

COMMISSION DELEGATED REGULATION (EU) 2022/954

of 12 May 2022

amending the regulatory technical standards laid down in Delegated Regulation (EU) No 183/2014 as regards the specification of 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 amending Regulation (EU) No 648/2012 (¹), and in particular Article 110(4), third subparagraph, thereof,

Whereas:

- (1) Based on the definition of credit risk adjustment laid down in Article 4(1), point (95), of Regulation (EU) No 575/2013, only the expected credit losses reflected in the specific credit risk adjustments made by the institution holding the defaulted exposure can be accounted for in the assignment of a risk weight for the purposes of Article 127(1) of that Regulation. However, the credit losses accounted for in the transaction price of the defaulted exposure, which are retained by the selling institution as a realised loss, cannot be recognised after the sale by the purchasing institution. As a result, the applicable risk weight applied to the defaulted exposure may change following the sale of that exposure, even though the transaction price incorporates a discount of an amount equal to the specific credit risk adjustments for expected credit losses booked by the selling institution before the sale. That situation creates a regulatory impediment to the creation of secondary markets for defaulted exposures, as the potential misalignment between the risk weights applied to the defaulted exposure by the selling institution and by the purchasing institution respectively might make the transaction less attractive for the purchasing institution and therefore create undue obstacles for credit institutions to move their defaulted exposures off their balance sheets.

- (2) In order to also account for the possibility that the COVID-19 pandemic might result in an increase in the levels of defaulted exposures across credit institutions, it is desirable to remove any regulatory impediments to the creation of secondary markets for defaulted exposures. It is therefore necessary to ensure that the specific credit risk adjustments recognised for the purposes of Article 127(1) of Regulation (EU) No 575/2013 incorporate any discount in a transaction price of a defaulted exposure that the purchasing institution has not recognised by increasing Common Equity Tier 1 capital. In particular, in order to avoid any undue double recognition of the potential decrease in the level of expected loss by the purchasing institution after the purchase on both Common Equity Tier 1 capital of that institution and for the purposes of determining the risk weight in accordance with Article 127(1) of Regulation (EU) No 575/2013, in case of a revaluation of the defaulted exposure occurring after its purchase, the discount should no longer incorporate the part of the revaluation amount of the defaulted exposure that has been recognised as increasing the institution's Common Equity Tier 1 capital.

(¹) OJ L 176, 27.6.2013, p. 1.

- (3) Commission Delegated Regulation (EU) No 183/2014 (2) should therefore be amended accordingly.
- (4) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Banking Authority.
- (5) The European Banking Authority has conducted open public consultations 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 established in accordance with Article 37 of Regulation (EU) No 1093/2010 (3).

HAS ADOPTED THIS REGULATION:

Article 1

Amendment to Delegated Regulation (EU) No 183/2014

In Article 1 of Delegated Regulation (EU) No 183/2014, the following paragraph 6 is added:

'6. Without prejudice to paragraph 1, when calculating the specific credit risk adjustments for the purposes of assigning the risk weights referred to in Article 127(1), points (a) and (b), of Regulation (EU) No 575/2013 to the unsecured part of a defaulted exposure, institutions shall include any positive difference between the amount owed by the obligor on that exposure and the sum of the following:

- (a) the additional own funds reduction if that exposure was written-off fully;
- (b) any already existing own funds reductions related to that 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, 12 May 2022.

For the Commission

The President

Ursula VON DER LEYEN

(2) 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 (OJ L 57, 27.2.2014, p. 3).

(3) Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).