Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Consultation on Implementation of Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 - Materiality thresholds for credit obligations past due

Consultation Paper 123

Contents

List of Abbreviations

CRD	Capital Requirements Directive (Directive 2013/36/EU)
CRR	Capital Requirements Regulation (Regulation (EU) No 575/2013)
EBA	European Banking Authority
ESA	European Supervisory Authority
ESRB	European Systemic Risk Board
SI	SSM Significant Institution
LSI	SSM Less Significant Institution
NCA	National Competent Authority
RTS	Regulatory Technical Standards
SI	SSM Significant Institution
SSM	Single Supervisory Mechanism
SSMR	Single Supervisory Mechanism Regulation

Feedback to this Consultation Paper

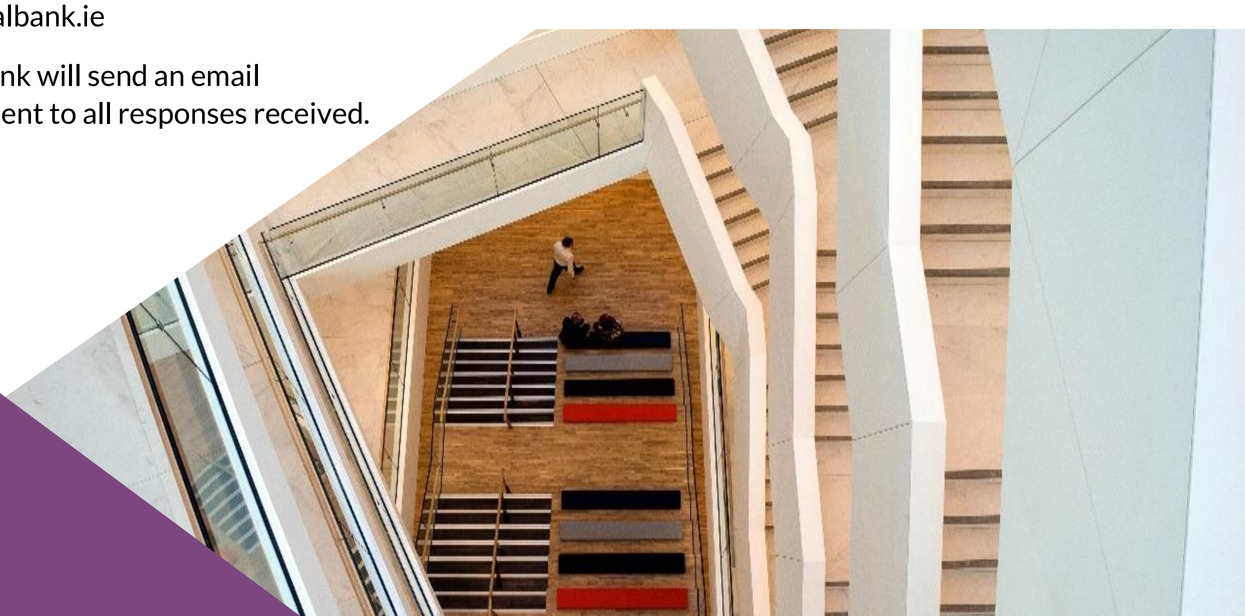
This consultation paper signals the Central Bank of Ireland's (the Central Bank's) proposed approach in relation to the setting of the threshold for the materiality of a credit obligation past due as prescribed by the European Commission Delegated Regulation (EU) 2018/171 of 19 October 2017, supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards on materiality thresholds for credit obligations past due.

The Central Bank is committed to clear, open and transparent engagement with stakeholders in fulfilling its financial regulatory and supervisory objectives, particularly when introducing new codes, regulations, standards or guidelines. The Central Bank's Stakeholder Consultation Policy can be found in full on the Central Bank's website.

This consultation paper will be subject to the shorter comment period of six weeks. Comments should be sent in writing, and preferably by e-mail, no later than 15 August 2018 to:

Banking Risks Policy Unit,
Financial Risks & Governance Policy Division,
Central Bank of Ireland,
New Wapping Street,
North Wall Quay,
Dublin 1.
CRDIV@centralbank.ie

The Central Bank will send an email acknowledgement to all responses received.



Overview

This consultation relates to the Commission Delegated Regulation (EU) 2018/171 of 19 October 2017, supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards (RTS) on materiality thresholds for credit obligations past due.

References to Irish and EU legislation in this paper should be read as a citation of, or reference to, the legislation as amended from time-to-time (including as amended by way of extension, application, adaptation or other modification of the legislation).

Scope of this Consultation

As per Article 178(2)(d) of the Capital Requirements Regulation (CRR), concerning the Default of an Obligor, the materiality of a credit obligation past due shall be assessed against a threshold, defined by Competent Authorities (CA). That threshold must reflect a reasonable level of risk. Under Article 178(6), the European Banking Authority (EBA) is required to specify the conditions according to which the CA shall set the threshold against which the materiality of a credit obligation past due shall be assessed for the purposes of identifying defaults of obligors or individual credit facilities under Article 178.

