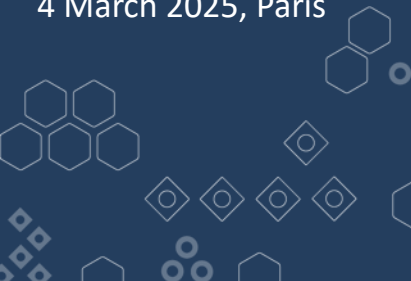




EBA Public hearing – Consultation paper on Draft RTS on calculation and aggregation of crypto exposure values

4 March 2025, Paris



EBA Public hearing – Goals and Rules

Goals

- The EBA organises ‘public hearings’ during the public consultation period for its RTS / ITS / GL to **allow interested parties to ask clarifications**;
- The purpose of the hearing is for the EBA to present a summary of the CP and ask attendees whether they require additional explanations or clarifications from the EBA to be able to answer the questions in the CP;
- The **public hearing does therefore not replace written responses to the CP**: the EBA can only consider the views of stakeholders via written responses.

Housekeeping rules

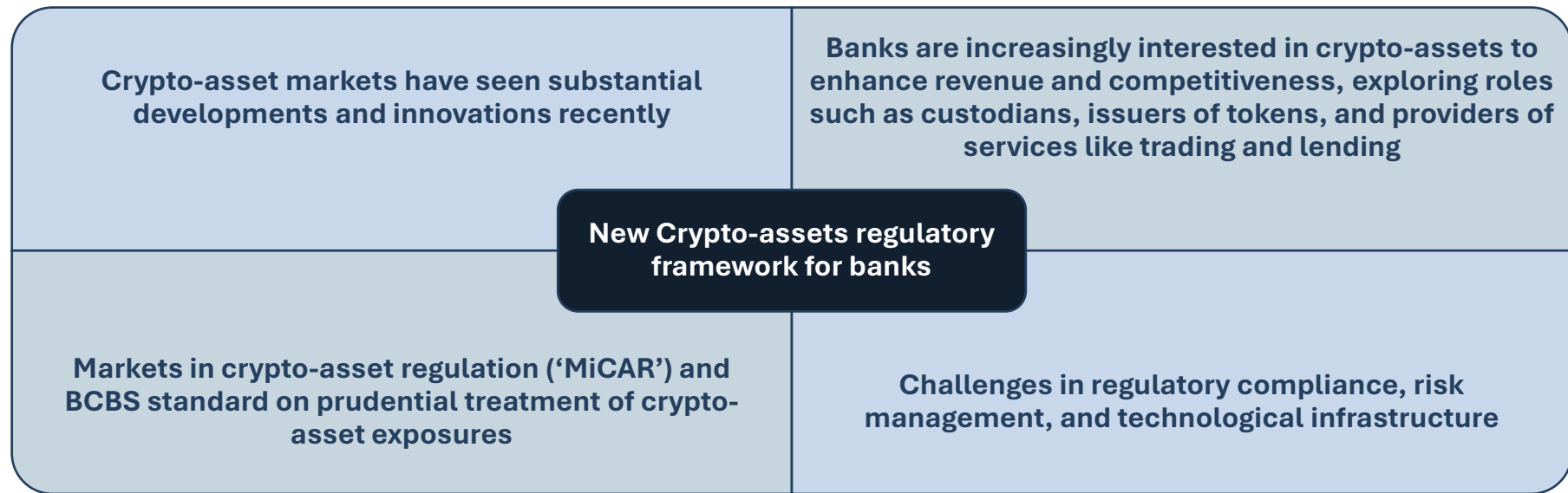
- To avoid background noise, please stay muted during the presentation, unless you take the floor.
- To increase audio quality please turn off video streaming if you are not speaking.
- If you would like to intervene during the Q&A session, please identify yourself, either:
 - a) Raising your hand on Teams and when the floor is given to you, by providing your full name and organisation; or
 - b) Indicating in the Teams chat your name and on which topic you’d like to intervene; or
 - c) Writing your question / comment directly in the Teams chat.

