Public Policy

Madrid 22nd September 2017

EBA DISCUSSION PAPER: Treatment of structural FX under article 352(2) of the CRR

Questions – Initial comments

Question 1. ***What is your current practice regarding the treatment of FX non-monetary items held at the historic FX? In particular, do you include these items in the overall net foreign exchange position pursuant to Article 352 CRR? If you include them, what value (i.e. historic or last FX rate) do you use for the purpose of computing them? How do you manage such positions from an FX point of view?***

AEB, as a national banking association, has among its members a very diverse range of entities. However, we can confirm that, in the current consolidated financial statement of our members there have no significant non-monetary items (such as buildings) held at the historic FX.

The non-monetary items in non-euro currencies are initially registered in the non-EMU countries subsidiaries' financial statements (in local currency). In the consolidation process the balances in the financial statements of consolidated entities (or entities accounted for using the equity method) whose functional currency is not the euro are translated to euros as follows:

- Assets and liabilities, at the closing rates.
- Income and expenses, at the average exchange rates for the year.
- Equity items, at the historical exchange rates.

As a result, there is no relevant position of FX non-monetary items held at historic FX in the consolidated financial statements. However, our entities include these non-monetary items in the net foreign exchange position.

In the separate financial statements, in particular, in the parent company, there are significant non-monetary items, mainly participations in subsidiaries. Most of these participations are not or are only partially fair value hedged against changes in FX so the net long open positions provide an effective hedge for the consolidated capital ratio.

Our members do not have supervisor´s authorization to exclude structural positions in the parent separate financial statements so these net long positions are currently included in the base for capital requirements for FX at an individual level.

In this regard, and in line with the provisions in the Basel text, we note that participations denominated in foreign currencies which are accounted at historic cost should not bear any capital charge.

Question 2. ***Do you share the EBA's view that there is no clear risk justification for making the determination of the net FX position as well as of the structural FX exclusion dependent on the approach for the calculation of FX own funds requirements?***

Yes. We fully agree with the EBA´s view. The underlying risks are not affected by the regulatory approach for calculate capital requirements, consequently there should be a single rule for net open position in each currency and a single treatment of structural FX exclusion.

Question 3. ***Do you consider that the 'structural nature' wording in the CRR would limit the application of the structural FX provision to those items held in the banking book? Do you agree with the EBA's view that the potential exclusion should be acceptable only for long FX positions? If you consider that it should be allowed for short positions please provide rationale and examples.***

On the first question, to the extent that it can be demonstrated that a trading book FX position is of a "non-trading or structural nature", it should be permissible to also include trading book FX positions. An illustrative example would be as follows:

In a group structure, the EU parent holds a participation in a US subsidiary denoted in USD. The USD subsidiary operates only a trading book, i.e. there is no banking book, and it is only funded by the USD investment of the parent. The market risk RWA calculation of the consolidated group is performed based on CRR Article 325 (1), i.e. allowing for a netting of positions held in different legal entities. In order to determine the open FX risk position for market risk RWA purposes, a long USD position in the amount of the USD investment in the subsidiary is excluded as a structural FX position.

Note that from the perspective of the consolidated group, this group internal USD investment is replaced by all external assets and liabilities of the US subsidiary as part of the consolidation process. In the illustrative example, the only external assets and liability result from the trading book. Note however that there is no direct link between the USD investments and a specific trading book position. In this scenario, the structural FX position (in the amount of the USD investment) effectively results from all trading book position. Note however that only an FX position in the amount of the FX investment is classified as structural FX position. Any additional trading book long or short USD position and any non-USD FX position resulting from the consolidation of the US subsidiary are captured in the market risk RWA.

The above example demonstrates that although the structural FX position effectively results from trading book positions (in a consolidated group view) it is of a non-trading and structural nature as it from a management perspective relates to an investment in a subsidiary that clearly is if a non-trading and structural nature, and there is clearly no trading intent with respect to this FX position that only arises on an aggregate level by taking all trading book positions of the subsidiary into account any additional open FX position that the USD subsidiary incurs (that then is of a trading nature) is included in the market risk RWA calculation

Please note that the above example was on purpose simplified to stress the argument that trading book positions may qualify as structural FX positions.

