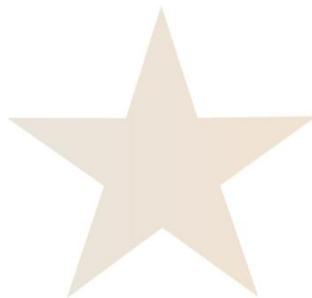


EBA FINAL draft Regulatory Technical Standards

On specification of the calculation of specific and general credit risk adjustments in accordance with Article 110(4) of the draft Capital Requirements Regulation (CRR)



EBA FINAL draft Regulatory Technical Standards on specification of the calculation of specific and general credit risk adjustments in accordance with Article 110(4) of the draft Capital Requirements Regulation (CRR)

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1. Executive Summary

The CRR/CRD IV¹ (the so-called Capital Requirements Regulation, - henceforth 'CRR', and the so-called Capital Requirements Directive, - henceforth 'CRD') set out prudential requirements for banks and other financial institutions which will apply from 1 January 2014. The CRR contains specific mandates for the EBA to develop draft Regulatory Technical Standards (henceforth 'RTS') to specify, among others, the calculation of general and specific credit risk adjustments.

In accordance with the CRR/CRD IV the draft RTS under Article 110(4) of the CRR have to specify the calculation of specific credit risk adjustments (Specific Credit Risk Adjustments) and general credit risk adjustments (General Credit Risk Adjustments) under the applicable accounting framework for (i) the determination of exposure values in accordance with Articles 111, 166 to 168, 246 and 266 of the CRR; (ii) the treatment of expected loss amounts in accordance with Article 159 of the CRR; and (iii) the determination of default under Article 178 of the CRR.

All the provisions in the scope of these RTS pertain to the determination of own funds requirements for credit risk, which is why the required calculation is limited to the amounts of credit risk adjustments that both reflect losses exclusively related to credit risk in accordance with the applicable accounting framework and reduce the institution's CET1 capital.

It is necessary that any credit risk adjustment that is relevant for the purposes listed in Article 110(4) of the CRR is assigned to the calculation either of General Credit Risk Adjustments or of Specific Credit Risk Adjustments. In order to ensure this, the RTS first provide criteria for credit risk adjustments to be included as General Credit Risk Adjustments, while all other credit risk adjustments shall be included as Specific Credit Risk Adjustments. Moreover, in order to facilitate the institutions' to mapping of the criteria onto their applicable accounting frameworks, the RTS elaborate specifically on certain cases.

Further, some of the provisions in the scope of these RTS require assignment of the Specific Credit Risk Adjustment related to credit risk of a whole group of exposures to a single exposure. The assignment should be done proportionally to the risk-weighted exposure amounts, whereas exposure amounts should be gross values before deduction of any Specific Credit Risk Adjustments.

Finally, for the determination of default, it is necessary to restrict Specific Credit Risk Adjustments to those which are ascribed individually to a single exposure or a single obligor.

¹ Regulation (EU) No 575/2013 of 26 June 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

2. Background and rationale

Draft RTS on specification of the calculation of specific and general credit risk adjustments in accordance with Article 110(4) of the draft CRR

The so-called Omnibus Directive² amended the Directives that are collectively known as the Capital Requirements Directive (CRD)³ in a number of ways, one being to establish areas in which the EBA is mandated to develop draft technical standards.

On 26 June, 2013, revised CRD texts were published in the Official Journal of the EU. This aims to apply the internationally agreed standards adopted within the context of the Basel Committee for Banking Supervision (known as 'Basel III framework') in the EU. These texts have recast the contents of the CRD into a revised CRD and a new Capital Requirements Regulation (CRR) - which are together colloquially referred to as the CRR/CRD IV.

Background on the draft RTS

Article 110(4) of the CRR requires the EBA to develop draft RTS aimed at specifying the calculation of specific credit risk adjustments (Specific Credit Risk Adjustments) and general credit risk adjustments (General Credit Risk Adjustments) under the applicable accounting framework for the purposes of determining: (a) the exposure value under the Standardised Approach referred to in Article 111 of the CRR; (b) the exposure value under the IRB Approach referred to in Articles 166 to 168 of the CRR; (c) the treatment of expected loss amounts referred to in Article 159 of the CRR; (d) the exposure value for the calculation of the risk-weighted exposure amounts for securitisation position referred to in Articles 246 and 266 of the CRR; and (e) an indication of unlikelihood to pay when determining whether an obligor has defaulted under Article 178 of the CRR.

Since all the provisions in the scope of these RTS pertain to the determination of own funds requirements for credit risk, the required calculation is necessarily limited to the amounts of such adjustments reflecting losses exclusively related to credit risk that reduce the institution's Core Equity Tier 1 capital (CET1).

Moreover these RTS clarify that losses exclusively related to credit risk recognised under the applicable accounting framework in the current financial year can be recognised as credit risk adjustments under the CRR provided that the institution recognises the effect in CET1. This is relevant for situations where such impairment losses recorded in the course of a financial year occur, in spite of overall interim profits during the year or at the year-end that are not approved and where their recognition as credit risk adjustments would result in an impact on exposure values or on Tier 2 earlier

² Directive 2010/78/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authorities: the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority.

³ Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions.

than on CET1. Such an adjustment is not necessary for interim losses, to the extent that losses for the current financial year are immediately deducted from CET1.

Further, while some of the provisions within the scope of Article 110(4) of the CRR refer explicitly to off-balance sheet items, others do not distinguish between on- and off-balance sheet items. Therefore the required calculation shall not be limited to credit risk adjustments for on-balance sheet items.

Additionally, some of the provisions in the scope of these RTS refer exclusively to Specific Credit Risk Adjustments, and it is therefore necessary to identify which amounts can be included in their calculation. The sole identification criterion derivable from the provisions of the CRR is that Specific Credit Risk Adjustments are not eligible for inclusion into Tier 2 capital under the Standardised Approach for credit risk. Therefore, distinguishing whether amounts are to be included in the calculation of Specific Credit Risk Adjustments instead of that of General Credit Risk Adjustments requires applying the same criteria applied when identifying those amounts of General Credit Risk Adjustments that qualify for inclusion within Tier 2 capital.

In accordance with this approach, credit risk adjustments reflecting losses that cannot be ascribed to any particular exposure or group of exposures would still be fully available to meet losses that subsequently materialise and should be added back to capital. In this respect, paragraph 60 of Basel III states that 'provisions or loan-loss reserves held against future, presently unidentified losses are freely available to meet losses which subsequently materialise and therefore qualify for inclusion within Tier 2'. Additionally, in accordance with paragraph 58 of Basel III, the objective of Tier 2 is 'to provide loss absorption on a gone-concern basis'.

These RTS have been drafted in such a way that can be applied irrespective of the applicable accounting framework. However, in order to facilitate the institutions' mapping of the criteria onto their applicable accounting framework, it is necessary to elaborate specifically on certain cases. These create a link to accounting and establish in essence what institutions should do under their accounting framework, but without specifically referring to them.

Further, some of the provisions in the scope of these RTS, in accordance with Article 110(4) CRR, require identifying the Specific Credit Risk Adjustment for a single exposure. Thus, it is necessary to decide how to treat credit risk adjustments that meet the criteria for being included in the calculation of Specific Credit Risk Adjustment but which reflect losses related to the credit risk of a whole group of exposures. The assignment of the amount resulting from such Specific Credit Risk Adjustment in portions to the exposures in the group shall be done proportionally to the risk-weighted exposures amounts. For this purpose, the exposure values should be determined without taking into account any Specific Credit Risk Adjustments.

Finally, for the purpose of identifying, in accordance with Article 178(3) (b) of the CRR, whether a Specific Credit Risk Adjustments resulting from a significant decline in credit quality has been recognised for a certain exposure, it is necessary to restrict Specific Credit Risk Adjustments to those which are ascribed individually to a single exposure or a single obligor. This is necessary because Specific Credit Risk Adjustments made for whole groups of exposures do not identify for which of the obligors of the exposures belonging to this group a default event is considered to have occurred. In

particular, the existence of a Specific Credit Risk Adjustments for a group of exposures is not sufficient reason to conclude that, for each of the obligor or exposures belonging to this group, default events have occurred.

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3. EBA FINAL draft Regulatory Technical Standards on specification of the calculation of specific and general credit risk adjustments in accordance with Article 110(4) of Regulation (EU) No 575/2013 (Capital Requirements Regulation - CRR)



EUROPEAN COMMISSION

Brussels, **XXX**
[...] (2012) **XXX** draft

COMMISSION DELEGATED REGULATION (EU) No .../..

of **XXX**

[...]

supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific credit risk adjustments and general credit risk adjustments

COMMISSION DELEGATED REGULATION (EU) No .../..

**supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific credit risk adjustments and general credit risk adjustments
of XX Month 2013**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of 26 June 2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and in particular Article 110(4) third subparagraph thereof,

Whereas:

- (1) This Regulation relates to the specification of the amounts that need to be included in the calculation of credit risk adjustments which reflect losses exclusively related to credit risk. Further, the calculation of credit risk adjustments for determining the own funds requirements is limited to amounts that have reduced the Common Equity Tier 1 (CET1) of the institution.
- (2) Losses exclusively related to credit risk recognised under the applicable accounting framework in the current financial year can be recognised as credit risk adjustments under this Regulation provided that the institution recognises the effect in CET1. This is relevant for situations where such impairment losses recorded in the course of a financial year occur, in spite of overall interim profits during the year or at year-end that are not approved in accordance with article 26(2) of Regulation (EU) No 575/2013, and where their recognition as credit risk adjustments for the purpose of this Regulation would result in an impact on exposure values or on Tier 2 earlier than on CET1. For interim losses under article 36(1) of Regulation (EU) No 575/2013 such an adjustment is not necessary to the extent that losses for the current financial year under that article are immediately deducted from CET1.
- (3) Certain provisions of Regulation (EU) No 575/2013 relating to credit risk adjustments refer explicitly to off-balance sheet items. Where no such distinction is made, the relevant provisions apply to both on- and off-balance sheet items. To ensure consistency with Regulation (EU) No 575/2013, the calculation of the credit risk adjustments should cover both on- and off-balance sheet items.
- (4) Rules should be laid down to cover those losses exclusively related to credit risk that are recognised under the applicable accounting framework by which an institution's Common Equity Tier 1 has been reduced. Those rules should cover impairments and value adjustments for financial assets or provisions for off-balance sheet items, to the extent that they reflect losses exclusively related to credit risk and

provided they are recognised in the profit and loss account under the applicable accounting framework. To the extent that these losses relate to financial instruments valued at fair value, those rules should also cover amounts recognised as impairments under the applicable accounting frameworks, or similar adjustments made provided they reflect losses related to a deterioration or a worsening of an asset's or an assets portfolio's credit quality. It is not appropriate at this stage to regulate other amounts which are not an impairment of a financial instrument under the applicable accounting framework, or do not reflect a concept of a similar nature, even if these changes may include a credit risk component.

- (5) In order to ensure full coverage of the calculation it is necessary that any amount that is relevant for the purposes listed in Article 110(4) of Regulation (EU) No 575/2013 is assigned either to the calculation of general credit risk adjustments (General Credit Risk Adjustments) or that of specific credit risk adjustments (Specific Credit Risk Adjustments).
- (6) In relation to the identification of the amounts that can be included in the calculation of Specific Credit Risk Adjustments, the only criterion provided by Regulation (EU) No 575/2013 is that Specific Credit Risk Adjustments are not eligible for inclusion into Tier 2 capital under the Standardised Approach for credit risk, according to Article 62(c) of Regulation (EU) No 575/2013. Therefore, the distinction of amounts to be included in the calculation of Specific Credit Risk Adjustments or General Credit Risk Adjustments needs to be done consistently with the criteria for identifying what can be included in Tier 2 capital.
- (7) The above also consistent with the internationally-agreed standards of the Basel Committee's for Banking Supervision third International Regulatory Framework for banks (known as 'Basel III'), which provides of that one of the criteria for the distinction between General Credit Risk Adjustments and Specific Credit Risk Adjustments has to be that general provisions or general loan-loss reserves are 'freely available to meet losses which subsequently materialise'. According to Basel III provisions or loan-loss reserves held against future, presently unidentified losses are freely available to meet losses which subsequently materialise and therefore qualify for inclusion within Tier 2. In addition, amounts included in the calculation of General Credit Risk Adjustments should be fully available, as regards to timing and amount, to meet such losses, at least on a gone-concern basis, given the objective in Basel III that Tier 2 is to provide loss absorption on a gone-concern basis'.
- (8) Rules in this field should be drafted in such a way that they can be applied irrespective of the applicable accounting framework. However, to enable institutions to map the criteria for the distinction between Specific Credit Risk Adjustments and General Credit Risk Adjustments to the accounting frameworks, a number of cases of credit risk losses for each type of credit risk adjustments should be provided. Whereas the treatment of losses exclusively related to credit risk recognised under applicable accounting frameworks depends on the fulfilment of the criteria set out in this Regulation, the large majority of these amounts are expected to be classified as Specific Credit Risk Adjustments given the restrictive nature of the criteria for General Credit Risk Adjustments in Article 1(2).

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- (9) The criteria for distinguishing between Specific Credit Risk Adjustments and General Credit Risk Adjustments should be laid down taking into account current applicable frameworks. However, international accounting standards are subject to revisions, which could necessitate changes to the criteria for distinguishing between Specific Credit Risk Adjustments and General Credit Risk Adjustments. In the light of the changes that are at the time of drafting this Regulation under discussion for a new impairment model, it can be expected that changes to this Regulation will become necessary. Given the uncertainty around the future model, it seems premature to anticipate this model in the present Regulation.
- (10) It is envisaged that rules require identifying the Specific Credit Risk Adjustments for a single exposure; it is therefore necessary to decide how to treat Specific Credit Risk Adjustments that reflect losses related to the credit risk of a whole group of exposures. Further, it is necessary to decide for which exposure(s) in the group and to what extent the Specific Credit Risk Adjustments should be recognised. The assignment of portions of this amount resulting from such Specific Credit Risk Adjustments to the exposures in the group has to be done proportionally to the risk-weighted exposure amounts. For this purpose, the exposure values should be determined without taking into account any Specific Credit Risk Adjustments.
- (11) For the purpose of the determination of default under Article 178(3) point b of Regulation (EU) No 575/2013, it is necessary to include only Specific Credit Risk Adjustments which are made individually for a single exposure or a single obligor, and not to include Specific Credit Risk Adjustments made for whole groups of exposures. Specific Credit Risk Adjustments made for whole groups of exposures do not identify obligors of exposures belonging to such groups for which a default event is considered to have occurred. In particular, the existence of a Specific Credit Risk Adjustments for a group of exposures is not sufficient reason to conclude that default events have occurred for each of the obligor or exposures belonging to this group.
- (12) It is necessary that institutions are able to demonstrate how the criteria for distinguishing between Specific Credit Risk Adjustments and General Credit Risk Adjustments are used in the context of the applicable accounting framework. Therefore, they should document this process.
- (13) This Regulation is based on the draft regulatory technical standards submitted by the European Supervisory Authority (European Banking Authority) to the Commission.
- (14) The European Supervisory Authority (European Banking Authority) has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits, in accordance with Article 10 of Regulation (EU) No 1093/2010, and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010.

HAS ADOPTED THIS REGULATION:

TITLE I

Identification of General Credit Risk Adjustments and Specific Credit Risk Adjustments for the purposes of Articles 111, 159, 166, 167, 168, 178, 246 and 266 of Regulation (EU) No 575/2013

Article 1

Identification of General Credit Risk Adjustments and Specific Credit Risk Adjustments

1. For the purposes of this Regulation, the amounts required to be included in the calculation of general and specific credit risk adjustments shall be equal to all amounts by which an institution's Common Equity Tier 1 capital has been reduced in order to reflect losses exclusively related to credit risk according to the applicable accounting framework and recognised as such in the profit or loss account, irrespective of whether they result from impairments, value adjustments or provisions for off-balance sheet items. Any amounts resulting in the above manner which have been recognised during the financial year, may only be included in the calculation of general and specific credit risk adjustments under this Regulation if the respective amounts have been deducted from an institution's Common Equity Tier 1 capital, either in accordance with Article 36(1) of Regulation (EU) No 575/2013, or, in the event of interim profits or year-end profits that have not been approved in accordance with Article 26(2) of the same Regulation, by way of a corresponding immediate reduction in Common Equity Tier 1 capital for the determination of own funds.
2. The amounts described in paragraph 1 shall be included in the calculation of general credit risk adjustments (General Credit Risk Adjustments) if they fulfil both of the following criteria:
 - (a) are freely and fully available, as regards to timing and amount, to meet credit risk losses that have not yet materialised;
 - (b) reflect credit risk losses for a group of exposures for which the institution has currently no evidence that a loss event has occurred.
3. All other amounts described in paragraph 1 shall be included in the calculation of specific credit risk adjustments (Specific Credit Risk Adjustments).
4. Subject to meeting the criteria of paragraph 2, the following losses shall be included in the calculation of General Credit Risk Adjustments:
 - (a) losses recognised to cover higher average portfolio loss experience over the last years although there is currently no evidence of loss events supporting these loss level observed in the past;
 - (b) losses for which the institution is not aware of a credit deterioration for a group of exposures but where some degree of non-payment is statistically probable based on past experience.

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5. The following losses shall always be included in the calculation of Specific Credit Risk Adjustments under paragraph 3:
- (a) losses recognised in the profit or loss account for instruments measured at fair value that represent credit risk impairment under the applicable accounting framework;
 - (b) losses as a result of current or past events affecting a significant individual exposure or exposures that are not individually significant which are individually or collectively assessed;
 - (c) losses for which historical experience, adjusted on the basis of current observable data, indicates that the loss has occurred but the institution is not yet aware which individual exposure has suffered these losses.

