Irish Association of Corporate Treasurers

11th November 2015

Dear All,

We have received the following statement of explanation and correspondence from the European Association of Corporate Treasurers (EACT) relating to a proposal by the European Banking Authority (EBA) to remove an exemption for corporates (NFCs) relating to hedging activity with banking counterparties.

The statement reads as follows:

*"The EU Regulation on OTC derivatives (EMIR) exempts non-financial counterparties' OTC derivatives transactions entered into for hedging purposes from the requirement to centrally clear or to post margin on their transactions. The EU Regulation on bank capital (CRD IV) includes a read-across exemption stating that the transaction exempted from central cleaning under EMIR will also be exempted under CRD IV from additional capital requirements (called Credit Valuation Adjustment,*
*CVA) that should otherwise apply to non-centrally cleared OTC derivative transactions. This read-across exemption in CRD IV is crucial as without it, banks will have to put more capital aside for non-financial counterparties' transactions, therefore significantly increasing the costs to companies and taking away in large part the economic value of the central clearing exemption.*

*Since February this year, the European Banking Authority is challenging the CVA exemption granted to non-financial counterparties under CRD IV and is planning to impose additional capital charges on banks on their CVA-exempted transactions by issuing guidelines that banks would be obliged to comply with. These guidelines would enter into force without any scrutiny by the EU institutions and the EACT argues that it is illegitimate for the EBA to impose these measures that go against the text of the law currently in place. In order to alert the EU authorities of the damaging consequences that the EBA's action would have on companies the EACT would like to get individual companies' support for the letter addressed to the EBA and copied to the most relevant people at the Commission and the European Parliament"*

In summary the upshot of this proposal by the EBA if enacted would be to increase the cost for NFCs of using OTC instruments for hedging purposes. The EACT believes that this proposal unnecessarily targets the hedging and risk management activity engaged by NFCs and is challenging this proposal and seeks the support of named companies for the attached letter that will be sent to the EBA and copied to the Commission and European Parliament.

If your company wishes to add its support to the effort of the EACT we would be grateful if you could advise Michele Fogarty at info@treasurers.ie