

Brussels, October 2016

2017 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 2017 Ex-ante Contributions Reporting Form in line with the 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 the DR cannot be applied when assessing if a small institution qualifies for the lump-sum approach in accordance with Article 10(9-10) of the DR. In addition, it doesn't apply to investment firms authorised to carry out only limited services and activities where they are covered by the consolidated ECB supervision.

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 to the total liabilities;
- If it meets all the conditions listed in Article 5(1)(a) of the DR¹; and
- If the even deduction referred to in Article 5(2) of the DR is also applied.

Important to note that the exclusions of intragroup liabilities as per Article 5(1)(a) of the DR do 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 contracts²

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 methodology³ to which a floor is applied⁴. 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

¹ 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 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.

² Derivatives are defined in the Article 3(22) of the DR which excludes credit derivatives.

³ As defined in the Article 429a of the Delegated Regulation 2015/62

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

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 derivatives can benefit from this deduction too, 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 on 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 at which value it is booked as a liability by 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 methodology⁵, 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).

⁵ As defined in Article 429a of the Delegated Regulation 2015/62

2. IPS deduction

The deductions referred to in Article 5(1)(b) of the DR cannot be applied when assessing if a small institution qualifies for the lump-sum approach in accordance with Article 10(9)-(10) of the DR. In addition, it doesn't apply to investment firms authorised to carry out only limited services and activities where they are covered by the consolidated ECB supervision.

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 to the total liabilities;
- If it meets the conditions listed in Article 5(1)(b) of the DR⁶; and
- If the even deduction referred to in Article 5(2) of the DR is also applied.

1. Deduction of eligible IPS liabilities

Each group entity must identify the IPS liabilities arising from transactions from 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 contracts⁷

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 methodology⁸ to which a floor is applied⁹. 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 that the group counterparts of these derivatives can benefit from this deduction too, therefore they are divided by two by each group entity (only half of the total eligible IPS liabilities (c) can be deducted by each group entity from its total liabilities after derivative adjustment).

⁶ 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 Regulation (EU) No 575/2013, through an agreement entered into with another institution which is member of the same IPS.

⁷ Derivatives are defined in the Article 3(22) of the DR which excludes credit derivatives.

⁸ As defined in the Article 429a of the Delegated Regulation 2015/62

⁹ 75% of the accounting value of derivative liabilities held on- and off-balance sheet

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 on eligible intragroup assets (half of them are deductible by each group entity).

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 at which value it is booked as a liability by the IPS 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 methodology¹⁰, 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).

¹⁰ As defined in Article 429a of the Delegated Regulation 2015/62

3. Derivative adjustment

Derivatives are defined in Article 3(22) of the DR by reference to the Annex II of the Capital Requirement Regulation 575/2013 (hereafter "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. It does not apply either to investment firms authorised to carry out only limited services and activities where they are covered by the consolidated ECB supervision¹¹.

In order to perform the adjustment, the following steps should be performed:

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'¹². 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 definition excludes the collateral received and possibly booked on the liability side by the institution.

If, under national accounting standards applying to the institution, only the accrued interests of derivatives are booked on the liability side, these accrued interests must then be carved out in step 1, and the associated derivatives are regarded as being held off-balance sheet (see step 4).

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 CRR¹³. 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 429a of the Delegated Regulation 2015/62, to derivatives with negative replacement costs or market values, even if they are held off-balance sheet under the applicable accounting standards. The latter must be converted into an absolute amount to which the potential future credit exposure is added, in accordance with Article 274 of

¹¹ 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.

¹² 'Total liabilities' are defined in the DR in reference to the Council Directive 86/635/EEC or IFRS, namely the annual financial statements of the institution.

¹³ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012

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

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. The leverage ratio methodology then applies to derivatives with a net negative replacement or market value.

According to the DR, the leverage ratio methodology should be applied as "*the yearly average amount, calculated on a quarterly basis*". However, for the purpose of calculation 2016 contribution, the SRB accepts that institutions apply the leverage ratio methodology on year-end amounts only.

Step 4: Application of the floor

In the fourth step, the 'accounting measure' for derivative liabilities is multiplied by 75% in order to obtain the floor amount. The 'accounting measure' means 'liabilities arising from derivatives' in the total liabilities as defined in the step 1.

If, under national accounting standards applying to the institution, (some) derivatives are 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 calculate the floor amount. Consequently, the floor amount consists of all the derivative liabilities, even if they are held off-balance sheet under national accounting standards.

If the institution complies with the conditions to apply netting under the applicable accounting standards, this netting can be applied by the institution in step 4.

This 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

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 2, or the floor amount in step 3 if the latter is higher.

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