EBA Public hearing – Structure

Agenda

- Background
- CRR 3 transitional provisions and draft RTS mandate
- Content of the draft RTS
- Other considerations & Timeline
- Q&A sessions

Background



CRR 3 - Crypto Regulation

**Definitions
(Art 5a)**

**Reporting requirements
(Art 430(1)(i))**

**Disclosure requirements
(Art 451b)**

**Transitional Prudential
treatment
(Art 501d)**

- Specifies the capital treatment of EMTs, ARTs and 'other' crypto-assets, includes total exposure limits for 'other' crypto-assets
- Introduces mandate to the EBA to draft RTS to further specify the rules
 - Rules apply since 9 July 2024 (until end of transitional period)

Transitional capital treatment for crypto-asset exposures

Art 501d(2)(a)

Tokenised traditional assets

- *Crypto-asset exposures to tokenised traditional assets shall be treated as exposures to the traditional assets that they represent*
- *Includes EMTs according to Article 5a(5) of CRR*

Art 501d(2)(b)

ARTs that reference one or more traditional assets

- *Exposures to ARTs whose issuers comply with MiCAR and that reference one or more traditional assets shall be assigned a risk weight of 250%*

Art 501(2)(c)

'Other' crypto-assets

- *Crypto-asset exposures other than those referred to in points (a) and (b) shall be assigned a risk weight of 1 250 %.*
- *Crypto-asset exposures to tokenised traditional assets whose values depend on any other crypto-assets*
- *This includes tokenised derivatives on crypto-assets different from the ones that qualify for the more favourable capital treatment – see Recital (59) in CRR - as well as ARTs referencing a crypto-asset*

Mandate for draft RTS on crypto-asset exposures

*Article 501d(5)
mandate EBA to
develop RTS to specify
the technical elements
necessary for
institutions to
calculate their own
fund requirements:*



Limited to points (b) and (c) of Article 501d(2), including how to calculate the value of the exposures and how to aggregate short and long exposures

Consider relevant international prudential standards and existing Union authorisations under MiCAR.

MiCAR-based classification approach

Out of scope of draft RTS,
tokenised traditional assets
and EMTs

Content of draft RTS on crypto-asset exposures

ARTs that reference one or more traditional assets and 'other' crypto-asset exposures

Valuation of crypto-asset exposures and off-balance sheet exposures

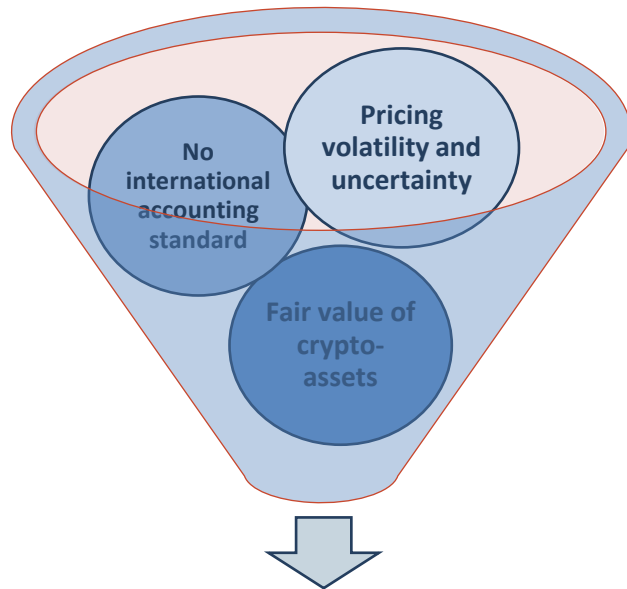
Capital treatment for: credit risk, counterparty credit risk, issuer default risk, market risk and credit valuation adjustment risk

Clarification for derivatives referencing crypto-assets and securities financing transaction with crypto-assets as underlying

Criteria for hedging recognition and netting

Prudent valuation of crypto assets

Proper assessment of crypto-asset exposures is essential for determining own funds



The draft RTS suggests that 'fair valued' crypto-asset exposures under MiCAR, adhere to the prudent valuation rules outlined in Article 105 of the CRR.

- The **pricing** of crypto-assets (excluding EMTs) experiences a very **high level of volatility** and notable **valuation uncertainty**.
- Currently, there is **no international accounting standard** that addresses crypto-assets.
- It is anticipated that a significant portion of **crypto-asset exposures** will be assessed at **fair value**.

