



EBA REPORT ON THE IMPLEMENTATION OF SELECTED COVID-19 POLICIES

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Contents

Abbreviations	4
Executive summary	5
1. Introduction	6
2. Guidelines on moratoria: implementation and monitoring	9
2.1 Questions and answers about the implementation of the guidelines on moratoria	10
2.1.1 Key issues	10
Similar measures	10
Selection criteria	14
2.1.2 Other questions	15
2.2 Summary of notifications received	28
3. Operational risk	31
3.1 Background	31
3.2 General criteria on COVID-19-related operational risk losses	32
3.3 COVID-19 operational risk classification schema	33
3.3.1 Impacts of COVID-19 on institutions' business continuity	34
3.3.2 Impacts of COVID-19 on institutions' ordinary course of business	34
3.3.3 Impacts of COVID-19 on credit risk and potential consequences on operational risk	34
3.3.4 Impacts of implementing novel legislation in response to COVID-19	36
3.3.5 Impacts of COVID-19 on loss events	37
4. Guidelines on COVID-19 reporting and disclosure: implementation questions	45
4.1 COVID-19 reporting	45
4.1.1 General: definitions and scope	45
Level of application	45
4.1.2 F 90.01: Overview of EBA-compliant moratoria (legislative and non-legislative)	48
Scope of the template	48
4.1.3 F 90.02: Overview of other COVID-19-related forbearance measures	51
4.1.4 F 90.03: Overview of newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	51
4.1.5 F 91: Information on loans and advances subject to measures applied in response to the COVID-19 crisis	53
4.1.6 F 92.01: Measures applied in response to the COVID-19 crisis: breakdown by Nomenclature of Economic Activities (NACE) codes	55
4.1.7 F 93.01: Interest income and fee and commission income from loans and advances subject to COVID-19-related measures	56
4.1.8 F 93.02: Prudential information on loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	56
4.2 COVID-19 disclosure	57
4.2.1 General: definitions and scope	57

4.3. Additional implementation questions on COVID-19 reporting received after the first remittance date	59
4.3.1. General issues	59
4.3.1 F90.01: Overview of EBA-compliant moratoria (legislative and non-legislative)	61
4.3.2 F90.03: Overview of newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis	62
4.3.3 F91: Information on loans and advances subject to measures applied in response to the COVID-19 crisis	63
4.3.4 F92.01: Measures applied in response to the COVID-19 crisis: breakdown by Statistical Classification of Economic Activities in the European Community (NACE) codes	63
4.3.5 F93.01: Interest income and fee and commission income from loans and advances subject to COVID-19-related measures	64
5. Downturn LGD estimation	66
5.1 Identification of (a likely) COVID-19 downturn period	66
5.2 Calibrating COVID-19 downturn LGDs	68
6. Treatment of public guarantee schemes	71
6.1 Approaches available to recognise public guarantees	71
6.2 Categorisation of the changes to the rating systems	74
6.3 IRB guarantors and changes in the scope of PPU	76

Abbreviations

AMA	advanced measurement approach
ASA	Alternative Standardised Approach
B&R	background and rationale
BIA	Basic Indicator approach
CA	competent authority
CRR	Capital Requirements Regulation
EBA	European Banking Authority
GL	guidelines
HDP	high default portfolios
IRB	internal ratings based
NPV	net present value
RWA	risk-weighted asset
SA	standardised approach
TSA	The standardised approach for operational risk
SMEs	small and medium-sized enterprises

Executive summary

The COVID-19 pandemic has raised a significant number of policy challenges, at both the EU and national levels. The EBA took decisive actions, including, in particular, the publication of the Guidelines on legislative and non-legislative moratoria on loan repayments (hereinafter the GL on moratoria), whereby the flexibility embedded in the regulatory framework is applied with the aim of preserving comparable metrics. The EBA has also published the Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (hereinafter the GL on COVID-19 reporting and disclosures). The objective of these guidelines is to address the data needs and to coordinate short-term additional supervisory reporting and disclosure necessary for monitoring the implementation of the measures introduced in response to the COVID-19 crisis across the EU Member States. It is however also clear that a significant number of policy issues have arisen and are still arising. This report, therefore, is a third COVID-19 implementation report, which provides clarifications on questions raised in the context of the EBA's monitoring of the implementation of COVID-19 policies. Given that new issues may continue to arise, EBA might update the report at a later stage.

The implementation report, at the current stage, includes questions and answers brought to the attention of the supervisory community on the GL on moratoria; this is accompanied by a summary overview of the general payment moratoria in place in the EU. The implementation report covers also questions and answers in relation to the implementation of the GL on COVID-19 reporting and disclosure. The GL on moratoria and the GL on COVID-19 reporting and disclosure have been developed under extremely tight deadlines and, therefore, providing a clarification of certain paragraphs is deemed of broader interest to the industry and the public.

The report also includes considerations of criteria that institutions should adopt with regard to operational risk in the context of COVID-19, enriched with respect to the previously published version (EBA/REP/2020/19) to address questions raised in the meantime by institutions and supervisor. The common criteria provided in the report aim to reduce possible inconsistencies in the calculation of capital requirements and supervisory reporting related to operational risk. This will allow institutions to have a clear view of supervisory and regulatory expectations, when dealing with operational risk events and losses stemming from COVID-19 pandemic.

The report also includes clarifications on the likely identification of a COVID-19-triggered downturn period and its incorporation into downturn LGD estimation.

Finally, the report includes clarifications on the treatment of the COVID-19 public guarantee schemes as a form of credit risk mitigation under the A-IRB approach.

1. Introduction

The EBA has taken a number of steps to clarify the flexibility embedded in the regulatory capital framework and provide operational relief in response to the COVID-19 pandemic; this is most clearly summarised in its Statement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of COVID-19 measures of 25 March 2020.¹ Following up this statement, the EBA published on 2 April 2020 the Guidelines on legislative and non-legislative moratoria on loan repayments (EBA/GL/2020/02; hereinafter the GL on moratoria),² whereby conditions are provided under which exposures covered by the moratoria should not necessarily be classified as forborne under Article 47b of Regulation (EU) No 575/2013³ (Capital Requirements Regulation – CRR) and, consequently, would not have to be automatically assessed as distressed restructuring under the definition of default.

The GL on moratoria allow institutions to grant payment holidays for a pre-defined set of obligors, for which there need not be an automatic regulatory reclassification, due to the unprecedented situation, which customers and institutions face today with the COVID-19 pandemic. It however remains of utmost importance that institutions continue to monitor the portfolio and recognise losses in line with the remaining prudential framework. Therefore, while the application of the Guidelines remove the obligation to perform an automatic reclassification, when granted payment holidays under a broad moratorium, it does not remove the responsibility of institutions to continue loan monitoring and ensure that credit issues, both in the prudential, but also accounting framework, is recognised.

In order to allow effective monitoring of the effects of the COVID-19 pandemic and the application of response measures, it is necessary for credit institutions to collect information about the scope and effects of the use of the moratoria and other COVID-19-related forbearance measures. Monitoring of the application of the moratoria on loan repayments, COVID-19-related forbearance measures and the use of public guarantees to new lending is crucial for the purposes of risk analysis of individual institutions and for the overall financial stability in the EU. The templates introduced under the Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis (EBA/GL/2020/07; hereinafter the GL on COVID-19 reporting and disclosures)⁴ are expected to achieve this objective.

¹ [Link to the statement](#) on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of COVID19 measures.

² [Link to the guidelines](#) on moratoria.

³ As amended by Regulation (EU) 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation (EU) No 575/2013.

⁴ [Link to the guidelines on COVID-19 reporting and disclosure.](#)

These Guidelines address data gaps associated with such measures to ensure an appropriate understanding of institutions' risk profile and the asset quality on their balance sheets for both supervisors and the wider public.

The aim of the first part of the report is twofold: (i) to provide a follow-up on the implementation issues around COVID-19 credit risk policy relief measures and, in particular, the GL on moratoria; and (ii) to monitor how such measures are implemented. Implementation aspects in the context of COVID-19 are also analysed for EBA policies regarding own funds requirements, such as the CRM framework and the draft RTS on the specification of the nature, severity and duration of an economic downturn in accordance with Articles 181(3)(a) and 182(4)(a) of Regulation (EU) No 575/2013 (hereinafter the RTS on economic downturn)⁵ and the Guidelines for the estimation of LGD appropriate for an economic downturn (hereinafter the GL on downturn LGD estimation)⁶. Moreover, while the report focuses on credit risk policies, it also provides some considerations around operational risk in the context of the COVID-19 pandemic, in particular related to the recognition of credit and operational risk losses stemming from COVID-19.

This report also answers frequently asked questions by the credit institutions in the implementation of the reporting and disclosure requirements set out in the GL on COVID-19 reporting and disclosure.

The structure of the report is as follows:

- Section 2 focuses on the implementation issues around the GL on moratoria. In particular, several CAs and institutions brought up aspects of the guidelines that may deserve further clarification. The most relevant questions and answers, which should reflect the views of the EBA's members, are gathered in Section 2.1. Section 2.2, moreover, presents a summary overview of the moratoria in place in the EU as a follow-up to the notifications that the EBA received from CAs.
- Section 3 focuses on common criteria that institutions should follow for the identification and treatment of COVID-19 related operational risk events and losses, through the provision of a dedicated 'risk classification schema'. The schema aims to reduce possible inconsistencies in the calculation of capital requirements by institutions, in the context of COVID-19. This is done through the provision of general criteria, a dedicated 'risk classification schema' and interpretative elements for the identification and quantification of the one-off attribute of COVID-19 operational risk costs. In particular, the general criteria and the interpretative elements of the one-off operational risk costs have been added to the Section 3 in order to address the questions raised by institutions and supervisors after the publication of the previous version of this report.

⁵ [Link](#) to the RTS on economic downturn.

⁶ [Link](#) to the Guidelines on downturn LGD estimation.

- Section 4 focuses on the implementation issues around the GL on COVID-19 reporting and disclosures. This section brings together several points that CAs and institutions brought to the EBA’s attention and asked for clarification.
- Section 5 clarifies how the policies in the RTS on economic downturn and the GL on downturn LGD estimation should be applied in the light of the COVID-19 pandemic.
- Section 6 clarifies certain aspects of how public guarantee schemes provided in response to the COVID-19 crisis should be treated for credit risk mitigation purposes by institutions applying the IRB approach with own estimates of LGDs.

Whereas this report was first published on 7 July 2020, this report has been updated on 7 August 2020 in order to provide additional clarity on the implementation of the reporting and disclosure framework in the context of COVID-19 measures. This has been done by adding Section 4 of the report. In a second update, on 21 December 2020, the EBA has included few additional FAQs in Section 2 in relation to the GL on moratoria, and amended some FAQs in order to align them with the requirements stemming from the reactivation of the GL on moratoria on 2 December 2020. Furthermore, Section 3 on operational risk has been amended in order to include the answers to additional question raised by institutions and competent authorities (CAs) on general aspects concerning the COVID-19 related operational risk events and losses and on how to identify and quantify the “one-off” attribute of the COVID-19 operational risk costs. Section 4 of this report has been reviewed to include additional questions that have been raised by the CAs and credit institutions for the implementation of the COVID-19 reporting and disclosure guidelines (EBA/GL/2020/07), together with the answers to these questions. Finally, Sections 5 and 6 are new sections, which have been included in the second update on 21 December 2020. These sections provide clarity on the interaction of the COVID-19 pandemic with the RTS on economic downturn, the GL on downturn LGD estimation, as well as the treatment of COVID-19 related public guarantee schemes for credit risk mitigation purposes for institutions applying the Advanced IRB approach.

