Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Supervisory reporting - FINREP (incl. FB&NPE)
Article	99
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) No 680/2014 - ITS on supervisory reporting of institutions (repealed)
Article/Paragraph	Annex III - F 07.00 c 110; Annex V, Part 2, para.49
Date of submission	02/09/2013
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Disclose name of institution / entity	Yes
Name of institution / submitter	National Bank of Romania
Country of incorporation / residence	Romania
Type of submitter	Competent authority
Subject matter	Removal from the balance sheet of loans considered uncollectible (write-off in the context of the financial reporting form F 07.00)
Question	Considering the fact that the write-off definition provided by para.49 from Part 2 of Annex V to the ITS (FINREP instructions) seems to depart from the IAS 39 derecognition principles, what did you envisage when requesting the amounts to be reported in the column 110 “Accumulated write-offs”? More specific, could you provide us examples of situations leading to filling in the column 110 “Accumulated write-offs”?
Background on the question	F 07.00 template requests the reporting of “Accumulated write-offs” in the column 110, column which includes, inter alia, references to IFRS 7.B5(d) provisions. According to para.49 from Part 2 of the FINREP instructions, the column 110 “Accumulated write-offs” of F 07.00 includes the cumulative amounts of principal and past due interest of any debt instrument that the institution is no longer recognising because they are considered

	uncollectible, amounts that should be reported until the total extinguishment of all the institution's rights or until recovery. In other words, the write-off of a loan is a derecognition event, even if, according to this definition, the legal rights arising from the respective financial asset continue to exist. In conformity with IAS 39.9 provisions, derecognition is the removal of a previously recognised financial asset or financial liability from an entity's balance sheet. IAS 39.17 states that derecognition of a financial asset can occur when, and only when: (a) the contractual rights to the cash flows from the financial asset expire; or (b) the financial asset is transferred (and the transfer qualifies for derecognition). So, apart from the disbursements, the derecognition of financial assets can occur only in those circumstances in which the contractual rights to the cash flows from the financial asset expired (were prescribed) or the credit institution uses the legal tools needed for partial or total cancellation/ the transfer of the legal rights to the cash flows from those financial assets, aimed at ensuring the conditions for derecognising them. As regards IFRS 7.B5(d) provisions, there are some opinions (on which the National Bank of Romania expressed strong reserves) according to which, the entities might set up their own policies for the removal from the balance sheet of the non-performing loans, i.e. based on the information obtained from the risk management systems, the ceasing of the existence of a reasonable recovery expectations or based on the best internationally accepted practices, but without definitively giving up/losing the legal rights arising from the respective financial asset. The central bank view of this approach regards the fact that the interpretation of the disclosure requirements in IFRS 7.B5(d) regarding the write-off policies should be made only within the IAS 39 derecognition provisions, as the disclosure requirements in IFRS 7 can not constitute recognition, measurement and derecognition rules in addition to those already included in IAS 39 which is the specific standard dealing with these issues. We are mentioning that IAS 39 does not provide the definition of write-off, only the exposure draft "Financial instruments: Expected credit losses" includes provisions related to write-off specifying that a write-off constitutes a derecognition event. In this context, in our opinion, the removal from the balance sheet of the financial assets should exclusively consider the derecognition principles of IAS 39.
Final answer	According to paragraph 49 of Part 2 of Annex V of the Regulation (EU) No 680/2014 13 ITS on supervisory reporting of institutions~~Draft ITS on Supervisory reporting~~, the column "Accumulated write-offs " should include "the cumulative amount of principal and past due interest of any debt instrument that the institution is no longer recognising because they are considered uncollectable ". This would cover situations where, for example, part of a loan is considered uncollectable and written-off, but there are still other payments foreseen for which there is no evidence to suggest that they are not collectable. In these cases, the carrying amount of the existing loan is reduced by the amounts written-off.

	Paragraph 49 goes on to state that accumulated written-off amounts "shall be reported until the total extinguishment of all the institution 19s rights (by expiry of the statute-of-limitations period, forgiveness or other causes) or until recovery ". Therefore, the institution shall continue to report the written-off amounts until the total extinguishment of all the institution 19s rights. Financial assets derecognised or transferred according to paragraph 17 of IAS 39 shall not be reported as "Accumulated write-offs " in column 110 in F 04.04. For the reporting of derecognition and transfer of financial assets according to paragraph 17 of IAS 39, template 15 of FINREP applies. **As of 1/8/2014 the content of this answer was modified to reflect the publication of the final ITS on supervisory reporting of institutions in the Official Journal of the European Union. As a result, the references to the ITS were updated and the disclaimer deleted. For reasons of transparency, revisions are highlighted in track changes.*
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