



21 June 2013

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Dear Mr. Farkas,

Deutsche Bank's response to the European Banking Authority's consultation paper on supervisory reporting on forbearance and non-performing exposures: EBA/CP/2013/06

Deutsche Bank (DB) welcomes the opportunity to comment on the European Banking Authority's (EBA's) consultation paper on supervisory reporting on forbearance and non-performing exposures (NPEs).

Our response includes some general comments about the consultation (CP) on reporting on NPEs, and then addresses the specific questions highlighted in the consultation paper.

DB has concerns about the timeline associated with the implementing the new reporting templates in parallel with the COREP/FINREP timeline. The latter required a two-year lead time to implement and the accelerated timeline envisaged in the current consultation for reporting on forbearance and NPEs would be difficult to accomplish given that it requires operational and system changes. DB asks that the EBA reconsider the timeline to better reflect the operationally complex reporting requirements.

Additionally, DB believes that there would be a notable amount of overlap between the reporting required under this proposals and existing reporting requirements. DB requests that the EBA consider where existing requirements, for example IFRS reporting requirements, can be taken into account to avoid burdensome and unnecessary duplication. We believe that cooperation with the International Accounting Standards Board (IASB) would also be beneficial. A prime example of existing and complementary reporting relate to the provisions for forbearance of defaulted assets.

DB also has concerns about the CP's apparent aim to move to a 'one-size-fits-all' approach. We believe that removing qualitative criteria, would result in poor quality reporting and consequently lower supervisory understanding and oversight. In recent years, the market and global standards (Basel and IFRS) have moved the market to a higher level in risk evaluation and reporting using statistical models, historical evidence and in-depth analysis of both banking products and client behavior. DB asks the EBA to ensure that the proposals in the CP would not result in a decrease in a lowering of reporting standards, negatively impacting supervisory oversight and understanding. Reporting must be sophisticated enough to provide an understanding of factors involved, while at the same time correctly aggregated so as to provide statistically meaningful results.

DB would also like to draw attention to some wording in the CP that we believe should be clarified. We find statements made in section "3. Background and rationale," paragraphs two



and three unclear and doubtful: in particular statements that banks use loan forbearance measures for “delaying loss recognition and masking asset quality deterioration” and “masking the real situation of the debtor” disregard rules and audits which ensure these practices cannot be undertaken. Banks are regularly audited by Regulators and audit firms in order to confirm that existing practices are in compliance with regulatory requirements and accounting standards. The quality of banks’ assets is shown in rating data which is regularly disclosed. It is also important to note that these rating disclosures are derived from processes thoroughly reviewed and approved by the regulators e.g. in the context of Basel II / IRBA audits. IRBA banks have to prove that the parameters used for the RWA and EL determination are calibrated based on a internal loss and default history, and are thoroughly audited in order to check compliance with regulatory requirements prior providing IRBA approvals.

We believe that existing financial reporting regimes provide sufficient assurance and opportunity for independent evaluation as to the quality of the risk measurements and the quality of the financial data being presented as part of FINREP, COREP, Basel III and IFRS. It is important that work at the EU level is complementary to and does not contradict provisions that are operating effectively and does not undermine work done in these fora.

In addition to providing general comment and answers to the specific questions indicated in the CP, in Annex 1 we highlight some areas in the tables accompanying the CP that we believe need some further elaboration, or where we would request some specifics be further clarified.

We would be happy to discuss further any of the points in our response.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'A. Procter', written in a cursive style.

Andrew Procter
Global Head of Compliance, Government and
Regulatory Affairs



Responses to Specific Questions

1) Do you agree that building definitions of forbearance and non-performing by taking into consideration existing credit risk related concepts enables to mitigate the implementation costs? If not, please state why.

