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*Changes to legislation: Commission Delegated Regulation (EU) No 523/2014, Introductory Text is up to date with all changes known to be in force on or before 12 March 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)EUR 2014 No. 523 may be subject to amendment by EU Exit Instruments made by both the Prudential Regulation Authority and the Financial Conduct Authority under powers set out in The Financial Regulators' Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018 (S.I. 2018/1115), regs. 2, 3, Sch. Pt. 4. These amendments are not currently available on legislation.gov.uk. Details of relevant amending instruments can be found on their website/s. (See end of Document for details)*

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Commission Delegated Regulation (EU) No 523/2014 of 12 March 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for determining what constitutes the close correspondence between the value of an institution's covered bonds and the value of the institution's assets (Text with EEA relevance)

COMMISSION DELEGATED REGULATION (EU) No 523/2014

of 12 March 2014

supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for determining what constitutes the close correspondence between the value of an institution's covered bonds and the value of the institution's assets

(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 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<sup>(1)</sup>, and in particular Article 33(4) thereof,

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<sup>(2)</sup> 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

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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<sup>(3)</sup>,

HAS ADOPTED THIS REGULATION:

**Modifications etc. (not altering text)**

- C1** The “appropriate regulator” has power to make such provision as they consider appropriate by means of an instrument in writing to prevent, remedy or mitigate any failure of the provisions of this Regulation to operate effectively or any other deficiency arising from the withdrawal of the United Kingdom from the EU, see The Financial Regulators' Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018 (S.I. 2018/1115), [regs. 2, 3](#), [Sch. Pt. 4](#) (with saving on IP completion day by S.I. 2019/680, [regs. 1\(2\), 11](#); 2020 c. 1, [Sch. 5 para. 1\(1\)](#))
- C2** Regulation: power to modify conferred (11.7.2023) by [Financial Services and Markets Act 2023](#) (c. 29), [ss. 3, 86\(3\)](#), [Sch. 1 Pts. 1, 3](#); S.I. 2023/779, [reg. 2\(d\)](#)

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- (1) [OJ L 176, 27.6.2013, p. 1.](#)
- (2) Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), ([OJ L 302, 17.11.2009, p. 32](#)).
- (3) Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC ([OJ L 331, 15.12.2010, p. 12](#)).

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