

Chapter 5

Commission Delegated Regulation (EU) No 523/2014

Preamble

THE EUROPEAN COMMISSION,
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Having regard to the Treaty on the Functioning of the European Union,

Having regard to 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, and in particular Article 33(4) thereof,

01/01/2021

Whereas:

(1) Gains or losses on liabilities of an institution resulting from changes in its own credit risk should not, in principle, be included as an element of own funds. However, in business models based on the strict match funding or balance principle that rule is not applied, on the premise that a decline or an increase in value of a liability is fully offset by a corresponding decline or increase in value of the asset, with which that liability is fully matched.

(2) It is important to set the requirements for determining whether a close correspondence exists between the liabilities of an institution consisting in a covered bond as referred to in Article 52(4) of Directive 2009/65/EC of the European Parliament and of the Council and the value of the institution's assets underlying the covered bonds.

(3) Close correspondence should be reflected in the accounting treatment of those bonds and the underlying mortgage loans, without which it would not be prudent to recognise gains and losses stemming from changes in own credit risk.

(4) A delivery option allows the borrower to buy back the specific covered bond financing the mortgage loan in the market and deliver the covered bond to the bank as an early prepayment of the mortgage loan. As a consequence of the availability of that option to the borrower, the fair value of the mortgage loans should at all times be equal to the fair value of the covered bonds financing those mortgages. This implies that the calculation of the fair value of the mortgage loans should include the fair valuation of the embedded delivery option according to established market practices.

(5) This Regulation is based on the draft regulatory technical standards submitted by the European Banking Authority to the Commission.

(6) The European Banking Authority has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council,

HAS ADOPTED THIS REGULATION: