Consultation Paper

Guidelines on uniform disclosures under the proposed draft Article 473a, paragraph Eight, of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact on own funds of the introduction of IFRS 9
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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in 5.2.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the ‘send your comments’ button on the consultation page by 13.09.2017. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA’s rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA’s Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EC) N° 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found under the Legal notice section of the EBA website.
2. Executive Summary

On 22 November 2016, the International Financial Reporting Standard 9, *Financial Instruments* (IFRS 9), was adopted in the EU to replace the previous accounting standard, i.e. International Accounting Standard 39, *Financial Instruments: Recognition and Measurement* (IAS 39). On 31st May 2017, the EU adopted a Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact on own funds of the introduction of IFRS 9 and the large exposures treatment of certain public sector exposures denominated in non-domestic currencies of Member States (First reading). This proposal suggests the insertion of a new Article 473a in the CRR, which includes provisions on the introduction of IFRS 9 and IFRS 9-like expected credit loss models (analogous ECLs) transitional arrangements, in order to phase-in the impact of the impairment requirements resulting from IFRS 9 on capital and leverage ratios.

The proposed new Article 473a of the CRR includes the requirement for institutions that apply transitional arrangements for IFRS 9 and analogous ECLs to disclose the effect of these transitional arrangements on own funds and risk-based-capital and leverage ratios. In particular these institutions are requested to disclose the amount of own funds, Common Equity Tier 1 capital, Tier 1 capital, the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio, the total capital ratio and leverage ratio with and without the application of the transitional arrangements.

Finally, the proposed Regulation also includes a mandate for the EBA to issue guidelines on IFRS 9 and analogous ECLs transitional arrangements disclosure requirements. It is on the basis of this mandate that the EBA has drafted the guidelines contained in this consultation paper (CP), which specify a uniform disclosure format for the institutions’ disclosure requirements on IFRS 9 and analogous ECLs transitional arrangements with the aim of achieving a consistent and comparable disclosure among institutions.

Next steps

The guidelines are being published for a 2 month consultation. The final guidelines will be adjusted based on the comments received during the consultation period.

It is important to note that once the final Regulation inserting new Article 473a in the CRR is published in the Official Journal of the EU, any appropriate adjustments will be made, if necessary to align the draft guidelines with the final version of Article 473a of the CRR.

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2 Analogous ECLs’ means the expected credit loss models that are the same as the ones used in accounting standards adopted in accordance with the procedure laid down in Article 6(2) of Regulation (EC) No 1606/2002.
3. Background and rationale

On the basis of the Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact on own funds of the introduction of IFRS 9 and the large exposures treatment of certain public sector exposures denominated in non-domestic currencies of Member States (‘Proposed Regulation’) which proposes the insertion of a new Article 473a in the CRR, institutions referred in this Article are going to have the following options: they can either phase-in the impact of the implementation of IFRS 9 and analogous ECLs on capital and leverage ratios; or they can recognise the full impact of IFRS 9 and analogous ECLs on capital and leverage ratios from 1 January 2018 or before the end of the transitional period. In order to achieve consistency on institutions’ Pillar 3 disclosures regarding capital and leverage ratios, the EU institutions appear to have decided that a proper, uniform and consistent disclosure of the impact of IFRS 9 and analogous ECLs transitional arrangements on these parameters is key during the transitional period.

In this vein, the proposed new Article 473a of the CRR includes the requirement, for institutions subject to the IFRS 9 and analogous ECLs framework and which apply the corresponding transitional arrangements, to disclose together with their actual own funds and their actual capital and leverage ratios, also the value of these parameters on a IFRS 9/analogue ECLs fully loaded basis, i.e. as if the transitional arrangements were not applied; this disclosure is required in addition to the information that institutions are required to disclose under part Eight of the CRR. The same article also includes the mandate for the EBA to issue guidelines on these disclosure requirements. These guidelines specify a uniform disclosure format to be applied by institutions in order to increase consistency and comparability of information disclosed during the transitional period.

In specifying the uniform disclosure format to be applied by institutions for the above-mentioned purpose, the EBA has taken into account developments at the international level, with the view to implementing the new envisaged CRR requirement in a manner that is consistent with international standards and allows comparisons internationally. In that sense these draft Guidelines take into account the standard issued by the Basel Committee on Banking Supervision (BCBS) issued on March 29th, 2017 on “Pillar 3 disclosure requirements – consolidated and enhanced framework”\(^3\). That includes a disclosure template with implementation date of 1 January 2018 that provides users with information on the impact of the transitional arrangements for the implementation of expected credit loss accounting on the bank’s regulatory capital and leverage ratios.