In DB's view, the definitions of forbearance and non-performance set forth in this CP do not mitigate implementation costs. In fact they may have the opposite effect. By attempting to implement a regulatory procedure around forbearance and non-performance, the EBA requires that all European banks change their procedures and reporting criteria for loans, implementing a structure that is incompatible with IFRS concepts of Impairment. This change must be applied to all global operations and requires significant reporting requirements for periods of up to 2 years, and not less than 1 year, beyond the resolution of the issue.

2) Do you agree with the proposed definitions? Especially, do you agree with the inclusion of trading book exposures under the scope of the non-performing and forbearance definitions? If you believe alternative definitions could lead to similar results in terms of identification and assessment of asset quality issues, please explain them

No, the definitions in the CP create a distortion of IFRS by attempting to apply some Basel concepts to IFRS and take a 'one-size-fits-all' approach to non-performance and forbearance. In reality they are very different concepts.

IFRS trading book exposures do not need to be included. Short-term profit taking is a requirement of the trading portfolio as well as market price. Any changes in performance or forbearance are already directly shown through the fair value changes and the position will be sold or if appropriate transferred to another portfolio in a short period of time, so by definition, there can be no long-term effects in this portfolio.

Basel-IFRS convergence is important and work in progress, but other reforms must avoid confusion and fragmentation of information and reporting standards.

While forbearance may be an indicator of higher risk, it is not necessarily an indicator of incurred loss. Most forbearance conditions maintain the profitability of the transaction while easing certain conditions in order to increase the likelihood of the expected return being realised. In practice it is less common that forbearance results in a realised loss since forbearance usually requires proactive steps on the part of the borrower which thus lends itself to a resolution of certain difficulties. Currently, sophisticated modeling techniques are being employed throughout the market. DB believes that the CP proposals risk returning to a rigid system which would be less effective and be a step backwards in risk measurement and management.

We see merit in the EBA ensuring that national regulators and auditors play close attention to ensuring that practices in this area are consistent with global rules.

3) How long will it take you to implement, and collect data on, the definitions of forbearance and non-performing?



DB would expect implementation of forbearance and non-performing reporting as laid out in the CP to take approximately 18-24 months.

The reporting systems for credits will need to be changed on a global basis. In non-EU jurisdictions, dual reporting processes will need to be designed, developed and implemented. From a procedural standpoint, this will require changing the complete 'Problem Loans' process. Additionally the current hierarchy approach where the highest risks and largest problems result in more detailed reporting, will have to be converted to a box approach where all problem credits are treated equally in the reporting process. This approach requires the same information for retail business as for commercial and institutional business, thus increasing exponentially the reporting requirements, even across homogenous portfolios.

4) What definitions of forbearance and non-performing are you currently using respectively for accounting and prudential purposes?

We generally use Basel definitions for prudential purposes, and IFRS definitions for accounting. That being said, the current definitions and processes relate to the materiality of the credit in question, with differences between homogenous portfolios and retail business having standardised workout options as opposed to individual treatment for more material transactions. The current definitions are defined and disclosed in the financial statements along with the risk monitoring policies and structures of the organization.

6.2.2 Specific questions on some aspects of the forbearance definition

5) Do you agree with the types of forbearance measures covered by the forbearance definition? If not, what other measure(s) would you like to be considered as forbearance?

A complete forbearance definition would take into consideration reduction in profitability for the bank or significant/material timing changes with regard to future payments or maturities. Negotiating a payment schedule that only modifies cash flows and not overall returns does not fully measure a forbearance that might materially affect the bank's risk profile or profitability outside of the short-term.

Also, the distinction between commercial renegotiation and forbearance is provided in the CP; however, no distinction is made with regard to the realisation or the transfer of collateral ownership. In some structured lending this is built into the transaction. While the transfer of collateral may be an indicator of risk, it is not necessarily related to forbearance or default, but can simply be part of a re-financing of the counterparty's various outstanding positions.

It should also be noted that the type of collateral can also play a significant role, as cash and cash equivalents (including marketable securities) may be transferred through collateral transfer.