On the second question, we do not agree with the EBA´s view regarding the nature of the potentially excluded position. In our opinion, there are two different ways in which changes in FX rate might impact the capital ratio when the FX position, following the CRR, is closed. In both situations, an entity might adopt a net open position to cover its capital ratios against unwanted fluctuations in the exchange rate of the currency in question and the requisite of the long nature is only applicable to one of them.

1) the first possibility is that an entity might deliberately take an open position in order that changes in the capital ratio denominator (i.e. RWA) due to the variation of the amount in euros of foreign currency assets be offset by changes in the numerator (CET1, T1 or OW) caused by the revaluation or depreciation of the said open position, so that the ratio does not change. In this case, we recognize that the open position adopted should always be long in the corresponding foreign currency.

2) a second possibility is that the numerator of the ratio (CET1) is affected by movements in the exchange rate, although the regulatory FX position, according to regulation 575/2013, is closed.

This impact may be, among others, due to an asymmetric taxing treatment of profits and losses arising from the movement of the exchange rate or to the existence of prudential filters that limit the recognition of the capital gains derived from the repeated movement. The open positions needed to compensate for these effects can be either short or long.

Here are two examples

Example 1: asymmetrical taxing treatment

A European entity acquires a stake in a US company and fully fund the investment with debt in USD, so the FX position from this operation, following the regulation 575/2013 is closed. We assume that the tax treatment of P/L items from FX movements is not symmetrical, i.e. the changes in the euro counter value of the investment are tax exempt (neither taxable nor deductible) but the changes in the value of the liability are taxable/deductible.

In this scenario, if the USD depreciates, the bank will recognize a lesser liability in euros (a tax income) and also a smaller value in its investment (but the effect on P/L, accounting loss, is not deductible), consequently, there will be a higher taxable profit and the entity will pay higher taxes. As the accounting profit (before taxes) has not changed, the net profit will be lower and both the CET1 and the capital ratios will also decrease as a consequence of the movement in the FX rate.

On the other hand, if the USD appreciates the bank will have a deducible expense (higher c/v of the liability) without a matching taxable income (the effect on P/L of the higher value of the investment is not taxable) so it will pay lower taxes and the after-tax profit and the CET1 and the capital ratios will increase.

In order to hedge this position (i. e. to neutralize the effect of movements in FX rate on the CET1 ratio) the entity might take a short USD position (so the profit when the USD depreciates will compensate the higher taxes). This short position should be excluded as it has been deliberately taken in order to hedge the effect of the exchange rates on capital ratios.

In short, if the tax treatment of some assets and liabilities in foreign currency is not the same, in order to hedge both the CET1 and the capital ratios the entity need to take an open position (a short open position in the example, it could be a long open position if P/L items from FX movements on the liability side are tax exempted).

Example 2: short positions in the balance sheet as a result of negative mark to market (MtM) of cash flow hedge options in foreign currency.

There is a prudential filter that eliminates the fair value reserves related to gains or losses on cash flow hedges of financial instruments not recognized at fair value. Logically the movements in its MtM have impact neither in the CET1 nor in the capital ratios. When the hedging options (and the hedged items) are denominated in foreign currency the option MtM is also an asset or liability in foreign currency, but due to the aforementioned prudential filter, the changes in its value due to movements in the FX rate will not have any effect on the CET1 and the capital ratios. That is to say, if the MtM is not matched with other foreign currency asset/liability there will be an open FX position (may be long or short) without any effect on the CET1.

On the other hand, if this open position is closed, the variations in the euro c/v of the matching asset/liability due to movements in FX rate will impact the P/L and consequently the CET1 and the capital ratios.

Consequently, we believe that the MtM due to cash flow hedging options in foreign currency must be considered as a position deliberately taken to hedge the capital ratios against the adverse impact of FX rate movements and should be eliminated from the FX risk position of the bank.

