Changes to legislation: *There are outstanding changes not yet made to Commission Delegated Regulation (EU) No 183/2014. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details)EUR 2014 No. 183 may be subject to amendment by EU Exit Instruments made by both the Prudential Regulation Authority and the Financial Conduct Authority under powers set out in The Financial Regulators' Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018 (S.I. 2018/1115), regs. 2, 3, Sch. Pt. 4. These amendments are not currently available on legislation.gov.uk. Details of relevant amending instruments can be found on their website/s. (See end of Document for details) View outstanding changes*

Commission Delegated Regulation (EU) No 183/2014 of 20 December 2013 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)

COMMISSION DELEGATED REGULATION (EU) No 183/2014

of 20 December 2013

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[(1)], and in particular the third subparagraph of Article 110(4) thereof,

Whereas:

(1) Regulation (EU) No 575/2013 defines credit risk adjustments as the amount of general and specific loan loss provisions for credit risks that have been recognised in the financial statements of the institutions in accordance with the applicable accounting framework but does not lay down specific rules for determining what are specific and general credit risk adjustments.

(2) Rules should be provided in relation to the specification of the amounts that need to be included in the calculation of credit risk adjustments which reflect losses exclusively related to credit risk. The calculation of credit risk adjustments for determining the own funds requirements should be limited to amounts that have reduced the Common Equity Tier 1 (CET1) of the institution.

(3) Losses exclusively related to credit risk recognised under the applicable accounting framework in the current financial year should be recognised as credit risk adjustments provided that the institution recognises the effect in (CET1). This is relevant for situations where such impairment losses recorded in the course of a financial year occur, in spite of overall interim profits during the year or at year-end that are not approved in accordance with Article 26(2) of Regulation (EU) No 575/2013, and where their recognition as credit risk adjustments would result in an earlier impact on exposure values or on Tier 2 than on CET1. For interim losses as provided in Article 36(1) of Regulation (EU) No 575/2013 such an adjustment is not necessary to the extent that

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losses for the current financial year under that article are immediately deducted from CET1.

(4) Certain provisions of Regulation (EU) No 575/2013 relating to credit risk adjustments refer explicitly to off-balance sheet items. Where no such distinction is made, the relevant provisions apply to both on- and off-balance sheet items.

(5) Rules should be laid down to cover those losses exclusively related to credit risk that are recognised under the applicable accounting framework by which an institution's Common Equity Tier 1 has been reduced. Those rules should cover impairments and value adjustments for financial assets or provisions for off-balance sheet items, to the extent that they reflect losses exclusively related to credit risk and provided they are recognised in the profit and loss account under the applicable accounting framework. To the extent that those losses relate to financial instruments valued at fair value, those rules should also cover amounts recognised as impairments under the applicable accounting frameworks, or similar adjustments made provided they reflect losses related to a deterioration or a worsening of an asset's or an assets portfolio's credit quality. It is not appropriate at this stage to regulate other amounts that are not an impairment of a financial instrument under the applicable accounting framework, or that do not reflect a concept of a similar nature, even if those changes could include a credit risk component.

(6) In order to ensure full coverage of the calculation it is necessary that any amount that is relevant for the purposes listed in the first subparagraph of Article 110(4) of Regulation (EU) No 575/2013 is assigned either to the calculation of general credit risk adjustments (General Credit Risk Adjustments) or that of specific credit risk adjustments (Specific Credit Risk Adjustments).

(7) In relation to the identification of the amounts that can be included in the calculation of Specific Credit Risk Adjustments, the only criterion provided by Regulation (EU) No 575/2013 is that Specific Credit Risk Adjustments are not eligible for inclusion into Tier 2 capital under the Standardised Approach for credit risk, according to Article 62(c) of Regulation (EU) No 575/2013. Therefore, the distinction of amounts to be included in the calculation of Specific Credit Risk Adjustments or General Credit Risk Adjustments needs to be done consistently with the criteria for identifying what can be included in Tier 2 capital

(8) Regulation (EU) No 575/2013 implements the internationally-agreed standards of the Basel Committee on Banking Supervision third International Regulatory Framework for banks[(2)] (hereinafter referred to as 'Basel III'). Therefore, the appropriate rules on credit risk adjustments should also be consistent with the Basel framework which provides that one of the criteria for the distinction between General Credit Risk Adjustments and Specific Credit Risk Adjustments has to be that general provisions or general loan-loss reserves are 'freely available to meet losses which subsequently materialise'. According to Basel III, provisions or loan-loss reserves held against future, presently unidentified losses are freely available to meet losses stemming from credit risk which subsequently materialise and therefore qualify for inclusion within Tier 2 capital. In addition, amounts included in the calculation of General Credit Risk Adjustments should be fully available, with regards to timing and amount, to meet

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such losses, at least on a gone-concern basis where capital is able to absorb losses in insolvency prior to depositors losing any money.

