Danièle NOUY
Chair of the Supervisory Board

Ms Danuta Maria Hübner
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 01 June 2017

Re: Your letter (QZ26)

Honourable Member of the European Parliament, dear Ms Hübner,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 25 April 2017.

While we support transitional arrangements towards the full application of IFRS 9 as regards its impact on capital ratios, ECB Banking Supervision is of the view that this should not be at the discretion of credit institutions, but either mandatory or at the discretion of the competent authorities.

In our view, only the initial impact at the date of application of IFRS 9 should be subject to phase-in (static approach), rather than the impact being recalculated at every reporting date during the transition period (dynamic approach). Transitional measures should be limited to giving credit institutions more time, when applying IFRS 9, to deal with its initial impact on regulatory CET1 capital. We are not in favour of a general phase-in for IFRS 9 provisions during the transition period, including for new provisions made after the date of application, as it would effectively act as a prudential filter, thus delaying the full application of IFRS 9 and in turn postponing the resolution of the "too-little-too-late" issue of incurred loss accounting.

Let me also highlight that adjustments would need to be made to the relevant parts of the CRR in order to avoid double counting of amounts added back to CET1 capital (i.e. inclusion of any shortfall in Tier 2 capital, non-deducted deferred tax assets (DTAs) and reduction of exposure values under the standardised approach for credit risk, the leverage ratio and large exposure limits). Regarding the length of the transition period, the Basel standards would allow jurisdictions up to five years to complete the transition. It should be highlighted that the Basel standards do not allow neutralisation, which implies that they do not allow CET1 capital to be increased for prudential purposes in the first year by 100% of the decline in CET1 capital. Furthermore, the Basel standards require straight line amortisation, which means that the percentages by which CET1 capital is increased for prudential purposes need to be linearly reduced every year, rather than being disproportionately higher in the first few years.

We support the approach of considering the full impact of IFRS 9 on CET1 capital. It is also possible that the increase in provisions will be partially or even fully neutralised by other effects, such as changes in asset classification stemming from the general implementation of IFRS 9. An add-back considering only the increase in provisions could, in such cases, even result in CET1 capital being increased during the transition period, which would not be justified.

Yours sincerely,

[signed]

Danièle Nouy