German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments

EBA consultation on Draft Regulatory Technical Standards on the specification of the calculation of specific credit risk adjustments (EBA/CP/2021/25)

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent almost all German banks.

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General remarks

In principle, we welcome the initiative to change the RTS, intended to eliminate an apparent unequal treatment between IRB and KSA. However, the example given in the consultation paper does not seem plausible to us and does not correspond to the accounting regulations according to IFRS for so-called "POCI assets" (= "Purchased or Originated Credit-Impaired Financial Assets").

1. POCIs are recognised at fair value and without any loan loss provisions (phase 2). This means that the specific credit risk adjustment (SCRA) of 1 in the example in phase 2 is not plausible.

2. For the revaluation (phase 3), it should be noted that POCIs are not valued at FVPL after addition. A revaluation is carried out via the expected credit loss and the risk provision. In the example, a revaluation of +30 is assumed with an unchanged credit loss. We, therefore, consider the example to be very questionable and not very helpful for the user.

The question arises as to whether the EBA's proposal is based on incorrect assumptions in terms of accounting (at least concerning IFRS).

As paragraph 6 of Article 1 of the Commission Delegated Regulation (EU) No 183/2014 introduces a change compared to paragraph 1 we would propose to insert in paragraph 6 at the beginning: "*By way of derogation from paragraph 1* [to calculate the sum of specific credit risk adjustments…"].

However, we consider **adjusting the RTS much more urgent in order to avoid unnecessary administrative efforts and a double burden on CET1 due to newly formed risk provisions**.

Article 1(1), first subparagraph, of Commission Delegated Regulation (EU) 183/2014 stipulates that the risk provisions existing as of the reporting date may only be included in the calculation of general and specific credit risk adjustments

a) in the case of an interim or year-end loss that has been deducted from an institution's CET1 capital, or

b) in the case of interim or year-end profits for which the institution has supervisory permission to be included in CET1 capital in accordance with Art. 26(2) Regulation (EU) No 575/2013, or

c) in the case of interim or year-end profits that have not been approved in accordance with Article 26(2) of that Regulation, by way of a corresponding immediate reduction in CET1 capital for the determination of own funds.

This provision means that institutions with interim profits or year-end profits, which voluntarily waive the (same date) recognition of profits, are not allowed to consider the current status of the risk provisioning formed in accounting. In our opinion, however, only the consideration of the current risk provisions (and all other current balance sheet items) provides a realistic picture of the solvency of the institutions. In practice, this means that newly formed risk provisions either must be deducted again from CET1 capital or that an application has to be submitted to the supervisory authority for the allocation of "zero" interim profits (see also EBA Q&As 2014/1087 2016/2629, 2017/3330). For example, in the case of a negligible interim loss of, say, -1 EUR, new risk provisioning may be taken into account in an unlimited amount. On the opposite, in the case of a negligible interim profit of, say, +1 EUR, this would not be possible without supervisory approval or the institution would have to deduct the new risk provisioning from CET1. In order to avoid this unnecessary and inexplicable capital deduction, the only remaining option would be to apply to the competent authority to attribute "zero" interim profits.

We understand that the supervisory authorities require institutions to provide some evidence of the recognition of risk provisioning in their accounting. However, the unequal treatment of institutions with interim losses on the one hand and interim profits on the other is incomprehensible.

The accounting figures reviewed by the responsible auditor (analogous to the requirement for interim profit accounting in accordance with Article 26(2)(a) of the CRR) should be sufficient as evidence.

We, therefore, ask you to consider an amendment to Article 1(1), first subparagraph, of Commission Delegated Regulation (EU) 183/2014.

In our view, it would be a suitable solution to replace the part

> *"or, in the event of interim profits or year-end profits that have not been approved in accordance with Article 26(2) of that Regulation, by way of a corresponding immediate reduction in Common Equity Tier 1 capital for the determination of own funds."*

with the following part:

> *"or, in the event of interim profits or year-end profits, when the requirements of Article 26(2)(a) of that Regulation are met."*