The materiality threshold is applicable for institutions using both the Standardised Approach and Internal Ratings Based (IRB) approach for calculation of own funds requirements for credit risk. As is set forth in the RTS, the materiality of past due credit obligations forms part of the definition of default in Article 178 (1) (b). [1]

In the case of the implementation of these RTS, the Central Bank of Ireland, as National Competent Authority (NCA) has responsibility for implementation with regard to Less Significant Institutions within the European banking regulatory framework. This Consultation seeks feedback concerning the proposed approach of the Central Bank with regard to said implementation, under Article 178 (6) of the CRR as outlined above.

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[1] Article 178 (1) notes that a default shall be considered to have occurred with regard to a particular obligor when either or both of the following have taken place (a) the institution considers that the obligor is unlikely to pay its credit obligation to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security; (b) the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries. Competent authorities may replace the 90 days with 180 days for exposures secured by residential property or SME commercial immovable property in the retail exposure class, as well as exposures to public sector entities. The 180 days shall not apply for the purposes of Article 127.

Implementation of RTS – ECB/CBI shared competence

As per Article 6 of Regulation 1024/2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions ('the SSM Regulation'), the ECB Single Supervisory Mechanism (SSM) is the designated CA for supervision of those institutions deemed Significant (SIs), while the NCA retains the responsibility for supervision of those institutions deemed Less Significant (LSIs). Thus, the responsibility for implementation of the RTS at Member State level in Ireland rests with the Central Bank as the NCA.

It is noted in the RTS that, since the market and economic conditions within the same jurisdiction are similar, CAs should set one single threshold for the assessment of materiality of a credit obligation as referred to in Article 178(1)(b) CRR for all institutions in their respective jurisdictions. The Central Bank proposed approach set out below is in line with the proposed approach of the ECB SSM, set forth in the latter's consultation paper on the matter.[2]

Under Regulation 4 of the Capital Requirements Directive (CRD IV), the Central Bank is designated as the national competent authority (NCA) that carries out the functions and duties in CRD IV and CRR. The Central Bank's powers and requirements in this area generally are exercised pursuant to the provisions of the CRD Regulations, CRR and, inter alia, the Central Bank Acts, including the Central Bank (Supervision and Enforcement) Act 2013.

The Central Bank of Ireland's Implementation Notice specifies requirements and guidance in relation to the implementation of CA options and discretions under the CRR and the Capital Requirement Directive (CRD) IV.

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[2] The ECB SSM consultation paper is available here.

Central Bank of Ireland – current approach

In its 2014 Implementation Notice, the Central Bank notes the following:

''Pending the application of the European Commission regulation adopting the RTS, relevant entities are required to have an appropriate and documented materiality policy; where thresholds are set based on the distribution of exposures and taking into consideration product and obligor characteristics.''

Following the revision of the Central Bank's Implementation Notice in 2017, no change was made to the Central Bank's approach to the materiality threshold for credit obligations past due. Following the consultation period, the Central Bank will update the Implementation Notice to reflect the implementation of the RTS.

RTS – Materiality Threshold

The RTS sets out a threshold against which the materiality of a credit obligation past due shall be assessed. This threshold consists of two components:

1. An absolute component – This refers to an absolute monetary amount set by the CA. It should be expressed as the maximum amount for the sum of all amounts past due owed by an obligor to the institution, the parent undertaking of that institution or any of its subsidiaries. For retail exposures, the materiality threshold shall not exceed 100 EUR. For all other exposures, the threshold shall not exceed 500 EUR.

2. A relative component – The percentage of the overall credit obligation that the amount past due represents. It should be expressed as a percentage reflecting the amount of the credit obligation past due in relation to the total amount of all on-balance sheet exposures to that obligor of the institution, the parent undertaking of that institution or any of its subsidiaries, excluding equity exposures. The percentage shall be bounded between 0% and 2.5% and set at 1% unless deemed otherwise by the CA.

On the one hand, the amount that can be considered material depends on the level of the overall credit obligation, while institutions tend to consider all amounts below a certain level as immaterial. Therefore, the past due credit obligation should be considered material when both the absolute and relative amounts are exceeded.

Proposed Approach

When establishing the materiality threshold pursuant to its tasks under the RTS, the Central Bank proposes to set the absolute and relative components of the materiality threshold as follows:

- An absolute component – For retail exposures the materiality threshold shall be set at 100 EUR. For all other exposures the threshold shall be set at 500 EUR;
- A relative component set at a ratio of 1% of the amount of the credit obligation past due in relation to the total amount of all on-balance sheet exposures to that obligor of the institution, the parent undertaking of that institution or any of its subsidiaries, excluding equity exposures;
- Both the absolute and relative threshold will apply from 31 December 2020.

Questions for consultation

1. Do you agree with proposed approach set out by the Central Bank of Ireland in this paper with regard to the absolute and relative thresholds as per the RTS?

2. What is your view of the proposed application date for the thresholds of 31 December 2020?

3. What is the expected operational impact of the implementation of the RTS on your institution?

4. What is the expected quantitative impact of the implementation of the RTS on your institution?

5. Do you have any additional views on the implementation of the RTS and the application of the thresholds?

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