Finally, it is important to note that, in consideration of the rapid succession of COVID-19-related events, the report may be updated in the future with additional clarification on the prudential treatment of COVID-19-related measures, as well as on the implementation issues around existing policies in the context of the current pandemic.

2. Guidelines on moratoria: implementation and monitoring

The EBA published the GL on moratoria on 2 April 2020. In these guidelines, the core issue is the clarification that the payment moratoria do not automatically trigger forbearance classification, under Article 47b of the CRR, and similarly do not automatically trigger the assessment of distressed restructuring under the definition of default (i.e. not requiring the application of the 1% threshold for the NPV decrease in the case of moratoria) for obligors under legislative or non-legislative moratorium. The GL on moratoria set out in detail the criteria that legislative and non-legislative moratoria must fulfil for the treatment to apply.

Subsequent to the publication of the GL on moratoria, the EBA has received a number of questions from institutions, industry associations and CAs about the interpretation of certain paragraphs in the GL. Section 2.1 lists the questions and issues raised after the publication of the GL on moratoria and presents the EBA's clarification of these aspects. This is particularly relevant, given that on 18 June 2020 the EBA extended the possibility for institutions to benefit from the treatment set out in the GL until 30 September 2020.⁷

The EBA communicated on 21 September the phase-out of its GL on moratoria⁸. However, in the light of the second COVID-19 outbreak and the resulting government restrictions in many EU countries, the EBA has decided to reactivate the GL on moratoria⁹ by introducing a new deadline for the application of moratoria set to 31 March 2021, replacing the previous date of 30 September 2020, under two constraints: (i) the overall length¹⁰ of payment holidays granted under general payment moratoria after 30 September 2020¹¹ is subject to a cap of nine months at exposure level, and (ii) institutions are requested to notify the relevant competent authority or authorities about their plans for ensuring that assessments of customers' unlikelihood to pay in relation to exposures subject to the moratoria are performed in an adequate manner. The EBA has introduced these two new constraints in order to ensure that the support provided by moratoria is limited to bridging liquidity shortages triggered by the new lockdowns and that the mechanism of the unlikelihood to pay assessment is reinforced.

⁷ [Link to the press release](#) on the extension of the deadline for the GL on payment moratoria.

⁸ [Link to the press release](#) on the phase out of the GL on payment moratoria

⁹ [Link to the press release](#) on the reactivation of the GL on payment moratoria

¹⁰ Note that these GL do not require these nine months to be consecutive, i.e. a loan may for instance benefit from a six month payment extension, resume payments for three months, and afterwards benefit again from the treatment foreseen in the EBA GL for another three months.

¹¹ This implies that rescheduling of payment granted after 30 September 2020 should take into account payment holidays already granted under general payment moratoria before 30 September 2020. To be clear, however, payment holidays exceeding the 9-month cap granted under general payment moratoria before 30 September would be eligible for the treatment set out in these guidelines.

Moreover, as a follow up of the numerous questions received on the application of the GLs on moratoria to securitisation exposures, EBA provided the necessary clarifications in a dedicated section of the EBA statement on additional supervisory measures in the COVID-19 pandemic.¹²

Furthermore, CAs are notifying the EBA about the compliance with these GLs¹³ and about key aspects of the moratoria schemes that have been introduced in their jurisdictions. Section 2.2 presents an overview of these moratoria schemes in the EU as part of the EBA's COVID-19-monitoring efforts.

2.1 Questions and answers about the implementation of the guidelines on moratoria

A significant number of questions have been raised by CAs, industry associations as well as institutions related to relevant aspects in relation to the implementation of payment moratoria. To ensure a harmonised and swift implementation of the GL, the EBA has continually engaged with CAs. The issues raised have also been shared widely among CAs to foster a convergent implementation of the GL, which is particularly relevant for three key aspects deemed crucial for harmonised implementation. However, with the publication of this report and given the nature of the questions, this report makes these considerations public, as EBA recognises that this is of broader interest.

Section 2.1.1 provides clarification on three key aspects of the GL on moratoria. The first key aspect further clarifies the condition that the moratorium has to be broadly applied, to ensure that the moratoria are similar in economic substance, regardless of whether they are legislative or non-legislative. Second, this report provides further details about the condition that a moratorium should change only the schedule of payments, and that the moratorium should not affect other conditions of the loan. The third key aspect concerns the selection criteria in the moratorium, which determine the conditions under which obligors are allowed to benefit from the moratorium; these are usually related to the extent to which the obligor is affected by the COVID-19 pandemic. However, further clarification seems needed on how this interacts with such criteria allowing any assessment of the obligor's creditworthiness.

In addition to these broader issues, Section 2.1.2 contains a list of other detailed questions that have been received, along with their answers. The questions include topics pertaining to, for instance, cross-border issues, the general scope of the guidelines, the date of application, how to treat the renewal of loans, bullet loans or seasonal loans, and the counting of days past due.

2.1.1 Key issues

Similar measures

¹² [Link to the statement](#) on additional supervisory measures in the COVID-19 pandemic.

¹³ [Link to the provisional compliance table](#) for the GL on moratoria.

This section provides further clarity on the requirement specified in paragraph 10(a) of the GL on moratoria that under a certain moratorium scheme similar payment relief measures must be taken by relevant institutions. This aspect is considered in relation to other conditions in these GL, in particular paragraph 10(d), which specifies that the moratorium offers the same conditions for the changes of the payment schedules to all exposures subject to the moratorium, and paragraph 10(c), which specifies that the only changes permitted to the payment schedule offered under the moratorium are suspending, postponing or reducing the payment of principal amounts, interest or full instalments, for a predefined limited period of time.

Specific questions that the EBA has received are:

- If the industry-wide moratorium offers X months of payment delay to all business loans up to EUR Y million, would it be allowed, under the GL on moratoria, that some institutions offer a longer payment delay than X months?
- If the industry-wide moratorium offers X months of payment delay to all business loans up to EUR Y million, would it be allowed, under the GL on moratoria, that some institutions offer the same X months' payment delay to business loans above EUR Y million?
- Can a moratorium offering postponement of the payment of the principal amount be considered similar to a moratorium offering postponement of the payment of the principal plus interest? In particular, would it be allowed that one institution offers to its obligors a moratorium whereby payments of principal amounts are postponed during the moratorium, whereas another institution offers to its obligors a moratorium whereby payments of both principal amounts and interest amounts are postponed?
- Can individual institutions offer different changes to the payment schedules when operationalising a general payment moratoria? In particular, would it be allowed that one institution offers, to all its obligors, an extension of the payment schedule of six months, whereas another institution offers an extension of the payment schedule of four months to its obligors?
- Would a moratorium granting obligors the right to choose the postponement of either (i) capital part of instalments only or (ii) full instalments (both capital and interest) under the moratorium be considered compliant with the GL on moratoria?

EBA considerations

When assessing whether the individual payment relief measures can be considered similar, they should be assessed in the broader context rather than by focusing on stand-alone elements. First and foremost, such an assessment must ascertain that the payment relief measures do not include borrower-specific criteria, in particular in relation to financial difficulties (in accordance with Article 47b of the CRR). Second, such an assessment must also take into account all relevant aspects to determine whether the relief offered under individual schemes can be considered similar. Certain differences in individual elements, such as the duration of the payment extension or the

extent of the relief measure (only principal or principal and interest) may be permitted as long as they do not undermine the similarity of the measures.

More specifically, with regard to the duration of the moratorium, the industry- or sector-wide moratoria schemes may specify a minimum or maximum length of the payment pause to be offered by institutions to a specific range of clients. In this case, it is possible that different institutions offer moratoria of different lengths, as long as the length is within the range specified in the general moratorium scheme and these payment relief measures are similar. However, the payment relief offered by an institution as part of an industry- or sector-wide moratorium scheme has to offer the same conditions to all customers of that institution within the scope of the moratorium.

Furthermore, the moratorium offered by an institution to its customers as part of a general moratorium scheme may specify a maximum length of the payment pause (e.g. up to 12 months). In this case, it would have to be up to the obligor, and not the institution, to exercise this choice and opt for a payment delay equal to or shorter than 12 months. Hence, a differentiation has to be made between what is offered by the bank, which has to apply to all exposures within the scope, and the solution chosen by the obligor, which may be different for different obligors.

Similarly, with regard to the maximum amount of the loan, a general moratorium scheme may specify the maximum amount of the loans to which the moratorium can be applied, leaving a degree of flexibility to individual institutions to apply the moratorium up to a lower limit of the loan amount. However, once the exact limit is chosen, the institution has to offer the moratorium to all loans within the scope of the moratorium with the amount below the specified limit.

Paragraph 10(d) of the GL on moratoria requires that the moratorium specifies certain conditions for the changes of the payment schedules, as the same conditions have to be offered to all exposures subject to the moratorium. Paragraph 10(c) of the GL on moratoria further specifies that such changes to the payment schedules may include suspending, postponing or reducing the payment of principal amounts, interest amounts or full instalments for a predefined limited period of time. Therefore, in general, individual institutions participating in a general payment moratorium should not individually decide on the exact modalities of the change in the payment schedule, as these should be consistently defined in the moratorium itself for all participating institutions. However, in some specific circumstances, the general conditions of the moratoria may leave a limited number of choices to the institutions, for instance by allowing the postponement of payments of either principal amounts or full instalments. In such cases, an individual participating institution may choose the preferred approach and offer it consistently to all of its clients. Alternatively, this choice may be left to the obligors, ensuring that the same range of options is offered to all obligors within the scope of the moratorium.

Similar considerations apply to the length of the extension of the payment schedule. While in principle this should be specified as part of the conditions for the changes of payment schedules, certain limited flexibility may be allowed to participating institutions. Similarly to the length of the moratorium period, the general conditions may specify a maximum length of the extension of the payment schedule. In this case, however, where an institution chooses a specific length of the

extension within the range specified in the general conditions of the moratorium scheme, it has to offer the same conditions to all of its clients within the scope of the moratorium, such that it is left to the discretion of the client to request a shorter length. In a specific case where individual institutions participating in a general payment moratorium offer an extension of the payment schedule equal to the duration of the moratorium, and they offer to all of their clients different durations of the moratoria, individual institutions can offer different extensions of the payment schedule (equal to the duration of the moratoria) to all of their clients.

To summarise, while the notion of 'similar measures' used in paragraph 10(a) of the GL on moratoria leaves room for some minor differences in implementation between institutions, it is important that the number of options available to institutions participating in the general memorandum schemes is limited to ensure that the relief measures offered by individual institutions remain similar. These options may relate to the length of the moratorium, the length of the extension of the payment schedule, the application of the moratorium to principal amounts or full instalments, or other specific aspects of the conditions offered, but not to all of these elements at the same time.