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6) Do you agree with the following elements of the forbearance definition:

a. the criteria used to distinguish between forbearance and commercial renegotiation?



In many cases, the forbearance definition requires that the bank conclude what the customer's motivations are in order to decide if it is commercial renegotiation or forbearance. It is not possible to do this with absolute certainty.

b. the criteria used to qualify refinancing as forbearance measures?

The subjectivity of this requirement is challenging. For example, in the case where short-term liquidity issues arise because a supplier has paid but not yet delivered thus delaying the realisation of goods and generating cash inflows from sales. Is this demonstrable and if so would it be considered a non-financial difficulty issue? We would also question how one would define "a financial difficulty" in this context.

c. a 30 days past-due threshold met at least once in the three months prior to modification or refinancing, as a safety net criterion to always consider modification or refinancing as forbearance measures?

Past-due for 30 days is an extremely low threshold and restricting this to a 3-month rolling window makes it even more so. In our experience, the cure rate of loans that are 30 days overdue is above 80%. In most cases, such a refinancing would be to avoid financial difficulty, which in the previous point was positioned as being a criterion for non-forbearance. In particular, in cases where a 'stand-still' is conceded in order to allow for a corporate client to present a refinancing / restructuring concept, this would usually take more than 30 days. Flagging such cases as forbearance would unduly overstate the risk of the credit and be overly prescriptive on critical assets of the bank.

Similarly for private clients, 30 days past due (dpd) is too low to properly reflect the asset, given that there are stringent collection and recovery processes in place which however operate at points beyond 30dpd, e.g. 45 dpd as the case may be.

This is again a quantitative approach as opposed to a qualitative one. Please see our definition in Point 5.

**d. the proposed treatment for exposures with embedded forbearance clauses?
In case you disagree with the EBA proposals on the above-mentioned issues, please explain and provide an alternative to them.**

DB sees a number of issues with the proposed definition of exposures. Regarding contingent liability, the wrong party is referenced for financial and other guarantees. Also, contingent assets have not been included.

Embedded forbearance may not necessarily be invoked as a result of financial difficulty, but simply good business sense, as with refinancing. To have these events stigmatised and penalised would mischaracterize them, potentially lead to the incorrect course of action and result, especially with regard to the earlier statements about commercial renegotiation.

7) Do you agree with the proposed scope of on- and off-balance sheet exposures to be covered by the definition of forbearance?

The scope of Balance Sheet exposures is acceptable, but the scope of off-balance sheet exposures is missing contingent assets' as well as numerous derivative contracts that might



be entered into, which can result in forbearance, albeit with regards to other receivables or overdrafts. Derivatives should be included as there is no difference between interest payments due on an interest derivative (IRS, XIRS, Int Cap/Collar/Floor, etc) and interest due on a loan. We question the inclusion of references to Basel portfolio types, which have no point of reference in the FINREP reporting space.

8) Do you agree not all forbearance transactions should be considered as defaulted or impaired?

We agree that not all forbearances should be considered as defaulted or impaired – there are cases where forbearance does not indicate a deterioration in credit quality. ‘Default’ and ‘Impaired’ are two separate values where one may exist with or without the other. Whereas “Impaired” has real reporting value, default does not have a unitary definition as it depends on the terms and conditions of the debt, as well as definitions of the lending institution if a loan.

9) What types of forbearance transactions are likely, according to you, not to lead to the recognition of default or impairment?

A transaction subject to forbearance is more likely to be unimpaired than to be impaired. It is through the forbearance that the lender has maintained the total return on the debt, even if the timing of certain flows may have changed. Default is the same. A debt can be in default simply because a single payment has been missed and by a single day. Various covenants may also result in a status of default, without ever representing financial difficulties. For example a loan granted to purchase a ferry may be considered in default if the borrower does not maintain the necessary insurance and permits to operate a ferry. If a default event has occurred, then this information might be of relevance, but it depends on the reason for the default, not the state of default. Such scenarios are commonplace and should not be used to trigger automatic forbearance or impairment reporting even though default does exist.