TITLE II

Calculation of General Credit Risk Adjustments and Specific Credit Risk Adjustments for own funds requirements for the purposes of Articles 111, 159, 166, 167, 168, 246 and 266 of Regulation (EU) No 575/2013

Article 2

Assigning Specific Credit Risk Adjustments for a group of exposures to the exposures within this group

1. In the case of a Specific Credit Risk Adjustment that reflects losses related to the credit risk of a group of exposures, institutions shall assign this Specific Credit Risk Adjustment to all single exposures of this group proportionally to the risk-weighted exposure amounts. For this purpose, the exposure values shall be determined without taking into account any Specific Credit Risk Adjustments.
2. For the treatment of expected loss amounts referred to in Article 159 of Regulation (EU) No 575/2013 for a group of non-defaulted exposures, institutions shall not be required to assign a Specific Credit Risk Adjustment to the single exposures of the group.
3. Where a Specific Credit Risk Adjustment relates to a group of exposures, the credit risk own funds requirements of which are calculated partially under the Standardised Approach and partially under the Internal Ratings Based Approach, the institution shall assign this Specific Credit Risk Adjustment to the group of exposures covered by each of the Approaches proportionally to the risk weighted exposure amounts of the group before applying the actions described in paragraphs 1 and 2. For this purpose, the exposure values shall be determined without taking into account any Specific Credit Risk Adjustments.
4. When assigning the Specific Credit Risk Adjustments to exposures, institutions shall ensure that the same portion is not assigned twice to different exposures.

Article 3

Calculation for the purposes of determining the exposure value according to Articles 111, 166 to 168, 246 and 266 of Regulation (EU) No 575/2013

1. For the purposes of determining the exposure value according to Articles 111, 166 to 168, 246 and 266 of Regulation (EU) No 575/2013 no General Credit Risk Adjustments are required to be calculated.
2. For the purposes of determining the exposure value according to Articles 111, 166 to 168, 246 and 266 of Regulation (EU) No 575/2013, Specific Credit Risk Adjustments related to an exposure shall be calculated as the amounts of Specific Credit Risk Adjustments for this single exposure, or as the amounts of Specific Credit Risk Adjustments that the institution has assigned to this exposure according to Article 2.

Article 4

Calculation for the purposes of the treatment of expected loss amounts according to Article 159 of Regulation (EU) No 575/2013

1. For the purposes of the treatment of expected loss amounts according to Article 159 of Regulation (EU) No 575/2013, the calculation of General Credit Risk Adjustments shall be done as follows: the amounts identified as General Credit Risk Adjustments according to Article 1 that the institution has assigned according to Article 110 paragraph (3) of Regulation (EU) No 575/2013, shall be summed up to provide the total General Credit Risk Adjustments related to the exposures included in the treatment of expected loss amounts.
2. For the purpose of the treatment of expected loss amounts according to Article 159 of Regulation (EU) No 575/2013, the calculation of Specific Credit Risk Adjustments shall be done by adding points (a) and (b) below, excluding exposures in default, which will provide the total Specific Credit Risk Adjustments related to the exposures included in the treatment of expected loss amounts:
 - (a) amounts identified as Specific Credit Risk Adjustments according to Article 1, which are related to the credit risk of a single exposure; and
 - (b) amounts identified as Specific Credit Risk Adjustments according to Article 1, which are related to the credit risk of a group of exposures and which have been assigned according to Article 2.
3. The total Specific Credit Risk Adjustments related to an exposure in default shall be calculated as the sum of all amounts of Specific Credit Risk Adjustments for this single exposure, or as the amounts of Specific Credit Risk Adjustments that the institution has assigned to this exposure according to Article 2.

TITLE III

Calculation of General Credit Risk Adjustments and Specific Credit Risk Adjustments for own funds requirements for the purposes of the determination of default according to Article 178 of Regulation (EU) No 575/2013

Article 5

1. For the purposes of the determination of default according to Article 178 of Regulation (EU) No 575/2013] no General Credit Risk Adjustments are required to be calculated.
2. For the purpose of determination of default according to Article 178 of Regulation (EU) No 575/2013, Specific Credit Risk Adjustments shall be calculated as the amounts of Specific Credit Risk Adjustments related to the credit risk of a single exposure or single obligor.

TITLE IV- Documentation

Article 6

Institutions shall document the identification and calculation of General Credit Risk Adjustments and Specific Credit Risk Adjustments.

TITLE V

Final provisions

Article 7

This Regulation shall enter into force twenty days following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission
The President

[For the Commission

On behalf of the President

Position]

4. Accompanying documents

4.1 Cost- Benefit Analysis / Impact Assessment

Introduction

In accordance with Article 110(4) of the Proposal for a Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR), the EBA shall develop draft regulatory technical standards to specify the calculation of specific credit risk adjustments (Specific Credit Risk Adjustments) and general credit risk adjustments (General Credit Risk Adjustments) under the applicable accounting framework for the following purposes: (i) exposure values of credit risk exposures under the Standardised Approach for credit risk and under the IRB Approach and treatment of expected loss amounts under the IRB Approach; and (ii) the determination of default.

The following sections define the problem that justifies regulatory intervention and describe the objectives of the proposed draft RTS; the achievement of these objectives illustrates the benefits of the proposed rules. The advantages and disadvantages associated with different approaches considered within the draft RTS are illustrated, together with the rationale supporting the various proposals.

Problem definition and objectives of the RTS

As documented in the European Commission's Impact Assessment accompanying the Regulation of the European Parliament and the Council on prudential requirements for credit institutions and investment firms (CRR), regulatory initiative over the quantity and quality of own funds contributes to achieving the following specific objectives:

- (1) credit and financial institutions are robustly risk-managed against the risks arising in their activities (capital requirements contribute to aligning the risk incentives of banks' shareholders with those of the banks' creditors and depositors).
- (2) credit and financial institutions are financially sound and can absorb unexpected losses on a going-concern basis.

The Level 1 legislation on credit risk adjustments, and more generally on regulatory adjustments to own funds, contributes to objectives (1) and (2) by addressing two important problem drivers identified by the European Commission, namely the application of credit risk adjustments from layers of capital that are not always appropriate and the lack of sufficient harmonisation of the calculation of credit risk adjustments to own funds in the single market.

The operational objective of these RTS is to set out harmonised provisions on how to identify the amounts to be included in the calculation of Specific Credit Risk Adjustments and General Credit Risk Adjustments for all the purposes listed in Article 110(4) of the CRR. The harmonisation of the treatment of Specific Credit Risk Adjustments and General Credit Risk Adjustments ensures that in the determination of own funds requirements for credit risk two additional specific objectives, identified by the European Commission, are achieved:

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- (3) prevention of Regulatory arbitrage opportunities;
 - (4) enhancement of the level playing field for credit and financial institutions.

Within these RTS, provisions relate to the following two broad areas:

- (1) definition of the amounts to be included in the calculation of Specific Credit Risk Adjustments and General Credit Risk Adjustments;
- (2) specification of the calculation of Specific Credit Risk Adjustments and General Credit Risk Adjustments and, in particular, the assignment of the Specific Credit Risk Adjustment related to a group of exposures to a single exposure.

Options considered

In drafting harmonised provisions on how to identify the amounts to be included in, and the calculation of, Specific Credit Risk Adjustments and General Credit Risk Adjustments, the EBA had regard to the following specific issues:

- (1) the calculation of Specific Credit Risk Adjustments and General Credit Risk Adjustments needs to be specified in a way that is detailed enough to be applied to all the different Articles in the scope of the RTS.
- (2) the identification of Specific Credit Risk Adjustments and General Credit Risk Adjustments needs to be consistent with the prudential requirements in the CRR that limit the eligibility for inclusion into Tier 2 capital to General Credit Risk Adjustments as well as with the Basel III guidance on general provisions or general loan loss reserves.
- (3) the harmonisation objective requires that the calculation of Specific Credit Risk Adjustments and General Credit Risk Adjustments is applicable across the EU irrespective of which accounting framework institutions adopt within a given jurisdiction.

As regards the consistency of the RTS with other prudential provisions of the CRR, point (2) above, the EBA identified the only viable approach to be the one that defines the amounts to be included in the General Credit Risk Adjustments in accordance with the criteria used for defining which credit risk adjustments qualify for inclusion into Tier 2 capital. In addition, the EBA had regard to the Basel III criteria for the identification of general provisions and general loan-loss reserves.

As regards point (3) above, the proposed draft attempts to strike the right balance between harmonising the identification of the amounts to be used in the calculation of Specific Credit Risk Adjustments and General Credit Risk Adjustments on the one hand, and the need to avoid inconsistencies with the treatment, for regulatory purposes, of the specific accounting standards applied in each jurisdiction, on the other hand. In particular, the EBA drafted the proposed RTS so as to ensure that credit and financial institutions would not end up facing the inefficient burden of two different provisioning frameworks determined by, respectively, the requirements of the draft RTS and the requirements under Regulation (EC) 1606/2002 or Council Directive 86/635/EC. Moreover, in order to enable institutions to map the criteria for the distinction between Specific Credit Risk Adjustments and General Credit Risk Adjustments onto the accounting frameworks, the RTS provide a

number of cases of credit risk losses for each type of credit risk adjustment, which are designed to assist with this.

As regards the criteria for assigning Specific Credit Risk Adjustment for a group of exposures to all single exposures of this group, the EBA considered the following options:

Option 1: excluding the losses related to credit risk of a group of exposures from credit risk adjustments altogether.

Option 2: allowing institutions to decide how to assign the amount resulting from the Specific Credit Risk Adjustment for a group of exposures to all single exposures of this group.

Option 3: assigning the amount resulting from the Specific Credit Risk Adjustment for a group of exposures to all single exposures of this group proportionally to the risk-weighted exposure amounts, the latter being determined without taking into account any Specific Credit Risk Adjustments.

