Final report

on draft regulatory technical standards with regard to specifying the calculation of specific credit risk adjustments

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1. Executive summary

On 16 December 2020, the European Commission published its action plan on *Tackling non-performing loans in the aftermath of the COVID-19 pandemic*, in which it indicated the need for a revision of the treatment of defaulted exposures under the standardised approach for credit risk (SA). Section 2.5 of the Commission action plan asks the European Banking Authority to consider the appropriate prudential treatment of the risk weight (RW) for defaulted exposures following the sale of a non-performing asset (‘NPL assets’). In particular, it is noted that a 100% RW – compared to the normal RW of 150% – can be applied when provisions cover more than 20% of an exposure; however ‘only provisions/write-downs (so-called ‘credit risk adjustments’) made by the institution itself can be accounted for, not write-downs accounted for in the transaction price of the exposure’.

The proposed amendments allow for the recognition of such *write-downs accounted for in the transaction price of the exposure*, which are retained by the seller, in the credit risk adjustments recognised for the determination of the RW of defaulted exposures applied by the buyer under the SA. This is achieved by introducing an amount (that could be seen as a ‘discount’) that would have to be added to the amount of specific credit risk adjustments used to determine the appropriate RW under Article 127(1) of Regulation (EU) No 575/2013. As a consequence, the amount used to determine the RW under Article 127(1) of Regulation (EU) No 575/2013 is designed in such a way that the purchase of an asset with a discount equal to the amount of specific credit risk adjustments that were assigned to the exposure by the seller does not change its RW.

The EBA has taken the step of implementing this change via an RTS amendment, as this will ensure that regulatory treatment of sold NPL assets will be clarified. However, it is also recommended that the treatment set out in these RTS is included directly in the level 1 text, which is the case in the amending CRR Commission proposal published on 27 October 2021.

Next steps

The final draft RTS will be submitted to the Commission for endorsement before being published in the Official Journal of the European Union. The technical standards will apply 20 days after their publication in the Official Journal of the European Union.

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2. Background and rationale

On 16 December 2020, the European Commission published its Action Plan on *Tackling non-performing loans in the aftermath of the COVID-19 pandemic*, where it indicated the need for a revision of the treatment of defaulted exposures under the SA. This request is part of the comprehensive action plan by the Commission to tackle the expected rise in non-performing loans (NPLs) on banks' balance sheets following the outbreak of the COVID-19 pandemic. The EBA has been given a number of tasks, and one of the requests is for the EBA to address regulatory impediments to NPL purchases.

Section 2.5 of the Commission Action Plan asks the European Banking Authority to consider the appropriate prudential treatment of the risk weights ('RW') for defaulted exposures following the sale of a non-performing asset. In particular, it is noted that a 100% RW compared to the normal RW of 150% can be applied when provisions cover more than 20% of an exposure; however ‘only provisions/write-downs (so-called ‘credit risk adjustments’) made by the institution itself can be accounted for, not write-downs accounted for in the transaction price of the exposure’.

The proposed amendments allow for the inclusion of, in particular, any write-downs accounted for in the transaction price of the exposure which are retained by the seller as a realised loss, in the credit risk adjustments recognised for the determination of the RW of defaulted exposures applied by the buyer under the SA at the sale date. This is achieved via the introduction of an amount (which could be seen as a ‘discount’) that would have to be added to the amount of specific credit risk adjustments used to determine the appropriate RW under Article 127(1) of Regulation (EU) No 575/2013. As a consequence, the amount used to determine the RW under Article 127(1) of Regulation (EU) No 575/2013 is designed in such a way that the purchase of an asset with a discount equal to the amount of specific credit risk adjustments that were assigned to the exposure by the seller does not change its RW. However, the discount is defined in a dynamic way in order to take into account any future revaluations of the exposure.

Lowering the SA risk weight where at least 20% of a defaulted exposure is covered by specific credit adjustments acknowledges a shift from unexpected losses (UL) to expected losses (EL), which is the same reason for the decrease in IRB risk weights above certain PD levels. Unlike in the IRB approach, there is no prudential measure of EL under the SA for credit risk; instead, specific credit risk adjustments under the applicable accounting framework serve as a proxy for the prudential EL level.