Furthermore, the implementation of the moratorium may specify a limited list of options for which the choice lies with the obligor and not with the institution. In this case, however, it is important that the same range of options is presented to all obligors of the institution within the scope of the moratorium. Moreover, the list of options must be in line with the conditions of the general moratorium scheme in which the institution participates.

In this context, it should be noted that this does not imply that the same offer has to be made by an institution to all of its customers. In accordance with the last subparagraph of paragraph 10 of the GL on moratoria, 'separate general payment moratoria may apply to different broad segments of obligors or exposures'. Therefore, institutions may apply a different moratorium to retail mortgages, for example, and a different condition may apply to SMEs.

Effect on the NPV

The GL on moratoria mention in paragraph 24 of the background and rationale that 'the moratorium changes only the schedule of payments' and 'the moratorium should not affect other conditions of the loan, in particular the interest rate, unless such change only serves for compensation to avoid losses which an institution otherwise would have due to the delayed payment schedule under the moratorium, which would allow the impact on the net present value to be neutralised.'

Specific questions that the EBA has received are:

- Do I understand correctly that the financial position of the lender should not be diminished by the moratoria (i.e. the net present value of the credit obligation should be the same post moratorium as it was pre moratorium)? So, therefore, the interest amount has to increase for the borrower/obligor?

- In cases where institutions decide collectively to forgo a slice of the interest across the board, would that be considered as compliant with the moratorium if the NPV threshold of 1% is adhered to?

EBA considerations

These GL on moratoria do not specify what the effect of the moratorium on the NPV should be. Given this, it is up to the institution to follow the conditions set out in the legislative or non-legislative moratorium. There may be a decline in the NPV if the obligor makes use of the moratorium and postpones one or several payments and no interest is charged for the time covered by the moratorium. Alternatively, the moratorium may be NPV-neutral (i.e. no change in the NPV) if subsequently at least one of the instalments is adjusted upwards or added.

Paragraph 10(c) of the GL on moratoria permits that payments of interests may be suspended, postponed or reduced during the length of the moratorium. While this will trigger an NPV reduction, under the GL on moratoria it will not be considered a distressed restructuring and the NPV assessment does not need to be made, as the 1% threshold for NPV reduction specified in paragraph 51 of the EBA GL on the application of the definition of default¹⁴ is not applicable. Hence, the conditions of paragraph 10 of the GL on moratoria can be met even if the NPV decreases by more than 1%.

The legislative or non-legislative moratorium could also be set up in a way that incentivises shorter payment pauses. It would, for instance, be in line with the GL on moratoria to specify a moratorium whereby payment delays of up to three months would not increase the subsequent instalments (which implies a decline in the NPV of the loan), whereas instalments would increase if the obligor opts for a payment delay of longer than three months (which could make the loan NPV-neutral).

Selection criteria

The third key issue concerns the application of the selection criteria determining the scope of application of the moratorium. It was clarified in paragraph 22 of the background and rationale that the moratorium may be offered to clients based on their request to apply the moratorium, presenting the extent to which the obligor is affected by the COVID-19 pandemic. This section provides further clarity on how this possibility interacts with the requirement in paragraph 10(b) of the GL on moratoria that an obligor should be allowed to take advantage of the moratorium without the assessment of its creditworthiness.

Specific questions that the EBA has received are:

- What kind of assessment should the institution make with regard to an application of an obligor to make use of a moratorium?
- Does the institution have the right to reject such an application?

¹⁴ [Link to the guidelines](#) on the application of the definition of default.

- Which information needs to be included in the application?

EBA considerations

Paragraph 22 of the background and rationale of the GL on moratoria clarifies that the moratorium may be offered to clients based on their request to apply the moratorium, presenting the extent to which the obligor is affected by the COVID-19 pandemic. The GL on moratoria do not specify the content of such an application, as it would have to reflect specific selection criteria defined by the moratorium. However, in order to apply the treatment specified in the GL on moratoria, the selection criteria would have to meet the conditions specified in paragraph 10(b) of these GL. Therefore, as further explained in paragraph 22 of the background and rationale, the acceptance of the obligor's application cannot be dependent on the assessment of creditworthiness of the obligor, but must depend on the objective general criteria specified in the moratorium. Such criteria may include a check on whether the obligor has a performing status, if defined in the moratorium.

However, while the decision on the application of the moratorium should not be based on the assessment of creditworthiness or payment capacities of the obligor, institutions should still perform the assessment of unlikelihood to pay based on the most up-to-date schedule of payment, in accordance with the normal timeline for such assessments. Whenever this assessment concludes that the obligor is unlikely to pay its credit obligations to the institution, a default shall be considered to have occurred. Based on this assessment, institutions should not reject any application for the general payment moratorium, but they should nevertheless apply the definition of default and assess the potential unlikelihood to pay of obligors in accordance with the usual policies and practices. It is therefore possible that an exposure subject to a moratorium will not be considered forborne, because the criteria of the GL on moratoria are met, but it will be classified as defaulted based on the assessment of unlikelihood to pay.

2.1.2 Other questions

	Question	Paragraph	Implementation stance
1	What is the date of application of these GL? Is it the date of publication in English on the EBA website (i.e. 2 April) or is it the date of publication of these GL in all EU languages?	Paragraph 9 of these GL	The date of application of the GL is 2 April 2020.
2	Are these GL also applicable to CRR-regulated leases?	Paragraph 6 of these GL	As implied by paragraph 6 of the GL, they apply to those credit obligations that are subject to the definition of default and the definition of forbearance. Hence, CRR-regulated leases fall within the scope of these GL.

Question	Paragraph	Implementation stance	
3	Do these GL allow the application of the moratorium to a sub-exposure class that is defined as clients whose income has decreased or whose financial situation has deteriorated due to COVID-19?	Paragraph 10(b) of these GL	A sub-exposure class is understood as a specific sub-category of an exposure class as defined in the CRR (e.g. specialised lending exposures within corporate exposure class or exposures secured by immovable property within retail exposure class under the IRB approach, or SMEs within either corporate or retail exposure class). Sub-exposure class is an example of a possible criterion for delineating broad groups of obligors without reference to their creditworthiness, but other criteria may be used instead. While the proposed criterion based on decreased financial situation would not be considered a sub-exposure class, it would meet the requirements set out in paragraph 10(b) of the GL. As further specified in paragraph 22 of the background and rationale, the moratorium may be addressed specifically to clients affected by the COVID-19 pandemic. Therefore, in this context, deterioration of financial situation should not be understood as differentiating between customers according to their individual rating or its decrease and institutions can select customers only on the basis of whether they have been affected by the COVID-19 pandemic.
4	Please specify how branches are to be treated under the non-legislative moratorium.	None	These GL do not foresee any particular treatment for branches. Depending on the scope of application of the specific moratorium, the branches would have to either follow the policy applied by the institution or participate in the moratorium scheme applicable in the jurisdiction in which they operate.
5	Is it allowed for the bank to charge fees for the application of the moratorium (as a fee for a change of contract)?	Paragraph 2 4 of the background and rationale	Yes, institutions are allowed to charge fees for handling the application for the moratorium, as long as this is in line with the terms and conditions of the loans. However, while it is not prohibited to charge fees, institutions should be mindful of customer protection issues and the objective of the contingency measures.

Question	Paragraph	Implementation stance
<p>6 It is stated that the guidelines apply also to moratoria launched before the application of these guidelines. If the institutions are already offering (automatic) payment relief and grace periods to their own predefined portfolios/sub-exposure classes, but neither a legislative nor a non-legislative moratoria has yet been announced or agreed in the Member State as such, how should the institutions treat the grace periods that have already been granted? Can the institutions apply the guidelines in this case, i.e. can the bank later retrospectively treat previously granted grace periods as described in the guidelines (primarily with regard to loan classification) and consider them subject to a moratorium?</p>	<p>Paragraph 1 6 of the background and rationale</p>	<p>Where an institution-specific moratorium is transformed into an industry- or sector-wide solution and as a consequence meets the conditions of the GL, the treatment specified in the GL can be applied. However, in this case the conditions previously offered to the clients would have to be consistent with the conditions specified by the subsequently agreed general moratorium.</p>
<p>7 One of the main aspects of the moratoria is that the counting of days past due should be suspended during that period. Paragraph 13 of these GL states that ‘Where a general payment moratorium meets the conditions referred to in par. 10, it should be treated in accordance with par. 16 to 18 of the EBA Guidelines on the application of the definition of default, issued under Article 178 of Regulation (EU) No 575/2013.’</p> <p>However, the EBA GL on the application of the definition of default (EBA/GL/2016/07) apply only from 1 January</p>	<p>Paragraph 1 3 of these GL</p>	<p>The date of application of the GL is 2 April 2020. Therefore, by reference to paragraphs 16 to 18 of the GL on default definition, the application of these paragraphs is in practice anticipated in the specific context of the moratoria. This does not lead to a contradiction, as the guidelines provide only clarifications on the application of the requirements already existing in the CRR and the CAs and institutions may choose to implement the guidelines earlier than the specified (latest) date of application.</p> <p>In particular, institutions continue to be required to calculate the days past due and apply the materiality threshold in accordance with Article 178(1)(b) of the CRR. The GL on moratoria provide additional clarification that in the context of the</p>

Question	Paragraph	Implementation stance
<p>2021. Given the contradiction, how does the EBA foresee the application of EBA/GL/2020/02 paragraph 13 and guide the Member States to implement the given paragraph?</p>		<p>moratoria the calculation should be based on the revised schedule of payments.</p>
<p>8 In case there are separate moratoria for different portfolios applied, can different institutions participate in different moratoria? An example: institutions X and Y both have mortgage and corporate portfolios. Both institutions X and Y participate in the mortgage moratoria, but bank Y does not want to apply moratoria for corporates – is this possible?</p>	<p>Paragraph 1 0(a) of these GL and paragraph 2 3 of the B&R</p>	<p>This is allowed under these GL, in particular in the case of non-legislative moratoria, which are not compulsory for the institutions. The participation in specific moratoria by institutions may reflect their different business models and focus on different segments of clients. However, for each of the moratoria to comply with the conditions set out in these GL, they have to be broadly applied across the industry or within a specific sector of the industry (e.g. consumer finance).</p>
<p>9 If the moratorium is applied for example from June 2020, can a client 'join' the moratorium for example in July or beyond the revised deadline of 31 March 2021? Or must the number of clients be set before applying the moratoria?</p>	<p>Paragraph 1 0(f) of these GL</p>	<p>With the updated deadline of 31 March 2021, obligors can join the moratorium until 31 March, which means that the decision on the application has to be taken before that date and the payments should be rescheduled by then.</p> <p>In case a legislative or non-legislative moratorium specifies a deadline beyond the EBA deadline, only those obligors for which the decision on the application of the moratorium is taken before 31 March 2021 may benefit the treatment specified in these GL. For those obligors where the decision on the application is taken after the deadline, the usual requirements on definition of default, forbearance and distressed restructuring apply. It should be stressed that for those applications of the EBA GL on moratoria after 30 September, the constraint of 9 months on the total length of the payment extension should be adhered to.</p>

