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Status

Final Q&A

Legal act

Regulation (EU) No 575/2013 (CRR) as amended

Topic

Credit risk

Article

114

Paragraph

4

Subparagraph**COM Delegated or Implementing Acts/RTS/ITS/GLs**

Not applicable

Article/Paragraph

not applicable

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Type of submitter

Credit institution

Subject matter

Asset denominated in one currency and funded in a different currency subject to a FX Swap exchanging

those two currencies

Question

For the purpose of the credit risk standard risk-weight attribution, can we consider that 1) an asset denominated in one currency and funded in a different currency subject to a FX Swap exchanging those two currencies is equivalent to 2) an asset denominated and funded in the same currency?

Background on the question

According to Article 114(4) of CRR, Exposures to Member States' central governments, and central banks denominated and funded in the domestic currency are assigned a risk weight of 0 %.

We understand the rationale behind the condition requiring the exposure to be denominated and funded in the same currency, is to ensure that the foreign exchange risk on the operation is nil.

Therefore, in our opinion, if the funding of such exposure is done in a different currency, but when a FX swap neutralize the foreign exchange risk, such exposure can be considered funded in the same currency. FX swap is an operation where there is an effective exchange of currencies, and is commonly used by institutions to neutralize the foreign exchange risk when they get an exposure which is denominated in the domestic currency but not funded in the same currency. Under this type of operation, the exchange of currencies is real and the operation effectively brings in liquidity in the currency of the asset, to the bank.

Hence, from an economic point of view, an exposure fulfilling these conditions (i.e. denominated in the domestic currency, funded in another currency but with the foreign exchange risk covered by an FX swap) is equivalent to an exposure denominated and funded in the domestic currency.

European Commission Q&A answer on Annex VI, Part 1, 4 & 5 of CRD1 relating to same topic (ID 562 Same currency funding of exposures), actually states that compliance with the funding requirement can be proved by matching on balance sheet exposures (in our example the exposure to the sovereign) and off balance sheet liabilities (in this case the FX swap liability).

EBA answer

For the purpose of the credit risk standard risk-weight attribution, 1) an asset denominated in one currency and funded in a different currency subject to a FX Swap exchanging those two currencies is equivalent to 2) an asset denominated and funded in the same currency, as foreign exchange risk is neutralised in both cases.

Single Rulebook Q&A

Article 114(4) of the Regulation No. 575/2015 states that the exposures to Member States' central governments and central banks denominated and funded in the domestic currency of that central government and central bank shall be assigned a risk weight of 0%.

This preferential treatment shall be applied only to exposures to Member States' central governments and central banks denominated and funded in the same currency. It shall not be therefore extended to exposures denominated and funded in different currencies also in case these are combined with an FX Swap hedging the FX risk.

Link

[EBA website link](#)