Guidelines on disclosure requirements on IFRS 9 transitional arrangements

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Introduction of IFRS 9

On 24 July 2014, the IASB published the International Financial Reporting Standard (IFRS) 9 Financial Instruments.

The European Commission adopted IFRS 9 through Commission Regulation (EC) No 2016/20673 - Institution under IFRS are required to apply IFRS 9 as of the starting date of the institution's first financial year beginning on or after 1 January 2018.

The application of IFRS 9 may lead to a sudden significant increase in expected credit loss (ECL) provisions and consequently a sudden decrease in their CET1 capital.

While discussions are on-going on the longer-term regulatory treatment of provisions, transitional arrangements allowing institutions to mitigate the potential significant negative impact on CET1 arising from ECL accounting are being adopted

IFRS 9 transitional arrangements (i)

On 31st May 2017, the EU adopted a Proposal for a Regulation of the EP and of the Council amending the CRR as regards the transitional period for mitigating the impact on own funds of the introduction of IFRS 9.

The proposal suggests a new Article 473a, with provisions on the introduction of IFRS 9 and IFRS 9-like ECL models transitional arrangements that phase-in the impact of IFRS 9 impairment requirements on capital and leverage ratios.

Where an institution’s balance sheet as of the first application of IFRS 9 reflects a decrease in CET1 capital due to increased ECL provisions compared to the balance sheet on the previous day, the institution should be allowed to include in its CET1 a portion of the increased ECL provisions during a transitional period.

IFRS 9 transitional arrangements (ii)

Institutions should decide whether to apply these transitional arrangements and inform the competent authority accordingly. Institutions applying transitional arrangements need to adjust the calculation of regulatory items which are directly affected by ECL provisions to ensure that they do not receive inappropriate capital relief.

This would ensure that an institution would not benefit from both an increase in its CET1 capital due to transitional arrangements as well as a reduced exposure value.

This transitional period should be of 5 years from the first day of application of IFRS 9. The portion of ECL provisions that can be included in CET1 capital should decrease over time down to zero to deliver full implementation by the end of the transitional period.

IFRS 9 transitional arrangements – Disclosure (i)

Those institutions that decide to apply IFRS 9 transitional arrangements would be required to disclose their effect on own funds and risk-based-capital and leverage ratios.

In particular institutions should disclose the amount of own funds, CET1 capital, T1 capital, the CET1 capital ratio, the T1 capital ratio, the total capital ratio and leverage ratio with and without the application of the transitional arrangements.

When disclosing the capital and leverage ratios, institutions should consider the transitional arrangements with an impact both on the numerator and on the denominator.

New Article 473a includes a mandate for the EBA to issue guidelines on IFRS 9 and analogous ECLs transitional arrangements disclosure requirements. On the basis of this mandate the EBA has drafted these guidelines.

IFRS 9 transitional arrangements – Disclosure (ii)

The GL specify a uniform disclosure format for the institutions' disclosure requirements of IFRS 9 and analogous ECLs transitional arrangements with the aim of achieving a consistent and comparable disclosure among institutions during the transitional period.

When developing the GL, the EBA has taken into account developments at the international level, and ins particular account the standard issued by the BCBS in March 2017 on "Pillar 3 disclosure requirements – consolidated and enhanced framework".

The standard includes a disclosure template (template KM1) with implementation date of 1 January 2018 that provides users with information on the impact of the transitional arrangements for the implementation of expected credit loss accounting on the bank's regulatory capital and leverage ratios.

Guidelines on disclosure requirements on IFRS 9 transitional arrangements

Subject matter

- The GL specify the uniform disclosure format in accordance with which the disclosures required under paragraph 8 of Art.473a CRR should be made.

Scope of application

- The GL apply to the institutions referred to in paragraph 1 of Art. 473a CRR and that are subject to all or part of the disclosure requirements specified in Part Eight of the CRR in accordance with Articles 6, 10 and 13 of the CRR, during the transitional period set out in paragraph 6 of Art. 473a CRR.

Date of application

- These guidelines apply from 1 January 2018 until the end of the transitional period referred to in paragraph 6 of Article 473a of the CRR.

Guidelines on disclosure requirements on IFRS 9 transitional arrangements

Format

Institutions that choose to apply IFRS 9 and analogous ECLs transitional arrangements should complete the quantitative template contained in Annex I of the GL.