Question	Paragraph	Implementation stance
<p>10 Would the application of the moratorium, entailing the automatic renewal (for a predefined period of time) of revolving loans, which fulfils the other requirements in the GL, be considered compliant with these GL?</p>	<p>Paragraph 26 of the B&R</p>	<p>As long as the moratorium meets the conditions set out in in paragraph 10 of the GL, the treatment proposed in these GL can be applied. In particular, paragraph 26 in the background and rationale specifies that the use of existing credit lines or renewal of revolving loans is not considered a new loan, and, therefore, these GL can be applied to revolving loans.</p> <p>The key issue is whether an automatic renewal or revolving loan can be considered a suspension, postponement or reduction of the payment in accordance with the requirement of paragraph 10(c) of the GL. Given that the lack of renewal would render the drawn amounts due, the renewal can be considered a form of postponement of payments and hence this can be considered within the scope of these GL.</p>
<p>11 Should institutions treat the moratoria entailing the automatic renewal of the revolving loans as a separate kind of moratoria (separate from the moratoria for loans with a specified term) and consequently notify them separately?</p>	<p>Paragraph 26 of the B&R</p>	<p>Automatic renewal of revolving loans is clearly a significantly different form of moratorium from the modification of a fixed schedule of payments. In this context the following possibilities could be considered:</p> <ul style="list-style-type: none"> - If the renewal is the only measure offered for revolving loans, this should be considered a separate moratorium for a specific segment of loans in accordance with the last sub-paragraph of paragraph 10 of the GL and should be notified separately. - If the moratorium generally envisages suspension, postponement or reduction of interest payments for all loans, including the revolving ones, and in addition offers automatic renewal of revolving loans if the renewal date falls within the period of the moratorium, this can be considered to be part of the same moratorium.
<p>12 Would the differentiation of obligors based on only one criterion be sufficient to meet the conditions under the GL? In particular, would the criterion of a client type, i.e. (i) individuals, (ii) SMEs and (iii) large enterprises, be</p>	<p>Paragraph 10(b) of these GL</p>	<p>Yes, such a criterion would be in line with these GL. In particular, it is sufficient that the moratorium applies to a large group of obligors predefined on the basis of broad criteria, where any criteria for determining the scope of application of the moratorium should allow an obligor to take advantage of the moratorium without the assessment of</p>

Question	Paragraph	Implementation stance
considered to fulfil the requirement set out in paragraph 10(b) of the GL?		its creditworthiness, and where the moratorium should not be limited only to those obligors who experienced financial difficulties before the COVID-19 pandemic.
13	Paragraph 10(d) of these GL	<p>Paragraph 10(c) of the GL specifies that ‘the moratorium envisages only changes to the schedule of payments, namely by suspending, postponing or reducing the payments of principal amounts, interest or of full instalments, for a predefined limited period of time; no other terms and conditions of the loans, such as the interest rate, should be changed’.</p> <p>This provision does not specify the exact manner in which the suspended, postponed or reduced payments influence the payment schedule after the period of the moratorium. Therefore, extending the overall duration of the loan by more than the duration of the moratorium is not disallowed by these GL, as long as the same conditions are offered to all clients subject to the moratorium, in accordance with paragraph 10(d).</p> <p>Note however that for any applications of EBA/GL/2020/15, the total length of the period during which payments are suspended, postponed or reduced, is limited to a total period of 9 months, as specified under paragraph 10(bis) of these guidelines¹⁵. This cap acts at exposure level by constraining the overall length of payment holidays granted under general payment moratoria after 30 September 2020.</p>
14	Paragraph 10(b) of these GL	The GL specify in paragraph 10 the conditions that moratoria (legislative or non-legislative) should meet in order to benefit from the treatment set out in paragraphs 11 to 16 (i.e. under what conditions such moratoria do not trigger forbearance classification and the assessment of distressed restructuring). For

¹⁵ This implies that any rescheduling of payment granted after 30 September 2020 should take into account payment holidays already granted under general payment moratoria before 30 September 2020. To be clear, however, payment holidays exceeding the 9-month cap granted under general payment moratoria before 30 September would be eligible for the treatment set out in EBA/GL/2020/02 (as amended by EBA/GL/2020/15).

	Question	Paragraph	Implementation stance
	legislative moratoria requiring the eligible obligors' application to the bank, the latter does not have to perform any assessment of the requests received by the obligors other than what is required in the relevant Law governing the details/criteria of the moratorium.		the purpose of applying the moratorium, institutions are not required to perform any other assessment of the obligor apart from the assessment of whether the obligor meets the criteria for the scope of application of the moratorium specified in accordance with paragraph 10(b) of these GL.
15	This question relates to legislative moratoria in the case of bullet loans or seasonal loans. If such instalments are postponed under the provisions of the legislative moratorium, we understand that the said instalments will not become due as soon as the moratorium period expires. For example, assume that the moratorium period extends for 9 months and expires on 31 December 2020 and that an obligor's contractual repayment programme involves instalments due only in the period of 30 June to 30 September 2020 as a result of the business' cash flow profile. In such a case, it is our understanding that the due date of these instalments will be postponed till the respective June to September period a year later (i.e. 2021) in order to match the provisions of the existing contract. In other words, the counting of the days past due will start on 1 July 2021 and time will be frozen (for the purposes of counting days past due) till 30 June 2021.	None	First, it should be noted that these GL require not that instalments become due at the point where the moratorium period expires, but rather at the point where these payments are expected according to the (shifted) payment schedule. Second, these GL do not specify the duration of the overall extension of the payment schedule. In this respect, bullet loans or loans with seasonal instalments are not treated any differently in these GL. In particular, one could imagine a moratorium whereby all payments between 1 June and 30 September are suspended (i.e. 4-month duration of the moratorium), and whereby the payment schedules are extended such that the payments become due 9 months or 12 months later than the original schedule. However, paragraph 10(f) of the GL requires that the moratorium is applied before what was originally 30 June 2020, afterwards extended to 30 September 2020, and in the meantime to 31 March 2021). As further clarified in paragraph 22 of the background and rationale, the decision on the application has to be taken before that date and hence the payments should be rescheduled by then. Furthermore, in accordance with paragraph 10(d) of the GL, the same conditions have to be offered to all clients within the scope of application of the moratorium. Therefore, individual adjustment of the schedules due to the seasonal nature of specific businesses would not meet the conditions of these GL.
16	Are obligors that are eligible and have been approved to	Paragraph 3 8 of the B&R	The application of the moratorium should not be compulsory for obligors. This should

Question	Paragraph	Implementation stance
<p>participate in the moratorium allowed to initiate payments (partial or wholly at the obligor's discretion) of their contractual instalments (after informing the institution) before the expiration of the moratorium period?</p> <p>In addition, our understanding is that the counting of the days past due will start after the official expiry of the moratorium (i.e. the payment of instalments at the obligor's discretion during the period of the moratorium does not constitute a trigger event for counting of days past due).</p>		<p>be clear from paragraph 38 in the background and rationale, where it is stated that 'due to the non-compulsory character of the moratorium, the number of obligors to whom the moratorium was offered may be larger than the number of obligors to whom it was actually applied'. Furthermore, the moratorium may offer the obligors certain options with regard to the length of the moratorium, and, hence, the duration of the moratorium may depend on the specific choice of the obligor. However, once the moratorium is applied and the schedule is revised in accordance with the option chosen by the obligor, this should be adhered to both by the obligor and by the institution, and this revised schedule should be the basis for the counting of days past due.</p>
17	<p>Paragraph 1 O(f) of these guidelines and paragraphs 16 and 22 of the B&R</p>	<p>The treatment set out in the GL should be applied only to obligors who apply for the moratorium and for whom the decision on the application of the moratorium is taken before the originally specified deadline of 30 June 2020, which has afterwards been extended to 30 September 2020, and subsequently to 31 March 2021.</p>
18	<p>Paragraph 1 O(d) of these GL</p>	<p>The application of the moratorium should not be compulsory for obligors. This should be clear from paragraph 38 in the background and rationale, where it is stated that 'due to the non-compulsory character of the moratorium, the number of obligors to whom the moratorium was offered may be larger than the number of obligors to whom it was actually applied'. The GL do not specify how this non-compulsory aspect should be implemented by the institutions. In particular, the moratorium may be offered by the institution to its obligors by means of an opt-in mechanism, or alternatively it may be presented to all its</p>

Question	Paragraph	Implementation stance
		<p>obligors, allowing them to opt out. However, paragraph 10(f) requires that the moratorium is applied before 31 March 2021 (note that this was originally 30 June 2020 and has afterwards been extended to 30 September 2020). As further clarified in paragraph 22 of the background and rationale, the decision on the application has to be taken before that date and the payments should be rescheduled by then.</p>
<p>19 When an obligor holds several different financial products with an institution (e.g. a loan, a current account that is in overdraft and a credit line), can the institution suspend the days past due counter for this customer if only one of these products (the loan) falls within the scope of the EBA guidelines?</p>	<p>Paragraph 10 of these GL</p>	<p>The treatment specified in the GL applies only to those loans that are within the scope of application of a given moratorium, meeting the conditions specified in paragraph 10. While institutions may decide to apply other individual measures to other exposures, these would have to be assessed on an individual basis against the definition of forbearance and distressed restructuring.</p>
<p>20 Loan payment moratoria for internationally syndicated loans: if a syndicate or an association agrees in a coordinated manner to create a moratorium on internationally syndicated loans (i.e. modifying the terms of the loan to postpone payments), could the institutions avoid having to register a sharp increase in non-performing loans? If not, but the individual bank unilaterally applies forbearance measures to such loans, should it apply the EBA GL on the definition of default?</p>	<p>Paragraph 10 of these GL</p>	<p>While these GL do not disallow internationally agreed moratoria, in order to apply the treatment specified in these GL the moratorium has to meet the conditions specified in paragraph 10. In particular, paragraph 10(b) requires that the moratorium applies to a large group of obligors predefined on the basis of broad criteria. This condition may be difficult to meet in the context of large syndicated loans with very individual conditions. It is of course possible to apply individual measures to such loans, but in this case an individual assessment would have to be made of whether these measures meet the definition of forbearance and distressed restructuring. It has to be stressed that the purpose of the GL is not to avoid an increase in non-performing loans but to identify situations where the changes in the terms and conditions of the loans do not meet the definition of forbearance because of their overall systemic character. However, any indications of unlikelihood to pay and any cases of non-performing loans have to be</p>