Option 1 does not appear to be compatible with Level 1 provisions since the credit risk adjustments reflecting losses related to credit risk of a whole group of exposures meet the criteria for being classified as Specific Credit Risk Adjustments and, as such, already result in a reduction of CET1 capital. This means that in order to ensure full coverage of the calculation, it is necessary for any amount that is relevant for the purposes listed in Article 110(4) CRR to be assigned to the calculation of either General Credit Risk Adjustments or Specific Credit Risk Adjustments.

Option 2 would allow institutions to allocate the Specific Credit Risk Adjustments under consideration in accordance with their preferred methods. Two institutions facing the same amount of Specific Credit Risk Adjustments and holding the same group exposure could use allocation methods which result in different risk-weighted exposure amounts and, consequently, different capital requirements. As specified in the section on the objectives of the RTS, non-harmonised provisions would result in a worsening of level playing field conditions and increased opportunities for regulatory arbitrage.

Option 3 prevents institutions from using discretion in allocating the Specific Credit Risk Adjustments under consideration and proposes a risk-sensitive methodology. Option 3 best contributes to promoting a harmonised treatment of credit risk adjustments.

Following consideration of the various solutions, these draft RTS put forward option 3 as the preferred option.

Quantitative Impacts

The quantitative evidence collected through consultation, around the impacts of the proposed RTS does not allow an assessment of the aggregate changes in the capital requirements and risk-weighted exposures resulting from the proposed methods for identifying the amounts to be used in the calculation of Specific Credit Risk Adjustments and General Credit Risk Adjustments. The application of Specific Credit Risk Adjustments and General Credit Risk Adjustments results from the provisions of the CRR and the quantitative assessment is outside the scope of this analysis. The provisions drafted in these RTS ensure that the calculation of Specific Credit Risk Adjustments and General Credit Risk Adjustments is harmonised and that regulatory arbitrage in the determination of risk-

weighted exposures and capital requirements is minimised. The respondents to consultation did not flag up the expectation of material capital costs resulting from the specification of these RTS. The non-capital compliance costs of the provisions do not appear to be material.

4.2 Views of the Banking Stakeholder Group (BSG)

BSG comments on Draft Regulatory Technical Standards on specification of the calculation of specific and general credit risk adjustments in accordance with Article 110(4) of the draft Capital Requirements Regulation (CRR) (EBA/CP/2012/10).

Please note that references to Articles of the draft RTS in the feedback statement follow the original numbering of the Consultation Paper proposal, unless directly stated that we refer to these draft RTS.

General comments

- (1) The BSG comments that due to the unlikelihood of the CRR becoming effective from 1 January, they consider it premature to prescribe rules based on unfinished Level 1 text (CRR).
- (2) The BSG comments on a technical amendment that has been proposed to the Level 1 text. The proposal will be to deduct from the exposure value both General Credit Risk Adjustments and Specific Credit Risk Adjustments under the Standardised Approach for credit risk. They consider that this is justified provided that General Credit Risk Adjustments and Specific Credit Risk Adjustments are constituted through P&L accounts and already deducted from CET1. The appendix to the BSG opinion contains a proposed amendment to the Level 1 text.
- (3) The BSG assumes that, ideally, the prudential definition and treatment of General Credit Risk Adjustments and Specific Credit Risk Adjustments should be consistent and compatible with the categories in the accounting standards. The BSG points out that if an institution has nothing that is compatible with General Credit Risk Adjustments in its accounting, there are no own funds that could appear under this item. They also mention that while the current IAS 39 incurred loss model does not create any General Credit Risk Adjustments, the expected loss model currently under discussion may result in the creation of a 'bucket' of expected loss qualifying as General Credit Risk Adjustments. The BSG suggests either delaying the RTS until the completion of this project or adjusting the wording of the RTS when the IFRS accounting definitions have been agreed, and including a review clause for the latter case. Alternatively, the BSG suggests writing the RTS in such a way that accounting standard changes do not alter the prudential treatment of credit risk adjustments and do not result in fluctuations in the regulatory solvency ratios.
- (4) The BSG suggests that the RTS make an explicit distinction between funds for general banking risks (FGBR) and General Credit Risk Adjustments. They say that the clarification would be necessary because there could be an overlap, as the fund can also be related to credit exposure items.

Question 1

- (1) With regard to the example in Article 2(4)b of the draft RTS, the BSG suggests clarifying whether 'evidence of credit deterioration' is limited to default events or refers to a broader concept. Furthermore, the BSG suggests that institutions should not be required in this example to base their expectations of future events on models based on statistical data but should be allowed to use a simpler approach, e.g. a given percentage of the exposure.
- (2) With regard to the example in Article 2(5)b of the draft RTS, the BSG suggests that the draft RTS should clarify whether provisions on credits in watch lists or in sensitive portfolios due to past events (e.g. past due items of less than 90 days) would qualify as Specific Credit Risk Adjustments, as this is not standard practice in the industry.
- (3) The BSG requests that the distinction between the risks covered by the General Credit Risk Adjustments and the funds for general banking risks be addressed.
- (4) The BSG suggests clarifying the treatment in Member States where national accounting rules do not permit Specific Credit Risk Adjustments for the 'incurred, but not reported' loss category (in contrast to the IFRS), but treat them as General Credit Risk Adjustments or FGBR. The BSG is of the opinion that where General Credit Risk Adjustments are shown separately on the liability side and their change goes through the profit and loss account, as is always done in the case of the FGBR, they should not be reclassified as Specific Credit Risk Adjustments, since they do not decrease the size of total assets and the related items are risk-weighted.

Question 2

The BSG comment letter does not raise any particular issues on this question.

Question 3

- (1) The BSG considers that the provisions in the criteria to assign Specific Credit Risk Adjustments for a group of exposures are sufficiently clear but suggests that the calculations required might be burdensome, as the draft RTS implied that exposures need to be calculated twice. They recommend that institutions be given the option of assigning the Specific Credit Risk Adjustments on the basis of exposures at default instead of risk-weighted exposures, giving the example of exposures that are 0% risk-weighted and for which no Specific Credit Risk Adjustments could therefore be assigned.
- (2) The BSG mentions that the upcoming accounting reforms are expected to affect the Tier 1 ratio whereas the Basel 3 minimum capital requirements are calibrated on the current level of credit risk adjustments. They also ask that the EBA consider deducting General Credit Risk Adjustments from Tier 2 instead of Tier 1.

Question 4

The BSG considers that the provisions included in the draft RTS were sufficiently clear overall. However, they ask that an additional paragraph be inserted into Article 5 of the draft RTS, clarifying the treatment of expected loss amounts under the IRB approach in accordance with Article 159 of the CRR.

Question 5

The BSG agrees with the EBA that assigning the Specific Credit Risk Adjustments covering a group of exposures to single exposures proportionally to risk-weighted exposure amounts may be the best way to promote harmonisation and avoid regulatory arbitrage. However, they suggest that this might be challenging and expensive to implement, and ask that institutions instead be given the option of choosing the assignment method (option 2) and/or that institutions be allowed time to implement option 3, and therefore be allowed to use option 2 for a transitional period.

Questions 6 to 9

In response to Question 6, the BSG states that no valid impact assessment of the cost of implementing the proposal could be conducted until the IASB had finalised its changes to the accounting treatment. The BSG does not answer Questions 7 to 9, which asked about the incremental cost and benefits of on-going compliance and the benefits of implementing the proposal.

4.3 Feedback on the public consultation and on the opinion of the BSG

The EBA publicly consulted on the draft RTS contained in this paper.

The consultation period lasted for eleven weeks and ended on 30 September 2012. Ten responses were received, all of which were published on the EBA website.

This paper presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by those comments and the actions taken to address them if deemed necessary.

In many cases, several industry bodies made similar comments or the same body repeated its comments in the responses to different questions. In such cases, the comments and the EBA analysis are included in the section of this paper where the EBA considers them most appropriate.

Changes to the draft RTS have been incorporated as a result of the responses received during the public consultation.

Summary of key issues and the EBA's response

The main points raised by the industry as well as by the BSG with regard to these draft RTS are the following.

- (1) There were two main views regarding the assignment of Specific Credit Risk Adjustment for a group of exposures to all single exposures of this group: those who believe it does not necessarily have to be harmonised, and those who believe it should be harmonised and who propose alternative allocation methods.
- (2) The scope of the RTS is not clear, as some respondents understood that instruments measured at fair value would be included in the scope in all circumstances.
- (3) The need for a more explicit distinction between General Credit Risk Adjustments and Specific Credit Risk Adjustments.
- (4) The need to take into account the fact that the current IFRS impairment model will change, given current discussions to move from an 'incurred loss' model to an 'expected loss' model.
- (5) The treatment of credit risk adjustments when an entity has interim or year-end profits.

These, and the other issues are addressed in detail in the feedback table 'Summary of responses to the consultation and the EBA's analysis' below.

Regarding point 1 above, the EBA concludes that in order to reduce complexity and harmonise the rules based on the risk sensitive allocation mechanism a common allocation framework should be

applied to both allocation to all single exposures of the group and to the Standardised and Internal Ratings Based Approaches exposures of the group.

