

Single Rulebook Q&A

Question ID	2021_6317
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Supervisory reporting - Liquidity (LCR, NSFR, AMM)
Article	430
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) 2021/451 - ITS on supervisory reporting of institutions
Article/Paragraph	17
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Disclose name of institution / entity	No
Type of submitter	Competent authority
Subject matter	Amount of certain CET1 items available for stable funding
Question	For the purposes of calculating available stable funding, it is unclear what amount should be reported, if any, as regards the following CET1 items: a) retained earnings, b) minority interests and c) amounts added back to CET1 due to the application of IFRS 9 transitional arrangements (Article 473a CRR).
Background on the question	According to par. 6 of Annex 13 of Reg. (EU) 2021/451, which seems to reflect CRR Art. 428i, “For reporting purposes, in the columns referred as “Amount” the accounting value shall always be reported, except for the cases of derivative contracts, for which institutions shall refer to the fair value as specified in Article 428d(2) CRR”. Furthermore, as per the applicable instructions for row 0030 of template c81.00, which reflect point a) of CRR Art. 428o, the amount of CET1 available for stable funding should be “Common Equity Tier 1 items before the application of prudential filters, deductions and exemption or alternatives stipulated in Articles 32 to 36, 48, 49 and 79 CRR”. Finally, as regards the amount of minority interests available for stable funding the applicable instructions for row 0420 of the same table, for minority interests an “Institution shall report minority interests and shall consider the term of the instrument as residual maturity”

(CRR Art. 428k (1) b). In our view it is unclear to what extent should the accounting value (carrying amount) of certain CET1 items should be used for the purposes of calculating the amounts of available stable funding, instead of the amount used for own funds purposes, given that the CRR and the applicable NSFR instructions include references as well to the own funds framework (CET1 items before the application of prudential filters, deductions and exemption or alternatives stipulated in Articles 32 to 36, 48, 49 and 79 CRR), being silent as regards other prudential adjustments that affect these amounts. More precisely: a) Art. 428o point a) explicitly requires that the deductions of CRR Art. 36 should not be considered when calculating the relevant amount used for available stable funding. A literal reading of the CRR would conclude that interim losses for the year/ reference period should not be taken into account, given that their deduction from CET1 item retained earnings stems from point a) of CRR Art. 36. On the other hand, interim profits should be taken on board, provided that the conditions prescribed in CRR Art. 26(2) are fulfilled, given that Art. 26(2) is not included by the level 1 text in the articles that are out of scope for the calculation of CET1 items amounts available for stable funding. The exclusion however of interim losses would result in an overstatement of amounts available for stable funding, something that besides not being prudent, would be inconsistent with the own funds treatment and with the treatment for the purposes of calculating amounts requiring stable funding, since the amounts used for this purpose would reflect these losses (accounting values). It should be pointed out that the Basel Framework (NSF30.10) makes reference to regulatory capital, before the application of capital deductions. However interim losses do not constitute a distinct deduction from regulatory capital in the Basel Framework as it is for the CRR (they are not included in CAP30, instead they are regulated by CAP10.7) b) CRR Art. 428k(1)b and the applicable instructions do not specify what amount should be used in relation to minority interests' amounts available for stable funding. It could be argued that this amount should be the accounting value of minority interests and not the value calculated according to CRR Art. 84-88. c) CRR and the applicable instructions are silent as regards the inclusion of amounts added back to CET1 due to the application of transitional arrangements of IFRS 9 as per CRR Art. 473a. The relevant amount affects CET1 item "retained earnings" (amounts calculated according to Part Ten of the CRR do not constitute a distinct CET item, instead they relate to other items specified in Art. 26 and thus it could be argued that they are relevant in the calculation of ASF amounts). Given that Art. 473a provides for a phase-in regime of the ECL impairment amounts that have already been recognized for accounting purposes, the inclusion such amounts in ASF should not be allowed, since they are not available to meet the RSF needs.

Final answer

The three different aspects raised by the question are answered as follows:

- With respect to the NSFR treatment of retained earnings,

	<p>Article 428o(a) of Regulation (EU) No 575/2013 (CRR) specifies that institutions shall apply a 100% available stable funding factor to Common Equity Tier 1 (CET1) items before the adjustments required pursuant to Articles 32 to 35 CRR, the deductions pursuant to Article 36 CRR and the application of the exemptions and alternatives laid down in Articles 48, 49 and 79 CRR. The term ‘Common Equity Tier 1 items’ is formally defined under Article 26 CRR and explicitly includes retained earnings which are referred to in Article 26(1), point (c), CRR, meaning that such items are, in principle, in the scope of Article 428o(a) CRR.</p> <ul style="list-style-type: none"> • With respect to the NSFR treatment of minority interests, in order to determine relevant amounts to be considered under Articles 428k(1), point (b), and 428k(2) CRR, institutions should apply accounting values of the relevant own funds items specified in Part Two, Title II of the CRR, as prescribed in Article 428i CRR. • The IFRS 9 transitional arrangements referred to in Article 473a CRR are applied in the context of the determination of CET1 capital pursuant to Article 50 CRR. This mechanism is therefore not in the scope of CET1 items as defined under Article 26 CRR and as referred to in Article 428o, point (a) CRR. Against this background, the amount to be included under CET1 capital pursuant to Article 50 CRR as result of the application of Article 473a CRR does not constitute available stable funding as per Article 428o CRR.
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