A last point is the regulatory treatment of AT1 instruments issued in foreign currency and with write-down clause (WD) if reached the PONV or breach the conversion trigger. These instruments are recognized as equity, according to NIC 32, consequently, they do not seem include in the regulatory FX position defines in article 352 CRR.

We believe that, from an economic and regulatory point of view, these instruments should be treated in the same way than AT1 instruments that would be converted in CET1 instruments when reached the PONV. In or opinion, if the EBA´s criterion is that the said AT1 with WD clause are not included in the FX position, the exclusion of a FX position of the same amount and opposite nature (long vs short) should be authorized to hedge the CET1 and the CET1 ratio.

Question 4. How should firms/regulators identify positions that are deliberately taken in order to hedge the capital ratio? What types of positions would this include? Do you consider that foreign exchange positions stemming from subsidiaries with a different reporting currency can be seen (on a consolidated level) as 'deliberately taken to hedge against the adverse effect of FX movements'? If yes, how do you argue that this is the case?

The entities should define a hedging policy and hedging procedures that must be approved by the relevant bodies (e.g. ALCO, Capital Committee). Evidence of compliance with the rules set by these bodies should be at the disposition of the supervisors.

Once said that, we believe that the concept "position deliberately taken" should be understood as a "net open position" maintained and that are coherent with the entity´s hedging strategy, policy and procedures, approved by the relevant bodies, with the permission by the competent authorities.

In this sense, we do not believe that FX items such as real state or, in the separate financial statements, subsidiaries holdings abroad, pose any particular problem. From our point of view the net position is the result of all of the instruments in the relevant foreign currency and it usually does not make sense to assign FX positions to some FX items, as their selection is an arbitrary process, at least if all the FX items are recognized in the same book (banking or trading).

Furthermore, even if there is only an FX item and this has been taken years ago, we consider that the FX position should be regarded as deliberately taken (i. e. not closed) when the conditions in the precedent paragraphs are fulfilled.

On the third question regarding 'deliberately taken' positions:

Firstly, yes, we do agree with paragraph 43. in the Discussion Paper and believe that "deliberately taken" is equivalent to "deliberately not closed" (otherwise it would be compulsory to close an existing net open position and following this, open the FX position again with a symmetrical operation or instrument). So, if the conditions detailed in the precedent paragraph are fulfilled, it should be considered "deliberately taken."

Second, the position in the consolidated financial statements stemming from foreign subsidiaries is not different in nature than the one stemming from other instruments in foreign currency and logically the effect of movements in FX on the assets, liabilities and equity is not different in this case that in one from any other FX position. In this regard, positions stemming from subsidiaries at the consolidated level (assets, liabilities…) should be taken into account.

Third, although the change in CET1 might be slightly different from the change in equity (due to the "cap" to the amount of minority interest included in consolidated CET1) we understand that this is only relevant to determine the amount of the excluded position (it might be larger when the change in equity is not fully recognized as a change in CET1).

Fourth, the proposal of the European Commission amending the CRR changes the terms of the authorization to exclude certain FX positions and limits the amount of the exclusion to the largest of: i) the investment in consolidated subsidiaries denominated in foreign currency or ii) the affiliated entities denominated in foreign currency. It seems clear that the Commission´s criterion is that the investments in subsidiaries and affiliates in foreign currency are the core element of the structural FX position.

Question 5. ***1) Do you consider that the structural FX treatment could be applied to specific instruments instead of being understood as being applicable for 'positions'? 2) Taking into account the risk rationale of hedging the capital ratio, do you consider that it is acceptable to renounce to potential gains in order to protect the ratio from potential losses? 3) Do you consider that both types of hedging (i.e. reducing the sensitivity of the ratio to movements of FX in both directions, or only if the movement produces losses) are acceptable from an economic perspective? 4) If so, do you consider that both approaches would be acceptable under Article 352?***

1) We rather understand the structural FX treatment as applicable to "positions". In our opinion, the exclusion from the FX position only makes sense in net terms, i.e. as a specific net open position amount that generates P/L (CET1) and compensates the change in the euro amount of the RWA in foreign currency. Consequently, "positions" seem more appropriate, because to apply the exclusion only to specific and identified instruments will result in additional complexity and expenses without any visible advantage. This is clear if the hedging strategy is "not close an open position" (i.e. no additional transaction is required because the position due to the usual business and structure of the entity is a "natural hedge", as it is the case with the open position stemming from foreign subsidiaries).