Question	Paragraph	Implementation stance
		<p>recognised in an appropriate and timely manner, as required by the CRR.</p> <p>These GL do not contradict or waive the GL on the definition of default. On the contrary, they confirm that defaults have to be identified in accordance with the usual processes, i.e. (i) the unlikelihood to pay has to be assessed and recognised in accordance with the normal policies for a given type of exposures, and (ii) the 90 days past due criterion continues to apply. The only additional clarification is that, in the case of exposures subject to the moratoria, the assessment of unlikelihood to pay as well as 90 days past due should be performed in relation to the modified scheduled of payments.</p>
<p>21 Do I understand correctly that for cases where public moratoria in third countries can be applied after 30 June 2020 and the EBA does not extend the deadline, the bank shall use a different treatment in terms of default and forbearance on group level versus subsidiary level to comply with these GL?</p>	<p>None</p>	<p>The GL provide clarifications on how to apply the definition of default in accordance with Article 178 of Regulation (EU) No 575/2013 as regards the specific situation of the application of general payment moratoria (legislative and non-legislative). The application of the default of an obligor on a group-wide basis is required by Article 178(1) of the CRR. This aspect is further clarified in paragraph 79 of the GL on the definition of default, requiring (i) that the same definition of default is used consistently by an institution, parent undertaking or any of its subsidiaries and across the types of exposures, and (ii) where different definitions of default apply either within a group or across the types of exposures, the scope of application of each of the default definitions is clearly specified, in accordance with paragraphs 83 to 85 of the GL on the definition of default. Subsidiaries in third countries naturally need to comply with the local rules, even if these are not in line with the CRR; however, on the consolidated level the CRR framework needs to be adhered to. In that case different default statuses at the local and the consolidated levels may occur.</p>
<p>22 Do I understand correctly that for cases where public</p>	<p>None</p>	<p>On a consolidated level, institutions have to meet the requirements of the CRR and</p>

Question	Paragraph	Implementation stance
<p>moratoria in third countries allow additional measures besides payment holidays, the bank shall use a different treatment in terms of default and forbearance at group level versus subsidiary level to comply with these GL?</p>		<p>hence the treatment set out in the GL can be applied only to those moratoria (legislative and non-legislative) that meet the requirements of these GL. As clarified in paragraph 79 of the GL on the definition of default, requiring (i) that the same definition of default is used consistently by an institution, parent undertaking or any of its subsidiaries and across the types of exposures, and (ii) where different definitions of default apply either within a group or across the types of exposures, the scope of application of each of the default definitions is clearly specified, in accordance with paragraphs 83–85 of the GL on the definition of default.</p>
<p>23 Should the balance of days past due counted before the start of the moratorium be maintained during and after the application of the moratorium?</p>	<p>Paragraph 13 of these GLs</p>	<p>The GLs on moratoria do not change in any way the calculation of DPD. This aspect is regulated by the CRR and by the Commission Delegated Regulation (EU) 2018/171 which is based on the RTS on materiality threshold for credit obligations past due under Article 178 of Regulation (EU) No 575/2013. Therefore, the calculation of DPD is functioning exactly as specified in that regulation. The only additional clarification provided in the GLs on moratoria in that regard is that <i>“institutions should count the days past due based on the revised schedule of payments, resulting from the application of any moratorium”</i>. With this principle in mind, it becomes clear that the DPD counter can be stopped only in case of repayment or the change of schedule. If there are any amounts past due before the moratorium, at the moment of application of the moratorium, there are three scenarios, depending on the terms of the moratorium:</p> <ol style="list-style-type: none"> 1) The moratorium is rescheduling only the upcoming payments but not the previous instalments that are past due – in this case the counter continues as normal on the past instalments as the amounts remain due and unpaid. If the amount of past due instalments breaches the materiality threshold more than 90 consecutive days, default has to be identified. 2) The moratorium is rescheduling upcoming payments and suspending previous instalments – in this case the DPD counter should be frozen on the day following the granting of the moratorium¹⁶. Going forward, the

¹⁶ Note that paragraph 18 of the [guidelines on definition of default](#) applies in case such suspension of payments is specified by law.

Question	Paragraph	Implementation stance
		<p>counter should resume at the time specified in the moratorium.</p> <p>3) The moratorium is rescheduling both the previous and the upcoming payments – in this case the DPD counter on the day following the granting of the moratorium should reflect the new payment schedule, meaning potentially no payments could be overdue (DPD=0). Going forward, the counter starts again from zero only when payments become past due under the new payment schedule. Under this third option, there could still be payments past due under the new schedule (e.g. if only part of the exposures of the obligor are covered by the moratorium), and in those cases the DPD counter should not be set to 0. Also in case that the DPD = 0, there could still be a default triggered by an UTP criteria. It should however be stressed that, as already clarified in paragraph 21 of the B&R <i>“where the moratorium applies to exposures that were already classified as forborne or defaulted at the moment of the application of the moratorium, this classification must be maintained”</i>.</p>
<p>24 Assume there is an obligor, that is required to pay monthly instalments, is classified as performing forborne under probation period as stated in Article 47a(7) CRR . Assume as well that 6 months have already passed since the classification as performing forborne and that the obligor entered a moratorium (before 30 September 2020) 6 months after this classification. The moratorium lasts 18 months and no payments should be made during this period. Should the counting of number of days of the probation period, for the obligor to leave the forborne status, stop as soon as the moratorium is granted?</p>	None	<p>The rules on the exit from the forborne status shall be followed as specified in Article 47a(7) CRR. It follows from this Article that the probation period shall last at least two years and until all the conditions of Article 47a(7) CRR are met. When a general payment moratorium in line with EBA/GL/2020/02 is applied to a performing forborne exposure under probation period, the exposure can exit the forbearance status when a period of at least two years elapsed provided that all the other exit conditions of Article 47a(7) CRR are met. In particular , the institution shall analyse whether the requirement in Article 47a(7)(b) CRR is met: <i>“regular and timely payments have to be made during at least half of the period that the exposure would be under probation, leading to the payment of a substantial aggregate amount of principal or interest”</i>.</p> <p>In the example provided in the question where no payments are required to be made during the 18 month moratorium</p>

Question	Paragraph	Implementation stance
<p>25 Where a payment moratorium was granted to obligors before 30 September 2020, which complied with EBA/GL/2020/02 as amended by EBA/GL/2020/08, meaning that both: i) the decision on the application is taken before 30 September 2020, and ii) the payments are rescheduled by 30 September 2020: do these continue to fall in scope of the GLs if a state law (entered into force before 30 September 2020) has automatically extended the duration of the</p>	<p>Paragraph 10(f) of these GLs</p>	<p>period¹⁷, after the exposure having been under probation for 2 years, the requirement in Article 47a(7) (b) CRR is still not met due to the moratorium period of 18 months, and hence an additional period of at least 6 months is needed in order to meet the requirement in Article 47a(7)(b) CRR¹⁸. On the other hand, if the moratorium period had been only one year, the requirement in Article 47a(7)(b) CRR may still have been met after two years, provided that regular and timely payments have been made in the 6 months following the end of the moratorium. In such case, no additional months of regular and timely payments would be needed, unless the condition “leading to the payment of a substantial aggregate amount of principal or interest” would require so.</p> <p>Paragraph 10(f) of the GLs on moratoria (EBA/GL/2020/02 as amended by EBA/GL/2020/08) specifies that “the moratorium ... was applied before 30 September 2020”. As already clarified in the response to question 9 of this report, this means that “decision on the application has to be taken before that date and the payments should be rescheduled by then”. In cases where a law issued by a Member State entered into force before 30 September 2020 automatically prolongs the maximum duration of a moratorium agreed before 30 September 2020, the payment holiday granted before 30 September 2020 under the terms of the moratorium and now prolonged, is in line with EBA/GL/2020/02 as amended by EBA/GL/2020/08, since the decision that the payment holiday is granted in</p>

¹⁷ Note that the 9-month cap requirement does not apply since the moratorium was applied before 30 September and hence EBA/GL/2020/02 as amended by EBA/GL/2020/08 was applied.

¹⁸ The proposed solution “freezes” the time span during which payments must be made, which is motivated on the basis of the purpose of the rule: the use of an EBA-compliant moratorium is a neutral information, not pointing to financial difficulties, and are thus exempted from triggering default. The length of an EBA moratorium does not indicate more severe financial difficulties and a longer need for recovery.

Question	Paragraph	Implementation stance
payment holidays originally envisaged?		application of the moratorium has been taken before 30 September 2020.

2.2 Summary of notifications received

The EBA is currently receiving the notifications from Member States detailing aspects of the different moratoria schemes that have been introduced in each jurisdiction. A list of the moratoria in place in each jurisdiction and their basic features has also been published separately.¹⁹ The EBA published, on 20 November, a first assessment of the use of COVID-19 moratoria and public guarantees across the EU banking sector²⁰.

At the time of writing (2 July 2020), the EBA has received responses from 28 Member States. Two of these have declared that no moratorium is in place. For all of these notifying Member States, it is the supervisory authority and/or the national bank that provided notification of these moratoria.

Of the 26 Member States for which EBA has been notified that moratoria are in place, there is only a legislative moratorium in place in 8 Member States, whereas there are both legislative and non-legislative moratoria in place in 7 Member States, and a non-legislative moratorium (moratoria) in place in 11 Member States. In the 11 Member States in which there are non-legislative moratoria in place, there are 6 Member States with just one non-legislative moratorium, whereas there are 5 Member States with more than one different moratoria in place. Note that a different moratorium can be understood in different ways (i.e. in some cases different sector associations in the same Member State each issued a moratorium). In other cases, the same sector association in a Member State issued several moratoria, for instance one moratorium for consumer loans and another one for mortgages.

In the Member States where there is a legislative moratorium in place (15 including the Member States with both legislative and non-legislative moratoria), the moratorium scheme is compulsory in all except one Member State.

There are four Member States for which the application of the moratorium is accompanied by a public guarantee and in all cases this is a legislative moratorium. However, specific conditions are connected to these guarantee schemes in the different Member States, in relation, for instance, to the share of the loan that is covered. In one Member State, it is acknowledged that the guarantee

¹⁹ The list of the general payment moratoria will be updated on a regular basis and published [here](#).

²⁰ [Press release](#) of the thematic note on moratoria and public guarantees and [the thematic note](#) itself.

scheme is not considered to be eligible unfunded credit protection (because the total quota of the state is limited and not allocated to institutions in advance).

In several Member States, the application of the moratorium is publicly encouraged, for instance by public communication, public announcement or specific letters to institutions.

The participation in the moratorium is usually very broad, with more than 90% of the banking industry participating in the scheme (on average). This share is higher for the legislative moratoria, which is driven by the fact that legislative moratoria are compulsory in most notifying Member States (see above).

Several products and obligors are in the scope of the moratorium. In several Member States, the moratorium is offered to the sector of SMEs and to the sector of self-employed persons while in 3 Member States the moratorium is also offered to non-profit organisations. In addition, in some of the Member States, the moratorium scheme also includes natural persons. With regard to the products, ten Member States apply the moratorium to mortgage loans, nine Member States consider consumer loans and three Member States also include leasing and factoring products. In six Member States the moratorium is explicitly not offered to firms and companies belonging to the financial sector.

A wide range of selection criteria is in place for obligors or exposures to be considered eligible to participate in the scheme. The criteria are mainly:

- based on the sector or segment of the obligor or exposure (in particular, the following segments have been identified: mortgages, consumer loans, self-employed obligors, non-profit organisations, households);
- based on the residence of the obligor (e.g. only domestic exposures are eligible);
- based on the performance of the obligor or exposure (in several cases, only performing or non-defaulted obligors are entitled to participate in the moratorium);
- based on the payment capacity (e.g. requiring that only obligors that have suffered a decline in their earnings are eligible, and/or only obligors with less than EUR X in their savings accounts).

