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) - 12/12/2017 - Final act

PURPOSE: establish transitional provisions to progressively incorporate the impact on own funds of the introduction of IFRS 9.

LEGISLATIVE ACT : Regulation (EU) 2017/2395 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 for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State.

CONTENT: the amendments to Regulation (EU) No 575/2013 are intended to introduce transitional provisions, which will apply from 1 January 2018, with a view to **mitigating any negative impact on Common Equity Tier 1 capital arising from expected credit loss accounting following the introduction of the IFRS 9 international accounting standard.**

Responding to the G20 call, the International Financial Reporting Standard (IFRS) 9 aims to improve financial reporting on financial instruments by addressing the concerns that emerged in this area during the financial crisis. Credit institutions and investment firms that use IFRS to prepare its financial statements will be required to apply IFRS 9 as of the starting opening date of its first financial year beginning on or after 1 January 2018.

The application of IFRS 9 may lead to a sudden significant increase in expected credit loss provisions and consequently to a sudden decrease in institutions' Common Equity Tier 1 capital.

The amending Regulation will allow institutions to add to their Common Equity Tier 1 capital a portion of the increase in expected credit loss provisions **as additional capital** for a transitional period of **five years** to 31December 2022. The portion of expected credit loss provisions that can be included in Common Equity Tier 1 capital should decrease over time down to zero.

Institutions that decide to apply the IFRS 9 transitional arrangements specified in the Regulation should publicly disclose their own funds, capital ratios and leverage ratios both with and without the application of those arrangements in order to enable the public to determine the impact of those arrangements.

The Regulation also provides for the **phasing-out over three years** of provisions for the exemption from the large exposure limit available for exposures to certain public sector debt of Member States denominated in the domestic currency of any Member State.

ENTRY INTO FORCE: 28.12.2017.

APPLICATION: from 1.1.2018.