(9) It should be possible to apply the rules in this field irrespective of the applicable accounting framework. However, to enable institutions to distinguish between Specific Credit Risk Adjustments and General Credit Risk Adjustments in a common way, criteria for treatment of credit risk losses within an applicable accounting framework for each type of credit risk adjustment should be provided. Whereas the treatment of losses exclusively related to credit risk recognised under applicable accounting frameworks depends on the fulfilment of those criteria, the large majority of those amounts should normally be classified as Specific Credit Risk Adjustments given the restrictive nature of the criteria for General Credit Risk Adjustments.

(10) International accounting standards are subject to revision which could necessitate changes to the criteria for distinguishing between Specific Credit Risk Adjustments and General Credit Risk Adjustments. In the light of ongoing discussions, particularly with regard to impairment models, it would seem premature to anticipate that model in credit risk adjustment criteria.

(11) Regulation (EU) No 575/2013 requires the identification of the Specific Credit Risk Adjustments for a single exposure. It is therefore necessary to decide how to treat Specific Credit Risk Adjustments that reflect losses related to the credit risk of a whole group of exposures. Further, it is necessary to decide for which exposures in the group and to what extent the Specific Credit Risk Adjustments should be recognised. The assignment of portions of this amount resulting from such Specific Credit Risk Adjustments to the exposures in the group has to be done proportionally to the risk-weighted exposure amounts. For this purpose, the exposure values should be determined without taking into account any Specific Credit Risk Adjustments.

(12) For the purpose of the determination of default under point (b) of Article 178(3) of Regulation (EU) No 575/2013, it is necessary to include only Specific Credit Risk Adjustments which are made individually for a single exposure or a single obligor, and not to include Specific Credit Risk Adjustments made for whole groups of exposures. Specific Credit Risk Adjustments made for whole groups of exposures do not identify obligors of exposures belonging to such groups for which a default event is considered to have occurred. In particular, the existence of Specific Credit Risk Adjustments for a group of exposures is not sufficient reason to conclude that default events have occurred for each of the obligor or exposures belonging to this group.

(13) It is necessary for institutions to be able to demonstrate how the criteria for distinguishing between Specific Credit Risk Adjustments and General Credit Risk Adjustments are used in the context of the applicable accounting framework. Therefore, institutions should document that process.

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

(15) The European Banking Authority has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the

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potential related costs and benefits, in accordance with Article 10 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council[3], and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010,

HAS ADOPTED THIS REGULATION:

Article 1

Identification of General and Specific Credit Risk Adjustments for the purposes of Articles 111, 159, 166, 167, 168, 178, 246 and 266 of Regulation (EU) No 575/2013

1 For the purposes of this Regulation, the amounts required to be included in the calculation of general and specific credit risk adjustments by an institution 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 and recognised as such in the profit or loss account, irrespective of whether they result from impairments, value adjustments or provisions for off-balance sheet items.

Any amounts resulting pursuant to the first subparagraph which have been recognised during the financial year, may only be included in the calculation of general and specific credit risk adjustments if the respective amounts have been deducted from an institution's Common Equity Tier 1 capital, either in accordance with Article 36(1) of Regulation (EU) No 575/2013, or, in the event of interim profits or year-end profits that have not been approved in accordance with Article 26(2) of that Regulation, by way of a corresponding immediate reduction in Common Equity Tier 1 capital for the determination of own funds.

2 The amounts referred to in paragraph 1 shall be included in the calculation of general credit risk adjustments by the institution (General Credit Risk Adjustments) where they fulfil both of the following criteria:

a they are freely and fully available, as regards to timing and amount, to meet credit risk losses that have not yet materialised;

b they reflect credit risk losses for a group of exposures for which the institution has currently no evidence that a loss event has occurred.

3 All other amounts referred to in paragraph 1 shall be included in the calculation of specific credit risk adjustments (Specific Credit Risk Adjustments).

4 Subject to meeting the criteria of Paragraph 2, the institution shall include the following losses in the calculation of General Credit Risk Adjustments:

a losses recognised to cover higher average portfolio loss experience over the last years although there is currently no evidence of loss events supporting these loss level observed in the past;

b losses for which the institution is not aware of a credit deterioration for a group of exposures but where some degree of non-payment is statistically probable based on past experience.

5 The institution shall always include the following losses in the calculation of Specific Credit Risk Adjustments referred to in Paragraph 3:

a losses recognised in the profit or loss account for instruments measured at fair value that represent credit risk impairment under the applicable accounting framework;