In most moratoria, a combination of the above criteria applies. Only two Member States do not require specific conditions to participate in the programme.

In 22 Member States, the obligors are requested to submit an application to opt in to the moratorium process, while only 2 Member States apply the moratorium (legislative moratorium) automatically. Two Member States require the obligors to submit an application only for its non-legislative moratorium and not for the legislative one. For Member States that require an application to be submitted, there are different deadlines; most Member States set a deadline of the end of June 2020.

The conditions offered by the moratorium are various. With respect to the payments that are suspended, postponed or reduced, some of the Member States consider only the principal amount, whereas others Member States consider both the principal and interest. One Member State's non-legislative moratorium considers both the principal and interest for retail loans and only the principal for business loans. Most Member States allow a period of 6 months during which payments are suspended, postponed or reduced, whereas a period of 12 months is allowed in the other moratoria. In addition, for most Member States, the period of the extension of the payment schedule is equal to the period of postponement/suspension/reduction (usually 6 months or 12 months). In a specific Member State the overall extension of the payment schedule is 18 months for its legislative moratorium; for one of its non-legislative moratorium schemes, the overall extension is up to 24 months for firms operating in specific sectors that are suffering very significant losses because of the COVID-19 pandemic. It is worth mentioning that several Member States apply the moratorium not only to performing exposures but also to forborne and non-performing exposures when the specific conditions are met.

The date from which the moratorium applies is different for each Member State. However, it seems that most of the Member States set the starting date in March or in April.

3. Operational risk

This section of the report focuses on common criteria that institutions should follow for the identification and treatment of COVID-19-related operational risk events and losses. This is done through the provision of general criteria, a dedicated 'risk classification schema' and interpretative elements, including one specific table, for the identification and quantification of the COVID-19 one-off operational risk costs.

Clarifications are provided of whether and how events and losses stemming from COVID-19 should be included under the remit of operational risk and, if so, how to consider their economic impact for the purposes of calculating capital requirements in the advanced measurement approach (AMA) and, prospectively, in the revised Basel III standardised approach for operational risk (BCBS SA). Although not explicitly pointed out in the rest of this section, the same criteria should be followed by each institution, regardless of the operational risk regulatory approach adopted, in its collection and categorisation of COVID-19 operational risk events and losses, which are generally expected to be, to some extent, widespread within the EU. Therefore, the criteria set out in this section should also be used for supervisory reporting purposes by institutions that are requested to report operational risk events and losses for supervisory purposes (e.g. in the ITS on Supervisory Reporting or in other supervisory reporting).

3.1 Background

In preparing this report, particular attention was devoted to whether or not specific events/items caused by the COVID-19 crisis should be included under the remit of operational risk and, if so, if and how the economic impact stemming from those events/items should be considered for capital requirements in AMA and, prospectively, the BCBS SA²¹. It is evident that the current simpler approaches, i.e. the basic indicator approach, the standardised approach and the alternative standardised approach, and the business indicator component of the BCBS SA would be affected only through variation of items of, respectively, the relevant indicator and the business indicator, directly or indirectly caused by the COVID-19 crisis. While not certain, in such situations it is more likely that there will be a reduction in institutions' margins, which should imply a smaller relevant indicator/business indicator²², hence reduced risk-weighted asset (RWA) figures for operational risk, which might be further assessed by institutions and competent authorities for Pillar 2 purposes.

²¹ Under the BCBS SA, operational risk losses are considered for capital calculation by all the institutions, including those not adopting the loss component, since they must feed the business indicator, in particular the item 'Other operating expenses' (see BCBS SA text, p. 135, Annex: Definition of business indicator components, Row: Other operating expenses, Column: Typical sub-items).

²² However, under the BCBS SA, it might happen that the increase in operational risk losses due to COVID-19 (to be mostly accounted for under the item 'Other operational expenses') overweighs the reduction of revenues and this causes an increase in the business indicator.

The objective of this section is to set out common criteria that institutions should follow for the identification and treatment of those events and losses, in order to reduce inconsistencies in their use for capital requirements and supervisory reports. If an operational risk loss described in this schema occurs, it should be appropriately collected by AMA institutions in accordance with the requirements of the CRR and Commission Delegated Regulation (EU) 2018/959, in particular as specified in Articles 21, 22, 23 and 29²³ of the latter. Similar criteria in terms of loss data collection are envisaged for the BCBS SA, in accordance with the Basel III standards and the ‘Policy advice on the Basel III reforms: Operational risk’, issued by the EBA in August 2019 in response to the call for advice of the European Commission. While the criteria set out in this section refer to the identification and collection of historical losses, it is expected that institutions, where relevant, take into account the effects of the COVID-19 crisis on other elements of the operational risk framework (e.g. scenario analysis, risk self-assessment) for Pillar 1 and/or Pillar 2 purposes.

This section, besides the operational risk-specific rules, current and envisaged, also takes into account the EBA Statement on the application of the prudential framework regarding default, forbearance and IFRS9 in light of COVID-19 measures of 25 March 2020, the GL on moratoria and the EBA Statement on additional supervisory measures in the COVID-19 pandemic of 22 April 2020, especially the EBA call on priority areas for digital operational resilience. In general terms, the discussion on operational risk should pursue the goal of full coherence with the objectives of the measures taken so far under other prudential frameworks, to ensure that the approach taken on the operational risk side does not undermine the positive effects for institutions of the flexibility allowed elsewhere and of the broad ranges of supportive measures implemented by Member States.

3.2 General criteria on COVID-19-related operational risk losses

For the purpose of identification of the COVID-19 operational risk losses, institutions should consider 30 January 2020 as the date from which COVID-19 related operational risk events are expected to first appear, i.e. the date when the WHO Director-General declared the COVID-19 a public health emergency of international concern (PHEIC)²⁴, the definition of which has similar features to those of an unexpected operational risk event²⁵. Naturally, it does not mean that all operational risk events and resulting losses from this date should be attributed to COVID-19; only the ones that are clearly linked to the COVID-19 pandemic should.

While 30 January 2020 should be considered as the starting date by default, other indications such as the declaration of national state of emergency/state of alarm or similar in a given country, or the

²³ In particular, consistently with the internal policies and the practices implemented for all the operational risk losses, institutions should ensure the appropriate treatment of losses caused by a root event in the form of a common operational risk event or by multiple events linked to an initial operational risk event, as specified in Article 29(h) and (i) of Commission Delegated Regulation (EU) 2018/959.

²⁴ [https://www.who.int/dg/speeches/detail/who-director-general-s-statement-on-ihr-emergency-committee-on-novel-coronavirus-\(2019-ncov\)](https://www.who.int/dg/speeches/detail/who-director-general-s-statement-on-ihr-emergency-committee-on-novel-coronavirus-(2019-ncov))

²⁵ [Among other features, a PHEIC is characterized as an extraordinary event that produces a situation that is serious, sudden, unusual or unexpected in terms of public health implications \(https://www.who.int/news-room/q-a-detail/what-are-the-international-health-regulations-and-emergency-committees\).](https://www.who.int/news-room/q-a-detail/what-are-the-international-health-regulations-and-emergency-committees)

activation by the institution of business continuity plans due to COVID-19, should be used if they occurred earlier.

Any proposed date following that of 30 January 2020 should be considered exceptional and is acceptable only if the institution is able to explain and demonstrate to the supervisor's satisfaction that the operational risk events related to COVID-19 occurred starting from this proposed date.

Starting from the selected date, institutions should identify and collect COVID-19-related operational risk events and resulting losses, including operational risk costs in the meaning of Article 22(1)(b) of Regulation (EU) 2018/959, adhering to the following criteria:

- losses supported to restore the situation prevailing before the COVID-19 outbreak ⇒ operational risk losses;
- changes and improvements beyond that point ⇒ no operational risk losses;
- recurring or periodic cost items (e.g. ongoing higher costs to reach a 'new normal' context) ⇒ no operational risk losses.

For a proper categorisation of the COVID-19 operational risk losses, it is also of utmost importance to understand how the COVID-19 outbreak should be considered.

The COVID-19 crisis has consequences encompassing several types of risks and also in terms of losses through different operational risk event types (ETs), which are not limited to external events (i.e. ET 5) but also generate second-order events in other ETs.

In the light of the above, and considering that the crisis may have led to loss impacts that do not always share the same direct causality in terms of an initial root event, each operational risk loss, directly or indirectly related to the COVID-19, should be identified according to its type and nature (i.e. following the categorisation of losses into ETs in accordance with Table 3 of Article 324 of the CRR) and classified consistently for AMA/BCBS SA calculation purposes. As an example, where the COVID-19 outbreak generates types of events such as those indicated in Section 3.3.1 (e.g. interruption or deterioration of the quality of services provided to counterparties), Section 3.3.3 (e.g. information technology failures, cybercrime and frauds) or Section 3.3.5 (e.g. failure to respond to new obligations) below, the related losses should be classified distinctly into the pertinent ETs and treated separately in AMA calculations.

For managerial purposes, it is, however, important that all these losses are traced back to the COVID-19 outbreak.

3.3 COVID-19 operational risk classification schema

While the COVID-19 crisis clearly represents an operational risk event, its possible consequences in terms of losses for institutions might affect different types of risks. Therefore, the nature of those

losses should be carefully assessed to ensure their consistent and correct classification. In particular, it is likely that institutions are hit by secondary effects specifically related to market risk or credit risk, and not necessarily within the boundary of operational risk.

From a Pillar 1 operational risk perspective²⁶, the following main types of impact from the COVID-19 crisis should be considered:

- impacts of COVID-19 on institutions' business continuity;
- impacts of COVID-19 on institutions' ordinary course of business;
- impacts of COVID-19 on credit risk and potential consequences on operational risk;
- impacts of implementing novel legislation in response to COVID-19;
- impacts of COVID-19 on loss events.

The next sections describe each impact type in detail and, for each of them, include the EBA guidance.

3.3.1 Impacts of COVID-19 on institutions' business continuity

A possible impact of COVID-19 on institutions' business continuity is the interruption or deterioration of the quality of services provided to counterparties, customers, etc. Such events would be caused by the lack of effective business continuity and contingency plans.

Therefore, any economic consequence of such events should be considered within the scope of operational risk and should be included in the AMA/BCBS SA calculations.

3.3.2 Impacts of COVID-19 on institutions' ordinary course of business

A possible impact of COVID-19 on institutions' ordinary course of business is the reduction of profits from banking and financial services provided to customers, caused, for instance, by the reduced access to branches/offices due to lockdowns. Such events would generate opportunity costs, as identified by Article 22(2)(c) of Commission Delegated Regulation (EU) 2018/959²⁷.

Accordingly, these events/losses should be recorded for managerial purposes but not be included in the AMA and the loss component of the BCBS SA²⁸ calculations.

3.3.3 Impacts of COVID-19 on credit risk and potential consequences on operational risk

²⁶ The analysis is restricted to Pillar 1 aspects of COVID-19 and no consideration is provided from a Pillar 2 perspective.

