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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Operational risk
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	C17.01
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Operational Risk - Refund of interest and fees
Question	<p>Do we have to report refunds to customers in combination with incorrectly overcharged interest/fee in COREP 17.01? And if so, in which of the following situations:</p> <ol style="list-style-type: none"> 1. refund by the bank within less than 5 days 2. refund by the bank within a quarter (before the quarterly financial statement is prepared) 3. refund by the bank within one year (before the annual balance sheet and income statement are prepared) 4. refund by the bank after several years <p>The timing of the outflow of the refund to the customer depends in each case on the time at which the error is identified.</p>
Background on the question	In Q&A 5261 dated 15.10.2021, it was confirmed on the basis of guideline 451/2021 that loss events in the gross loss are only to be reported as soon as they are booked and therefore recognized in the income statements. How should the disclosure in the income statements be interpreted. Are overcharged or double-charged loan interest or fees part of this definition

and do they have to be considered in the operational risk management and the gross loss in the COREP reporting? The cash outflow is therefore offset by a preceding (at least partially unjustified) cash inflow. The cash outflow is fully covered by the preceding cash inflow (adjustment entry on the same revenue account).

Final answer

[Q&A 5261](#) refers to a loss from an operational risk event, such as execution error, that is recovered within a certain timeframe, i.e. a loss with subsequent recovery. As stated in that Q&A, such loss events should be reported in COREP C17.01 in the reporting period when they are recognised in the P&L financial statement. If a recovery of that loss, total or partial, occurs in the same reporting reference period or afterwards, such recovery should be reported separately in the specific COREP C.17.01 item, depending on the type of recovery (i.e. direct loss recovery or recovery from insurance and other risk transfer mechanisms).

The oprisk event indicated in this question is different from the previous one, since it is an improper “operational risk gain”, followed by a pertinent loss. Such events are attributable to the so-called “timing losses”, which are defined as:

- According to CDR (EU) 959/2018, Article 2(14), the “negative economic impact booked in a financial accounting period due to an operational risk event impacting the cash flows or financial statements of previous financial accounting periods”. According to Article 22(1)(f) of that Regulation, such losses should be included in the scope of operational risk loss, where they span more than one financial accounting year and give rise to legal risk;

Therefore, such loss events should be reported in COREP 17.01 only if the recognition of the loss in the institution P&L statements (e.g. the outflow of the refund to the customers) occurs in a financial year subsequent to when the operational risk event occurred and which caused an improper oprisk gain (e.g. the cash inflow due to incorrectly overcharged interest/fee). The loss amount to be reported should not be reduced of the, previously occurred, gain, which should not be considered as a recovery (e.g. the loss amount to be reported should be the outflow of the refund to the customer, including also any amount paid to compensate the customer for the incorrectly charged interest/fee, without netting it with the cash inflow due to incorrectly overcharged interest/fee).

Viceversa, when the refund to a customer that was overcharged due to an operational failure is provided in the same financial accounting year as the overcharge took place and thus no misrepresentation of the institution’s financial statements occurs, no operational risk loss should be reported in COREP 17.01.

Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2022_6426
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