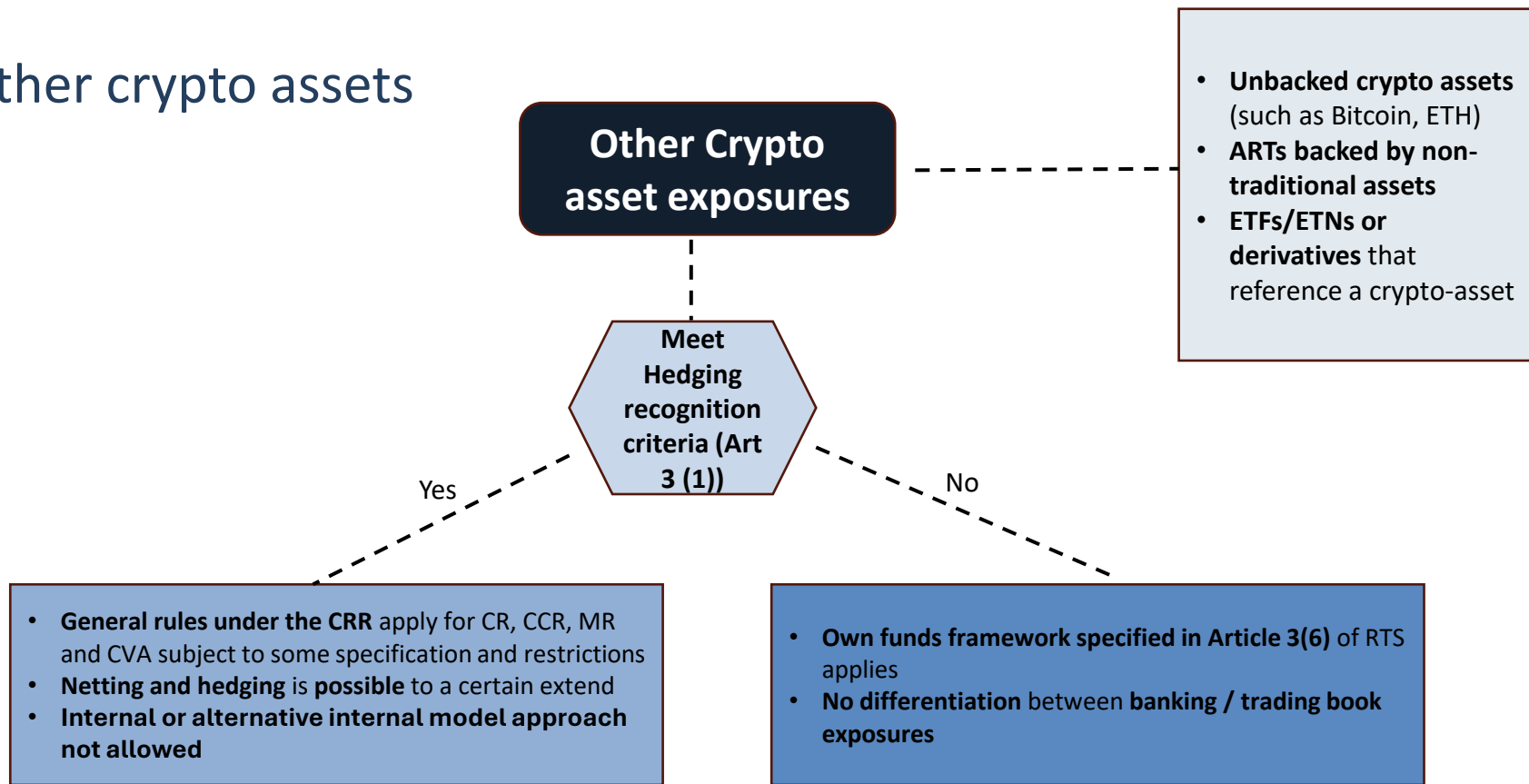
ARTs that reference one or more traditional assets (1)

