## Basic information

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| **2016/0360B(COD)**<br><br>COD - Ordinary legislative procedure (ex-codecision procedure)<br>Regulation | Procedure completed |
| 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<br><br>Amending Regulation (EU) No 575/2013 2011/0202(COD)<br><br>**Subject**<br><br>2.50.03 Securities and financial markets, stock exchange, CIUTS, investments<br>2.50.04 Banks and credit<br>2.50.08 Financial services, financial reporting and auditing<br>2.50.10 Financial supervision | |

## Key players

### European Parliament

| Committee responsible | Rapporteur | Appointed |
|---|---|---|
| ECON Economic and Monetary Affairs | SIMON Peter (S&D) | 11/04/2017 |
| | Shadow rapporteur<br><br>KARAS Othmar (PPE)<br><br>FOX Ashley (ECR)<br><br>NAGTEGAAL Caroline (ALDE)<br><br>CARTHY Matt (GUE/NGL)<br><br>GIEGOLD Sven (Verts/ALE)<br><br>VALLI Marco (EFDD)<br><br>ZANNI Marco (ENF) | |

### Council of the European Union

| Council configuration | Meetings | Date |
|---|---|---|
| Economic and Financial Affairs ECOFIN | 3549 | 2017-06-16 |
| Employment, Social Policy, Health and Consumer Affairs | 3583 | 2017-12-08 |

### European Commission

| Commission DG | Commissioner |
|---|---|
| Financial Stability, Financial Services and Capital Markets Union | DOMBROVSKIS Valdis |

## Key events

| Date | Event | Reference | Summary |
|---|---|---|---|
| 23/11/2016 | Legislative proposal published | COM(2016)0850 | Summary |
| 31/05/2017 | Committee referral announced in Parliament, 1st reading | | |
| 11/07/2017 | Vote in committee, 1st reading | | |
| 11/07/2017 | Committee decision to open interinstitutional negotiations with report adopted in committee | | |
| 14/07/2017 | Committee report tabled for plenary, 1st reading | A8-0255/2017 | Summary |
| 11/09/2017 | Committee decision to enter into interinstitutional negotiations announced in plenary (Rule 72) | | |
| 13/09/2017 | Committee decision to enter into interinstitutional negotiations confirmed by plenary (Rule 72) | | |
| 21/11/2017 | Approval in committee of the text agreed at 1st reading interinstitutional negotiations | PE613.530<br>GEDA/A/(2017)010571 | |
| 29/11/2017 | Debate in Parliament | | |
| 30/11/2017 | Decision by Parliament, 1st reading | T8-0468/2017 | Summary |
| 30/11/2017 | Results of vote in Parliament | | |
| 08/12/2017 | Act adopted by Council after Parliament's 1st reading | | |
| 12/12/2017 | Final act signed | | |
| 12/12/2017 | End of procedure in Parliament | | |
| 27/12/2017 | Final act published in Official Journal | | |

## Technical information

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| **Procedure reference** | 2016/0360B(COD) |
| **Procedure type** | COD - Ordinary legislative procedure (ex-codecision procedure) |
| **Procedure subtype** | Legislation |
| **Legislative instrument** | Regulation |
| **Amendments and repeals** | Amending Regulation (EU) No 575/2013 2011/0202(COD) |
| **Stage reached in procedure** | Procedure completed |
| **Committee dossier** | ECON/8/10002 |

## Documentation gateway

**European Parliament**

| Document type | Committee | Reference | Date | Summary |
|---|---|---|---|---|
| Committee draft report | | PE605.934 | 06/06/2017 | |
| Amendments tabled in committee | | PE606.265 | 23/06/2017 | |

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| Amendments tabled in committee | | PE606.266 | 23/06/2017 | |
| Committee report tabled for plenary, 1st reading/single reading | | A8-0255/2017 | 14/07/2017 | Summary |
| Text agreed during interinstitutional negotiations | | PE613.530 | 15/11/2017 | |
| Text adopted by Parliament, 1st reading/single reading | | T8-0468/2017 | 30/11/2017 | Summary |

**Council of the EU**

| Document type | Reference | Date | Summary |
|---|---|---|---|
| Coreper letter confirming interinstitutional agreement | GEDA/A/(2017)010571 | 15/11/2017 | |
| Draft final act | 00059/2017/LEX | 12/12/2017 | |

**European Commission**

| Document type | Reference | Date | Summary |
|---|---|---|---|
| Legislative proposal | COM(2016)0850 | 23/11/2016 | Summary |
| Commission response to text adopted in plenary | SP(2018)8 | 10/01/2018 | |

**Additional information**

| Source | Document | Date |
|---|---|---|
| European Commission | EUR-Lex | |

**Final act**

Regulation 2017/2395
OJ L 345 27.12.2017, p. 0027 Summary

# 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) - 23/11/2016 - Legislative proposal

PURPOSE: reinforce the existing provisions of Union law which lay down uniform prudential requirements for banks and investment firms across the Union (reform of the EU banking sector).

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with Council.

BACKGROUND: in the aftermath of the financial crisis that unfolded in 2007-2008, **the Union implemented a substantial reform of the financial services regulatory framework** to enhance the resilience of its financial institutions. That reform was largely based on internationally agreed standards.

Among its many measures, the reform package included the adoption of Regulation (EU) No 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council, which strengthened the prudential requirements for credit institutions and investment firms.