10) Do you agree with the proposed definitions of debtors and lenders and the scope of application of the forbearance definition (i.e. accounting scope of consolidation)?

The proposed definitions are acceptable, but the scope of application would include entities that do not necessarily have the infrastructure to perform such reporting. We do not see any real implementation advantage to having two FINREP scopes.

11) Do you agree with the proposed mixed approach (debtor and transaction approaches) for forbearance classification?

Mixing debtor (Basel) and transaction (IFRS) approaches is best avoided. In addition, adding a forced scenario to this mixed approach does not provide for a tangible benefit. This kind of mixed approach risks leading to confusion.

**12) Do you agree with the exit criteria for the forbearance classification? In particular:
a. what would be your policy to assess whether the debtor has repaid more than an insignificant amount of principal or interests?**

Loans should be treated as performing as long as the client has met the obligations arising after forbearance has occurred. We do not see benefit in any additional criteria.



b. do you support having a probation period mechanism?

DB considers the proposed 'Exit' criteria to be extreme. As we stated in response to question 12. Loans should be treated as performing as long as the client has met the obligations arising after forbearance has occurred. We do not see benefit in additional reporting for such a long period. However, a reporting period based on a certain number of subsequent payments would be more aligned to current modeling than a pure calendar approach.

13) Do you agree with the proposed approach regarding the inclusion of forbore exposures within the non-performing category? In particular:

a. do you agree the generic non-performing criteria allow for proper identification for neither defaulted nor impaired non-performing forbore exposures? Would you prefer to have the stricter approach (all forbore exposures identified as non-performing) implemented instead?

The designation of "non-performing" could occur after three missed payments, we believe that there are some deficiencies in making the calculation using calendar days as this may be a catch-all but can miss some specifics about particular payments being missed. We believe that these possible deficiencies should be taken into account when operating in the FINREP space and not the prudential space as per the Basel II 90 dpd date provisions.

b. do you agree with the proposed consequences of forbearance measures extended to an already non-performing exposure? Especially, are the proposed exit criteria strict enough to prevent any misuse of forbearance measures or would stricter criteria be needed?

These consequences make sense in the context of Forbearance of an existing non-performing exposure, where negotiations started after the non-performance event. The exit criteria however, are calendar based, which is not related to the specifics of the loan and therefore seem arbitrary. Semi-annual payments negotiated to annual as part of the next two years payment schedule would permit exit, whereas the monthly payer would have to wait until after 24 payments before exiting.

6.2.3 Specific questions on some aspects of the non-performing definition

14) Do you agree with the following elements of the non-performing exposures definition:

a. the use of 90 days past-due threshold to identify exposures as non-performing?

The 90-day past due threshold alone may be an overly blunt indicator of non-performing. Using this stand alone approach would capture a significant number of loans where quarterly or greater capital payments are required and the counterparty has simply missed one capital payment, but made all monthly interest payments.



For off-balance sheet' items, 90 dpd does not seem reasonable because there is no expected payment to be past due on. Off-balance sheet items cannot be non-performing in and of themselves. Any off-balance sheet items covered here, where a payment is due, become a balance sheet item, thus impossible to have a past-due and remain off-balance sheet.

b. the proposed guidance for past-due amounts?

Exposure values for non-performing, using gross figures, does not reconcile with financial or risk figures. Using the term 'likelihood' with regard to declaring an amount non-performing may misrepresent important elements of the concept. A client who is 90 dpd and then resumes payments, could remain non-performing until the loan is completely paid off, simply by carrying the 90-day amount forward. The same client could drop in and out under the FIFO rule by carrying 60-days forward and missing one payment.

c. the proposed treatment of collateral and especially the proposed valuation methodology for its reporting?

