at the time of the reference date for the data required for the 2022 contributions period.

<sup>10</sup> 75% of the accounting value of derivative liabilities held on- and off-balance sheet

that the IPS counterparts of these liabilities can benefit from this deduction too, therefore they are divided by two by each institution (only half of the total eligible IPS liabilities (c) can be deducted by each group entity from its total liabilities after derivative adjustment).

## 2. Deduction of eligible IPS assets

As mentioned above, Article 5(2) of the DR requires that eligible IPS liabilities are evenly deducted, meaning that IPS assets that meet all conditions referred to in Article 5(1)(b) of the DR can also be deducted by each IPS member provided that:

- It represents an eligible IPS liability for their IPS counterpart(s);
- The value of the latter replaces the value of the corresponding IPS asset in case of mismatch; and
- The even deduction is also applied to eligible IPS assets (half of them are deductible by each institution (IPS member)).

Therefore, each group entity should follow the following steps:

- a) Identification of IPS assets that meet all conditions referred to in Article 5(1)(b) of the DR in its financial statements (accounting value);
- b) Verification if they correspond well to an IPS liability for each of their counterparts. If not, they cannot be deducted;
- c) If the IPS asset does not arise from a derivative, verification of the liability value booked in the financial statements of the group counterpart (see *'Eligible IPS liabilities not arising from derivative contracts'*). In case of mismatch, the value booked by the IPS counterpart as a liability prevails;
- d) If the IPS asset arises from a derivative, application of the leverage ratio methodology<sup>11</sup>, and verification if it matches the leverage value after floor calculated by the IPS counterpart (see 1(a) in this document). In case of mismatch, the value calculated by the IPS counterpart as a liability prevails;
- e) Eligible IPS asset amounts in (c) and (d) are added up in order to obtain the total eligible IPS asset amount (e);
- f) The latter amount (e) is divided by two (only half of the total eligible IPS asset amount (e) can be deducted by each IPS member from its total liabilities after derivative adjustment).

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<sup>11</sup> As defined in Article 429 and 429a CRR, as applicable at the time of the reference date for the data required for the 2022 contributions period.

### 3. Derivative adjustment

Article 5(3)-(4) DR requires an adjustment of the liabilities arising from derivatives.

Derivatives are defined in Article 3(22) of the DR by reference to the Annex II of the CRR. Please note that the CRR definition excludes credit derivatives from the derivatives definition.

The derivative adjustment referred to in Article 5(3)-(4) of the DR does not apply to small institutions that qualify for the lump-sum approach referred to in Article 10(1)-(6) of the DR.<sup>12</sup>

In order to perform the adjustment, certain data is requested in the 2022 Data Reporting Form, which allows to perform the following steps:

#### **Step 1: Identification of the "liabilities arising from derivatives" in the total liabilities**

In the first step of the derivative adjustment, 'liabilities arising from derivatives' must be carved out from the 'total liabilities'<sup>13</sup>. Consequently, the source for the 'liabilities arising from derivatives' for this step must also be the same as the annual financial statements.

'Liabilities arising from derivatives' for this step consist of the negative fair value of derivatives, including the associated accrued interests. This excludes the collateral received and possibly booked on the liability side by the institution.

#### **Step 2: Identification of the recognised netting agreements**

In the second step of the derivative adjustment, and in preparation of the third step, institutions must identify if a netting agreement has been recognised by competent authorities in accordance with the Article 295 of the CRR. Cross-product netting applies neither for this step nor for step 3.

#### **Step 3: Application of the leverage ratio methodology to derivatives with negative replacement costs**

In the third step, institutions must apply the leverage ratio methodology, as defined in Article 429 and 429a CRR<sup>14</sup>, to individual derivative contracts and derivative contracts included in a netting agreement recognized in accordance with Article 295 CRR, where the current market value of the derivative contracts is negative (even if they are held off-balance sheet under the applicable accounting standards).

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<sup>12</sup> These investment firms fall within the definition of Article 96(1)(a) or (b) of CRR or carry out activity 8 of Annex I Section A of Directive 2004/39/EC but do not carry out activities 3 or 6 of Annex I Section A of that Directive.

<sup>13</sup> 'Total liabilities' are defined in the DR by reference to the Council Directive 86/635/EEC or IFRS, meaning the annual financial statements of the institution.

<sup>14</sup> Institutions need to apply the leverage methodology of Article 429 and 429a CRR, as applicable at the time of the reference date for the data required for the 2022 contributions period. Following the amendments (with regard to leverage ratio) introduced by the Commission Delegated Regulation (EU) 2015/62 of 10 October 2014, the CRR was amended further by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019. The respective changes to the leverage ratio framework introduced by Regulation (EU) 2019/876 will only be applicable as from 28 June 2021.

If a netting agreement, signed by the institution, has been recognised by the competent authorities (step 2), netting can be applied by the institution in step 3.

In applying the methodology set out in Article 429 and 429a CRR, institutions shall, in the calculation of the replacement cost of the exposure value, replace the current market value of the netting set of derivative contracts or the current market value of individual derivative contracts, as applicable, by the absolute value of the current market value of the netting set of derivative contracts or of the current market value of individual derivative contracts, respectively.

Instead of applying Article 274 CRR, institutions may apply Article 275 CRR only where they also use this method for solvency purposes (Article 92 CRR).

According to the DR, the leverage ratio methodology shall be applied as "*the yearly average amount, calculated on a quarterly basis*" of liabilities arising from derivative contracts. If the leverage ratio valuation is only available for one or some quarters of the reference year, the average of these quarters must be reported and the non-available quarters do not have to be taken into account for the calculation of the average. For the application of the above, the leverage ratio valuation of liabilities arising from derivative contracts is to be considered not available for those quarters of the reference year in which the credit institution would not yet have been authorised as a credit institution referred to in Article 4(1) CRR.

#### **Step 4: Application of the floor (automatically in the 2022 Data Reporting Form)**

In the fourth step, the accounting value for derivative liabilities as defined in Step 1 is multiplied by 75% in order to obtain the floor amount.

If, under national accounting standards applying to the institution, derivatives would be held off-balance sheet, then the 'accounting measure' relates to the negative fair value of derivatives, including accrued interests. The latter must be converted into an absolute amount in order to allow for the calculation of the floor amount. Consequently, the floor amount includes all the derivative liabilities, even if they are held off-balance sheet under national accounting standards.

If the conditions applying to netting under the applicable accounting standards have been fulfilled, the netting can be taken into account in step 4.

The floor amount is applied to the amount calculated in step 3, meaning that the floor amount replaces the amount calculated in step 3 when higher.

#### **Step 5: Adjustment of total liabilities (automatically in the 2022 Data Reporting Form)**

For the determination of the basic annual contribution, the total liabilities are:

- Reduced by the liabilities arising from derivatives referred to in step 1, then
- Increased by the amount calculated in step 3, or the floor amount obtained in step 4 if the latter is higher.

Then, deductions referred to in Article 5(1)-(2) of the DR are applied.