Relying on this EL proxy does not work, however, for the buyer of NPLs. Via a purchase price discount, not only previous specific credit risk adjustments made by the seller, but also any loss of bargain power effects are retained by the seller as realised losses. This loss retention by the seller justifies taking the purchase price discount into account for identifying the EL level of a purchased NPL. On the other hand, it is also necessary to continue identifying any decrease in EL after the purchase, as this could shift more credit risk back to UL, which could necessitate an increase in the SA risk weight after the purchase, partly because, all other things being equal, the same increase in the SA risk weight would also have occurred for the seller.
A decrease in EL may happen when the buyer recognises some of the purchase price discount as increasing CET1 capital and no CET1 capital reductions exist for an exposure. Continuing to treat the full purchase price discount as an EL indicator could therefore cause double recognition, first due to increased CET1 capital and again by reducing the risk weight due to incorrectly continuing to indicate a shift from UL to EL. Avoiding such double recognition necessitates dynamically adjusting the amount treated as a discount in order to recognise only that portion of a purchase price discount that has not already been recognised via increased CET1 capital. This is achieved by the proposed definition, which limits the amount treated as a discount to the gap, if any, between:

- on the one hand, the maximum CET1 capital reduction on the defaulted exposure, indicated by the total credit obligations still outstanding (i.e. before any recoveries), and

- on the other hand, the sum of existing CET1 capital reductions as indicated by specific credit risk adjustments, and the maximum future CET1 capital reduction if the exposure were fully written off.

Limiting discounts to the existing gap versus outstanding credit obligations by considering both the existing CET1 reductions and the maximum future CET1 reduction avoids double recognition of the same relative increase in CET1 capital.

- Where CET1 capital reductions exist for an exposure, any decrease in the amounts recorded under the applicable accounting framework relating to credit losses on an exposure, e.g. due to an impairment gain, first reduces the existing CET1 capital reductions for this exposure by the same amount. While this increases the maximum future CET1 capital reduction if the exposure were fully written off, the discount nevertheless remains unchanged because the increase in one part of the sum is accompanied by the same decrease in the other part of the sum used for determining the gap versus outstanding credit obligations.

- Only where no CET1 capital reductions exist any longer for the exposure (or did not exist from the outset e.g. where the exposure has been classified as a purchased credit-impaired asset under IFRS 9 using the purchase price as fair value), any further relative increase in CET1 capital (due to improvements in loss assumptions under the applicable accounting framework) starts shrinking the discount. While further increasing the maximum future CET1 capital reduction if the exposure were fully written off, the amount of existing CET1 capital reductions for the exposure is already zero and therefore remains zero. Consequently, the sum of the two amounts increases, thus reducing the gap versus outstanding credit obligations and therefore also the discount.

This mechanism of the discount definition ensures that the same improvement in loss assumptions under the applicable accounting framework can only be recognised either as reducing existing CET1 reductions or as reducing the discount, which prevents any double recognition of the same relative increase in CET1 capital from the outset. Moreover, this mechanism ensures that a discount can only shrink where and to the extent to which an amount of the initial purchase price discount has increased CET1 capital where no CET1 capital reductions exist for an exposure.
An example may be useful to illustrate the calculation of the discount and its different components. The illustration is based on a defaulted loan observed at three different moments:

- **Phase 1:** the loan is owned by an institution that intends to sell it (2).
  
  *This phase is useful to illustrate the calculation of the discount before the sale and check that its value is 0 (as the discount will only occur after the sale on the buyer’s side).*

- **Phase 2:** the loan is sold and is therefore owned by another institution.
  
  *For simplicity, the price of the transaction is assumed to be the new fair value of the loan. This phase is useful to illustrate the calculation of the discount in cases where the selling price is retained as the fair value.*

- **Phase 3:** the buying institutions revalues the loan.
  
  *This phase is useful to illustrate the calculation of the discount in cases where the selling price is not retained as the fair value. This is the stage where the different wording compared to Article 47c(1)(b)(v) of Regulation (EU) No 575/2013 will be highlighted.*

In practice, the following values are used:

1) **For all phases:** amount owed: 100;
2) **Phase 1:** credit loss reflected under the appropriate accounting standard (before the sale, estimated by the seller): 25;
3) **Phase 2:** selling price: 60, credit loss reflected under the appropriate accounting standard (after sale, estimated by the buyer on the basis of 60): 1 *(i.e. at the time of the purchase, the buyer expects the obligor to only pay 59 instead of 100)*;
4) **Phase 3:** revaluation of the loan by 30, credit loss reflected under the appropriate accounting standard unchanged.

It should be noted that this example is designed to illustrate the calculation of the discount in a simple manner. As such, it does not discuss the methods used for the (re)valuation of the loan and for the recognition of credit losses, which should be carried out according to the applicable accounting framework. Its aim is to describe the effect on the calculation of the discount independently of what could be the accounting treatment in terms of requirements on revaluation and ECL revision.

