

22.11.2017

A8-0255/ 001-001

AMENDMENTS 001-001

by the Committee on Economic and Monetary Affairs

Report

Peter Simon

A8-0255/2017

Transitional arrangements for mitigating the impact of the introduction of IFRS 9

Proposal for a regulation (COM(2016)0850 – C8-0158/2017 – 2016/0360B(COD))

Amendment 1

AMENDMENTS BY THE EUROPEAN PARLIAMENT*

to the Commission proposal

2016/0360**B**(COD)

Proposal for a

REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Regulation (EU) No 575/2013 as regards ***transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and the large exposures treatment of certain public sector exposures denominated in non-domestic currencies of Member States***

(Text with EEA relevance)

* Amendments: new or amended text is highlighted in bold italics; deletions are indicated by the symbol ■.

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 114 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Central Bank¹,

Having regard to the opinion of the European Economic and Social Committee²,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) **■** The application of the expected credit loss (ECL) provisioning introduced by the revised international accounting standards on financial instruments (IFRS9), may lead to a sudden significant *decrease* in the capital ratios of institutions. Whereas *the Basel Committee on Banking Supervision (BCBS) is currently considering the longer-term regulatory capital treatment of expected loss provisions* and to prevent an unwarranted detrimental effect on lending by credit institutions, *appropriate transitional arrangements should be introduced in order to allow institutions to offset the potentially significant negative impact on Common Equity Tier 1 capital* arising from expected credit losses accounting during the transitional period determined by *the introduction of the revised international accounting standards*.
- (2) *In its resolution of 6 October 2016, the European Parliament called for a progressive phase-in regime that would mitigate the impact of the new impairment model of IFRS 9.*
- (3) *Institutions should benefit from a phased-in transitional period of a maximum duration of five years. In line with the Standard on regulatory treatment of accounting provisions - interim approach and transitional arrangements of March 2017 by the BCBS, the impact of the ECL provisions on Common Equity Tier 1 capital should not be fully neutralised during the transitional period.*

¹ OJ, C , , p. .

² OJ C , , p. .

- (4) *As an option it should be possible for institutions to put in place transitional arrangements for the introduction of IFRS 9. Where they decide not to do so, it should, as a general rule, not be possible for them to subsequently apply such arrangements. However, following the first reporting period of the transitional period and subject to the prior approval of the competent authorities, institutions should, on a one-off basis, have the possibility of amending that decision and of applying the transitional arrangements for the remainder of the transitional period.*
- (5) *Institutions should publicly disclose their capital ratios as well as their leverage ratios both with and without the application of the IFRS 9 transitional arrangements specified in this Regulation to enable the public to determine the impact of those arrangements on those ratios. Where an institution decides not to apply the transitional arrangements, it should not be required to disclose their effect.*
- (6) ■ Regulation (EU) No 575/2013 should therefore be amended accordingly,

HAVE ADOPTED THIS REGULATION:

Article 1

Regulation (EU) No 575/2013 is amended as follows:

- (1) ■ The following new Article 473a is inserted after Article 473:

'Article 473a

Introduction of IFRS 9

1. Until **31 December 2022** institutions that prepare their accounts in conformity with the international accounting standards adopted in accordance with the procedure laid down in Article 6(2) of Regulation (EC) No 1606/2002, *and institutions that are required pursuant to Article 24(2) of this Regulation to effect the valuation of assets and off-balance sheet items and the determination of own funds in accordance with international accounting standards*, may, *by way of derogation from Article 50 of this Regulation*, add to their Common Equity Tier 1 capital the amount calculated in accordance with paragraph 2 of this Article multiplied by the applicable factor laid down in paragraph 4.
2. The amount referred to in paragraph 1 shall be *the greater of the following*:
 - (a) *zero*

- (b) the after-tax amount calculated in accordance with point (i) reduced by the amount calculated in accordance with point (ii):**
- (i) the sum of the twelve month expected credit losses determined in accordance with paragraph 5.5.5 of *the Annex to* Commission Regulation (EU No 2016/2067 and the amount of the loss allowance for *lifetime expected losses determined in accordance with paragraph 5.5.3 of the Annex to that Regulation for* financial assets that are not credit-impaired as defined in *Appendix A to IFRS 9 as of the reporting date*;**
 - (ii) the total amount of impairment losses on loans and receivables, held to maturity investments available for sale assets, other than equity instruments and units or shares in collective investment undertakings, determined in accordance with paragraphs 63, 64, 65, 67 and 68 of IAS 39 adopted in the Union by Regulation (EC) No 1126/2008 as at 31 December 2017 or on the day before the first application of IFRS 9, reduced by the total amount of the loss allowances for lifetime expected losses of credit impaired financial assets determined in accordance with paragraph 5.5.3 of *the Annex to* Regulation (EU) No 2016/2067 as at 1 January 2018 or on the date of the first application of IFRS 9.**
- 3. For financial assets that are exposures subject to risk weighting in accordance with Chapter 3 of Title II of Part Three, institutions shall reduce the amount of expected credit losses for non-defaulted assets calculated in accordance with point (b)(i) of paragraph 2 of this Article by the expected loss amounts calculated in accordance with Article 158(5), (6) and (10). Where the reduction would result in a negative amount it shall be calculated as zero.**
- 4. In calculating the amount referred to in paragraph 1, the following factors apply:**
- (a) 0,9 in the period from 1 January 2018 to 31 December 2018;**
 - (b) 0,8 in the period from 1 January 2019 to 31 December 2019;**
 - (c) 0,6 in the period from 1 January 2020 to 31 December 2020;**
 - (d) 0,4 in the period from 1 January 2021 to 31 December 2021;**
 - (e) 0,2 in the period from 1 January 2022 to 31 December 2022.**

