Prudential requirements for credit institutions and investment firms. Capital Requirements Regulation (CRR)

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According to Article 519 of Regulation (EU) No 575/2013 (CRR) on prudential requirements for credit institutions and investment firms, the Commission presented a report on the effect of the revised International Accounting Standard (IAS) 19 on the volatility of own funds of credit institutions and investment firms.

To recall, according to this Regulation, credit institutions and investment firms shall deduct defined benefit pension fund ('DBPF') assets on their balance sheet from Common Equity Tier 1 ('CET1') items. The rationale for this treatment is that the loss absorption capacity of these assets is doubtful from a prudential point of view. In the event that a bank would enter into bankruptcy or resolution, these assets would not be available to bear the losses.

It should be noted that Article 41 CRR contains an exemption from this general deduction rule in relation to assets in the DBPF which the institution has an unrestricted ability to use, subject to supervisory permission.

The **revision in IAS 19 has led to changes in the valuation of DBPFs**. Furthermore, any impact due to the initial application shall be mitigated by appropriate **transitional provisions.**

This Commission report responds to a legal obligation to assess the effects of very specific changes in the calculation of Common Equity Tier 1 capital in credit institutions and investment firms due the adoption CRR and a new IAS 19. If appropriate, the Commission's report shall be accompanied by a legislative proposal to introduce a treatment which adjusts net DBPF assets or liabilities for the calculation of own funds.

On 24 June 2014, the European Banking Authority submitted its report on this issue. It evaluated in particular: (i) the impact depending on offsetting gains or losses; (ii) the impact at initial application of revised IAS 19.

Taking into account the EBA's report, it is the Commission's assessment that the **potential additional volatility of own funds introduced by the revision of IAS 19 will be limited.** In addition, the CRR sets out transitional measures to soften the impact of the changes in IAS 19 and the deduction of defined benefit pension fund assets in general.

The impact of the deduction of the net DBPF assets from own funds upon initial application will be limited for most institutions due to the low levels of net DBPF assets under both the previous and the revised IAS 19. In addition, for most institutions, the negative effect on CET1 will be further limited because the level of unrecognised actuarial losses compared to their capital position is small.

Therefore, the Commission concludes that IAS 19, in conjunction with the deduction of DBPF assets set out in Article 36(1)(e) CRR and the changes in the net pension liabilities will **not lead to undue volatility of institutions' own funds**. Consequently, the Commission views the CRR treatment as it stands as appropriate and will **not table a legislative proposal** in conjunction with this report.