

## Deloitte regulatory news alert

### Regulatory technical standards for prudent valuation under Article 105(14)

On 28 January 2016, the **Commission Delegated Regulation (EU) 2016/101** with regard to regulatory technical standards (RTS) for prudent valuation under Article 105(14) of Regulation (EU) No 575/2013 was published in the Official Journal of the European Union.

Institutions shall calculate the total valuation adjustments (AVAs) necessary to quarterly adjust the fair values to the prudent value and shall calculate those AVAs.

The combination of Article 34 and Article 105 of Regulation (EU) No 575/2013 implies that the prudent valuation requirements in these RTS apply to all fair-valued positions regardless of whether they are held in the trading book or banking book.

Positions refers solely to financial instruments and commodities.

The delegated act specifies two approaches for calculating additional valuation adjustments for the purpose of determining the prudent value of fair-valued positions:

- the Simplified approach;
- the Core approach.

Institutions shall apply the Core approach, unless they meet the conditions required for applying the Simplified approach.

#### Entry into force

This Regulation entered into force on 17 February 2016.

#### Simplified approach

Institutions can apply the simplified approach provided the sum of the absolute value of on-and off-balance sheet fair valued assets and liabilities is less than EUR 15 billion and provided they are not part of a group that exceeds this threshold.

The calculation of the required AVA under the simplified approach is based on a percentage of the aggregate absolute value of fair-valued positions held by the institution which amounts to 0,1%.

## Core approach

The Core approach is obligatory for institutions that are above the threshold of the simplified approach, but may also be implemented by institutions that are below this threshold.

The Core approach can be split in the following key features:

- Every AVA must be calculated as the excess of valuation adjustment required to achieve the identified prudent value over any adjustments applied in the institution's fair value adjustment that can be identified as addressing the same source of valuation uncertainty as the AVA;
- Where possible, the prudent value of a position is linked to a range of plausible values and a specified target level of certainty (90%)
- For all other cases, an expert based approach is specified, together with the key factors that are required to be included in that approach, (90%) target level certainty should also be set.

# Your contacts

**Martin Flaunet**

Partner | Banking Industry Leader

Tel/Direct: +352 45145 2334

mflaunet@deloitte.lu

**Jean-Philippe Peters**

Partner | Risk and Capital Management

Tel/Direct: +352 45145 2276

jppeters@deloitte.lu

Deloitte Luxembourg

560, rue de Neudorf

L-2220 Luxembourg

Tel: +352 451 451

Fax: +352 451 452 401

[www.deloitte.lu](http://www.deloitte.lu)

Deloitte is a multidisciplinary service organisation which is subject to certain regulatory and professional restrictions on the types of services we can provide to our clients, particularly where an audit relationship exists, as independence issues and other conflicts of interest may arise. Any services we commit to deliver to you will comply fully with applicable restrictions.

Due to the constant changes and amendments to Luxembourg legislation, Deloitte cannot assume any liability for the content of this leaflet. It shall only serve as general information and shall not replace the need to consult your Deloitte advisor.

**About Deloitte Touche Tohmatsu Limited:**

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/lu/about](http://www.deloitte.com/lu/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

© 2016 Deloitte General Services

Designed and produced by MarCom at Deloitte Luxembourg