

## Consultation response

### **EBA Consultation on Draft Guidelines for credit institutions' credit risk management practices and accounting for expected credit losses**

26 October 2016

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#### **Introductory comments**

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the EBA Consultation Paper on “Draft Guidelines for credit institutions’ credit risk management practices and accounting for expected credit losses” (“the consultation paper”). AFME represents a broad range of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks and other financial institutions. AFME advocates stable, competitive and sustainable European financial markets, which support economic growth and benefit society.

We support the consultation paper’s statement, in paragraph 14 of the executive summary, that *“the objective of the EBA guidelines is to be in line with the BCBS guidance”*. We are however concerned with some of the changes introduced in the consultation paper creating additional expectations over and above the BCBS guidance. In particular, we note from paragraph 14 that changes have been made leading to the use of the term “should” (which is stronger than the corresponding language in the BCBS guidance).

Please see below for our answers to the specific questions in the consultation.

## Questions

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

We have no comments on the scope of the application of the guidelines and consider it to be sufficiently clear.

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

We support the intention to align the application date of the guidance with the effective date of IFRS 9. We believe however that the guidance should state that application is required from the first financial period beginning after 1 January 2018 as per IFRS 9, rather than from 1 January 2018.

While in principle we view aligning the application date of the EBA guidance and the effective date of IFRS 9 as appropriate, we also consider transitional arrangements to be necessary in ensuring that institutions can comply by the first financial period beginning after 1 January 2018. The practical expedients in the IFRS 9 standard (also mentioned in our response to question 3 below) would assist firms of different sizes, structures and complexity in complying with requirements during the transitional period.

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

In contrast to the BCBS guidance, the EBA has incorporated an explanation on how the principle of proportionality should be considered when applying its guidelines (in paragraph 17 of the consultation paper)<sup>1</sup>. We welcome this clarification from the EBA.

We would however like to reiterate our concerns that the use of the term “should” in the consultation paper leads to differences between the EBA and BCBS guidance in certain areas.

An example of the restrictive effects of using the term “should” is provided in paragraph 137, which states that “*Credit institutions **should** not use the 30-days-past-due rebuttable presumption unless they have demonstrated that the forward-looking information had no substantive relationship with the credit risk driver or such information is not available without undue cost or effort*”. The wording in paragraph 137 replaces the wording “*the Committee expects that a bank would not use*” in the BCBS guidance, which appears to lead to the consultation paper imposing further restrictions when compared to the Basel text.

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<sup>1</sup> We understand the wording in paragraph 17, in particular in reference to proportionality taking into account “*complexity of [institutions] activities*”, to relate to the complexity of certain portfolios as well as different institutions.

**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?**

We welcome the recognition in paragraph 67 of the consultation paper that a review of whether the data used in modelling meets the expected quality standards could be performed by staff within various teams, provided that those performing this task act “with adequate independence and competence”.

**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**

We have no further comments on the impact assessment and its conclusions.

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

We have no additional comments on the draft guidelines.

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**About AFME**

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society. AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is listed on the EU Register of Interest Representatives, registration number 65110063986-76.