

Luxembourg, 9 February 2018

To all Luxembourg credit institutions
that are not significant¹ under the SSM
and to all non-EU branches.

CIRCULAR LETTER

Re : Declaration and reporting of derivatives outflows referred to in Article 30 of the LCR DA²

Ladies and Gentlemen,

We would like to draw your attention to several aspects of Article 30 of the LCR DA which directly or indirectly relate to derivatives transactions:

- 1) Article 30 (2) LCR DA requires a calculation and notification to the competent authorities of potential *“outflows for all contracts entered into the contractual conditions of which could lead within 30 calendar days and following a material deterioration of the credit quality of the credit institution to additional liquidity outflows or collateral needs”*.

This prescription applies a.o. to derivatives transactions, for instance when CSA contracts foresee the reduction of margin call thresholds in case of rating downgrade. Where the reporting credit institution is not rated, the additional liquidity outflows or collateral needs shall be evaluated pursuant to the relevant contractual conditions applicable.

¹ « Significant supervised entities » as defined in Article 2, point 16 of Regulation (EU) No 468/2014 of the European Central Bank (ECB) of 16 April 2014 (SSM Framework Regulation) shall refer to the relevant ECB rules (if any).

² Commission Delegated Regulation (EU) 2015/61

- 2) Article 30 (3) LCR DA requires a credit institution to “*add an additional outflow corresponding to collateral needs that would result from the impact of an adverse market scenario on the credit institution's derivatives transactions, financing transactions and other contracts if material*”.

Pursuant to Commission Implementing Regulation (EU) 2017/208, derivatives transactions shall be considered material if “*the total of notional amounts of such transactions has exceeded 10 % of the net liquidity outflows as referred to in Article 412(1) of Regulation (EU) No 575/2013 at any time in the previous two years*”. This Regulation further describes the two possible methodologies of calculation of additional outflows.

In accordance with the provisions under (1) or (2) and with regard to the LCR data reporting framework³, we kindly ask you to comply with the following principles:

- The effect of collateral received in derivatives transactions shall be calculated pursuant to Article 21 of LCR DA, which foresees a specific treatment for foreign currency derivatives transactions.
- For all contractual arrangements of your institution that could lead to an outflow in the circumstances described in Article 30 (2) LCR DA, the reporting of these potential outflows shall be made in row 300, column 010 of Table C73.00.

Institutions shall only apply an outflow factor on the products or services referred to in Article 30 (2) LCR DA if they have been notified to do so by the CSSF. Where no such notification has occurred, institutions shall report the position but apply a 0% outflow factor on these items.

- If the derivatives transactions are material pursuant to Article 30 (3) LCR DA and to Commission Implementing Regulation (EU) 2017/208, an additional outflow must be reported in either row 320 or 330 of Table C73.00 with an outflow factor of 100%.
- Where the derivatives transactions are material in notional terms pursuant to Article 30 (3) LCR DA and to Commission Implementing Regulation (EU) 2017/208 but no aggregated outflow is reported, institutions should provide the CSSF with a description of the calculation methodology leading to this result and an explanation of whether the result derives (i) from the application of netting rules pursuant to Article 21 Delegated Regulation (EU) 2015/61 and/or (ii) from the collateral setup in place.

³ Commission Implementing Regulation (EU) 2016/322 of 10 February 2016 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions of the liquidity coverage requirement

Should you have any further questions or requests, please contact Mr Emmanuel Girot (Tel: +352 26 25 1- 2713/ e-mail: emmanuel.girot@cssf.lu) or Mr Joé Schumacher (Tel: +352 26 25 1- 2486/ e-mail: joe.schumacher@cssf.lu).

Yours faithfully,

COMMISSION de SURVEILLANCE du SECTEUR FINANCIER



Frank BISDORFF
Premier conseiller de direction



Claude SIMON
Directeur