While the reform has rendered the financial system more stable and resilient against many types of possible future shocks and crises, **it did not address all identified problems**.

Now that work on important additional reforms has been completed, such as the Basel Committee on Banking Supervision (Basel Committee) and the Financial Stability Board (FSB), **the outstanding problems should be addressed**.

In its Communication of 24 November 2015, the Commission recognised the need for further risk reduction and committed bringing forward a legislative proposal that would build on internationally agreed standards.

The need to take further concrete legislative steps in terms of reducing risks in the financial sector has also been recognised also by the Council in its Conclusions of 17 June 2016 and by the European Parliament in its resolution of 10 March 2016.

IMPACT ASSESSMENT: the impact assessment, rejected on 7 September 2016, was subsequently strengthened by adding: (i) a better explanation on the policy context of the proposal (i.e. it relation to both international and EU policy developments); (ii) more details on stakeholders' views; (iii) further evidence on the impacts of the various policy options that are explored.

As shown by the simulation analysis and macroeconomic modelling developed in the impact assessment, there are limited costs to be expected from the introduction of the new requirements, in particular the new Basel standards such as the leverage ratio and the trading book.

CONTENT: the proposed amendment to **Regulation (EU) No 575/2013** (the Capital Requirements Regulation or CRR) is part of a legislative package that includes also amendments to Directive 2013/36/EU (the Capital Requirements Directive or CRD), to Directive 2014/59/EU (the Bank Recovery and Resolution Directive or BRRD), and to Regulation (EU) No 806/2014 (the Single Resolution Mechanism Regulation or SRMR).

It aims to **complete the reform agenda** by tackling remaining weaknesses and implementing some outstanding elements of the reform that are essential to ensure the institutions' resilience but have only recently been finalised by global standard setters (i.e. the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB)):

- a **binding leverage ratio** which will prevent institutions from excessively increasing leverage, e.g. to compensate for low profitability;
- a **binding net stable funding ratio** (NSFR) which will build on institutions' improved funding profiles and establish a harmonised standard for how much stable, long-term sources of funding an institution needs to weather periods of market and funding stress;
- more risk sensitive own funds (i.e. capital) requirements for institutions that trade to an important extent in securities and derivatives which will prevent too much divergence in those requirements that is not based on the institutions' risk profiles;
- **new standards** on the **total loss-absorbing capacity** (TLAC) of global systemically important institutions (G-SIIs) which will require those institutions to have more loss-absorbing and recapitalisation capacity;
- the introduction of more accurate reporting of the risks to which banks are exposed.

In order to improve the **lending capacity of banks** to support the EU economy, the proposal aims in particular at:

- **enhancing the capacity of banks to lend to SMEs and to fund infrastructure projects**. As far as SMEs are concerned, the proposed recalibration of the own funds requirements for bank exposures to SMEs is expected to have a positive effect on bank financing of SMEs. This would primarily affect SMEs which currently have exposures beyond EUR 1.5 million as these exposures do not benefit from the SME Supporting Factor under the existing rules;
- applying the current framework in a more proportionate manner, taking into account the situation of non-complex, small banks, reducing the administrative burden linked to some rules in the area of remuneration (namely those on deferral and remuneration using instruments, such as shares), which appear disproportionate for these banks;
- ensuring a smooth interaction with existing requirements such as for central clearing and collateralisation of derivatives exposures, or a gradual transition to some of the new requirements are necessary.

DELEGATED ACTS: the proposal contains provisions empowering the Commission to adopt delegated acts in accordance with Article 290 of the Treaty on the Functioning of the European Union.

# 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.

# 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) - 30/11/2017 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 495 votes to 41, with 10 abstentions, a legislative resolution on the proposal for a regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements and amending Regulation (EU) No 648/2012.

The European Parliament's position adopted at first reading following the ordinary legislative procedure concerns the amendments to Regulation (EU) No 575/2013 with regard to the transitional arrangements designed to mitigate the impact of the introduction of IFRS 9 on own funds and for the large exposure treatment of certain public sector debt of Member States denominated in other than domestic currencies of Member States.

The proposed Regulation recalled that IFRS 9 was published by the International Accounting Standards Board in July 2014. Regulation 2016/2067 requires EU banks to use it in their financial statements for financial years starting on or after 1 January 2018.

**IFRS 9 is aimed at improving the loss provisioning of financial instruments** by addressing concerns that arose during the financial crisis. It responds to the G20's call for a more forward-looking model for the recognition of expected credit losses on financial assets.

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 proposed amendments to Regulation (EU) No 575/2013 are intended to **introduce transitional arrangements, which will apply from 1 January 2018, with a view to mitigating the potential negative regulatory capital impact on banks of the introduction of International Financial Reporting Standard (IFRS) 9**.

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.

The resulting draft regulation will allow banks to add back to their 'common equity tier 1' capital a portion of the increased expected credit loss provisions as extra capital during a **five-year transitional period**. That added amount will progressively **decrease to zero** during the course of the transitional period.

Institutions should decide whether to apply those transitional arrangements and inform the competent authority accordingly. During the transitional period, an institution should have the possibility to reverse once its initial decision, subject to the prior permission of the competent authority which should ensure that such decision is not motivated by considerations of regulatory arbitrage

The draft Regulation also provides for the **phasing-out over three years** (from 1 January 2018) of an exemption from the large exposure limit available for exposures to certain public sector debt of Member States denominated in other than domestic currencies of Member States.

# 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.