Regarding point 2 above, recital number 4 is included in order to clarify that only fair value changes where the change is considered as impairment in the accounting sense should be covered under this Regulation.

Regarding the clarification request in point 3 above, it is further specified in the feedback statement that the criteria and cases of this Regulation imply that the impairments recognised in accordance with current IAS 39 rules, also referred to as the 'incurred loss', model would be considered as Specific Credit Risk Adjustments. The recital also clarifies that irrespective of the accounting framework, the expectation is that the large majority of losses will be classified as Specific Credit Risk Adjustments.

The EBA supports the view in point 4 above. As a result, the cases in Article 1(4) and 1(5) of these draft RTS have been drafted to take into account currently applicable accounting frameworks, and it is expected that changes will be necessary when the IAS 39 impairment model is introduced.

Regarding point 5 above, as stated in Article 1(1) of these draft RTS, there should be symmetry in the treatment of losses related to credit risk. In other words, impairment losses recorded in the current year can only be recognised as Specific Credit Risk Adjustments or General Credit Risk Adjustments for the treatment laid out in the Standardised or Internal Ratings Based Approaches to the extent that they have been reflected in CET1. The proposals will provide symmetry with the situation in which an institution suffers losses during the year, and also address a timing issue by reducing an institution's Common Equity Tier 1 (CET1) capital in cases where impairment losses are recorded in a current year despite the institution showing an overall interim profit.

Moreover, the comments relating to the current Level 1 text, such as the comments regarding the separate treatment of Specific Credit Risk Adjustments and General Credit Risk Adjustments in the CRR, the restriction in Article 159 of the CRR of the coverage of provisions in excess of expected loss on defaulted assets, and the application of the 90 days past due trigger in the definition of default in Article 178 of the CRR are not within the scope of this Regulation and are therefore not addressed in this document.

Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
General comments			
Principles for inclusion into the calculation	A large number of the respondents agreed that the principles of the requirements for inclusion into the calculation of Specific Credit Risk Adjustments and General Credit Risk Adjustments were generally appropriate, although some of the respondents requested further clarification on certain details.	The EBA welcomes the support for the principles underlying the inclusion criteria. The need for clarification or for providing additional details will be assessed thoroughly and the draft RTS will be amended accordingly. See detailed responses in the rest of the table below.	No change.
Applicability to different accounting frameworks	Some respondents supported the generic nature of the requirements of the draft RTS, since this helps to ensure adequate reflection of the various accounting standards, thus making them largely independent of the respective applicable accounting framework. One respondent said that it agreed with the EBA view that the distinction between Specific Credit Risk Adjustments and General Credit Risk Adjustments should follow the accounting frameworks. Respondents have suggested alternatives regarding future changes in the accounting standards, such as including a review clause to facilitate the potential need for adjustments of the RTS to adapt to future changes in the accounting framework, to anticipate as much as possible the future impairment model or to wait for finalisation of this model. Alternatively, the BSG suggests writing the RTS in such a way that accounting	The EBA is prepared to assess the need for adjustments to the RTS in case of future changes to accounting frameworks, although the general nature of the requirements should already limit this as far as possible to providing additional guidance or examples of how to apply the criteria under a particular accounting framework. The EBA disagrees with the suggestion that the RTS should ensure that changes to accounting standards do not result in changes to the prudential treatment. The RTS must be suited to the prudential purposes of own funds requirements under the CRR, which cannot be weakened by ignoring the impact of changes to accounting standards. If such changes result in credit risk adjustments with different features from before, this requires re-assessment the inclusion of such credit risk	Clarified in a recital that the RTS may need to be revised if there are changes in the accounting framework.

	standard changes do not alter the prudential treatment of credit risk adjustments and do not result in fluctuations in the regulatory solvency ratios.	adjustments into the calculation of either general or specific credit risk adjustments.	
Clarify the distinction between Specific Credit Risk Adjustments and General Credit Risk Adjustments	Some respondents would like to see in the draft RTS a more explicit distinction between General Credit Risk Adjustments and Specific Credit Risk Adjustments.	The EBA agrees with this comment and will provide more clarity on the distinction between Specific Credit Risk Adjustments and General Credit Risk Adjustments.	Additional clarity provided through the recitals and the feedback statement.
Specific Credit Risk Adjustments for defaulted and non-defaulted exposures	Some constituents referred to the impossibility in accordance with Article 155 of the CRR [Article 159 in the final CRR] of using the excesses of Specific Credit Risk Adjustments over expected loss amounts of exposures in default to cover expected loss amounts on other exposures.	The requested clarification or change cannot be included in the RTS because the mandate in accordance with Article 105(4) of the CRR [Article 110(4) in the final CRR] is limited to specifying the calculation for the exhaustive list of purposes determined in letters (a) to (e) of this Article.	No change.
Scope of the RTS	Some respondents interpreted the draft RTS as applying to instruments at fair value whose changes in fair value are recognised in OCI, or for instruments at fair value through profit or loss.	The EBA will clarify the scope of the RTS. (See feedback on Q1 for more details)	Additional clarification in a recital and the feedback statement. Article 2(5)(a) of the draft RTS [Article 1(5)(a) of these draft RTS] has also been slightly amended.

Timing of the recognition of credit risk adjustments	Some respondents would like clarification that CET1 is already reduced in cases where credit risk adjustments are recognised in the profit and loss as an expense.	As long as CET1 capital has not yet been reduced by credit risk adjustments, the respective portions of exposures are not yet covered by own funds for the purpose of prudential own funds requirements. However, if the financial institution recognises the impact of the credit risk adjustments in CET1, then it would be appropriate to recognise the credit risk adjustments. (See feedback to Q2 for more details)	Additional recital and paragraph in the legal text to clarify the recognition of credit risk adjustments.
Implementation date	Some respondents stressed that banks needed time to make the necessary system changes for implementing the RTS. One respondent requested that the RTS not be implemented earlier than 1 January 2015. The BSG comments that due to the unlikelihood of the CRR becoming effective from 1 January they consider premature to prescribe rules based on unfinished Level 1 text.	Article 105(4) of the CRR [Article 110(4) in the final CRR] requires the EBA to submit the draft RTS to the EU Commission by 1 January 2013 (in accordance with the final CRR the deadline was postponed). The power to adopt the RTS lies with the EU Commission. However, the EBA acknowledges that the CRR needs to be finalised before these RTS can be finalised for submission to the EU Commission.	No change.
Removal of the difference between General Credit Risk Adjustments and Specific Credit Risk Adjustments	Some respondents requested removal of the difference in the treatments of General Credit Risk Adjustments and Specific Credit Risk Adjustments. Two respondents believed that this distinction deviates from Basel III, and expressed concerns on disincentives for more conservative provisioning practices and on disparity because of diverging accounting practices across Member States. Other respondents even assumed that no economic rationale exists at all for limiting the calculation for the exposure value under the Standardised Approach to Specific Credit Risk Adjustments.	The CRR text explicitly includes a distinction between General Credit Risk Adjustments and Specific Credit Risk Adjustments. The requested clarification or change cannot be included in the RTS because the mandate in accordance with Article 105(4) of the CRR [Article 110(4) in the final CRR] is limited to specifying the calculation for the exhaustive list of purposes determined in letters (a) to (e) of this Article.	No change.

<p>Amendment to Article 155 [Article 159 in the final CRR]</p>	<p>Some respondents referred to an amendment they proposed to Article 155 of the CRR [Article 159 in the final CRR] to include other valuation adjustments and their support of that amendment. Some respondents referred to Article 155 [Article 159 in the final CRR] in the context of the forthcoming IASB impairment model and the need to recalibrate the minimum capital requirements or to allow deduction of General Credit Risk Adjustments from Tier 2 rather than Tier 1 capital.</p>	<p>The EBA takes note of these comments but also recognises that the comments refer to the Level 1 text and to the future impairment model which could not be anticipated in these RTS.</p>	<p>No change.</p>
<p>Responses to questions in Consultation Paper EBA/CP/2012/10</p>			
<p>Question 1. Are the provisions included in this draft RTS on criteria that specify which amounts shall be included in the calculation of General Credit Risk Adjustments or Specific Credit Risk Adjustments respectively, sufficiently clear? Are there aspects which need to be elaborated further?</p>	<p>1. One respondent argued that the labels General Credit Risk Adjustments and Specific Credit Risk Adjustments could be confused with the terminology used for the 'Loans & Receivables' category and suggested changing the labels to 'credit risk adjustments for national GAAPs' and 'credit risk adjustments for international GAAPs'.</p> <p>2. There were different views regarding the consistency of the draft RTS with accounting standards. Some respondents suggested that the RTS should be open for adoption to future development of accounting standards. In this respect, one suggestion was the inclusion of a review clause. Another respondent suggested delaying the RTS until the IFRS has moved to an expected loss model, or alternatively writing the RTS in such a way that the prudential treatment of credit risk adjustments is not affected by changes to accounting standards. This respondent also proposed that the RTS should anticipate as much as possible the future IFRS 9 and</p>	<p>1. The EBA disagrees with the comment. The RTS has been drafted to reflect the terminology used in the Level 1 text.</p> <p>2. The EBA will monitor future developments of accounting frameworks and will, if necessary, propose amendments to the RTS, in particular for providing guidance and examples of how to apply the criteria for inclusion into the calculation of General Credit Risk Adjustments and Specific Credit Risk Adjustments. Although this might change in the event of future changes to IFRS, these changes can neither be anticipated in advance, nor can the impact of such accounting changes then be ignored for the prudential purposes of the RTS. In particular, the EBA cannot delay the RTS until changes to IFRS have been made</p>	<p>1. No change.</p> <p>2. Include a recital to clarify that these RTS may need to be revised if there are changes in the accounting standards.</p>

