



*Set up in 1990, the Czech Banking Association (CBA) is the voice of the Czech banking sector. The CBA represents the interests of 38 banks operating in the Czech Republic: large and small, wholesale and retail institutions. The CBA is committed to supporting quality regulation and supervision and consequently the stability of the banking sector. It advocates free and fair competition and supports the banks' efforts to increase their efficiency and competitiveness.*

We appreciate the opportunity to comment on EBA Consultation Paper on **DRAFT REGULATORY TECHNICAL STANDARDS ON THE SPECIFICATION OF THE CALCULATION OF SPECIFIC AND GENERAL CREDIT RISK ADJUSTMENTS ACCORDING TO ARTICLE 105(4) OF THE DRAFT CAPITAL REQUIREMENTS REGULATION (CRR) (EBA/CP/2012/10)** and suggest changing the wording of Article 2(1) as follows:

<i>Article 2</i>	
<i>Identification of GCRA and SCRA to be included in the calculation</i>	
<p>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, irrespective of whether they result from provisions, value adjustments or impairments.</p>	<p>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 <del>Common Equity Tier 1 capital</del> <b>profit or loss account</b> has been reduced in order to reflect losses exclusively related to credit risk according to the applicable accounting framework, irrespective of whether they result from provisions, value adjustments or impairments."</p>
<i>Justification</i>	
<p>Any provisions, value adjustments or impairments influence the profit or loss of the current year but not necessarily influence Common Equity Tier 1:</p> <ul style="list-style-type: none"><li>▪ in the case of a loss of a current year, any provisions, value adjustments or impairment impact both the profit or loss of the current year (reduction) and Common Equity Tier 1 (reduction) simultaneously; in this case the current wording of Article 2(1) is correct,</li><li>▪ in the case of a profit of a current year, any provisions, value adjustments or impairment impact the profit or loss of the current year (reduction) but does not impact Common Equity Tier 1 (no impact); there can be some time lag when provisions, value adjustments or impairments impact Common Equity Tier 1; the impact is when profit of the former year (retained earnings) is distributed or</li></ul>	



when profit has been verified by auditor and there is a prior consent of the competent authority; in this case the current wording of Article 2(1) is not correct.

We hope that our response to EBA Consultation Paper is sufficiently clear and our views are helpful for preparing regulatory technical standards.