In this regard, it's relevant to note that the structural FX requirements do apply both at individual and consolidated basis. At the consolidated basis, once the elimination of the investment versus equity has taken place the assets/liabilities stemming from the subsidiary are integrated with the parent's. In this regard, there's no a specific instrument, but there're positions (assets, liabilities, derivatives) denominated in the foreign currency and that should be subject to structural FX calculations

2) Yes. We believe that: i) The CRR does not say anything about potential gains from a drop and it is unsound to conclude anything from what it is not in the text and ii) as it is indicated in paragraph 49, the CRR does not state that it is not acceptable to lose a potential gain.

Additionally, the objective of any hedging strategy is preventing certain losses and it usually implies renounce to eventual gains and/or incur in additional expenses. We agree with the BCBS reference in paragraph 48 about the loss of a potential gain as a "price to be paid" for hedging the ratio.

3) Yes. We believe that both types of hedging might be acceptable from an economic perspective.

4) Yes, we consider that both approaches would be acceptable under Article 352. Although hedging the capital ratio from a rise in FX while keeping the ability to benefit from its drop would imply the use of option, as we have already explained we consider that the net open position should be the "structural nature", but instruments/operations and hedging procedures (such as options and treating "delta-equivalent positions") are not limited by this requirement. The position stemming from trading book instruments may be consider as structural if it has been clearly defined and quantified in the hedging strategy and policies.

Question 6. ***If 'structural FX' is used conceptually internally within your organization (e.g. in risk policies, capital policies, risk appetite frameworks, etc.), how do you define the notion of 'structural FX position' and 'structural hedge'? Please describe how any ratio-hedging strategies are mandated within your organization. Are ratio-hedging strategies prescribed in risk policies approved by the board? How do you communicate structural FX risk and position taking to your external stakeholders (e.g. in Pillar 3 reports, or reporting to regulators, investors, etc.)?***

As stated by Risk policies and the risk appetite framework[1] approved by the entities´ corporate governance bodies (Risks committees, ALCOs etc.), the purpose of exchange rate risk management at a corporate level is the stability of consolidated capital ratios and the results generated in a currency other the euro in the face of potential exchange rate fluctuations due to our international diversification.

In their structural FX policy, the entities define the "structural FX position" as the Capital invested in foreign subsidiaries and Results of foreign subsidiaries. The capital investment for the purchase or acquisition of subsidiaries abroad generates structural positions in foreign currency in the consolidated balance sheet of their Groups. As the consolidation of the financial accounts is in euros, the exchange rate fluctuations affect the value of the subsidiaries for their consolidation in Euros. The effect of this exchange rate risk has a direct impact on their Group's consolidated capital.

Among the alternatives for the management of structural FX hedge, there are two main types of risk management: capital management, where capital is preserved (no ratio preservation); and the management of the capital ratio, where it is intended to preserve the ratio (and not preserve capital).

Global governance bodies determine that the management scope for exchange rate risk is the Group's consolidated core capital ratio fully loaded. The effect that exchange rate volatility has on the Consolidated CET1 FL Ratio is determined by each of the components of the Ratio that are defined in currency and affected by a conversion to euros at the time of consolidation. The "structural hedge" objective must take into account both the net investment in each currency and the RWAs in that currency, in a proportion equivalent to the ratio CET1 FL that exists at any moment.

The Structural Risk departments establishes metrics and limits of risk appetite in relation to FX risk and periodically checks the efficiency of the hedges.

