Capital Requirements Regulation: 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

2016/0360B(COD) - 14/07/2017 - Committee report tabled for plenary, 1st reading/single reading

The Committee on Economic and Monetary Affairs adopted the report by Peter SIMON (S&D, DE) on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the 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.

The committee recommended that the European Parliament's position adopted at first reading in accordance with the ordinary legislative procedure should amend the Commission proposal as follows.

The report noted 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, the amended text would allow institutions to **offset the potentially significant negative impact on Common Equity Tier 1 capital arising from expected credit losses accounting during a transitional period of five years (until 31 December 2022).** This additional amount would gradually be reduced to zero during the transitional period.

A recital refers to the resolution of 6 October 2016 in which the European Parliament called for a progressive phase-in regime that would mitigate the impact of the new impairment model of IFRS 9.

Institutions may 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.