In addition, the example illustrates the impact of the discount on the risk-weighted exposure amount (RWEA) calculation. It is important to note that in this example the revaluation has a direct impact on the CET1 capital of the institutions via a profit. In the example, while the RWEA increase between phase 2 and phase 3 from 59 to 133.5, which, for example, increases the own funds amount required for the 8% minimum total own funds ratio from 4.7 to 10.7, the CET1 capital of the buyer will also increase by 30 due to the revaluation. Therefore, the solvency position of the buyer will be improved overall in phase 3 compared to phase 2.

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2 The example is based on the case of a fully unsecured loan.
# Final Report on Amended RTS on Credit Risk Adjustments

## Phase 1

<table>
<thead>
<tr>
<th>Amounts before sale</th>
<th>Amount after sale / before revaluation</th>
<th>Amount after sale / after revaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A</strong></td>
<td>The total outstanding amount of credit obligations on the exposure</td>
<td>100</td>
</tr>
<tr>
<td><strong>B</strong></td>
<td>The additional own funds reduction if the exposure was written-off fully, excluding already existing own funds reductions</td>
<td>75</td>
</tr>
<tr>
<td><strong>C</strong></td>
<td>Any already existing own funds reductions related to this exposure</td>
<td>25</td>
</tr>
</tbody>
</table>

**Discount** \[A - (B+C)\]  
0 \((100-75+25)\); 40 \((=100-(59+1))\); 10 \((=100-(89+1))\);

## Memo

<table>
<thead>
<tr>
<th>Coverage (SCRA + discount)</th>
<th>25 ((25+0)); 41 ((1+40)); 11 ((1+10))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total credit obligation still outstanding (exposure value if these specific credit risk adjustments (‘SCRA’) and deductions were not applied)</td>
<td>100</td>
</tr>
</tbody>
</table>

**Coverage ratio for Article 127(1) of the CRR**  
25\% \((>20\%\)); 41\% \((>20\%\)); 11\% \((<20\%\));

**Associated RW**  
100\% | 100\% | 150\% |

**Exposure value (EAD)**  
75 | 59 \((= 60 – 1)\); 89 \((= 60 – (1 - 30))\)

**RWEA**  
75 | 59 | 133,5 |

**RWEA applied to the**  
Seller | Buyer | Buyer |

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### Additional considerations

The EBA has taken the step of implementing this change via an RTS amendment as this will ensure that the regulatory treatment of sold NPL assets will be clarified. However, it is also recommended that the treatment set out in these RTS is included in the level 1 text directly, which is the case in the amending CRR Commission proposal published on 27 October 2021.
3. Draft regulatory technical standards

COMMISSION DELEGATED REGULATION (EU) …/…

of XXX

amending Delegated Regulation (EU) No 183/2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, and in particular Article 110(4) third subparagraph thereof,

Whereas:

(1) This Regulation relates to specifying the calculation of specific credit risk adjustments for the purpose of assigning a risk weight of the unsecured part of any item where the obligor has defaulted in accordance with Article 178 of Regulation (EU) No 575/2013, or in the case of retail exposures, the unsecured part of any credit facility which has defaulted in accordance with Article 178 of Regulation (EU) No 575/2013, as specified in Article 127(1) of Regulation (EU) No 575/2013.

(2) Article 110(4)(e) of Regulation (EU) No 575/2013 provides for empowerment of the EBA to specify the amounts that need to be included in the calculation of credit risk adjustments for the determination of default under Article 178 of Regulation (EU) No 575/2013. In accordance with Article 127(1) of Regulation (EU) No 575/2013, the exposures to be risk-weighted in accordance with that Article must be determined.

based on the default status as defined under Article 178. In particular, the risk weight of an exposure in default depends on the amount of specific credit risk adjustments relating to this exposure. It is therefore necessary to specify the amounts that need to be included in the calculation of specific credit risk adjustments for the purpose of Article 178, read and applied in conjunction with Article 127(1) of Regulation (EU) No 575/2013.

(3) In accordance with Article 127(1) of Regulation (EU) No 575/2013, the risk weight of an exposure in default depends, among other considerations, on the amount of specific credit risk adjustments relating to this exposure. This risk weight should ensure that a sufficient amount of own funds can provide coverage for the unexpected losses on this exposure. The potential for unexpected losses depends on the extent to which credit losses are already expected to occur on the considered exposure in default and therefore are recognised in accordance with the applicable accounting framework in a way that has already reduced CET1 capital. They are therefore only marginally impacted, all other things including the applicable accounting framework being equal, by a sale of the exposures.

