



HELLENIC BANK ASSOCIATION

Response from the Hellenic Bank Association to the EBA consultation paper: *Draft Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses*

General comments

The Hellenic Bank Association (HBA) was established in 1928 and is a non-profit legal entity, representing the vast majority of Greek and foreign credit institutions that operate in Greece, which hold more than 95% of assets of the Greek banking system.

The HBA appreciates the opportunity to respond to the European Banking Authority's (EBA) draft Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses, which transposes into Union law the relative BCBS guidance issued in December 2015.

The HBA supports the incorporation of the BCBS guidance in the EU law, provided that it would not be adopted in such a way that EU-based credit institutions would have to comply with requirements more stringent compared to those applying to other jurisdictions. Therefore, we deem necessary the EBA to adopt Guidelines (GLs) which would not be more restrictive and conservative than the BCBS guidance and would also address EU specificities.

In general, we agree with the majority of the proposed provisions provided for in the consultation paper, since they meet industry's expectations in respect of their consistency and effectiveness. However, we consider necessary to raise certain issues which we find appropriate to be clarified or amended in order to ensure that the GLs meet their objective, i.e. to establish sound credit risk management practices for credit institutions and ensure consistent application of Expected Credit Loss (ECL) models.

Response to the consultation questions

1. Is the scope of application of the guidelines appropriate and sufficiently clear?

Indeed, the scope of application of the GLs is considered appropriate and sufficiently clear.

2. Is the date of application of the guidelines of 1 January 2018 appropriate?

Alignment of the IFRS 9 application date and of the date of entry into force of the proposed GLs is deemed reasonable. However, since provisions included in the GLs are closely related to arrangements established by other regulatory products adopted by the EBA, such as Guidelines on definition of default and RTS on materiality threshold, it is necessary for the EBA to take into account these implications with regard to the date of application of the GLs. Otherwise, credit institutions would be obliged to update and re-adjust their credit risk management policies, processes, procedures and systems more than once in the period from 2018 to 2021. Moreover, where timeline for implementation of the aforementioned legal acts is not aligned, it is expected that information disclosed by credit institutions during that



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period (2018-2021) would not be comparable, which will lead investors to misleading conclusions.

3. Please provide any comments you may have on the appropriateness of the proposed proportionality approach.

Par. 17 of the draft GLs provides that “credit institutions should comply with these guidelines in a manner that is appropriate to their size, internal organization and the nature, scope and complexity of their activities and, more generally, all other relevant facts and circumstances of the credit institution and the group (if any) to which it belongs.” Taking account of that paragraph, we understand that the principle of proportionality applies not only on stand-alone basis to small, non-systemic credit institutions but also to entities belonging to large banking groups, where those entities are deemed small and non-systemic in terms of size, internal organization and nature and complexity of their activities. Therefore, although GLs should be implemented by (large) banking groups in a consistent way across their entities, it is considered proportionate and appropriate processes and documentation in respect of small entities of those groups to be less detailed compared to the parent entity or large subsidiaries.

4. Do you agree with the draft guidelines which introduce the relevant BCBS Guidance in the EU regulatory framework? Are there additional issues for which the EBA Guidelines should be amended in the context of finalising the guidelines?

In general, we agree with the provisions included in the proposed GLs which introduce in the EU law the relevant BCBS guidance. However, we consider necessary the EBA’s GLs to achieve a dual goal: firstly, not to establish arrangements more conservative and restrictive compared to those provided for in the BCBS guidance and, secondly, to address specificities of the European banking sector.

In that context, we propose to omit the following phrases (**bold**) included in the consultation paper, which are not provided for in the BCBS guidance:

- **Par. 26(c):** "establish, implement and, as necessary, update suitable policies and procedures to communicate the credit risk assessment and measurement process internally to all relevant staff, **in particular staff members who are involved in that process**"
- **Par. 94:** "Where a collective assessment is performed, exposures within that group should adhere to the requirements set out in Principle 3 of these guidelines. In particular, where information becomes available to the credit institution indicating that further or different segmentation within a group of lending exposures is required, the group should be split into subgroups and the measurement of the amount equal to 12-month ECL should be updated separately for each subgroup or, in the case of transient circumstances, a temporary adjustment should be applied (see Principle 3 of these guidelines and its detailed requirements on the use of temporary adjustments). **Where information becomes available which indicates that a particular subgroup has suffered a significant increase in credit risk, then lifetime ECL should be recognised in respect of that subgroup.**"



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- **Par. 142: Competent authorities should scrutinize the use of practical expedients referred to in section 4.3 to determine the appropriateness of ECL.**

In addition, with regard to par. 59 of the proposed GLs, we propose not to deviate from the wording of the BCBS and to rewrite the provision in the following way “Depending on the ability to incorporate forward-looking information into the ECL estimate, credit institutions may use individual or collective assessment approaches; regardless of the assessment approach used, they should be consistent with the relevant accounting requirements and not result in **materially different allowance measurements**. Together, individual and collective assessments form the basis for the allowance for ECL.”

For the purpose of adapting the BCBS guidance to the specificities existing in the EU, particularly in some of its Member States, we would like to point out some elements of the proposed GLs that are considered reasonable to be amended.

Use of forward-looking information and application of expert judgement are matters of concern, particularly with regard to the qualitative aspects which must be taken into consideration for the ECL assessment and measurement process. In that context, the HBA considers that the consultation paper is based on an increased credit risk perspective with regard to forward-looking information used for the ECL assessment and measurement process. However, it may be the case that some Member States (e.g. Greece), where fiscal crisis has already led NPLs ratio to an extremely high level, credit risk to be expected to have a downward trend. Thus, GLs should take account for such cases and clearly address that dimension in order to allow credit institutions to use forward-looking information reflecting (future) decline of the credit risk.

Furthermore, the consultation paper provides that model validation should be performed independently of the model development process. Since that provision seems quite vague, we would appreciate clarification of the level of independence between model validation and development. In any case, we recommend that the EBA ensures harmonisation between the GLs and the provisions contained in the CRR and the relevant RTS on that matter.

Lastly, the HBA is significantly concerned of consultation paper’s provision (p. 46) credit institutions to make limited use of practical expedients, unless they are both smaller and less complex. Since the IFRS 9 allows simplified application in respect of trade receivables or high-rated traded securities, we consider unsuitable and inefficient the adoption of such a restrictive approach. For that reason, we propose to omit the word “limited” (par. 129) and allow credit institutions to make use of those practical expedients, where deemed necessary.

5. Do you agree with the impact assessment and its conclusions, having regard to the baseline scenario used for this impact assessment? Please provide any additional information regarding the costs and benefits from the application of these guidelines.

N/A

6. Please provide any additional comments on the draft guidelines.

N/A