Commission Delegated Regulation (EU) 2020/866 of 28 May 2020 amending Delegated Regulation (EU) 2016/101 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for prudent valuation under Article 105(14) of Regulation (EU) No 575/2013 (Text with EEA relevance)

COMMISSION DELEGATED REGULATION (EU) 2020/866

of 28 May 2020

amending Delegated Regulation (EU) 2016/101 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for prudent valuation under Article 105(14) of Regulation (EU) No 575/2013

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of 26 June 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012[(1)], and in particular the third subparagraph of Article 105(14) thereof,

Whereas:

(1) Article 9(5), Article 10(6) and Article 11(3) of Commission Delegated Regulation (EU) 2016/101[(2)] provide that, with regard to institutions that calculate additional valuation adjustments (AVAs) under the core approach set out in that Regulation, individual AVAs related to market price uncertainty, close-out costs and model risk are to be determined with reference to a 90 % level of certainty based on the applicable market conditions at the time of the calculation. That Regulation also specifies an aggregation approach for the calculation of the total category level AVAs based on those individual AVAs, which takes account of overlaps among individual AVAs that occur in the aggregation of those categories of AVAs.

(2) The expansion of the COVID-19 pandemic has triggered levels of extreme volatility throughout financial markets worldwide, affecting multiple asset classes. This has generated exceptional increases in asset price dispersion and bid-offer spreads. It is therefore expected that individual AVAs computed at the level of valuation exposures will significantly increase in comparison with their levels in normal times.

(3) The adjustment of individual AVAs to new market conditions is a normal process. It is to be expected, however, that due to the COVID-19 pandemic and the decisions of public authorities to halt economic activity in a large number of areas, the aggregation of significantly increased individual AVAs will have a disproportionate impact on aggregated AVA amounts. The rules for prudent valuation should therefore be revised so

Changes to legislation: *There are currently no known outstanding effects for the Commission Delegated Regulation (EU) 2020/866. (See end of Document for details)*

that, in addition to providing for an aggregation factor to be used under normal market conditions, they also provide that institutions should apply a higher aggregation factor for this specific period of extreme volatility in market prices and systemic shock due to the COVID-19 pandemic.

(4) It is to be expected that the extreme market volatility arising as a result of the COVID#19 pandemic will decrease with the subsiding of the pandemic expected in the next months. The higher aggregation factor should therefore only apply for the expected duration of that extreme market volatility combined with systemic shock, which is currently assessed to last until 31 December 2020.

(5) Delegated Regulation (EU) 2016/101 should therefore be amended accordingly.

(6) This Regulation is based on the draft regulatory technical standards submitted by the European Banking Authority to the Commission. Due to the urgency caused by the COVID-19 pandemic, the European Banking Authority has deemed that the carrying out of a public consultation and cost-benefit analysis would be dispoportionate. However, the European Banking Authority informed the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council[(3)].

(7) In order to react swiftly to the consequences of the COVID-19 pandemic, this Regulation should enter into force on the day following that of its publication,

HAS ADOPTED THIS REGULATION:

Article 1

The Annex to Delegated Regulation (EU) 2016/101 is replaced by the text in the Annex to this Regulation.

Article 2

This Regulation shall enter into force on the day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 28 May 2020.

For the Commission

The President

Ursula VON DER LEYEN