| | |
|---|--|
| Credit Risk | <ul style="list-style-type: none">• Capital requirements for credit risk as specified in the CRR with a general risk weight of 250%• ARTs are not allowed as eligible form of collateral for the purpose of credit risk mitigation |
| Counterparty Credit Risk & Exposure Value | <ul style="list-style-type: none">• Adjusted rules for securities financing transaction with crypto-assets underlying, 30% volatility adjustment for lenders of crypto-assets• Same rules apply for derivatives on crypto-assets as for traditional assets• The CP is consulting on two RWA alternatives• Alternative A: these exposure could be assigned the same risk weight (250% RWA) as for direct credit risk exposures in crypto-assets independent of counterparty• Specific options on RWA calculation for netting set based on whole or separate set.• Alternative B: These exposures would apply the current counterparty's risk framework using risk weight applicable to counterparty in accordance with those rules.• Using standard risk weighting rules for CCR for EQ derivatives |
| Issuer Default Risk | <ul style="list-style-type: none">• Risk of default of an issuer in line with the minimum risk-based own funds requirement for credit risk, for issuers that are unable to meet the permanent right of redemption of the ARTs as per Article 39 of MiCAR |
| CVA risk | <ul style="list-style-type: none">• Same rules in the CRR for CVA as for derivatives and securities financing transactions on crypto assets that reference traditional assets |

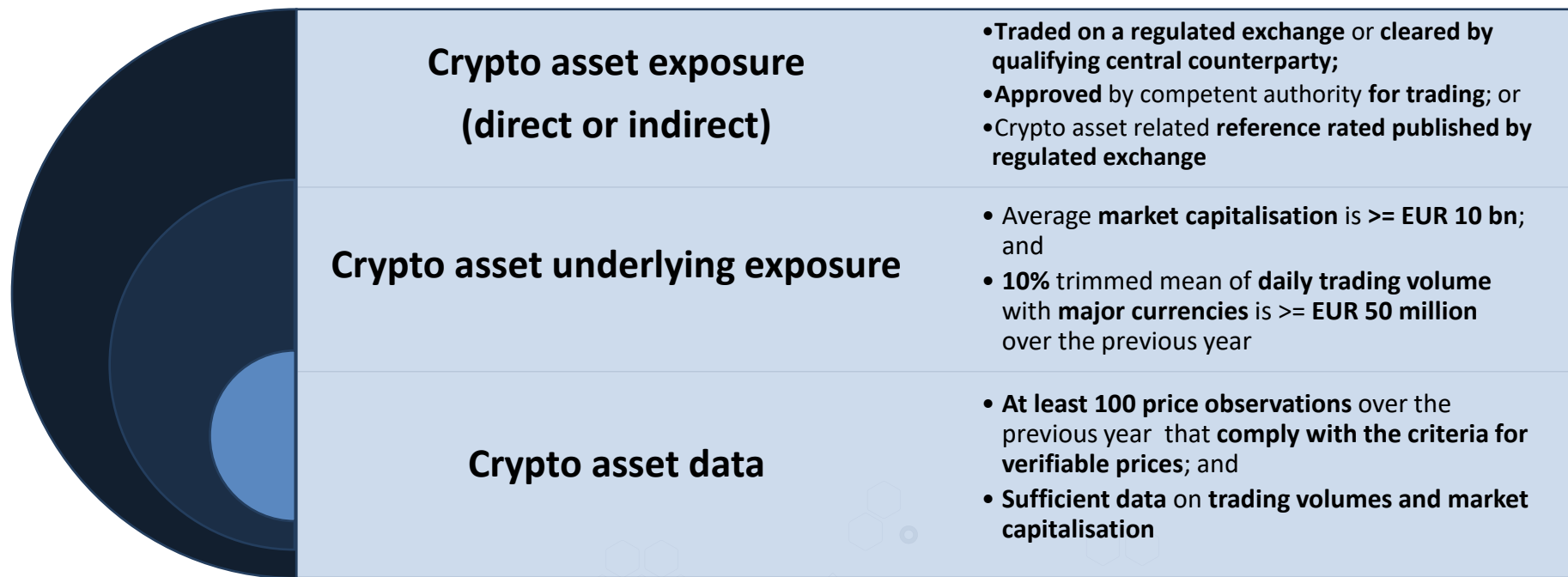
ARTs that reference one or more traditional assets (2)