\(^3\) Which can be found here: http://www.bis.org/bcbs/publ/d400.htm
4. Draft guidelines

In between the text of the draft Guidelines that follows, further explanations on specific aspects of the proposed text are occasionally provided, which either offer examples or provide the rationale behind a provision, or set out specific questions for the consultation process. Where this is the case, this explanatory text appears in a framed text box.
Draft Guidelines

on uniform disclosures under the proposed draft Article 473a, paragraph Eight, of Regulation (EU) No 575/2013 as regards the transitional period for mitigating the impact on own funds of the introduction of IFRS 9
1. Compliance and reporting obligations

Status of these guidelines

1. This document contains guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010. In accordance with Article 16(3) of Regulation (EU) No 1093/2010, competent authorities and financial institutions must make every effort to comply with the guidelines.

2. Guidelines set the EBA view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. Competent authorities as defined in Article 4(2) of Regulation (EU) No 1093/2010 to whom guidelines apply should comply by incorporating them into their practices as appropriate (e.g. by amending their legal framework or their supervisory processes), including where guidelines are directed primarily at institutions.

Reporting requirements

3. According to Article 16(3) of Regulation (EU) No 1093/2010, competent authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise with reasons for non-compliance, by ([dd.mm.yyyy]). In the absence of any notification by this deadline, competent authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the form available on the EBA website to compliance@eba.europa.eu with the reference ‘EBA/GL/201x/xx’. Notifications should be submitted by persons with appropriate authority to report compliance on behalf of their competent authorities. Any change in the status of compliance must also be reported to EBA.

4. Notifications will be published on the EBA website, in line with Article 16(3).

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2. Subject matter, scope and definitions

Subject matter

5. These guidelines specify the uniform disclosure format in accordance with which the disclosures required under paragraph 8 of Article 473a of Regulation (EU) No 575/2013 (‘CRR’) should be made.

Scope of application

6. These guidelines apply to the institutions referred to in paragraph 1 of Article 473a of the CRR and that are subject to all or part of the disclosure requirements specified in Part Eight of the CRR in accordance with Articles 6, 10 and 13 of the CRR.

7. These guidelines apply during the transitional period set out in paragraph 6 of Article 473a of the CRR.

Addressees

8. These guidelines are addressed to competent authorities as defined in points (i) to (ii) of Article 4(2) of Regulation (EU) No 1093/2010 and to financial institutions as defined in Article 4(1) of Regulation No 1093/2010.

Definitions

9. Unless otherwise specified, terms used and defined in Regulation (EU) No 575/2013 have the same meaning in the guidelines.

10. ‘Analogous ECLs’ means the expected credit loss models that are the same as the ones used in accounting standards adopted in accordance with the procedure laid down in Article 6(2) of Regulation (EC) No 1606/2002.

Date of application

11. These guidelines apply from 1 January 2018 until the end of the transitional period referred to in paragraph 6 of Article 473a of the CRR.
3. Format

12. Institutions that choose to apply Article 473a of the CRR should complete the quantitative template contained in Annex I, in accordance with the instructions included therein. Those institutions among those mentioned in paragraph 1 of Article 473a which choose not to apply Article 473a should disclose the narrative commentary indicated in Annex I, according to the instructions included therein.
4. General requirements for disclosure

13. The EBA Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11) are applicable, where relevant, to the disclosure uniform format specified in the current guidelines.
Annex I - Template on the comparison of institution’s own funds, and capital and leverage ratios with and without the application of IFRS 9 and analogous ECLs transitional arrangements

