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Legal act	Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/876 (CRR2)
Topic	Large exposures
Article	493
Paragraph	7
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	0
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Name of institution / submitter	National Bank of Romania
Country of incorporation / residence	Romania
Type of submitter	Competent authority
Subject matter	Exempting foreign currency - denominated required minimum reserves according to Article 493(7) CRR
Question	How is the level of exposures to central bank, in the form of Euro-denominated required minimum reserves in non-Euro Member States, determined for the purposes of Article 493(7) of Regulation (EU) No 575/2013 (CRR)?
Background on the question	According to Article 493(7) CRR (as introduced by Regulation (EU) No. 2017/2395), exposures in the form of asset items representing claims on central banks, denominated and funded in domestic currency of any Member State shall be exempted from the application of Article 395(1). Therefore, exposures of credit institutions to their central banks, representing Euro-denominated required minimum reserves, in non-Euro Member States, qualify for the application of the exemption provided by Article 493(7) CRR. Given the fact that the monthly required minimum

reserves must be met by the average daily balance over a month, that the credit institutions holds with the central bank, the question is how will the level of such exposures be determined for the purposes of Article 493(7) CRR when this level fluctuates during the month? Furthermore, the level of exposure representing required minimum reserves does not necessarily equal the level of reserves prescribed by the central bank, since the actual balance of the exposure may be lower (reserves deficit) or higher (reserves surplus). For illustrative purposes we consider the following example. On 11 December 2017 (before 12 December 2017, the cut-off date of Article 493(7) CRR) the credit institution has a 100 EUR exposure to its non-Euro-zone central bank representing the balance of the required minimum reserves account. During the next month, the minimum reserve required by the central bank is 110 EUR and the balance of the required minimum reserves account fluctuates due to credit institution's management of daily average balance, as follows: 60 EUR, 120 EUR and 70 EUR, with a final daily average balance over a month of 115 EUR (i.e. 5 EUR reserves surplus compared to the required level of 110 EUR). Given the fluctuation in the exposure level, which is the level of exposure exempted according to Article 493(7)? There are different approaches to this issue. In order to determine the exposure exempted according to Article 493(7) CRR, when the daily balance of the required minimum reserves account fluctuates, the moment in time when the exposure is incurred and the level of the exposure determine the amount falling under Article 493(7). Therefore, the amount exempted under Article 493(7) is the lower of (1) the level of exposure representing the balance of the required minimum reserves account as of before 12 December 2017 and (2) any subsequent amount of that exposure. In the example provided, the amount exempted under Article 493(7) is 60 EUR (the lower amount of the exposure). Another approach for determining the exposure exempted according to Article 493(7) would be to consider the lower of (1) the level of exposure representing the balance of the required minimum reserves account as of before 12 December 2017 and (2) the average daily balance, over a month, of the required minimum reserves account. In the example provided, the amount exempted under Article 493(7) is 100 EUR (the lower of 100 EUR and 115 EUR). The point of view of one bank states that the level of exposure exempted according to Article 493(7) CRR is determined by comparing the exposure level as of before 12 December with the exposure level as of the last day of the quarterly reporting date for large exposure purposes. If the exposure level as of the end of the quarter is lower, this level becomes the new reference level of the exposure, which shall be exempted according to Article 493(7) CRR.

EBA answer

Exposures are not constituted by the amount of minimum reserves required by a central bank, but by the amount of reserves actually held at the central bank at a given point in time.

In the case of exposures in the form of asset items representing claims on central banks of Member States, which as in the case at hand are 'Euro-denominated but [held] in a non -Euro Member State', any increase to the exposure amount on or after 12 December 2017 constitutes an exposure amount that does not qualify for the exemption set out in Article 493(7) CRR; it instead qualifies for the application of Article 493(4) CRR – and of Article 500a (2) of Regulation (EU) 2020/873 amending Regulations (EU) No 575/2013 and (EU) 2019/876, provided that the competent authority has allowed this.

Any decrease compared to the exposure amount incurred before 12 December 2017 reduces the exposure amount that qualifies for the exemption in Article 493(7) CRR.

Consequently, where reserves held at a central bank had initially qualified for the exemption in Article 493(7) CRR, the amount qualifying for the exemption in a given point in time is the lower of the following:

- the amount that was initially exempted (i.e. incurred before 12 December 2017) or
- the lowest amount of reserves held at the central bank at any point in time since 12 December 2017.

Link

https://eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2018_3737

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