| | |
|--|---|
| Market Risk | <ul style="list-style-type: none">• Capital requirements for market risk as specified in the CRR, with additional specifications:• All instruments affected by changes in prices of crypto-assets are included• Crypto-assets positions expressed in quantity and converted at current spot price in reporting currency• Options on traditional assets that reference crypto-assets apply same treatment• Netting and hedging recognized between crypto-asset and traditional asset it references• Internal model approach not allowed |
| MR - Alternative Standardised Approach | <ul style="list-style-type: none">• For the alternative standardised approach, the following specifications apply:• Assign crypto-asset to risk classes for calculation of OF for delta, vega and curvature risk• Each crypto-asset shall comprise the same risk factor as the traditional asset it references• Sensitivities of crypto-asset to the risk factors shall be identical to sensitivities to traditional assets that the crypto-asset references to those risk factors• Default risk, gross jump-to-default amount of crypto-asset determined as the jump-to-default amount of an equivalent position in the traditional assets that the crypto-asset references |
| MR – Alternative Internal Model Approach | <ul style="list-style-type: none">• For the alternative internal model approach, the following specifications apply:• Crypto-asset shall comprise the same risk factors as the traditional asset it references• Crypto-asset and the traditional assets it references shall be treated as different instruments to the same obligor• Internal default risk model shall account for different losses in those different instruments• Differences in instruments shall be reflected in the LGD estimates• Maturity mismatches applicable to crypto-assets and traditional assets they reference shall be captured |

Other crypto assets



Other crypto assets – Hedging Recognition criteria



Other exposures to crypto assets – fulfilling hedging criteria (1)

| | |
|---|--|
| Credit Risk | <ul style="list-style-type: none">• Capital requirements for credit risk as specified in the CRR with a general risk weight of 1250%.• Not allowed as eligible form of collateral for the purpose of credit risk mitigation |
| Counterparty Credit Risk & Exposure Value | <ul style="list-style-type: none">• Adjusted rules for securities financing transaction with crypto-assets underlying, 30% volatility adjustment for lenders of crypto-assets• Derivatives referencing crypto-assets the follow same rules as CRR, with following specification:• For potential future exposure add-on calculation, creation of new risk category,• supervisory factor of 32% for crypto asset/currency and crypto asset/crypto asset pairs and supervisory volatility of 120% for delta adjustment of options• Use of reporting currency• Separate hedging sets for each crypto asset in a currency or crypto asset that meets hedging criteria• Internal model method or the simplified standardise approach not allowed• Netting set containing tokenised traditional assets, EMTs and/or ARTs referencing traditional assets and derivatives on other crypto assets can be assign to own netting set and apply RWA of 1250% |
| Issuer Default Risk | <ul style="list-style-type: none">• In case ARTs included in the ‘other’ crypto category are subject to the calculation of own funds for market risk• Risk of default of an issuer in line with the minimum risk-based own funds requirement for credit risk, for issuers that are unable to meet the permanent right of redemption of the ARTs as per Article 39 of MiCAR |
| CVA risk | <ul style="list-style-type: none">• Same rules in CRR for CVA rules as for derivatives and securities financing transactions on crypto assets that reference traditional assets |

Other exposures to crypto assets – fulfilling hedging criteria (2)

Market Risk

- **Capital requirements for market risk as specified in the CRR**, with additional specifications:
- **All instruments** affected by changes in prices of crypto-assets are included, determination of position risk of crypto-asset separately from position risk of other instruments
- **Crypto-assets positions** expressed in quantity and **converted at current spot price in reporting currency**
- **Allowed to offset gross long and short positions in the same market or exchange for each crypto-asset** that meets the hedging criteria.
- **Crypto-assets** meeting hedging criteria **traded in different markets** the **net position** is calculated as $\text{=max(Long Position, |Short Position|) - 0.65} \times \text{min(Long Position, |Short Position|)}$.
- **Position risk** of a crypto asset is 100% of its respective net position and the **aggregated own funds requirements** for position risk are the **simple sum of the own funds requirements** for the different crypto-assets
- **Non-Delta Risk for Options**, use of **scenario-based methodologies using a $\pm 100\%$ shift** in the underlying price and relative volatility for to assess non-delta risks associated with options