(4) However, based on the current definition of credit risk adjustment, only the expected credit losses reflected by specific credit risk adjustments made by the institution holding the exposure can be accounted for, not the ones accounted for in the transaction price of the exposure which are retained by the seller as a finally realised loss. As a result, the risk weight applied to the exposure in default may change following a sale, even though the transaction price incorporates a discount for expected credit losses of an equal amount to the specific credit risk adjustments booked by the selling institution before the sale.

(5) In light of the COVID-19 pandemic, it is desirable to remove any impediment to the creation of secondary markets for defaulted exposures. In this context, a misalignment between the risk weight applied to defaulted assets and the potential for unexpected losses in relation to the level of already expected losses could create undue obstacles for credit institutions to move their non-performing loans off their balance sheets.

(6) It is therefore necessary to ensure that the specific credit risk adjustments recognised for Article 127(1) of Regulation (EU) No 575/2013 incorporate any discount in a transaction price that the buyer has not recognised by increasing CET1 capital. In addition, this discount should be defined in a dynamic manner, i.e. it should incorporate any potential future revaluation of the loan occurring after the sale in order to recognise only the amount which is not recognised by increased CET1 capital.

(7) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Banking Authority.

(8) The European Banking Authority has conducted an open public consultation on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the advice of the Banking
Stakeholder Group that was established in accordance with Article 37 of Regulation (EU) No 1093/2010\(^4\).


HAS ADOPTED THIS REGULATION:

**Article 1**

**Amendments to Commission Delegated Regulation (EU) No 183/2014**

In Article 1 of the Commission Delegated Regulation (EU) No 183/2014, paragraph 6 shall be added as follows:

6. Without prejudice to paragraph 1, to calculate the specific credit risk adjustments for the purpose of assigning the risk weights in the cases referred to in Article 127, paragraph 1, points (a) and (b) of Regulation (EU) No 575/2013 for an exposure constituted by an item, where the obligor has defaulted in accordance with Article 178 of that Regulation, or in the case of retail exposures, constituted by a credit facility which has defaulted in accordance with Article 178 of that Regulation, institutions shall include any positive difference between the total outstanding amount of credit obligations on the exposure and the sum of (i) the additional own funds reduction if the exposure was written-off fully, and (ii) any already existing own funds reductions related to this exposure.

**Article 2**

**Entry into force**

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States. Done at Brussels,

*For the Commission*

*The President*

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For the Commission
On behalf of the President
4. Accompanying documents

4.1 Draft cost-benefit analysis/impact assessment

As per Article 10(1) of the EBA regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council), any regulatory technical standards developed by the EBA – when submitted to the EU Commission for adoption – shall be accompanied by an Impact Assessment (IA) annex which analyses ‘the potential related costs and benefits’. Such annex shall provide the reader with an overview of the findings as regards the problem identification, the options identified to remove the problems and their potential impacts.

A. Problem identification

Under Article 127(1) of the CRR, the RW of an exposure in default depends, among other considerations, on the amount of specific credit risk adjustments related to this exposure. This RW should ensure that a sufficient amount of own funds can cover the potential additional unexpected losses on this exposure. The potential for additional unexpected losses depends on the extent to which credit losses are already expected to occur on the considered exposure in default and therefore are recognised according to the applicable accounting framework in a way that has already reduced CET1 capital. They are therefore only marginally impacted, all other things including the applicable accounting framework being equal, by a sale of the exposures.

However, based on the current definition of credit risk adjustments, only the expected credit losses reflected by credit risk adjustments made by the institution holding the exposure can be accounted for, not the ones accounted for in the transaction price of the exposure which are retained by the seller as a realised loss. As a result, the RW applied to the exposure in default may change following a sale, even though the transaction price incorporates a discount for expected credit losses of the same amount as the specific credit risk adjustments previously booked by the selling institution.

B. Policy objectives

As established in the European Commission’s NPL action plan, the intention is to prevent a future build-up of NPLs across the European Union as a result of the COVID-19 crisis. In particular, the NPL strategy intends, among other objectives, to further develop secondary markets for distressed assets, which will allow banks to move NPLs off their balance sheets while ensuring strengthened protection for debtors.
C. Baseline scenario

If no change were made to the regulation, the unduly higher RW could create impediments to the creation of an NPL secondary market.