Template IFRS 9-FL: Own funds, capital and leverage ratios under IFRS 9/analogous ECLs transitional arrangements compared to fully loaded IFRS 9/analogous ECLs

| Purpose: | Provide an overview of the institutions’ own funds, Common Equity Tier 1 capital, Tier 1 capital, Common Equity Tier 1 capital ratio, Tier 1 capital ratio, total capital ratio, and leverage ratio under IFRS 9/analogous ECLs transitional arrangements and under fully loaded IFRS 9/analogous ECLs (i.e. as if these items were not subject to the IFRS 9 and analogous ECLs transitional arrangements). |
| Scope of application: | The quantitative template is mandatory for all institutions referred to in paragraph 1 of Article 473a that choose to apply Article 473a of the CRR and are subject to all or part of the disclosure requirements specified in Part Eight of the CRR, during the transitional period specified in paragraph 6 of the same Article. Those institutions referred to in paragraph 1 of Article 473a that are subject to all or part of the disclosure requirements specified in Part Eight of the CRR but choose not to apply the transitional arrangements specified in Article 473a should instead disclose a narrative commentary explaining that they are not applying the IFRS 9 or analogous ECLs transitional arrangements, the reasons behind that decision and that their own funds, capital and leverage ratios already reflect the full impact of IFRS 9 or analogous ECLs. |
| Content: | Regulatory own funds, risk-based capital ratios and leverage ratio compared to the same metrics as if they were not subject to the IFRS 9 or analogous ECLs transitional arrangements. Institutions should disclose each metric’s value corresponding to the reporting period-end. |
| Frequency: | Institutions should disclose this information with the frequency set in paragraphs 25, 26 and 27 of the EBA GL/2014/14 as per amended by the EBA GL/2016/11 for the disclosure of information on own funds (paragraph 25.a), risk-weighted assets (par. 25.b.i) and leverage ratio (par. 25.c). |
| Format: | Fixed format for the quantitative template mandatory for institutions that are applying the IFRS 9 transitional arrangements. For institutions that are not applying the transitional arrangements, the narrative commentary is flexible. |
| Accompanying narrative: | Institutions applying the transitional arrangements should provide an accompanying narrative to the quantitative template that explains the key elements of the transitional arrangements they use. Institutions should in particular provide explanations on all their choices regarding the options included in Article 473a(9) of the CRR. Institutions should also provide explanations of the changes to RWA and leverage exposure measure that are due to the application of the IFRS 9/analogous ECLs transitional arrangements, where these changes are material. |
## Quantitative template

<table>
<thead>
<tr>
<th>Available capital (amounts)</th>
<th>a</th>
<th>b</th>
<th>c</th>
<th>d</th>
<th>e</th>
</tr>
</thead>
<tbody>
<tr>
<td>T</td>
<td>T-1</td>
<td>T-2</td>
<td>T-3</td>
<td>T-4</td>
<td></td>
</tr>
<tr>
<td>1 Common Equity Tier 1 (CET1) capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements were not applied</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Tier 1 capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 Tier 1 capital as if IFRS 9 transitional arrangements were not applied</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Total capital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 Total capital as if IFRS 9 transitional arrangements were not applied</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Risk-weighted assets (amounts)

| 7 Total risk-weighted assets | | | | |

## Capital ratios

| 8 Common Equity Tier 1 (as a percentage of risk exposure amount) | | | | |
| 9 Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied | | | | |
| 10 Tier 1 (as a percentage of risk exposure amount) | | | | |
| 11 Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied | | | | |
| 12 Total capital (as a percentage of risk exposure amount) | | | | |
| 13 Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied | | | | |

## Leverage ratio

| 14 Leverage ratio total exposure measure | | | | |
| 15 Leverage ratio | | | | |
| 16 Leverage ratio as if IFRS 9 transitional arrangements were not applied | | | | |