Institutions that had decided not to put into place the transitional arrangements set out in this Article for the first reporting period as referred to in point (a) of the first

subparagraph may decide to put those arrangements in place for the subsequent periods as referred to in points (b) to (e) of the first subparagraph, subject to the prior approval of the competent authority.

5. *Where an institution adds an amount to its Common Equity Tier 1 capital in accordance with paragraph 1, it shall recalculate the following items by not taking into account the effects that the expected credit loss provisions that it included in its Common Equity Tier 1 capital have on those items:*

(a) the amount of deferred tax assets that is deducted from Common Equity Tier 1 capital in accordance with point (c) of Article 36(1) or risk weighted in accordance with Article 48(4);

(b) the exposure value determined in accordance with Article 111(1) for assets that are exposures for which risk weighted exposure amounts are calculated in accordance with Chapter 2 of Title II of Part Three;

The specific credit risk adjustments by which the exposure value shall be reduced shall be multiplied by the following scaling factor (sf):

$$sf=1-AB/RA$$

where:

AB = the after-tax amount calculated in accordance with paragraphs 1 and 2;

RA= the total after-tax amount of specific credit risk adjustments.

(c) the amount of Tier 2 items calculated in accordance with point (d) of Article 62.

The institution shall recalculate all requirements laid down in this Regulation and Directive 2013/36/EU that use the items listed in the first subparagraph as an input.

6. *During the period set out in paragraph 1, in addition to disclosing the information required in Part Eight subject to this Article, institutions shall disclose and report the values of own funds, Common Equity Tier 1 capital, Tier 1 capital, the Tier 1 capital ratio, the total capital ratio and the leverage ratio they would have if they did not apply this Article.*

In accordance with Article 16 of Regulation (EU) No 1093/2010, EBA shall issue guidelines by [30 June 2018] on the disclosure requirements laid down in this Article.’

(2) **In** Article 493 ■ the following paragraphs ■ are added:

‘4. By way of derogation from Article 395(1), competent authorities may allow institutions to incur *any* of the exposures provided for in *paragraph 5 meeting the conditions set out in paragraph 6*, up to the following *maximum limits*:

- (a) 100% of the institution's Tier 1 capital until 31 December 2018;
- (b) 75% of the institution's Tier 1 capital until 31 December 2019;
- (c) 50% of the institution's Tier 1 capital until 31 December 2020.

The maximum limits specified in points (a), (b), and (c) of the first subparagraph shall apply to exposure values after taking into account the effect of credit risk mitigation in accordance with Articles 399 to 403.

5. *The treatment set out in paragraph 4 shall apply to the following exposures:*

(a) asset items constituting claims on central governments, central banks, or public sector entities of Member States;

(b) asset items constituting claims expressly guaranteed by central governments, central banks, or public sector entities of Member States;

(c) other exposures to, or guaranteed by, central governments, central banks, or public sector entities of Member States;

(d) asset items constituting claims on regional governments or local authorities of Member States treated as exposures to the central government in accordance with Article 115(2);

(e) other exposures to, or guaranteed by, regional governments or local authorities of Member States treated as exposures to the central government in accordance with Article 115(2).

For the purposes of points (a), (b), and (c) of the first subparagraph, the treatment set out in paragraph 4 shall apply only to asset items and other exposures to, or guaranteed by, public sector entities which are treated as exposures to the central government, a regional government, or a local authority in accordance with Article 116(4). Where asset items and other exposures to, or guaranteed by, public sector entities are treated as exposures to a regional government or local authority in accordance with Article 116(4), treatment under paragraph 4 shall apply only where

exposures to that regional government or local authority are treated as exposures to the central government in accordance with Article 115(2).

6. Treatment under paragraph 4 shall apply only if an exposure as referred to in paragraph 5 meets all of the following conditions:

(a) the exposure would be assigned a risk weight of 0% in accordance with Article 495(2) as it stood before 1 January 2018;

(b) the exposure was incurred on or after... [date of adoption to be added when the text is published].

7. An exposure as referred to in paragraph 5 incurred before... [date of adoption to be added when the text is published] to which a risk weight of 0% was assigned on 31 December 2017 in accordance with Article 495(2) shall be exempted from the application of Article 395(1).'

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Article 2

Entry into force and date of application

1. This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.
2. This Regulation shall apply from **1 January 2018**.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at ,

For the European Parliament

The President

For the Council

The President