Those institutions under the scope of Art. 473a that choose not to apply IFRS 9 and analogous ECLs transitional arrangements should disclose the narrative commentary indicated in Annex.

Template IFRS 9-FL (i)

Template IFRS 9-FL - Own funds, capital and leverage ratios under IFRS 9/analogous ECLs transitional arrangements compared to fully loaded IFRS 9/analogous ECLs

Purpose

Overview of institutions' own funds, risk-based capital ratios and, and leverage ratio under:

transitional IFRS 9/analogous ECLs

and fully loaded IFRS 9/analogous ECLs

Scope of application: Institutions under the scope of Art. 473a and subject to Part Eight of the CRR, during the transitional period

Quantitative template mandatory for those institutions that choose to apply the transitional arrangements

Those institutions that choose not to apply the transitional arrangements should disclose a narrative commentary explaining the following:

The institution is not applying the transitional arrangements,

reasons behind that decision and

That their capital and leverage ratios already include the full impact of IFRS 9/ analogous ECLs

Template IFRS 9-FL (ii)

Template IFRS 9-FL - Own funds, capital and leverage ratios under IFRS 9/analogous ECLs transitional arrangements compared to fully loaded IFRS 9/analogous ECLs

Frequency	Format		Accompanying narrative to the quantitative template for Institutions applying the transitional arrangements on:		
Same frequency than the disclosures of information on own funds, risk-weighted assets and leverage ratio	Fixed format for the quantitative template mandatory, when applicable	For institutions that are not applying the transitional arrangements, the narrative commentary is flexible	Key elements of the transitional arrangements they use	Institution's choices regarding the options included in Article 473a(9) of the CRR	Changes to RWA and leverage exposure stemming from the IFRS 9/analogous ECLs transitional arrangements, if material

Quantitative template

Quantitative template						
		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1) capital					
2	*Common Equity Tier 1 (CET1) capital as if IFRS 9 transitional arrangements were not applied*					
3	Tier 1 capital					
4	*Tier 1 capital as if IFRS 9 transitional arrangements were not applied*					
5	Total capital					
6	*Total capital as if IFRS 9 transitional arrangements were not applied*					
	Risk-weighted assets (amounts)					
7	Total risk-weighted assets					
	Capital ratios					
8	Common Equity Tier 1 (as a percentage of risk exposure amount)					
9	*Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied*					
10	Tier 1 (as a percentage of risk exposure amount)					
11	*Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied*					
12	Total capital (as a percentage of risk exposure amount)					
13	*Total capital (as a percentage of risk exposure amount) as if IFRS 9 transitional arrangements were not applied*					
	Leverage ratio					
14	Leverage ratio total exposure measure					
15	Leverage ratio					
16	*Leverage ratio as if IFRS 9 transitional arrangements were not applied*					

Other considerations – Costs/Benefits

The information that institutions are asked to disclose under template IFRS 9-FL of the current guidelines is fully available to them

Institutions are already required to disclose the information on the transitional value of the parameters included in the template

And to estimate as part of the supervisory reporting to competent authorities (COREP) the value of the adjustments to be applied to capital and leverage ratios under a full implementation of IFRS 9

- Marginal cost and impact of the implementation is expected to be negligible
- Improved symmetry of information between market participants and institutions,
- Consistency and comparability of the information available to market participants
- Further fostering of market discipline

Next steps

- The guidelines were published on the 13 of July for a 2 month consultation, ending on the 13 of September. The final guidelines will be adjusted based on the comments received during the consultation period.
- **It is important to note that once the final Regulation inserting new Article 473a in the CRR is published in the Official Journal of the EU, any appropriate adjustments will be made, if necessary to align the draft guidelines with the final version of Article 473a of the CRR.**
- Nevertheless, any ongoing discussions or potential changes that may affect the way transitional arrangements will eventually be calculated is neutral from a disclosure point of view and should not have any impact on the guidelines,

Overview of questions for consultation

1. Could you provide your views on whether adding RWA on an IFRS 9 fully loaded basis in the quantitative disclosure template would provide more clarity to the users and would ensure a more consistent and comparable disclosure by institutions compared to the current proposal to disclose only the actual figure of RWA?

2. Do you agree with the overall content of these guidelines and with the template proposed? In case of disagreement, please outline alternatives that would help to achieve the purpose of the guidelines.

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