MR - Alternative Standardised Approach

- **Alternative standardised approach**, the following specifications apply:
- **Assign crypto-asset to risk classes for calculation of OF for delta, vega and curvature risk**
- **Specific rules** for the determination and calculation of the **sensitivities to crypto-asset delta risk factors, crypto asset vega risk factors for options** with underlying that are sensitive to crypto assets
- Determination **risk class specific own funds for delta or vega risk**, as a **simple sum of the bucket-specific delta of vega sensitivities**
- **Curvature risk** is calculated using delta **risk weights, aggregated through bucket-specific formulas**
- **Default risk** does **not need to be calculated**

Other crypto assets exposures – not fulfilling hedging criteria

Own Funds Approach
for other Crypto assets
not meeting the
hedging recognition
criteria

- Identify and **include all trading book and non-trading book crypto-assets exposures**
- For **each crypto-asset**, determine whichever is larger: **the absolute value of long positions or short positions of the respective crypto-asset**. The **larger absolute amount** is assigned a **1,250% risk weight**.
- Calculation of **net exposure for derivatives** subject to following requirements: i) **netting** for calculation of the replacement cost, **only permitted within enforceable and eligible netting sets** between exposures of the same crypt-asset underlying derivatives, ii) **Potential Future Exposure**, calculated separately at **50% of gross notional value for derivatives**, and iii) **netting sets with derivatives referencing crypto-assets and other assets transactions** must be **split**
- **Leverage Adjustments**, ensure that derivatives reflect **the maximum possible losses**, aligning exposures with the actual underlying risks.

Other considerations

Implementation of the Basel III fundamental review of the trading book (FRTB) standards in the EU

- The Draft RTS provide technical guidelines for adopting the alternative standardized approach and internal model approach, aligning with the updated Basel III framework.
- To ensure consistency between the application date of the own funds requirements for market risk in Regulation (EU) 2024/1623 and these draft RTS, **the alternative standardised approach and the alternative internal model approach included in these draft RTS can only be applied for the calculation of unfloored own funds requirements for crypto-assets exposures once the new market risk rules have become applicable in the EU**
- For purposes of the **output floor calculation, either the alternative standardised approach or the simplified standardised approach** are applicable as specified in the Communication package provided by the European Commission and response from the EBA

Timeline



* The BCBS standard needs to be implemented at national level by 1 January 2026

** Following the adoption by the EC, the draft RTS will be subject to scrutiny by the European Parliament and the Council before being published in the Official Journal of the European Union.

Overview of questions for consultation (1)

Q1: Do you agree that fair-valued crypto-assets within the scope of MiCAR should be included within the scope of the prudent valuation rules? If not, please explain.

Q2: Do you have any concern in relation to the application of the requirements specified in Article 105 CRR and Delegated Regulation (EU) 2016/101(RTS on Prudent Valuation) to crypto-assets? If so, please explain.

Q3: Do you agree that a one-size fits all RW of 250% should apply also to CCR transactions requiring specifications on netting set treatment (Alternative A) or do you prefer using the counterparty's RW as is standard in CCR (Alternative B)? Please briefly justify your assessment.

Q4: Are there any credit institutions considering implementing the alternative internal model approach during the transitional period, or consider implementing it in the medium to long term? Would there be an impact for the development of the crypto-assets market in the EU, and/or for the capitalisation and/or business activities of European credit institutions, if the use of the alternative internal models approach in the short to medium term is not permitted?

Q5: Do you agree that the risk of default of the issuer is relevant in certain specific circumstances and therefore should be considered within the scope of this draft RTS during the transitional period or do you believe that the 250% RW for direct credit risk is sufficient to capture for this risk during the transitions period? Please briefly justify your assessment.

Overview of questions for consultation (2)

Q6: How relevant is it to incorporate this differentiation for crypto-assets exposures referred to in Article 501d (2), point (c), of the CRR at this stage? Are institutions confident that they can assess their crypto-assets exposures against the criteria set out in these draft RTS? Is there sufficient market data available to make those assessments?

Q7: For ARTs subject to the calculation of own fund requirements for market risk in this paragraph, do you agree that the risk of default of the issuer is relevant in certain specific circumstances and therefore should be considered within the scope of these draft RTS during the transitional period as per Article 3(4)(d) or do you believe that the 250% RW for direct credit risk is sufficient to capture for this risk during the transitions period? Please briefly justify your assessment.



Thank you!



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