Current FINREP collateral methodology is accurate except where it is not included in the definition of non-performing exposures. A credit that is guaranteed by cash or is significantly over-collateralised and is non-performing still carries no credit risk. Fair value changes due to credit risk are also affected by collateral, so representing non-performing exposures without mention of collateral provides an incomplete view and deviates from IFRS. It should also be noted that collateral evaluation takes into account haircuts to derive the liquidation value. These haircuts are reviewed and audited by national regulators.

In case you disagree with the EBA proposals on the above-mentioned issues, please explain and provide an alternative to them.

Collateral values for risk measurement are different from values used for financial measurement. Non-performing, without some form of IFRS impairment is rare, but should be monitored through existing process and controls as opposed to a regulatory approach using quantitative criteria. We would request clarification of why a distinction between non-performing and in default is thought necessary. Our view is that existing IFRS impaired loans reporting is sufficient.

15) Do you agree with the coverage of the proposed definition and with the possibility to apply the generic non-performing criteria to all fair-valued non-performing exposures? Do you expect challenges when implementing them and collecting data on fair-valued non-performing exposures? Would you suggest other criteria instead?

The definition's scope being based on a Basel portfolio definition is usually not possible for FINREP data. These are separate processes that start with the same base data, but then diverge both conceptually and in practice. Any forbearance or non-performance would be likely to result in removing the asset from trading under IFRS. The necessary information would still be captured when excluding the IFRS trading portfolio from the definition since IFRS trading exposures would already be adjusted to their market value. Collecting such detailed data on IFRS trading positions would be extremely difficult due to the large volumes involved in daily turnover alone. The mix of IFRS and Basel concepts make it near impossible to ensure data quality.



16) Do you agree with the proposed treatment for derivatives exposures? If not, what criteria would you suggest to enable identification of non-performing derivatives?

DB sees areas for improvement in the proposed derivatives exposure treatment. Once derivatives default those positions are immediately closed-out and consequently disappear from booking systems. Collecting the necessary information would therefore be a huge operational burden.

Certain derivatives generate balance sheet risk (Receive leg of IRS/XIRS, Caps, etc), while others result in contingent assets or liabilities. However the incidence of forbearance and non-performance on such products is very low and would not necessarily be representative of any control issues unless they become material.

17) Do you agree with the proposed criteria to identify off-balance sheet exposures as non-performing?

There may be issues with this approach. If there is no expected or required cash flow for a contingent liability, one cannot identify non-performance. We are curious as to why contingent assets have not been included. Non-performance is a concept that cannot be applied to off-balance sheet items other than through association with balance sheet products (debtor approach) which is a Basel approach, not an IFRS approach. Clarity on this point would be helpful.

18) Do you agree not to consider exposures subject to incurred but not reported losses as non-performing?

DB agrees with this approach and notes that the new IFRS9 rules will remove the incurred but not reported rule. Consistency in this area is needed.

19) Do you agree with the proposed approach regarding the materiality threshold?

Materiality levels set cross-product, cross-entity, or cross-border, with regards to non-performance, is inconsistent with most statistical sampling tenants and in DB's view is contradictory to regulations set out by professional bodies with regard to materiality as used by audit firms. The proposed 'one-size-fits-all' approach risks causing improper measurement standards to be used in different markets.

20) Do you agree with the proposed definitions of debtors and lenders and the application of the non-performing exposures definition on an accounting scope of consolidation?

The definitions of debtors and lenders are sensible, but neither encompasses off-balance sheet exposures since these are contingent.

21) Do you agree with the proposed approaches (debtor approach for non-retail exposures, and possibility of a transaction approach for retail exposures)? In particular, do you agree with the idea of a threshold for mandatory application of the debtor approach? If so, which ratio methodology would you favor and why?