### Instructions

<table>
<thead>
<tr>
<th>Row Number</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Amount of CET1 capital in accordance with the amount disclosed by institutions following the ITS on disclosure of own funds requirements (^5) (row 29 of the “Own funds disclosure template”)</td>
</tr>
<tr>
<td>2</td>
<td>Amount of CET1 capital as if the amount of IFRS 9 (or analogous ECL models) transitional arrangements calculated in accordance with article 473a of the CRR were not applied.</td>
</tr>
<tr>
<td>3</td>
<td>Amount of Tier 1 capital in accordance with the amount disclosed by institutions following the ITS on disclosure of own funds requirements (^5) (row 45 of the “Own funds disclosure template”)</td>
</tr>
<tr>
<td>4</td>
<td>Amount of Tier 1 capital as if the amount of IFRS 9 (or analogous ECL models) transitional arrangements calculated in accordance with article 473a of the CRR were not applied.</td>
</tr>
<tr>
<td>5</td>
<td>Amount of total capital in accordance with the amount disclosed by institutions following the ITS on disclosure of own funds requirements (^5) (row 59 of the “Own funds disclosure template”)</td>
</tr>
<tr>
<td>6</td>
<td>Amount of total capital as if the amount of IFRS 9 (or analogous ECL models) transitional arrangements calculated in accordance with article 473a of the CRR were not applied.</td>
</tr>
<tr>
<td>7</td>
<td>Amount of total risk weighted assets in accordance with the amount disclosed by institutions following the ITS on disclosure of own funds requirements (^5) (row 60 of the “Own funds disclosure template”)</td>
</tr>
<tr>
<td>8</td>
<td>CET1 capital ratio in accordance with the value disclosed by institutions following the ITS on disclosure of own funds</td>
</tr>
<tr>
<td>Row Number</td>
<td>Explanation</td>
</tr>
<tr>
<td>------------</td>
<td>-------------</td>
</tr>
<tr>
<td>5</td>
<td>(row 61 of the “Own funds disclosure template”)</td>
</tr>
<tr>
<td>9</td>
<td>CET1 capital ratio as if IFRS 9 (or analogous ECL models) transitional arrangements calculated in accordance with article 473a of the CRR were not applied</td>
</tr>
<tr>
<td>10</td>
<td>Tier 1 capital ratio in accordance with the value disclosed by institutions following the ITS on disclosure of own funds requirements (row 62 of the “Own funds disclosure template”)</td>
</tr>
<tr>
<td>11</td>
<td>Tier 1 capital ratio as if IFRS 9 (or analogous ECL models) transitional arrangements calculated in accordance with article 473a of the CRR were not applied</td>
</tr>
<tr>
<td>12</td>
<td>Total capital ratio in accordance with the value disclosed by institutions following the ITS on disclosure of own funds requirements (row 63 of the “Own funds disclosure template”)</td>
</tr>
<tr>
<td>13</td>
<td>Total capital ratio as if IFRS 9 (or analogous ECL models) transitional arrangements calculated in accordance with article 473a of the CRR were not applied</td>
</tr>
<tr>
<td>14</td>
<td>Leverage ratio total exposure measure in accordance with the amount disclosed by institutions following the ITS on disclosure of leverage ratio (row 21 of the “Table LRCom: Leverage ratio common disclosure”)</td>
</tr>
<tr>
<td>15</td>
<td>Leverage ratio in accordance with the value disclosed by institutions following the ITS on disclosure of leverage ratio (row 22 of the “Table LRCom: Leverage ratio common disclosure”)</td>
</tr>
<tr>
<td>16</td>
<td>Leverage ratio calculated as if as if the amount of IFRS 9 (or analogous ECL models) transitional arrangements calculated in accordance with article 473a of the CRR were not applied</td>
</tr>
</tbody>
</table>

**Reporting periods**

Institutions disclosing this template on a quarterly basis should provide data on periods T, T-1, T-2, T-3 and T-4; institutions disclosing this template on a semi-annual basis should provide data on periods T, T-1 and T-2; and institutions disclosing this template on an annual basis should provide data on periods T and T-1.

The disclosure of data for previous periods is not required when data are being disclosed for the first time. Information on previous periods is only required when the previous periods are later than 1 of January 2018.

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6 When disclosing this ratio, institutions should consider IFRS 9 (or analogous ECL models) transitional arrangements with an impact both on the numerator and on the denominator.

5. Accompanying documents

5.1 Draft cost-benefit analysis / impact assessment

The Proposal for a Regulation on the transitional period for mitigating the impact on own funds of the introduction of IFRS 9 and the large exposures treatment of certain public sector exposures denominated in non-domestic currencies of Member States introduces new Article 473a in the CRR, which mandates the EBA to issue guidelines on the IFRS9 transitional arrangements disclosure requirements.

As per Article 16(2) of the EBA regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council), any guidelines developed by the EBA shall be accompanied by an assessment annex which analyses ‘the potential related costs and benefits’. Such annex shall provide the reader with an overview of the findings as regards the problem identification, the options identified to remove the problem and their potential impacts.

This annex presents the IA with cost-benefit analysis of the policy options included in the guidelines described in this Consultation Paper. Given the nature of the study, the assessment is high-level and qualitative in nature.