²⁷ Article 22(2)(c) of Commission Delegated Regulation (EU) 2018/959 mentions 'opportunity costs in the form of an increase in costs or a shortfall in revenues due to operational risk events that prevent undetermined future business from being conducted, including unbudgeted staff costs, forgone revenue, and project costs related to improving processes'.

²⁸ The reduced profits would in any case affect the business indicator.

Whereas COVID-19 may affect the credit risk of credit obligations, an institution is also exposed to its own operational risk events in relation to the COVID-19 crisis, which may have an impact on credit risk. This is analysed in more detail in the next subsections.

a. Impacts of COVID-19 on operational risk events relating to credit risk

The current situation derived from the repercussions of COVID-19 may have implications for the incidence of operational risk events with an impact on credit exposures, such as failures in the processing of credit exposures, (credit) fraud attempts such as identity theft, fictitious identities or fraud based on counterfeit documents provided by electronic means, which may have taken advantage of the closure of physical branches.

These types of impacts are operational risk at the boundaries with credit risk²⁹, which should be recorded for managerial purposes, and any loss should be considered within the scope of operational risk for the calculation of AMA/BCBS SA capital requirements when it is not already taken into account under the credit risk RWA³⁰.

b. Other impacts of COVID-19 on credit risk and implications from an operational risk standpoint

In the short term, many countries have introduced specific measures to provide obligors affected by the COVID-19 crisis with payment relief by allowing the suspension or postponement of payments within a specified period of time, allowing the obligors to return to regular payments when the situation returns to normal (e.g. general moratoria, government or other types of guarantees). While this should limit consequences on credit risk in the short term, there might be long-term consequences³¹.

The consequences of the abovementioned measures are understood to affect the credit risk and the credit risk RWA calculation, while the losses stemming from such a situation should not be included within the scope of operational risk for AMA/BCBS SA calculations.

As a consequence of the measures mentioned above, there may be other consequences for institutions that are not necessarily related to the credit risk of the obligors. For example, in the case of an institution not appropriately increasing the postponed payments, then the NPV of the credit obligation will decrease and this will generate losses.

²⁹ Other operational risk events relating to credit risk are described in Article 24 of Commission Delegated Regulation (EU) 2018/959.

³⁰ In accordance with Article 322(3)(b) of the CRR, losses due to an operational risk event of the institution that have an impact on credit exposures fall under the scope of operational risk RWA only if the impact related to credit risk is not computed (or not fully computed) under credit risk RWA.

³¹ The Guidelines on legislative and non-legislative moratoria on loan repayments (EBA/GL/2020/02) state that 'While the EBA is supportive of the measures and initiatives taken in the Member States in order to address the economic consequences of the COVID-19 pandemic, it also sees the need to ensure that the risk is identified and measured in a true and accurate manner. Therefore, institutions must continue to adequately identify those situations where obligors may face longer-term financial difficulties and classify in accordance with the existing regulation.'

From an operational risk perspective, three different situations should be distinguished:

- If the decision not to appropriately increase the postponed payments is made by the institution itself with the sole purpose of supporting the obligor and/or the economy in a crisis situation³², then the losses are not linked to a specific operational risk event preventing the institution from collecting the revenues and, hence, they should not be included within the scope of operational risk for AMA/BCBS SA calculations³³.
- If the postponed payments are not increased, despite the intention to do so, because of an organisational/procedural issue within the institution, and the revenue should have been collected, then this is a failure of the institution's systems, processes or people and, therefore, as mentioned in Section 3.3.3(a), losses should be considered within the scope of operational risk for AMA/BCBS SA calculations, when these are not already taken into account under the credit risk RWA.
- If the postponed payments are not increased because a legislative moratorium applied in the light of the COVID-19 crisis allows creditors only to extend the duration of the loans within the modified schedule of payments, but forbids adjustments to the postponed payments, then the resulting losses are due to the correct application of a legal rule. These losses are not due to legal risk, as explained in the following Section 3.3.4 and, hence, they should not be considered within the scope of operational risk for AMA/BCBS SA calculations.

3.3.4 Impacts of implementing novel legislation in response to COVID-19

Possible impacts of implementing novel legislation in response to the COVID-19 pandemic are the further costs incurred/assumed in adjusting to, or as a result of, newly adopted legal obligations (e.g. where mandatory changes in credit or labour standards will be introduced) where no breach of legal rules has occurred.

Such expenses, which are not related to the costs of repair or replacement to restore the position prevailing before the COVID-19 event (which are, in turn, already considered in Section 3.3.5 below), are not an operational risk loss (due to legal risk).

On the contrary, the failure to respond to the new obligations where such action is necessary to comply with a legal rule is an operational risk event related to legal risk³⁴. Examples of this are fines and/or litigations due to non-compliance with stricter safety standards, which should be considered

³² Increasing, or not, the postponement of payments is a decision in the remit of institutions whenever the general payment moratorium meets the criteria presented in paragraph 10(c) of EBA/GL/2020/02 (i.e. when the moratorium affects only the payment schedule – for a predefined limited period of time – thus leaving the possibility to adjust the schedule afterwards).

³³ However, if the decision not to increase the postponed payments is a result of a voluntary action by the institution intended to avoid or mitigate a legal risk arising from an operational risk event, this is operational risk in accordance with Article 3(1)(b) of Commission Delegated Regulation (EU) 2018/595.

³⁴ Described in Article 3(1)(a)(i) Commission Delegated Regulation (EU) 2018/959.

within the scope of operational risk for AMA/BCBS SA calculations (like the events listed in Section 3.3.5 below).

3.3.5 Impacts of COVID-19 on loss events

A possible impact of COVID-19 on loss events is the increase in events and/or losses either related solely to operational risk or at the boundary between operational risk and market risk. These could be directly attributable to the impact of the COVID-19 crisis on the institutions or be correlated with it. For example, they could stem from:

- a. IT failures, cybercrime and frauds (internal and external);
- b. additional costs³⁵ specifically resulting from the pandemic crisis, such as those, mainly one-off, connected with the augmented use of digital services and teleworking to ensure business continuity; and
- c. those costs deriving from employment practices and workplace safety, when necessary for business continuity purposes to restore the position prevailing before the operational risk event, such as staffing of personnel/consultants for the coverage of essential functions, one-off COVID-19-induced disinfections and medical services to restore face-to-face business.

These events/losses, including those at the boundary with market risk³⁶, are operational risks and should be included in the AMA/BCBS SA calculations.

Table 1 below introduces interpretative criteria for identifying and quantifying the COVID-19 one-off operational risk costs pointed out in points b and c above. In particular, in response to questions and observations raised by institutions and supervisors after the publication of EBA/REP/2020/19 in July 2020, it clarifies since when the one-off operational risk costs should be considered for AMA/BCBS SA calculations, whether to include all or part of them if they are requested for operating in the 'new normal' situation, and how to deal with possible COVID-19 savings that – against these operational risk costs – institutions face in other accounts of their books or budgets.

From a categorisation point of view, these one-off costs should be considered all related, since supported to ensure business continuity in the COVID-19 context; as such, they should be classified in ET 6 (business disruption and technology system failures), and for calculation purposes added up and considered as one aggregated event.

Institutions should adhere to these criteria for the identification and treatment of the COVID-19 one-off operational risk costs. Similar criteria should be adopted even when referring to other types

³⁵ In accordance with Article 22(1)(b)(ii) of Commission Delegated Regulation (EU) 2018/959, 'costs of repair or replacement to restore the position prevailing before the operational risk event' should be included within the scope of operational risk loss.

³⁶ Typical operational risk events pertaining to financial transactions, including those related to market risk, are described in Article 5 of Commission Delegated Regulation (EU) 2018/959.

of operational risk costs, different from those specifically mentioned in Table 1 (but comparable if they have also arisen because of the COVID-19 outbreak). Deviation from these criteria should be considered exceptional and acceptable only if the institution is able to explain and demonstrate to the supervisor's satisfaction that those operational risk costs were not incurred in order to preserve business continuity and restore the position prevailing before the COVID-19 outbreak.



Table 1: Criteria to identify COVID-19 one-off operational risk costs for AMA/SA calculations. While the criteria refer to the types mentioned in Section 3.5, points 2 and 3 of EBA/REP/2020/19 (renumbered in this document as 3.3.5 (b) and (c)), they should be considered valid for all types of COVID-19-related one-off operational risk costs

Issue number	Title	Example	Questions/controversial issues	EBA/REP/2020/19 and 959/2018 references	EBA interpretation	Event type of reference
1	Medical safeguards	The institution introduces several medical safeguards to prevent the spreading of COVID-19 among employees and clients, and to respect safety laws linked to the COVID-19 outbreak.	Should medical safeguards be accounted as 'one-off COVID-19-induced disinfections and medical services', as mentioned in EBA/REP/2020/19, Section 3.5, point 3 (3.3.5(c) in this document)? If so, how to define their one-off nature?	EBA/REP/2020/19, Section 3.5, point 3 (3.3.5(c) in this document); Article 22(1)(b)(ii) of CDR (EU) 2018/959	Costs of medical safeguards can be supported by institutions in reaction to the COVID-19 outbreak. Here below, clarification is provided of whether and how to account for these costs among 'one-off COVID-19-induced disinfections and medical services', mentioned in EBA/REP/2020/19, Section 3.5, point 3 (3.3.5(c) in this document) . Disinfections of premises and of their air-conditioning systems: the extra costs sustained, on top of regular costs for disinfections, for having more frequent or more effective disinfections that enable (and until) the reopening of branches (or are necessary to avoid their	ET 6 (business disruption and technology system failures), since these costs aim to ensure business continuity

closure) and the safe use of the bank's other premises (e.g. floors in headquarters) should be accounted as operational risk losses. Subsequent disinfections after the reopening, which can be considered part of the 'new normal', should not be accounted as operational risk losses.

Personal protective equipment (PPE): the costs of PPE such as facemasks and hand sanitisers made available by the bank for the staff not working remotely and required, for business reasons, to work in branches and other bank premises (e.g. floors in headquarters) should be accounted as operational risk losses that enable (and until) the re-opening of branches (or are necessary to avoid their closure) and the safe use of the other bank's premises for all other staff in those branches and other bank premises. Subsequent

use of PPE should not be accounted as operational risk losses.

Thermoscanners or other instruments to measure body temperature: the costs of devices to measure the body temperature of staff or clients that enable (and until) the reopening of branches (or are necessary to avoid their closure) and the safe use of the bank's other premises (e.g. floors in headquarters) should be accounted as operational risk losses. Subsequent enhancements of these devices should not be accounted as operational risk losses.

Plexiglas barriers: the costs of first deploying Plexiglas barriers in branches or other bank premises that enable the reopening of branches (or are necessary to avoid their closure) and the safe use of the bank's other premises (e.g. floors in headquarters) should be accounted as

operational risk losses. Subsequent enhancements or replacements of Plexiglas barriers should not be accounted as operational risk losses.