IFRS already calls for such an approach where the transactional approach is used as primary basis, but all transactions with a debtor should be looked at to ensure that they have not also been impaired. However, since non-performing criteria are already more stringent, this results in a divergence. We ask the EBA and ESMA to work together with the IASB to avoid definitions and provisions that are inconsistent with existing legislation. In our opinion, ratio methodology based on simplistic evaluations were already performed under Basel I and we do not see benefit in returning to such an evaluation method where broad definitions are applied to derive a benchmark ratio for regulatory purposes, especially when much more sophisticated approaches already exist in the regulatory framework.

22) Do you agree with the exit criteria from the non-performing category?

The proposed exit criteria will result in many exposures never exiting the non-performing category, and as per the entry criteria, it will negatively impact a significant portion of the loan portfolio where no impairment is identified. A past-due on an exposure in difficulty will be carried forward until maturity, as the first forbearance agreement is generally to extend/shift the payment schedule. This carry-forward will maintain the status of the exposure so that it never exit. Risk analysis has been moving to a more qualitative analysis. We believe that this provision moves towards a strictly quantitative approach which greatly limits the usefulness of the data.

23) Do you agree with the separate monitoring in a specific category of exposures ceasing to be non-performing? Do you think this specific category should be integrated within the performing or the non-performing category?

DB believes that in this area the costs significantly outweigh the benefits. In addition to the exit criteria being very difficult to fulfill, under these rules, if an exposure were to exit, this makes the exit merely academic since specific, segregated reporting group must still be maintained post exit. It is more common to have an exposure that never exits than to have recidivism, but in either case, this quantitative approach is contrary to current trends in the risk space.

24) Would you favor specific exit or specific separate monitoring criteria for non-performing exposures to which forbearance measures are extended?

DB considers that the quantitative criteria specified in the CP exponentially increase the monitored population, provide for multiple monitoring paths (IFRS, Basel and EBA Non-performing) and extend this increased population over multiple years. This will result in a significant rise in costs without any real gains. The provisions will generate large volumes of statistical data which miss the fundamental importance of qualitative analysis and current credit risk reporting techniques required as part of Basel III. Banks already have internal definitions for non-performing, for watch lists and for exit criteria that are subjective and qualitative and which are the subject of detailed external and internal audit attention. We view reporting at this level as being far more useful than a more limited quantitative reporting regime. We also have concerns that the mixture of finance and risk based concepts will lead to confusion and introduce impediments to clear decision making.

6.2.4 Impact assessment questions



25) Could you indicate whether all the main drivers of costs and benefits have been identified in the table above? Are there any other costs or benefits missing? If yes, could you specify which ones?

We consider that the removal of collateral considerations severely reduces the quality of asset reporting.

DB believes that the quantitative data reporting requirement requires further calibration. For example troubled debt, with cash or high quality collateral represent low levels of risk, yet this reporting is stated as being risk related. We fear that risk measurements are not properly calibrated and omit numerous useful quality considerations that are already part of other processes and reporting procedures.

We would be concerned if the final regulations result in parallel concepts and procedures that diverge from existing requirements and regimes. Such items only decrease the usefulness and quality of the reported data while providing for substantial incremental costs.

26) For institutions, could you indicate which type of one-off costs (A1, A2, A3) and ongoing costs (B1, B2, B3) are you more likely to incur? Could you explain what exactly drives these costs and give us an indication of their expected scale?

The costs for implementation vary per transactional system and across all loan and current account processing systems, globally. These must be added to the costs of modifying reporting conduits, reporting databases and testing.

Staff training also presents a cost along with documentation and incremental hire/headcount increases.

The greatest cost is derived from the process design, technical design, development and testing of every loan and current account system world-wide in addition to the Head Office changes to permit parallel processing of EBA non-performing and forbearance data. For most Tier 1 banks, we would expect the total costs of EBA non-performance and forbearance reporting to be extremely significant over a 12-18 month period.

Maintaining these two reporting streams with attached operations would also require significant software maintenance costs and recurrent training through on-boarding and refreshers. Costs would also be impacted by the geographic footprint of the group in terms of countries, headcount and business volume mix as well as corporate culture at the macro and micro level.

