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**Legal act**  
Regulation (EU) No 575/2013 (CRR) as amended  

**Topic**  
Credit risk  

**Article**  
111  

**Paragraph**  
1  

**Subparagraph**  
-  

**COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations**  
Regulation (EU) No 183/2014 - RTS for the calculation of specific and general credit risk adjustments  

**Article/Paragraph**  
Article 1(1) and preamble  

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**Disclose name of institution / entity**  
No  

**Type of submitter**  
Individual  

**Subject matter**  
General and specific credit risk adjustments  

**Question**  
Can a Supervised Entity not recognise changes in impairments, value adjustments or provisions in the calculation of the exposure value and thus avoid the deduction of these amounts from CET1?  

Or in case a Supervised Entity has changes in impairments, value adjustments or provisions, are these amounts automatically labelled as general or specific credit risk adjustments and shall therefore be accounted for in the calculation of the exposure value of an asset and deducted from CET1?  

**Background on the question**  
According to Q&A 2629 changes in impairments, value adjustments or provisions shall only be recognised in the calculation of the exposure value according to Article 111(1) of Regulation (EU) No 575/2013 (CRR) to the extent that these changes have been reflected in the calculation of the institution's CET 1 capital as required in Article 1(1) of the Commission Delegated Regulation (EU) No 183/2014. This may imply that a Supervised Entity could decide not to recognise changes in impairments, value adjustments or provisions in the calculation of the exposure value and thereby bypass the obligation to reflect these changes in the calculation of...
the institution's CET 1 capital. In particular, after the COREP submission, an institution was asked by the competent supervisor to reflect the reported changes in impairments, value adjustments or provisions (which were recognized in the calculation of the exposure value) in its CET1 capital (i.e. to deduct these general and specific credit risk adjustments from CET1). The Supervised Entity did not request the permission to include interim profit in CET1 capital. Subsequently the Supervised Entity simply decided it will re-submit the COREP data and not recognize changes in impairments, value adjustments or provisions in the calculation of the exposure value with the purpose of avoiding deducting these amounts from CET1 capital. It is unclear whether a Supervised Entity is allowed to do this. The relevant legal provisions are Article 26(2) of Regulation (EU) No 575/2013 and Article 111(1) of Regulation (EU) No 575/2013 (CRR) and the preamble and Article 1(1) of the Commission Delegated Regulation (EU) No 183/2014 (RTS for the calculation of specific and general credit risk adjustments).

**EBA answer**

An entity recognises provisions, value adjustments and any impairment loss in profit or loss at the date of financial statements, in accordance with the applicable accounting standards.

According to Article 111 Regulation (EU) No 575/2013 (CRR), “the exposure value of an asset item shall be its accounting value remaining after specific credit risk adjustments, additional value adjustments in accordance with Articles 34 and 110 and other own funds reductions related to the asset item have been applied”.

In line with Article 4(1)(95) CRR, Article 1(1) of the Commission Delegated Regulation (EU) No 183/2014 (RTS on the calculation of specific and general credit risk adjustments) specifies that the amounts required to be included in the calculation of general and specific credit risk adjustments by an institution shall be equal to all amounts by which an institution's Common Equity Tier 1 capital has been reduced in order to reflect losses exclusively related to credit risk according to the applicable accounting framework and recognised as such in the profit or loss account, irrespective of whether they result from impairments, value adjustments or provisions for off-balance sheet items.

It follows that, for the purpose of determining the exposure value in accordance with Article 111 CRR, it is the impact on capital (i.e. the change in CET1 capital) that matters. Also, with regard to the timing of the recognition of changes in impairments, value adjustments or provisions for the purpose of Article 111 CRR, it is the moment of the impact on CET1 that matters. Therefore, when such adjustments are applied in accordance with the accounting framework or with prudential requirements, they need to be included in the exposure value calculation.

Additionally, according to Article 13 of delegated Regulation (EU) No.
241/2014 (RTS on own funds), irrespective of whether an institution closes its financial accounts at the end of each interim period, the institution shall determine its profit and loss accounts and deduct any resulting losses from Common Equity Tier 1 items as they arise according to Article 36(1)(a) CRR. In this regard, three different cases can be distinguished:

- if the profit and loss account results in a net loss for the interim period, the loss has to be reflected in the institution’s CET 1 capital according to Article 36(1)(a) CRR and Article 13(1) of Delegated Regulation (EU) No. 241/2014, the latter determining that losses shall be deducted from CET1 as they arise, and any losses exclusively related to credit risk are to be recognised as SCRAs according to Article 1 of Delegated Regulation (EU) No. 183/2014 as well as for the purposes of Article 3 of that Regulation;

- if the profit and loss account results in a net profit for the interim period, which is recognised in the institution’s CET 1 capital according to Article 26(2) CRR, any losses exclusively related to credit risk are to be recognised as SCRAs according to Article 1 of Delegated Regulation (EU) No. 183/2014 and for the purposes of Article 3 of that Regulation;

- if the profit and loss account results in a net profit for the interim period, which is not recognised in the institution’s CET 1 capital according to Article 26(2) CRR, then for the purposes of Article 3 of Delegated Regulation (EU) No. 183/2014 the SCRAs may only be recognised for prudential purposes where the institution carries out a corresponding immediate reduction in Common Equity Tier 1 capital for the determination of own funds as set out in the second part of Article 1(1) of Delegated Regulation (EU) No. 183/2014.

Recognition of credit risk adjustments by deduction in CET1 is therefore mandatory in the first two described cases but not mandatory in the third.

See also Q&A 1087.

**Link**  

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