D. Options considered

In addition to the amendment proposed by these RTS, the alternative would entail introducing the definition of a discount in Article 4 CRR and amending Article 127(1) CRR by recognising discounts separately in addition to specific credit risk adjustments. Amending the CRR could, however, take more time, which would be in conflict with the need for a swift reaction to the COVID-19 crisis. Instead, amending Commission Delegated Regulation (EU) No 183/2014 by extending the scope of specific credit risk adjustment to be considered for the purpose of Article 127(1) CRR to include discounts allows for a faster procedure and is therefore the preferred option, as proposed in this draft Regulation.

E. Cost-benefit analysis

The costs and benefits of the proposal are mainly expected in respect of the amount of own fund requirements for credit institutions, as the IT-related costs are assessed as being marginal. The impact of this amendment is not expected to be material for most credit institutions. This is because, even in the event of an unwarranted increase in the RW, the buyer would still have much lower overall capital costs than the seller because the buyer normally pays a price lower than the net carrying amount of the assets, and therefore already has a strong incentive to purchase non-performing loans.

However, for a small set of institutions with a business model focused on buying these non-performing loans, the impact could be very significant, as it would imply a relative reduction of the risk-weighted exposure amount by a third (due to a possible decrease in the RW from 150% to 100%).

Therefore, while the magnitude of the benefits is uncertain, the net impact of the proposal seems to be beneficial, as it would incentivise the disposal of non-performing loans.

F. Preferred option

Amending Commission Delegated Regulation (EU) No 183/2014 by extending the scope of credit risk adjustments to be considered for the purpose of Article 127(1) CRR to include discounts – this is the preferred option.
4.2 Feedback on the public consultation

The EBA publicly consulted on the draft proposal contained in this paper. The consultation period lasted for 3 months and ended on 24 September 2021. Six responses were received, which were all published on the EBA website. All the respondents agreed with the proposed amendment to the RTS, stressing the need for fast implementation to avoid unnecessary administrative efforts and a double burden on CET1 due to newly formed risk provisions. In detail, the following comments were received:

<table>
<thead>
<tr>
<th>Comments</th>
<th>Summary of responses received</th>
<th>EBA analysis</th>
<th>Amendments to the proposals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 : Do you agree with the proposed amendment to Commission Delegated Regulation (EU) No 183/2014?</td>
<td></td>
<td>The EBA agrees with the principle of the suggestion. However, paragraph 6 does not come as a derogation to paragraph 1: the latter also applies in the context of Article 127 of the CRR. Hence, the proposal is amended by adding, ‘6. Without prejudice to paragraph 1, to calculate the sum of specific credit risk adjustments [...’).</td>
<td>Yes</td>
</tr>
<tr>
<td>Drafting suggestions proposed by the respondents</td>
<td></td>
<td>The EBA disagrees with this suggestion, as the proposed wording introduces three confusions. First, paragraph 6 does not solely apply to sold exposures, but rather to all defaulted exposures (even though for exposures not sold the discount is 0). Second, the ‘buyer’ is the same entity as ‘the institution’ referred to previously in the paragraph. Third, the wording</td>
<td>No</td>
</tr>
<tr>
<td><strong>Clarification</strong>: the treatment is a change compared with paragraph (1) (add ‘6. By way of derogation from paragraph 1, to calculate the sum of specific credit risk adjustments [...’).)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Clarification</strong>: the intended treatment could be introduced directly into the legal text by mentioning explicitly the ‘discount’ and the ‘non-increase in CET1’ (add ‘institutions shall include any discount in a transaction price that the buyer has not recognised by increasing CET1 capital that is any positive difference between [...’).)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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| **Editorial change:** replace ‘the sum of specific credit risk adjustments in the cases referred to in Article 127’ by ‘the sum of specific credit risk adjustments for the purpose of Article 127’.

**Clarification:** remove ‘total’ in the wording ‘institutions shall include any positive difference between the total outstanding amount of credit obligations’.

Other issues relating to the RTS on CRA suggested by the respondents

**Clarification:** There is a need to apply the amendment also in the context of securitisation, i.e. for purchases of NPLs conducted by a securitisation special purpose entity, where the bank calculates the capital requirements for the underlying pool based on the Credit Risk Standardised Approach (i.e., using SEC-SA).

‘not recognised in CET 1 capital’ is not fully clear, and could be misinterpreted as leading to a binary choice (while in practice only a part of the discount can be recognised).