27) Do you agree with our analysis of the impact of the proposals in this Consultation Paper? If not, can you provide any evidence or data that would explain why you disagree or might further inform our analysis of the likely impacts of the proposals?

The implementation of definitions in this CP may go against the principles of achieving a level playing field and homogenous reporting which underpinned the adoption of IFRS and Basel III.

We do not believe that an approach which requires financial reporting based on such a mix of financial and risk definitions, and aiming at a 'one-size-fits-all' approach strengthens the reporting regime.



Basel III has moved the market to a higher level in risk evaluation and reporting, using statistical models, historical evidence and in-depth analysis of both banking products as well as the client behaviour. In some areas DB considers the CP's proposed reporting would be a step backwards and result in low quality statistics being derived. In general, reporting must be at a sufficiently detailed level to provide an understanding of factors involved, while aggregated enough to provide statistically meaningful results.

6.2.5 Appendix I questions

28) Do the instructions provide a clear description of the reporting framework? If not, which parts should be clarified?

Not a clear description. Please see our specific comments in Annex 1.

29) Are there specific aspects of forbearance and non-performing loans that are not covered or addressed properly in the templates?

Please see specific comments in Annex 1.

30) Do the reporting requirements include items which would be disproportionately costly to implement? If yes, how the templates could be modified to cover the necessary supervisory information? Institutions are especially encouraged to provide their views on which break-downs are easier to fill in, or whether they believe there are redundancies with information reported in other supervisory reporting templates, or if they believe alternative definitions could achieve similar results as those in this Consultation Paper but at lesser costs.

The implementation of most of the reporting proposed in the CP carries significant costs, resulting mainly from differences between existing practice and the proposed regulations. As mentioned above, these include costs of modification, implementation and testing of reporting tools; training and recruitment; and most substantially the costs associated with process and technical design plus development and testing of every loan and current account system globally.

Annex 1

The following comments related to the FINREP framework, instructions template a26.3.13:

Paragraph 5 calls for "Accumulated changes in fair value due to credit risk for assets at fair value through profit and loss" instead of "assets designated at fair value through profit and loss" as required by IFRS 7.

Paragraph 6 calls for "changes in fair value due to credit risk for assets at fair value through profit and loss" instead of "assets designated at fair value through profit and loss" as required by IFRS 7.



Paragraph 6 makes no mention of accrued interest, yet we assume that "gross carrying amount" includes premiums/discounts and accrued interest but does not include unrealised losses (trading) or impairments.

Paragraph 7 refers to Tables 14.1 & 14.2 for "domestic" and "non-domestic" attributes. We would like clarity about whether the exclusion of 14.3 was an oversight or policy decisions.

Paragraph 8 refers to 14.3, 14.4 & 14.5 for "country-by-country" disclosure. We believe that there is an error here and that 14.3 is in fact not C-b-C whereas 14.6 is C-b-C. We would appreciate confirmation of our understanding here.

Paragraph 16 defines Debt as including Loan Commitments. This is in contradiction to IFRS and Basel. Loan Commitments are contingent liabilities and not assets (except to the extent the change in fair value is recorded in the balance sheet).

Paragraph 18 (a) would require different treatment under IFRS in that such an event would be recorded as a subsidy, with necessary changes to income/expense for both parties. Most forbearance measures do not contain favourable terms as the net return on the product remains the same even if the timings of certain cash flows are amended.

Paragraph 18 (c) implies that a non-modified contract that is 30-days past due is considered not to be in forbearance, but is in forbearance if it is modified. This also implies that if the contract were modified and there was no past-due event that it would not be considered forbearance? We would appreciate clarity as to whether this is indeed the intention of the proposals.

Paragraph 18 (d) states that the taking ownership of collateral is considered forbearance. We do not believe this to be universally true. Taking possession of collateral can be simply because the borrower does not have the necessary cash. This does not represent forbearance unless there is a write-off or other concession given related to future cash flows.