The targets in terms of solvency set out in the risk appetite framework lead to a structural exchange rate risk management, in line with established limits, committed to find a balance between the proportion of hedge that must be maintained to mitigate the risk and the negative impact of these hedges cost At a corporate level, structural FX risk management is focused on translation risk arising from a potential loss in the value of positions consolidated in the balance sheet as a result of adverse exchange rate movements.

Yes, our members report to their investors and market that they hedge their capital Ratio. As for communication to external stakeholders, in the financial reports it is reported:

- the ratio CET1 sensitivity levels for main emerging currency exposures;

- hedging strategy and % hedge of total capital excess

[1] Which establishes the basic aspects for the management of the structural exchange rate risk, the lines of authority and the attributions necessary for its management. In international groups, they represent the standard to be fulfilled by the Corporate Function of Financial Management of the different groups for the correct management of the risk of structural exchange rate.

Additionally, they are reporting to regulators the internal risk metrics intended to assess the entities/Group´s solvency and the use of the limits established for these metrics, as well as the stress-testing of the entities/Group´s solvency levels for different FX adverse scenarios, both historical and simulated.

Question 7. ***Do you share the EBA's view that the maximum FX position that could be considered structural should be the position that would ideally neutralise the sensitivity of the capital ratio to FX movements? Alternatively, in the light of the reference to Article 92(1), do you consider that the size of the structural position should be limited by the minimum capital ratio levels? If this is the case, which one of the three levels established in Article 92(1) do you apply?***

Banks can opt for different kind of strategies when dealing with the FX risk, the amount of the structural position to be excluded depends on the strategy followed in terms of the capital ratio. When the capital ratio is fully neutralized to movements in the foreign exchange risk, the amount to be excluded should be the maximum FX position that would ideally neutralise the sensitivity of the capital ratio to FX movements but when the ratio is not fully but partially neutralized, the amount to be excluded should be limited to the amount that would act as a hedge of the capital ratio, meaning partially reducing its sensitivity (Examples explained in Annex A) with no change in sign.

The treatment described above is in line with the provisions in the Basel Accord that explicitly take account of this issue:

718(xxxviii). Supervisory authorities are free to allow banks to protect their capital adequacy ratio in this way. Thus, any positions which a bank has deliberately taken in order to hedge partially or totally against the adverse effect of the exchange rate on its capital ratio may be excluded from the calculation of net open currency positions, subject to each of the following conditions being met:

•Such positions need to be of a "structural", i.e. of a non-dealing, nature (the precise definition to be set by national authorities according to national accounting standards and practices);

•The national authority needs to be satisfied that the "structural" position excluded does no more than protect the bank's capital adequacy ratio;

•Any exclusion of the position needs to be applied consistently, with the treatment of the hedge remaining the same for the life of the assets or other items.

In addition to this it should be highlighted that CRR within its scope considers positions deliberately taken in order to hedge the ratio but does not limit these positions to positions taken to totally hedge the ratio. In this regard, partial hedges should also be considered under CRR.

Art 352. 2. Any positions which an institution has deliberately taken in order to hedge against the adverse effect of the exchange rate on its ratios in accordance with Article 92(1) may, subject to permission by the competent authorities, be excluded from the calculation

of net open currency positions. Such positions shall be of a non-trading or structural nature and any variation of the terms of their exclusion, subject to separate permission by the competent authorities. The same treatment subject to the same conditions may be applied to positions which an institution has which relate to items that are already deducted in the calculation of own funds.

Once said that, on the first question the answer is "Yes". We believe that the maximum FX position that can be excluded from the net open currency position (we understand that this is what it is understood as "structural in question 7) is the one that would neutralise the sensitivity of the capital ratio. If a larger long FX position is excluded (considered structural) the "net open position" utilized for the calculation of capital requirements will be "zero" when actually the capital ratio is not effectively hedge. -No, our members do not consider that the size of the structural position should be limited by the minimum capital levels. The objective of our members is "to hedge against the adverse effect of the exchange rate on its ratios" and this objective can only be fulfilled when the excluded position is the one that reduces the sensitivity of the capital ratio to FX movements, that is to say, the net long position is at maximum equal to the current level of the said ratio multiplied by the RWA in the considered foreign currency. Article 92(1) establishes the obligation for the credit entities to satisfy certain ratios and we believe that the reference in article 352 should not be understood as setting the limit for the RWA relief.

