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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Supervisory reporting - FINREP (incl. FB&NPE)
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	166i
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Adequacy of the validation rule v10684_m - Instruments not at FVPL
Question	<p>v10684_m foresees a reconciliation between F 12.01 and F 02.01 in respect of gains/losses from financial instruments not at FVPL.</p> <p>Why is this validation rule expected to work, considering that (a) it encompasses debt instruments at amortized cost, which are identified as purchased or originated credit impaired assets (POCI) or are attributable to Stage 3 at the date of de-recognition and (b) it encompasses debt instruments at fair value through other comprehensive income?</p>
Background on the question	<p>The paragraph 166i of FINREP's Annex V refers to the expected content of the column 0125 "Gains or losses on derecognition of debt instruments" of the table F 12.01 by stating: "166i. 'Gains or losses on derecognition of debt instruments' shall include the difference between the carrying amount of financial assets measured at the date of derecognition and the consideration received" Based on our understanding of this requirement, we concluded that: The gains or losses arising from the sale of debt instrument assets at amortized cost and identified as POCI or in Stage 3 at the sale date (i.e. the difference between the amortised cost before the derecognition date and the</p>

consideration received) should be reported in the column 0125 of F 12.01 (rows 0600-0750 or 0360-0510); The losses arising from (contractual or technical) total write-offs of debt instrument assets at amortized cost and identified as POCI or in Stage 3 at the total write-off date (i.e. the amortised cost before the write off date, if any) should be included in the column 0125 of F 12.01 (rows 0600-0750 or 0360-0510); The amounts recycled from Other Comprehensive Income into Profit or Loss upon de-recognition of debt instrument assets at fair value through other comprehensive income should not be reported anywhere in the column 0125 of F 12.01, given that - for such assets - the difference between the carrying amount (fair value) measured at the date of derecognition and the consideration received is normally always nil. On the other hand, based on IFRS 9 requirements: The gains/losses referred to at the point 1) above: we refer to the minutes of ITG's December 2015 Meeting, Agenda point 5 Inclusion of cash flows expected from the sale on default of a loan in the measurement of expected credit losses - IASB summary, paragraph 20 (<https://www.ifrs.org/content/dam/ifrs/meetings/2015/december/itg/itg-mee...>), notably the statement "ITG members noted that the cash flows expected from the sale on default of a loan should be included in the measurement of expected credit losses if: (a) selling the loan is one of the recovery methods that the entity expected to pursue in a default scenario". On this basis, such gains/losses are reported in F 02.00 in the row 460 (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss) since the sale is the relevant recovery method and the selling price should be given 100% weight for the impairment measurement That is, they are not included in the row 241 "Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net - Financial assets at amortized cost"; The gains/losses referred to at the point 2) above: we believe that write-offs of credit-impaired instruments are by definition impairment events, with related CLA decreases required to be disclosed in F 12.1 "Movements in allowances and provisions for credit losses under IFRS" and with any P/L effects consequently contributing to entity's net impairment result for the reporting period. Furthermore, IFRS 9.5.5.8 relates impairment gains/losses to CLA adjustments. On this basis, such gains/losses are reported in F 02.00 in the row 460 (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss) as well. That is, they are also not included in the row 241 "Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net - Financial assets at amortized cost"; The amounts referred to at the point 3) above: despite not being included in the column 0125 of F 12.01 as pointed out above, they are reported in F 02.00 in the row 231 "Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net - Financial assets at fair value through other comprehensive income" (the cumulative fair value changes reclassified from OCI to profit or loss upon derecognition).

<p>Final answer</p>	<p>In accordance with paragraph 156 of Part 2, Annex V to the Regulation (EU) 2021/451 (ITS), the scope of the template F 12.01 covers financial assets measured at amortised cost and at fair value through other comprehensive income.</p> <p>The paragraph 166i of Part 2, Annex V to the ITS specifies the content of the column 0125 of the template F 12.01: '<i>Gains or losses on derecognition of debt instruments</i>' shall include the difference between the carrying amount of financial assets measured at the date of derecognition and the consideration received'.</p> <p>The derecognition events are defined in the International financial reporting standards (IFRS) and the IFRS rules shall be followed to report the amounts in the column 0125 of the template F 12.01.</p> <p>Only the gains/losses included in row 231 "Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net - Financial assets at fair value through other comprehensive income" and in row 241 "Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net - Financial assets at amortized cost" of template F 02.00 shall be reported in column 0125 of the template F 12.01. This means that even any amounts recycled from Other Comprehensive Income into Profit or Loss upon derecognition of financial assets at fair value through other comprehensive income shall also be reported in column 0125 of F 12.01. Then, the validation rule v10684_m is correct.</p>
<p>Link</p>	<p>https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2022_6337</p>

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