Paragraphs 20 (a) and (c) appear to refer to the same thing. "Performing" (a) and "met regularly the latest payments due" (c) appear to us to mean the same thing. Our view is that since all criteria should be met, there is no need for (a). Additionally it could be misleading, given the definition laid out in (c). No contract could ever fulfill (c) without by default fulfilling (a).

Paragraph 22 imposes a forbearance classification for 1-2 years after any amendments to the contract. For most [retail] debts, this period will be longer than the actual debt owed. One-size-fits-all does not represent a coherent approach to this topic.

We believe that paragraphs 25 and 26 are contradictory. 25 states that impairment shall be reported as per paragraph 5, yet 26 states, in contradiction to paragraph 5, that Incurred but not yet reported cannot exist on loans with >90 days past due.

Paragraph 27 indicates a definition of non-performing that is incompatible with IFRS impairment. Collateral considerations have been excluded from the non-performing definition, while they are an integral part of IFRS Impairment.

Paragraph 27 lacks clarity. Whilst the definition of non-performing is partially compatible with Basel definitions (90 days past due), the requirement attempts to apply this definition to IFRS. We would appreciate further clarity on this point.

Paragraph 28 groups "Loan Commitments", "Finance Guaranties given" and "Other Guarantees given" into the definition of "Exposure". "Finance Guarantees" and "Other



Guarantees” do not necessarily contain 3rd party credit risk and have no component for "performing" even where 3rd party credit risk is present.

Paragraph 28 does not address credit risk arising from Financial and Other Guarantees received, which should be considered as a part of exposure.

Paragraph 29 we believe that the Past-due definition is too narrow. Past-due should include all payments related to a particular exposure, at least where fees included in EIR are concerned.

Paragraph 30 Commitments are contingent liabilities, however we understand that banks are being asked to evaluate the likelihood of the client making a drawing under the existing commitment, to guess as to the amount the client might draw and to guess the likelihood that the client might not repay part of this debt. Our interpretation is that this is incompatible with IFRS regulations regarding provisions for contingent liabilities. Clarity in this area would be appreciated.

Paragraph 31 the definition of non-performing for Financial Guarantees should be improved. The counterparty to a Financial Guarantee is the receiver and the receiver has no performance requirement. If the text is changed to the party whom the guarantee is issued on behalf of (the credit risk party) here the credit risk does not lie with the bank itself, then it is possible to have the Risk Party be in a past-due situation on an underlying instrument. However, the bank would only be aware once the Guarantee Receiver reports this fact in order to call the guarantee.

Paragraph 32 appears confused as it proposes a non-performing status application based on different methods, one Basel and one IFRS.

Paragraph 32 (a) refers to the CRR texts [incomplete documentation of reference] and says that the method in the CRR text shall be used to recognise impairment. Without specific reference we are unfortunately unable to provide comment.

Paragraph 32 (b) refers to the CRR texts [incomplete documentation of reference] and says that the method in the CRR text shall be used to recognise impairment. Without specific reference, we are unfortunately unable to comment.

Paragraph 33 provides a blanket Debtor Approach criteria that would appear to override the Transaction Approach provided for in Paragraph 32. However debtor approach is not IFRS compliant. We would appreciate further clarity in this area.

Paragraph 34 requires that a debtor have no past-due amounts in order to exit from non-performing status, yet a past-due state could be "rolling" in which case a debtor would never exit. Again we would appreciate clarity about the intention of this provision.

Paragraph 38, we assume that the "default" classification mentioned is the IFRS default status and not the Basel III default status, but would find confirmation of this very helpful.

Paragraph 39 & 40 appear to be contradictory. Our understanding is that paragraph 39 states that impairment shall be reported as per paragraph 5, yet 40 states, in contradiction to paragraph 5, that Incurred but not yet reported cannot exist on loans with >90 days past due.