With regards to minimum capital ratios, it can be mathematically proved that the use for determining the hedge would be sub-optimal. This is as it does not enable banks to neutralize the sensitivity of the current (or target) capital ratio, which is more appropriate economically.

In practice, hedges are calculated in reference to the actual capital ratio. Therefore, we do not agree to limit the size of the structural hedge to minimum capital ratio levels as it would fail the objective of neutralization of the current capital ratio to FX movements.

-On the final questions, as it is not the case, none.

Question 8. ***How do you assess the consolidated ratio? How does your treatment differ between subsidiaries and branches?***

Our members have received an authorization for the consolidated level only.

Our members do not deliberately hedge capital ratios on individual level (neither in parent companies nor in subsidiaries) although the long net open position required to hedge the consolidated capital ratio is usually maintain in the parent company.

Consequently, there is a partial hedge (may be an over-hedge) of the individual capital ratio, although our members do not have the capital relief due to the mentioned lack of authorization.

In this regard, and in line with the provisions in the Basel text, we note that participations denominated in foreign currencies which are accounted at historic cost should not bear any capital charge.

Question 9. ***What are your views on the CRR2 text of the structural FX article? What significant impacts might this have on your current hedging strategies?***

The text seems to be written with the idea that you have to take a deliberately position.

First, we agree with the Commission´s view that the investment in foreign subsidiaries and affiliated entities is the FX position with the most characteristic features of a structural investment (long- term investment, without a maturity date, etc.), but:

i) We believe the term "affiliated" has not been defined in the regulation 575/2013 although it is used in a few articles. In particular in article 10 and concordant norms it is used in a restrictive way. We understand that a precise definition is required.

ii) In our opinion, investment in foreign subsidiaries which are not included in the consolidation or associated companies (at least, in the case of entities) should be recognized as structural in nature. Consequently, we suggest including these investment into the limit set in article 325, c: the exclusion should be limited to "the amount of investment in subsidiaries and associates denominated in foreign currency")

We consider it reasonably that the exclusion should be limited to the maximum of these amounts:

(i) the amount of the original investment in affiliated entities denominated in foreign currencies but which are not consolidated with the institution
(ii) the amount of the book value plus minority interests in consolidated subsidiaries and the investment in non-consolidated subsidiaries and associates denominated in foreign currencies, as they are effectively the Capital exposure

The requirement that "Any exclusion … shall … remain in place for the life of the assets or other items" seems problematic. In principle, our members do not forecast a change in their hedging strategy but the lack of flexibility regarding investment in consolidated subsidiaries is an element of concern. Additionally, as it said in the EBA paper, the hedge is a position, i.e. the net of a wide group of FX instruments, even if the instruments have been identified, the maturity dates will likely not be the same. If some of the instruments have been cancelled and others have been not, should the position excluded be maintained?

As EBA said in the Public Hearing, which is the life of an equity investment? The CRR2 should refer to positions.

Finally, we note that participations denominated in foreign currencies which are accounted at historic cost and items deducted should not bear any capital charge.

Question 10. ***Do you agree with the analysis in the simplified assessment, from both an individual and a consolidated perspective, of the various elements discussed in this Annex of the DP or do you have any comments? In particular, do you have comments regarding the analysis of:***

- ***the actual level of the capital ratio***
- ***the effect of items deducted from capital / subject to a 1.250% RWA / subject to a 0% RWA***

- ***the effect of items held at the historical FX rate?***

Are there any additional elements, not included in the simplified examples, which should be considered in the analysis, both from an individual and a consolidated perspective? Please provide simple examples to illustrate them.

We agree with the conclusion in point 2.1.1 about the relevance of the actual capital ratio.

We also agree with EBA´s analysis regarding the items deducted from capital- the position stemming from them should be excluded- and items subject to a 0 % risk weighting (RW).