A. Problem identification

The primary problems that the current draft guidelines aim to address are the potential asymmetry of information on IFRS 9 transitional arrangements between information available to market participants and information internally available to institutions; and the possible inconsistencies and variations in the institutions’ disclosures related to the impact of IFRS 9 transitional arrangements on their risk-based capital ratios and leverage ratio during the phase-in period. Asymmetric information and a lack of comparability of information by market participants impair the functioning of market discipline.

Furthermore, the BCBS issued in March 2017 the standard “Pillar 3 disclosure requirements – consolidated and enhanced framework”, which includes a disclosure template with implementation date 1 January 2018 that provide users with information on the impact of the transitional arrangements for the implementation of expected credit loss accounting on bank’s regulatory capital and leverage ratios. Hence, the current regulatory framework is not in line with the recent amendments at the BCBS level and the practice may lead to inconsistent implementation of the standards within the EU.
B. Policy objectives

The main objective of the guidelines is to increase consistency and comparability of information disclosed by EU institutions regarding the impact of the IFRS 9 transitional arrangements on their own funds and capital and leverage ratios during the transition to the full implementation of the IFRS 9 framework.

The guidelines also aim at helping EU institutions in the implementation of the BCBS new pillar 3 requirements regarding the impact of the transitional arrangements for the implementation of expected credit loss accounting on bank’s regulatory capital and leverage ratios.

These guidelines address the problem of asymmetric information, increase comparability of EU institutions’ disclosures and promote the alignment of the EU disclosure requirements with the BCBS Pillar 3 framework. The ultimate general objective of the guidelines is to strengthen market discipline.

C. Baseline scenario

Institutions under the scope of these guidelines are already subject to disclosure requirements on their available own funds, their risk weighted assets, leverage ratio risk exposure amount, regulatory capital ratios and leverage ratio. These institutions already disclose the aforementioned information on a regular basis.

In addition, those institutions that choose to apply the IFRS 9 transitional arrangement in accordance with Article 473a of the CRR, need to estimate the adjustments to own funds, regulatory capital ratios and leverage ratio arising from the application of the IFRS 9 transitional arrangements. Finally, institutions applying the IFRS 9 transitional arrangements are required to report as part of the reporting requirements included in the EU supervisory reporting framework\(^8\) the amount of the adjustments to own funds and risk weighted arising from the application of IFRS 9 transitional arrangements.

Institutions are therefore already required to disclose the information on the actual value of the parameters proposed in these guidelines and are required to estimate and report to the competent authorities the value of the adjustments to be applied to the same parameters in case the IFRS 9 transitional arrangements are implemented.

D. Options considered: assessment of the options and the preferred option(s)

During the development of the current guidelines, the following policy options were considered:

CONSULTATION PAPER ON GUIDELINES ON UNIFORM DISCLOSURE OF IFRS 9 TRANSITIONAL ARRANGEMENTS

E. Cost-Benefit Analysis

The information that institutions are asked to disclose under template IFRS 9-FL of the current guidelines is fully available to them: Institutions are already required to disclose the information on the transitional value of the parameters included in this template and are also required to estimate and report to the competent authorities the value of the adjustments to be applied to the same parameters in case that the IFRS 9 transitional arrangements are implemented.

In addition, the policy choices agreed during the development of the guidelines simplify the amount of information that institutions are asked to disclose.
For these reason, the marginal cost and impact of the implementation of the current draft guidelines by institutions is expected to be negligible. The net benefit is expected to be positive when the marginal costs of implementation of the draft guidelines are compared with the benefits that the current guidelines are expected to achieve, in terms of improved symmetry of information between market participants and institutions, consistency and comparability of the information available to market participants and further fostering of market discipline. The benefits arising from the guidelines are hence expected to notably exceed the marginal costs for the institutions.
5.2 Overview of questions for consultation

1. Could you provide your views on whether adding RWA on an IFRS 9 fully loaded basis in the quantitative disclosure template in Annex I would provide more clarity to the users and would ensure a more consistent and comparable disclosure by institutions compared to the current proposal to disclose only the actual figure of RWA?

2. Do you agree with the overall content of these guidelines and with the template proposed? In case of disagreement, please outline alternatives that would help to achieve the purpose of the guidelines.