The EBA agrees with the principle of the suggestion. However, to clarify that paragraph 6 solely refers to the assignment of the RW, the proposal is completed in the following way:

‘to calculate the specific credit risk adjustments for the purpose of assigning the risk weights in the cases referred to in Article 127, paragraph 1’

The deletion of the word total does not enhance the clarity of the text. Based on Article 127 of the CRR, it is already clear that the risk weight and therefore also the amount of ‘total outstanding credit obligations’ as referred to in the draft RTS has to be determined separately for each exposure.

The EBA agrees with this principle of the suggestion, i.e. the reference to Chapter 2 in Article 255(6) of the CRR results in an indirect link between the SEC SA and this amending regulation. However, there are other links, such as whenever an exposure is subject to a permanent partial use or a roll-out plan pursuant to

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Yes

No

No
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</tr>
</thead>
<tbody>
<tr>
<td>This comes from the fact that Article 255(6) requires institutions to calculate $K_{SA}$, (which is a key parameter in deriving the own fund requirements) <em>where the bank (for example, acting as an investor in the securitisation tranche) calculates the capital requirements for the underlying pool based on the Credit Risk Standardised Approach (i.e. using SEC-SA).</em> One respondent pointed out that section 1.2 of the annex of the <a href="https://www.eba.europa.eu/sites/default/files/2018-05/opinion_regulatory_treatment_non-performing_exposure_securitisations.pdf">Opinion of the European Banking Authority to the European Commission on the Regulatory Treatment of Non-Performing Exposure Securitisations</a> already mentions the similarities in the framework.</td>
<td>Articles 150 and 148 of the CRR, respectively. These links are already clear from the current regulation, and therefore the EBA does not see the need to further amend the text.</td>
<td><strong>Clarification</strong>: There is a need to better explain the example given in the CP, which ‘seems not plausible’ and should be complemented by other examples. One respondent suggested clarifying that its aim is to describe the effect whatever the accounting treatment could be by distinguishing revaluation and ECL revision. The EBA agrees with the clarification that the example is a stylised one, aimed at illustrating the calculation of the discount irrespective of what the accounting treatment could be in terms of requirements on revaluation and ECL revision.</td>
<td>Yes, in the background and rationale  Yes, in the background and rationale</td>
</tr>
<tr>
<td><strong>Clarification</strong>:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Further change needed (RTS-related)</strong>: There is a need to further amend the RTS on CRA, and in particular the second paragraph of Article 1(1)(^5). They argue that the This issue is beyond the scope of the revision of these RTS, which relate solely to the treatment of sold defaulted assets in the context of the European</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

\(^5\) The second paragraph starts with: ‘any amount resulting in the above manner [...]’. It refers to the Delegated Regulation 183/2014 itself, not the draft RTS published on the EBA website.
<p>| Comments                                                                 | Summary of responses received                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | EBA analysis                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Amendments to the proposals |
|------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|
| <strong>Other issues not related to the RTS on CRA suggested by the respondents</strong> | <strong>Further change needed (not RTS-related):</strong> There is a need to amend the prudential backstop regulation, which would unduly penalise certain types of products (in particular, specialised lending exposures), to introduce the recognition of private insurance as a mitigant when provided by an insurer with a high rating and to clarify the interaction with the securitisation framework. | Commission work action plan on <em>Tackling non-performing loans in the aftermath of the COVID-19 pandemic</em>. In addition, the EBA believes that, when the conditions of Article 26(2) of the CRR are not met, a prudent approach is necessary to avoid any underestimation of own fund requirements.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | No |
| <strong>Further change needed (not RTS-related):</strong> There is a need to amend the IRB discounting rate (EURIBOR + 5%) in the case of distressed restructuring, in particular when the borrowers fully repay the principal and the interest. |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | No |
| <strong>Further change needed (not RTS-related):</strong> There is a need to extend the provisions relating to the massive disposals of NPLs by 30 June 2024. |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | No |</p>
<table>
<thead>
<tr>
<th>Comments</th>
<th>Summary of responses received</th>
<th>EBA analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Further change needed (not RTS-related):</strong> There is a need to revise the definition of default, in particular with respect to the quantitative trigger used for distressed restructuring (suggestion to move from 1% to 5%).</td>
<td></td>
<td>This issue is beyond the scope of the revision of these RTS. This issue has been investigated and already presented to BoS (Agenda item 4 of the June meeting), No where it was concluded that no change should be made on this matter for the time being.</td>
</tr>
</tbody>
</table>