	<p>adopt the same criteria for General Credit Risk Adjustments classification in bucket 1 and 2. This respondent assumed that different criteria would be detrimental to prudential soundness and risk management purposes.</p>	<p>because Article 105(4) of the CRR [Article 110(4) in the final CRR] requires the EBA to submit the draft RTS to the EU Commission by 1 January 2013 (in accordance with the final CRR the deadline was postponed). Nevertheless, the EBA expects that the general nature of the criteria provided in Article 2(1) to (3) of the draft RTS [Article 1(1) to (3) of these draft RTS] should already limit the need for amendments to the draft RTS as far as possible to providing additional guidance or examples of how to apply the criteria under a particular accounting framework that has been changed.</p>	
	<p>3. Some respondents asked for more clarity regarding the distinction of Specific Credit Risk Adjustments and General Credit Risk Adjustments. One respondent stressed that the criteria for General Credit Risk Adjustments in Article 2(2) as well as the examples provided for General Credit Risk Adjustments in Article 2(4) of the draft RTS are not applicable for IFRS. This respondent asked for clarification on whether or not there are any General Credit Risk Adjustments under IFRS, in particular because the incurred loss model is assigned to Specific Credit Risk Adjustments and not to General Credit Risk Adjustments, and in its view, this leads to the result that there are no General Credit Risk Adjustments under IFRS. One respondent suggested that the RTS clarify that under IAS 39 there are Specific Credit Risk Adjustments only. One respondent noted that they understood Article 2(5)(c) of the draft RTS to cover 'incurred but not reported losses' (IBNR) and that</p>	<p>3. The Regulation includes a number of cases in order to facilitate mapping of the criteria for the distinction between Specific Credit Risk Adjustments and General Credit Risk Adjustments to the different accounting frameworks. In this context, the criteria and cases imply that impairments recognised in accordance with current IAS 39 rules, also referred to as an 'incurred loss' model, would be considered as Specific Credit Risk Adjustments. For the IFRS framework as it currently stands, no example for General Credit Risk Adjustments can be given.</p>	<p>3. Additional clarity through the recitals and the feedback statement.</p>

	<p>provisions for IBNR therefore qualify as Specific Credit Risk Adjustments. Another respondent asked for a more explicit distinction in the RTS between Specific Credit Risk Adjustments and General Credit Risk Adjustments.</p>		
	<p>4. Two respondents questioned the wording ‘evidence of credit deterioration’ in Article 2(4)(b) of the draft RTS. One respondent explained that any inconsistency in accounting and prudential references for the same concept would generate difficulties of interpretation and divergence of application between the accounting and the prudential framework without merit. The BSG suggested clarifying whether ‘evidence of credit deterioration’ is limited to default events or refers to a broader concept.</p>	<p>4. The comment suggests lack of clarity of this wording and it seems that it is also made in the context of the future IASB impairment model. The EBA has received several comments pointing out the interaction of these RTS with the future IASB impairment model. Case (b) of the draft RTS was drafted originally to reflect situations that could fall under national GAAPs but also under the future impairment model. However, because there is considerable uncertainty around the final shape of the future IASB impairment model, the EBA has considered it preferable to delete this case from the RTS and instead assess the need, once changes in the accounting standards have taken place, to provide additional guidance or examples or, if deemed necessary, to propose amending this Regulation. This has been reflected in the new recital. Regarding the divergence between the accounting and the prudential framework, this Regulation attempts to address differences between accounting frameworks and prudential rules and to clarify how credit risk adjustments shall be classified for prudential purposes.</p>	<p>4. Deletion of letter b) from Article 2(4) of the draft RTS.</p>
	<p>5. One respondent suggested that all write downs or value adjustments for an item covered by the capital requirements for credit risk (Part 3 Title II of the CRR) should be acknowledged as being ‘related to credit risk’</p>	<p>5. The EBA cannot accept this proposal because even if an asset or off-balance sheet item is considered to be a credit risk exposure in accordance with Article 4(50) of the CRR [Article 5(1) in the final CRR], it does not mean</p>	<p>5. No change.</p>

	in accordance with Article 2(1) of the draft RTS.	that this item is not exposed to other types of risks (like market risk). Hence not all write downs or value adjustments for such an item are necessarily related to credit risk.	
	6. One respondent suggested changing the reference to 'credit risk losses' in Article 2(2)(b) of the draft RTS to 'potential credit risk losses'.	6. The EBA acknowledges this comment but believes that the criteria provided by Article 2(2) of the draft RTS [Article 1(2) of these draft RTS] will provide more clarity.	6. No change.
	7. One respondent suggested a distinction between Specific Credit Risk Adjustments and General Credit Risk Adjustments by associating Specific Credit Risk Adjustments with distinct credit risk events, including those which have not yet been reported, while General Credit Risk Adjustments should relate to patterns of activity, behaviour or trends which are not themselves credit events.	7. The EBA believes that the criteria provided by Article 2(2) of the draft RTS [Article 1(2) of these draft RTS] are better aligned with the qualifying criteria for inclusion into prudential Tier 2 capital in accordance with paragraph 60 of Basel III. Therefore, the EBA cannot accept the proposed distinction. The RTS has been drafted in such a way that Specific Credit Risk Adjustments are considered the default category. The objective of this decision was to have all credit risk adjustments included as either Specific Credit Risk Adjustments or General Credit Risk Adjustments.	7. No change.
	8. Some respondents interpreted Article 2(5)(a) of the draft RTS as including fair value losses for instruments measured at fair value to the extent that they result from credit risk losses. In this respect, these respondents asked for clarification of the treatment of this fair value reserve which only gradually influences Tier 1 capital during the phase-period (CRR grandfathering rules). One respondent proposed extending the list of examples for Specific Credit Risk Adjustments in Article 2(5) of the draft RTS by an example for credit-risk related fair value adjustments for instruments classified as 'available for	8. The EBA cannot accept the changes proposed, as they refer to aspects that are outside the scope of these RTS. Credit risk adjustments only include losses exclusively related to credit risk in accordance with the applicable accounting framework. Therefore, the scope of these RTS is limited to impairments for financial assets classified at amortised cost under IAS 39 rules, value adjustments for loans and advances in accordance with Directive 86/635/EC and provisions for off-balance sheet items.	8. Addition of a recital to clarify the scope and some amendments to the legal text.

	<p>sale' under the IFRS, for which the losses are not recognised in the profit and loss but in 'other comprehensive income', since this will also reduce CET1 capital after full phase-in.</p> <p>Some of the respondents considered the requirement for decomposing fair value adjustments into credit and non-credit risk related components to be too burdensome.</p> <p>To avoid this burden, one respondent suggested as an alternative to allow considering all fair value adjustments as non-credit risk related. In contrast, another respondent suggested three different approaches, each of which, to different degrees, would allow recognition of non-credit risk related fair value adjustments in the calculation of general and specific credit risk adjustments; the same respondent suggested as a general rule that reserves or part of reserves that do not qualify for categorisation as Specific Credit Risk Adjustments should, nevertheless, not be required to be ascribed to the carrying amount of the asset value or taken into account for the treatment of expected losses.</p> <p>One respondent asked for clarification on whether the example given in Article 2(5)(a) of the draft RTS applies only to securities and receivables or also applies to derivatives.</p>	<p>The RTS also recognises as credit risk adjustments other impairments that could have been recognised under different accounting frameworks for financial assets measured at fair value. This was the reason for including case a) in Article 2(5) of the draft RTS [Article 1(5) of these draft RTS].</p> <p>For instance, in accordance with to IAS 39, assets classified in the 'available for sale' category are measured at fair value, and the changes in the fair value are recognised in Other Comprehensive Income. These RTS do not include in their scope those changes in fair value. However, these assets could be subject to impairment, and in this case, the impairment loss is recognised in the profit or loss account. This impairment loss will be recognised as a credit risk adjustment.</p> <p>For financial assets measured at fair value, the EBA acknowledges that fair value changes could be the consequence of credit risk and other market risk factors. However, these changes in fair value are not in the scope of these RTS unless considered an impairment loss in accordance with IAS 39 or a similar adjustment under Directive 86/635/EC, even if these changes in fair value include a credit risk component.</p>	
	<p>9. One respondent asked for clarification on whether, under the example provided in Article 2(5)(a) of the draft RTS, individual movements of fair values in a month need to be considered or the cumulative credit risk loss for instruments measured at fair value.</p>	<p>9. Please refer to the previous response for the scope. None of the criteria for inclusion into the calculation requires accounting for previous value adjustments that no longer exist at the date of calculating the amounts by which an institution's CET1 capital has been reduced for</p>	<p>9. No change.</p>