We do not understand these 0 % RW assets as subject to a particular treatment. The rule is to exclude a percentage of the RWA (so, if the FX asset ponderation is 0%, no structural position is required to compensate their impact on the capital ratio denominator). We have the same view above 1,250 % risk weighted assets, the structural position should be the RWA (i.e. 12.5 times the amount of the asset).

ANNEX A: EXAMPLES

We have included 4 cases for the analysis:

- Case 1: Matched FX position

In this case there's no FX capital charge as the position in FX is matched but as a consequence the sensitivity of the ratio to movements in the foreign exchange rate is high.

Bank with no FX position

HIGH ratio sensitivity

No P&L volatility

NO FX RWA=> no own funds requirement

No waiver is needed

	FX	1		
100%	Assets FX	1000	1000	Liabilities FX
100%	Assets EUR	2000	1700	Liabilities EUR
			0	P&L
			300	Equity EUR
	Total	3000	3000	Total
	ONFEP	0		
	Waiver			
	RWA Assets FX	0		
	Capital Ratio	10,00%		
	sens 10% deval	32 bp		

- Case 2: Open FX position that neutralizes the sensitivity of the ratio to movements in the foreign exchange rate

  In this case there's no FX capital charge as the amount of the exclusion is equal to the open position. The sensitivity of the ratio to movements in the foreign exchange rate is zero as this strategy has totally neutralized the capital ratio to movements in the foreign exchange rate.

Bank with FX position. Ratio fully hedged				
NO ratio sensitivity **HIGH** P&L volatility		Waiver is granted		
NO FX RWA=> no own funds requirement				
	FX	1		
100%	Assets FX	1000	900	Liabilities FX
100%	Assets EUR	2000	1800	Liabilities EUR
			0	P&L
			300	Equity EUR
	Total	3000	3000	Total
	ONFEP	100		
	Waiver	-100		
	RWA Assets FX	0		
	Capital Ratio	10,00%		
	sens 10% deval	0 bp		

- Cases 3 and 4: Open FX position that almost reduces to the half the sensitivity of the ratio to movements in the foreign exchange rate comparing to Case 1.

    - Case 3: the amount of the structural position excluded for the FX RWA calculation is the maximum amount that neutralizes the ratio (Position excluded=100). The exclusion generates a short position bigger than the original long position, provoking higher own capital requirements. In addition the amount of capital requirements for FX is bigger (and lower capital ratio) than the first example with half of CET1 ratio sensitivity.

Bank with FX position. Ratio partially hedged				
		Waiver is granted with no cap		
Lower ratio sensitivity				
Lower P&L volatility				
FX RWA **bigger** than ONFP, own funds requirement				
	FX	1		
100%	Assets FX	1000	955	Liabilities FX
100%	Assets EUR	2000	1745	Liabilities EUR
			0	P&L
			300	Equity EUR
	Total	3000	3000	Total
	ONFEP	45		
	Waiver	-100		
	RWA Assets FX	55		
	Capital Ratio	9,82%		
	sens 10% deval	18.5 bp		

- Case 4: the amount of the structural position excluded for the FX RWA calculation is the amount that partially neutralizes the ratio (Position excluded=open position maintained to reduce the sensitivity). The exclusion does not generate a short position.

Bank with FX position. Ratio partially hedged				
		Waiver con CAP		
Lower ratio sensitivity				
Lower P&L volatility				
NO FX RWA=> no own funds requirement				
	FX	1		
100%	Assets FX	1000	955	Liabilities FX
100%	Assets EUR	2000	1745	Liabilities EUR
			0	P&L
			300	Equity EUR
	Total	3000	3000	Total
	ONFEP	45		
	Waiver	-45		
	RWA Assets FX	0		
	Capital Ratio	**10,00%**		
	sens 10% deval	17.7 bp		

Conclusion: When the ratio is partially hedged, the structural FX exclusion shouldn't be bigger than the original open position, as in any case, is reducing capital ratio sensitivity.