		reflecting credit risk.	
	10. With regard to the example in Article 2(5)(b) of the draft RTS, the BSG suggested that the RTS should clarify whether provisions on credits in watch lists or in sensitive portfolios due to past events (e.g. past due items of less than 90 days) would qualify as Specific Credit Risk Adjustments, as this is not standard practice in the industry.	10. As explained in the consultation paper on the draft RTS, the objective of the case included in Article 2(5)(b) of the draft RTS [Article 1(5)(b) of these draft RTS] was to reflect that impairments recognised under the incurred loss model of IAS 39 shall be considered as Specific Credit Risk Adjustments. The recognition of impairments will depend on the application of the accounting standards. The RTS provides only a prudential distinction between Specific Credit Risk Adjustments and General Credit Risk Adjustments.	10. No change.
	11. One respondent referred to the value adjustments within the meaning of Article 37(2) of Directive 86/635/EEC. This respondent mentioned that these adjustments are made only to cover credit risk and asked for clarification for their inclusion as General Credit Risk Adjustments.	11. The EBA understands that in accordance with Article 37(2) of Directive 86/635/EEC some value adjustments could have been done for prudence and that in accordance with this Article the difference between the two values must not be more than 4% of the total amount of the assets. An institution will need to assess the inclusion as General Credit Risk Adjustments against the compliance of these value adjustments with the requirements of paragraph 2 in Article 2 of the draft RTS [Article 1 of these draft RTS].	11. No change.
	12. The BSG suggested that the RTS should make an explicit distinction between fund for general banking risks (FGBR) and General Credit Risks Adjustments. They said that the clarification would be necessary because there could be an overlap, as the fund can also be related to credit exposure items.	12. The EBA cannot accept the proposal for including a distinction between General Credit Risk Adjustments and funds for general banking risks into the RTS. Funds for general banking risks (FGBR) are not covered by the RTS on Credit Risk Adjustments from the outset because the CRR already explicitly excludes (in Article	12. No change

		105(2) second subparagraph of the draft CRR [Article 110(2) second subparagraph in the final CRR]) the FGBR from general and specific credit risk adjustments for the prudential purposes to which these RTS apply.	
	13. The BSG suggested clarifying the treatment in Member States where national accounting rules do not permit Specific Credit Risk Adjustments for the 'incurred, but not reported' loss category (in contrast to the IFRS), but where they treat them as General Credit Risk Adjustments or FGBR. The BSG thought that, where General Credit Risk Adjustments are shown separately on the liability side and their change goes through the profit and loss account, as is always done for the FGBR, they should not be reclassified as Specific Credit Risk Adjustments, since they do not decrease the size of total assets and the related items are risk-weighted.	13. The EBA does not fully understand the proposal. This seems to relate to the question of whether General Credit Risk Adjustments exist at all under IFRS or under national GAAPs, and to the question of whether the FGBR could be considered as General Credit Risk Adjustments. The latter can be clearly ruled out, as explained in the previous response. As regards the existence of General Credit Risk Adjustments under IFRS, the EBA is of the view that all impairments under current IASB impairment rules should be considered as Specific Credit Risk Adjustments.	13. No change
Question 2. Are there any issues regarding the timing of recognition of provisions, value adjustments or impairments in profit or loss and in Common Equity Tier 1 capital?	1. One respondent lacked clarity on whether inclusion into the calculation of general and specific credit risk adjustments is limited to reduction of CET1 in accordance with the financial statement ('static view'), or also includes reductions such as for losses for the current financial year in accordance with to Article 33(1) of the CRR [Article 36(1) in the final CRR] ('dynamic view'). Further, some respondents suggested clarifying that recognition as a reduction of CET1 capital in accordance with Article 2(1) of the draft RTS does not require value adjustments to be entered in the profit and loss statement but can be achieved already via the losses of	1. The EBA agrees that recognition as reduction of CET1 capital in accordance with Article 2(1) of the draft RTS is not limited to reductions of CET1 capital in accordance with the financial statement or the presentation of quarterly or half-term reports, but also includes reductions resulting from other deductions, in particular from the deduction of losses for the current financial year in accordance with Article 33(1) of the CRR [Article 36(1) in the final CRR]. Furthermore, the EBA also agrees that recognition as reduction of CET1 capital in accordance with Article 2(1) of the draft RTS is not limited to the result of the profit and loss calculation. The EBA also agrees that in accordance with Article	1. New recital and a new paragraph in the enacting terms of the Regulation.

	<p>the current year being deducted in accordance with Article 33(1) of the CRR [Article 36(1) in the final CRR]. Again this is not limited to the result of this loss calculation but covers all amounts that have been considered as reductions in this calculation; otherwise banks not drawing up quarterly reports would be at a disadvantage.</p> <p>The same respondents also suggested clarifying that for recognising a credit risk adjustment as a reduction of CET1 capital in accordance with Article 2(1) of the draft RTS, it is sufficient that it appears as expenditure in the profit and loss statement while it is not required that an equivalent loss amount is posted; otherwise, profitable banks would be penalised.</p> <p>One respondent suggested changing the pre-requisite for inclusion into the calculation from reduction of CET1 capital to reduction of profit or loss account. This respondent stressed that, unlike for a loss in a current year, recognition of a profit in a current year in CET1 capital could be delayed because of the need for confirmation; in this case the impact of provisions, value adjustments or impairments on CET1 capital would also be delayed although profit and loss has already been impacted. Another respondent proposed that for symmetrical treatment, an additional category of CET1 is required for unaudited provisions/adjustments.</p>	<p>24(2) of the CRR [Article 26(2) in the final CRR] for the recognition of interim or year-end profits some conditions need to be met, and therefore it should be possible to recognise the losses as credit risk adjustments during the year. The EBA will clarify that reduction of the institution's CET1 capital covers all amounts that have been considered as reductions in the determination of an institution's CET1 capital (like all credit risk adjustments that have been considered as expenditures in the profit and loss calculation or the calculation of the losses for the current financial year, provided that the outcome of this calculation has already been recognised when determining the institution's CET1 capital).</p> <p>As long as CET1 capital has not yet been reduced by credit risk adjustments, the respective portions of exposures are not yet covered by own funds for the purpose of prudential own funds requirements. However, if the financial institution recognises the impact of the losses in CET1, then it would be appropriate to recognise the loss as a credit risk adjustments and to adjust the exposure value.</p>	
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	<p>Another respondent said that it should be clear that CET1 is already reduced in cases where credit risk adjustments are accepted in the P&L as an expense.</p> <p>The timing of capital adjustments and P&L charges should be synchronised.</p>		
<p>Question 3.</p> <p>Are the provisions included in this draft RTS on criteria to assign Specific Credit Risk Adjustments for a group of exposures sufficiently clear? Are there aspects which need to be elaborated further?</p>	<p>1. Respondents either did not comment on the clarity of the provisions in this respect or like the BSG, said that they are sufficiently clear. One respondent commented on the proposal covering the division of Specific Credit Risk Adjustments between the Standardised and Internal Ratings Based Approaches and the comment was positive. However, there were a number of comments regarding the allocation of Specific Credit Risk Adjustments to individual exposures and which are addressed under Question 5. Furthermore, one respondent commented on the fact that the proposals require different bases for allocation for a) dividing Specific Credit Risk Adjustments between the group of exposures to which they are related; and b) dividing Specific Credit Risk Adjustments between the Standardised and Internal Ratings Based Approaches.</p>	<p>1. In order to reduce complexity the EBA concludes that a common allocation framework should be applied to both the allocation among groups of exposures and between the Standardised and Internal Ratings Based Approaches. Furthermore, in order to achieve harmonisation and consistency as much as possible with the methodology mandated for allocation of General Credit Risk Adjustments between these two approaches under Article 105(3)(c) of the CRR [Article 110(3)(c) in the final CRR], this should be done on the basis of the proportion of risk-weighted exposure amounts. These issues are discussed further in the commentary on Question 5 below.</p>	<p>1. Amendments to the legal text</p>
	<p>2. Another respondent suggested that for increased clarity, the ordering of paragraphs in Article 3 of the draft RTS should be changed. Paragraph 3, which covers the allocation of Specific Credit Risk Adjustments between exposures using the Standardised Approach and IRB Approach, should be moved to the start of the Article as this would in practice be the first process an institution would have to perform for Specific Credit Risk</p>	<p>2. The allocation of Specific Credit Risk Adjustments between exposures using the Standardised Approach and IRB Approach could be applicable only for IRB institutions. For this reason, Article 3 of the draft RTS [Article 2 of these draft RTS] starts from the provisions dedicated to all SA and IRB institutions and paragraph 3 is treated as a specific case.</p>	<p>2. No change.</p>

	Adjustments allocation.		
<p>Question 4. Are the provisions included in this draft RTS sufficiently clear? Are there aspects which need to be elaborated further?</p>	<p>1. In general respondents appeared content with the clarity of the provisions in the draft RTS. However, like the BSG, one respondent asked for clarification to be included of the resulting treatment of expected loss amounts under the IRB Approach in accordance with Article 155 of the CRR [Article 159 in the final CRR].</p> <p>2. A further respondent asked for a clarification to be included as to which of the cases listed in Article 2(5) of the draft RTS represent indicators of unlikelihood to pay under Article 174 of the CRR [Article 178 in the final CRR]. Another respondent asked for additional wording to be included to emphasise the point that the existence of a Specific Credit Risk Adjustment for a group of exposures was not sufficient reason to conclude that default events had occurred for individual obligors within the group.</p> <p>Clarification was also requested on creating the SGRAs directly at the level of individual exposure as regards significant deterioration of credit quality.</p> <p>A further respondent queried the materiality of</p>	<p>1. The clarification of the resulting treatment of expected loss amounts under the IRB Approach in accordance with Article 155 of the CRR [Article 159 in the final CRR] relates to Level 1 requirements and is outside the scope of these RTS. The requested clarification suggestions cannot be included in the RTS because the mandate in accordance with Article 105(4) of the CRR [Article 110(4) in the final CRR] is limited to specifying the calculation for the exhaustive list of purposes determined in letters (a) to (e) of this Article.</p> <p>2. As regards the implications for definition of default of the existence of Specific Credit Risk Adjustments for a group of exposures, the EBA clarifies that of the cases listed in Article 2(5) of the draft RTS [Article 1(5) of these draft RTS], each of (a) (credit risk impairment for instruments measured at fair value) and (b) (losses as a result of current or past events) are potentially indicators of being unlikely to pay. However, in accordance with Article 174 of the CRR [Article 178 in the final CRR], this depends on whether the decline in credit quality has been significant since the institution took on the exposure; and defining 'significance' is outside the scope of these RTS. The EBA has decided, as explained previously in this table for letter (b) of Article 2(4), to delete letter (d) of Article 2(5) of the draft RTS.</p>	<p>1. No change.</p> <p>2. Amendments to recital.</p>

	<p>movements in fair value that would lead to a default, and asked for guidelines on excluding credit valuation losses in the fair value of securities or loans from EU Member States from the definition of default.</p>		
	<p>3. Further comments criticised the restriction in Article 155 of the CRR [Article 159 in the final CRR] of the coverage of provisions in excess of expected loss on defaulted assets. Consequently, one comment also suggested deletion of Article 5(3) of the draft RTS, since it clarified the calculation of Specific Credit Risk Adjustments for exposures in default for the purpose of Article 155 of the CRR [Article 159 in the final CRR]. One also proposed a two-stage approach: to first compare the expected loss amounts for all defaulted exposures with Specific Credit Risk Adjustments; the surplus could then be recognized as Tier 2 capital (Article 59(d) of the CRR- Article 62(d) in the final CRR), or the shortfall in the second stage could be used additionally in comparison of expected loss amounts for non-defaulted exposures with the sum of Specific Credit Risk Adjustments and General Credit Risk Adjustments.</p> <p>Moreover there was also a comment criticising the application of the 90 days past due trigger in the definition of default in Article 174 of the CRR [Article 178 in the final CRR]. One respondent assumed that incurred but not reported losses (IBNR) were Specific Credit Risk Adjustments, and also that the existence of this portfolio provision did not necessarily result in a default.</p>	<p>3. The comments relating to obligations of EU Member States, to the treatment of excess provisions on defaulted loans, and to the 90 days past due trigger relate to the text of the CRR itself and are also outside the scope of these RTS.</p> <p>Moreover, since Article 155 of the CRR [Article 159 in the final CRR] excludes single exposures in default from the calculation, they should be considered in isolation under Article 5(3) of the draft RTS [Article 4(3) of these draft RTS]. The proposed two-stage approach could not be applied either.</p> <p>In accordance with Article 155 sentence 3 of the CRR [Article 159 sentence 3 in the final CRR], both surplus and excess amounts stemming from the comparison of the expected loss amounts for all defaulted exposures with Specific Credit Risk Adjustments should be separated.</p> <p>The interpretation that IBNR are Specific Credit Risk Adjustments, and that the existence of this portfolio provision does not necessarily result in a default, is correct.</p>	<p>3. No change.</p>

<p>Question 5. Do you support the policy proposal, in particular to the preferred policy option (3), and the EBA's assessment that its impact is relatively immaterial to the CRR text? If not please explain why and provide estimates of such impacts whenever possible.</p>	<p>1. There were two main views regarding the assignment of Specific Credit Risk Adjustments for a group of exposures to the exposures of this group (the EBA policy option): (i) on the one hand, those who believed that it did not necessarily have to be harmonised; (ii) others who believed that it should be harmonised and who proposed alternative allocation methods.</p> <p>(i) Overall it appears to be the case that most respondents not supporting the policy proposal had a preference for institutions to be able to choose the allocation framework they applied. Moreover some respondents commented that due to the fact that, pursuant to Article 155 sentence 3 of the CRR [Article 159 sentence 3 in the final CRR], Specific Credit Risk Adjustments for defaulted exposures will not be used to cover other expected loan losses, this renders a uniform treatment of expected amounts impossible.</p> <p>(ii) With regard to the comments supporting the harmonisation but not supporting the assignment logic, the reasons given tended to refer in high level terms to the complexity of the approach, with a few examples given of cases where the methodology of allocation on the basis of risk-weighted assets produced unusual results. Of the respondents opposing the proposal, there was no unanimity among the suggestions put forward; and indeed some respondents put forward a range of different suggestions. So, for example, there were alternative measures of: exposure value, expected loss or exposures at default.</p>	<p>1. Having reflected on the responses the EBA concludes the following.</p> <p>(i) Harmonisation will not be achieved unless institutions use a common approach for allocation of Specific Credit Risk Adjustments between the groups of exposures to which they relate.</p> <p>(ii) There is no strong consensus amongst respondents for a different harmonised basis of allocation from that in the EBA's proposal. The EBA treats the expected loss and exposure at default based allocation proposal as too burdensome for application to institutions using the Standardised Approach. Moreover, the allocation in accordance with gross exposure value is also not relevant, because it does not consider a different treatment of exposure in default and results in underestimation of allocated Specific Credit Risk Adjustments.</p> <p>(iii) Given that institutions need to calculate RWAs for exposures, at present it is not convincing to argue that allocation on the basis of risk-weighted exposures is unduly complex. Moreover, respondents were not able to estimate any costs and benefits to demonstrate further disadvantages of the EBA's proposal.</p> <p>(iv) There is already an existing mandated methodology by the CRR for allocation of General Credit Risk Adjustments between the Standardised and Internal Ratings Based Approaches, and it would be desirable to have a common approach for allocation of Specific Credit Risk Adjustments.</p>	<p>1. No change.</p>
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	<p>Moreover, there was one request for a transitional period for institutions to move to the new approach and for harmonisation to be deferred.</p> <p>As noted below no respondent provided an estimation of the costs or benefits of this, or alternative proposals.</p>	<p>Accordingly as regards this question the EBA has decided to retain its existing proposal.</p>	
<p>Question 6. What is the incremental cost to your institution for the implementation of this proposal?</p>	<p>1. Only a small number of respondents commented on this question and none attempted to quantify the costs of implementation. Rather the EBA received high level comments pointing out, for example:</p> <p>(i) that the proposal requires change and therefore causes implementation costs;</p> <p>(ii) that the costs would be higher if the methodologies used were complex, as regards the assignment of Specific Credit Risk Adjustments to single exposures of the group proportionally to the risk-weighted exposure amounts and decomposition of fair value changes into credit and non-credit related components as a pre-requisite to determine the exposure in default;</p> <p>(iii) that the potentially significant differences between accounting standards stemming from the upcoming accounting reform (IFRS 9) and regulatory requirements could lead to huge difficulties in reconciling risk and accounting data and additional costs in maintaining two parallel provisioning frameworks;</p> <p>(iv) that no valid impact assessment of the cost of implementing the proposal could be conducted until IASB had finalised its changes to the accounting treatment.</p>	<p>1. Given the very limited nature of the responses to these questions, the EBA concludes that the incremental and ongoing compliance costs associated with its proposal are not significant.</p> <p>As outlined in the sections relating to Questions 3 and 5, the EBA amended its proposal in relation to the assignment of Specific Credit Risk Adjustments that relate to groups of exposures, which will remove the need to use two different bases of measurement. The alignment should further reduce the complexity of the EBA proposal.</p> <p>Moreover, the EBA is prepared to assess the need for adjustments to the RTS in the event of future changes to accounting frameworks, although the general nature of the requirements should already limit this need.</p> <p>The EBA recognises that joint CRR and RTS implementation costs could be high. However the application of Specific Credit Risk Adjustments and General Credit Risk Adjustments results from the provisions of the CRR, and the quantitative assessment is outside the scope of this analysis. Moreover, the public consultation did not assist to a great extent with</p>	<p>1. No change.</p>

	Some of the respondents also suggested that the CRR new requirements as regards identification of Specific Credit Risk Adjustments and General Credit Risk Adjustments, and in particular negative implications of Article 155 of the CRR [Article 159 in the final CRR], require a very high implementation effort, both technically and economically, i.e. adaptation of all relevant IT systems, and economic compliance challenges. Consequently, a consideration in the EBA impact assessment of the cumulative CRR and RTS effect with regard to implementation costs was proposed.	quantifying the cost and benefits of the proposal.	
	2. As set out below, no respondent commented on any other aspect of the costs or benefits of the draft RTS.	2. None.	2. No change.
Question 7. What is the incremental cost for the ongoing compliance with this proposal?	No comments received.	None.	No change.
Question 8. What is the incremental benefit to your institution for the implementation of this proposal?	No comments received.	None.	No change.

Question 9. What is the incremental benefit for the ongoing compliance of this proposal?	No comments received.	None.	No change.
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