2	Laptops/networks	<p>The institution provides its employees with laptops that enable them to work remotely during the lockdown; at the same time the institution enhances its IT networks to sustain the remote connection of several employees.</p>	<p>If the institution had in its plans, before the pandemic outbreak, rolling out laptops to all employees and enhancing its IT network to push for more remote working capacity, should the costs of laptops and networks during the outbreak be considered operational risk losses? How to interpret the ‘augmented use of digital services and teleworking to ensure business continuity’, mentioned in EBA/REP/2020/19, Section 3.5, point 2 (3.3.5(b) in this document)?</p>	<p>EBA/REP/2020/19, Section 3.5, point 2 (3.3.5(b) in this document); Article 22(1)(b)(ii) of CDR (EU) 2018/959</p>	<p>Only extra costs sustained on top of those already planned before the COVID-19 outbreak to roll out laptops and enhance IT networks should be accounted as operational risk losses, and only for the time period when this equipment is necessary to ensure business continuity (e.g. determining the relevant amortised amount). In order to exclude any cost for the roll-out of laptops/networks caused by the COVID-19 pandemic from the scope of operational risk losses, the relevant plans before COVID-19 outbreak should be concrete and institutions should be able to demonstrate that those costs had been already planned.</p>	<p>ET 6 (business disruption and technology system failures), since these costs aim to ensure business continuity</p>
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3	Consultants	<p>The institution hires personnel/consultants to replace internal staff responsible for essential functions who fell ill during the pandemic. The contract with consultants lasts for 1 year, but after 3 months the internal staff are healthy again and resume their place in running the essential function. For the remaining 9 months the institution keeps the consultants and allocates them to a different role/function.</p>	<p>Should the cost of the entire contract with the consultant be considered a COVID-19-related loss, or just the 3 months in which the consultant performed the essential function in the absence of the sick internal staff member? How to interpret the ‘staffing of personnel/consultants for the coverage of essential functions’ mentioned in EBA/REP/2020/19, Section 3.5, point 3 (3.3.5(c) in this document)?</p>	<p>EBA/REP/2020/19, Section 3.5, point 3 (3.3.5(c) in this document); Article 22(1)(b)(i) and (ii) of CDR (EU) 2018/959</p>	<p>Only the costs of personnel/consultants hired to replace internal staff responsible for carrying out essential functions, in order to ensure business continuity, should be accounted as operational risk losses. If such a person/consultant is assigned initially to such functions and later on is reassigned to other tasks (e.g. because internal staff can fully perform the essential functions again), the cost of hiring them should be accounted as operational risk loss only for the time period in which these personnel/consultant carried out essential functions.</p>	<p>ET 6 (business disruption and technology system failures), since these costs aim to ensure business continuity</p>
4	Operational savings	<p>The institution incurs costs in order to restore its full capabilities due to a national lockdown, but at the same time experiences savings in other areas of its budget, linked to this situation (e.g. utilities, travelling and representation expenses, staff associated with physical</p>	<p>The lockdown may have implied savings in some costs that the institution would have otherwise incurred and that could be understood to be directly attributable to COVID-19 (e.g. no travel expenses). Is it possible to net these savings and the losses suffered?</p>	<p>EBA/REP/2020/19, Section 3; Article 22(2)(b) and (d), and Article 22(3)(a) of CDR (EU) 2018/959</p>	<p>Operational savings should not be used to net operational risk losses for the purposes of AMA. Indeed, operational savings should not be considered recoveries that can be used to net gross loss. The CDR (EU) 2018/959 definition of recovery is ‘the occurrence related to the original loss that is independent of that loss and that is separate in time, in which funds or inflows</p>	

presence on the premises).

of economic benefits are received from first or third parties'. In the case of operational savings, the institution does not receive funds from a third party.

Operational savings could then be considered operational risk gains, since they have a positive effect on an institution's profit and loss. However, according to CDR (EU) 2018/959, operational risk gains should not be used in AMA calculations but should be only recorded for managerial purposes.

The same treatment should be applicable to the future BCBS SA calculation.

4. Guidelines on COVID-19 reporting and disclosure: implementation questions

This section provides answers to technical and interpretive questions raised by supervisors and institutions following the publication of the GL on COVID-19 reporting and disclosure. It was also updated to include additional implementation questions on COVID-19 reporting received after the first remittance date.

This section supports and should be read in conjunction with the GL on COVID-19 reporting and disclosure and its annexes.

Note that, because of cross-referencing and the use of the same definitions across different templates in Annexes 1 and 3 to the GL on COVID-19 reporting and disclosure, a specific question and answer allocated to a template may be relevant for another template. When a specific point is relevant for more than one template and there are overlapping questions in relation to different templates, these questions and answers are not repeated.

4.1 COVID-19 reporting

4.1.1 General: definitions and scope

No	Question	Implementation stance
		Level of application
1	What is the level of application for the reporting of COVID-19 related measures?	<p>As per paragraph 8 of EBA/GL/2020/07, 'Without prejudice to paragraph 19 of EBA/GL/2020/07, the COVID-19 reporting should be applied at the individual, sub-consolidated and consolidated level, as set out in Part One, Title II of Regulation (EU) No 575/2013.'</p> <p>Paragraph 19 of EBA/GL/2020/07 gives the competent authorities the discretion to waive individual level reporting, increase the reporting frequency, and waive the reporting of Tables 90.02, 90.03, 91.02, 91.03, 91.04, 92.01, 93.01 and 93.02 of Annex 1 for institutions.</p>

No	Question	Implementation stance
2	Can competent authorities waive individual reporting of a standalone institution when the institution is not part of a consolidated group?	Yes. As per paragraph 8 of EBA/GL/2020/07 and Part One, Title II of the CRR, standalone institutions that are not part of a consolidated group should report under Section 4 of the guidelines. Competent authorities can waive individual reporting for these institutions under paragraph 19.
EBA-compliant moratoria (legislative and non-legislative)		
3	What are EBA-compliant moratoria (legislative and non-legislative)?	'EBA-compliant moratoria' are defined in paragraph 10 of EBA/GL/2020/02 (as amended by 'Guidelines amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis' - EBA/GL/2020/08). Please see Annex 2 to EBA/GL/2020/07.
4	Are EBA-compliant moratoria (legislative and non-legislative) those that are implemented in EU Member States only or are moratoria that are implemented in non-EU countries also EBA-compliant when they fulfil the criteria set out in EBA/GL/2020/02?	Moratoria (legislative and non-legislative) that are implemented in non-EU countries are also EBA-compliant when they fulfil the criteria set out in EBA/GL/2020/02, including paragraph 10 of and the deadline set in those guidelines. More precisely, EU institutions subject to the relevant EU regulation (i.e. the CRR), having loans and advances in non-EU countries can report the data in the relevant templates under EBA/GL/2020/07 when the loans and advances benefit from EBA-compliant moratoria that have been implemented in those non-EU countries.
COVID-19-related forbearance measures		
5	What are COVID-19-related forbearance measures, and should loans and advances that are not reported as forborne in FINREP be included under 'Other COVID-19-related forbearance measures'?	'COVID-19-related forbearance measures' are defined in Part II of Annex 2 to EBA/GL/2020/07, and in particular paragraph 9 on template F 90.02.

No	Question	Implementation stance
		<p>Other loans and advances with COVID-19-related forbearance measures are forborne loans in accordance with the general rules set out in Article 47b of the CRR and Annex V to the Regulation (EU) No 680/2014 that do not meet the requirements set out in paragraph 10 of EBA/GL/2020/02. All types of forbearance measures should be taken into account, if they have been introduced as a response to the COVID-19 crisis. Newly originated loans subject to public guarantee schemes in the context of the COVID-19 crisis are outside the scope of COVID-19-related forbearance measures.</p>
	<p>Newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis</p>	
6	<p>Are all newly originated loans and advances subject to state guarantee schemes in relation to the COVID-19 crisis included in reporting under paragraph 14 of EBA/GL/2020/07, regardless of the level of coverage under the scheme (e.g. 100% or 80%) and of their accounting treatment?</p>	<p>In accordance with paragraph 14 of EBA/GL/2020/07, all newly originated loans and advances that are subject to state guarantee schemes introduced by Member States in response to the COVID-19 crisis should be included in the COVID-19-related reporting, regardless of the level of coverage. However, in accordance with Part I of Annex 2, loans and advances classified as ‘held for trading’, ‘trading’ or ‘held for sale’ in accordance with the applicable accounting framework are excluded from the scope of the COVID-19 related reporting.</p>
	<p>Loans and advances</p>	
7	<p>Do loans and advances that are included in ‘Non-current assets and disposal groups classified as held for sale’ to be included in the COVID-19-related reporting?</p>	<p>No. Please refer to Part I of Annex 2 to EBA/GL/2020/07. Loans and advances other than those classified as ‘held for trading’, ‘trading’ or ‘held for sale’ in accordance with the applicable accounting framework should be reported. Loans and advances as defined in Annex V to the Regulation (EU) No 680/2014 should be reported in the COVID-19 templates, excluding balances receivable on demand with central banks and credit institutions.</p>

No	Question	Implementation stance
Gross carrying amount		
8	Should institutions report the gross carrying amount of the total outstanding loans and advances subject to measures applied in response to the COVID-19 crisis or only the amounts subject to these measures?	Please refer to the relevant template instructions in Part II of Annex 2 to EBA/GL/2020/07. When the instructions require reporting of the gross carrying amount, this corresponds to the gross carrying amount of the total outstanding loans and advances (and not partial reporting of the amounts subject to such measures). For the definition of gross carrying amount, please see paragraph 34 of Part I of Annex V to Regulation (EU) No 680/2014.

4.1.2 F 90.01: Overview of EBA-compliant moratoria (legislative and non-legislative)

No	Question	Implementation stance
Scope of the template		
9	Where institutions apply individual measures accounting for specific circumstances of individual obligors that are not treated as forborne, should institutions report these loans and advances as “EBA-compliant moratoria”?	EBA-compliant moratoria (legislative and non-legislative) on loans and advances are those that meet the criteria set out in paragraph 10 of EBA/GL/2020/02. Loans and advances that are not subject to payment moratoria as specified in paragraph 10 of those guidelines are not classified as EBA-compliant and should not be reported in this template.

Number of obligors		
10	What should institutions report in column 0010 of template F 90.01?	Please see Part II of Annex 2 to EBA/GL/2020/07. Institutions should report the number of obligors that submitted requests for payment moratoria. This column should reflect the number of requests regardless the outcome of the process, i.e. if it was positive or negative. This should also include obligors who decided to withdraw their requests at a later stage.

No	Question	Implementation stance
		Where the specifications of the moratoria do not require obligors to opt in by submitting requests, institutions should report the number of eligible obligors who did not opt out of these moratoria.
11	What should institutions report if one borrower submits more than one request for different loans?	As per the instructions in Annex 2, Part II, Section 1.2.1, institutions should count multiple requests from one client as only one individual client request.
12	If a loan had received a moratorium treatment but has subsequently been repaid in full or sold, should institutions include the obligor in the number of obligors reported in columns 0010 and 0020?	Where a loan has been fully repaid or sold in total, and the institution derecognises this loan from its balance sheet, the loan and the associated obligor should not be reported.
Client requests revoked		
13	How should institutions report requests for payment holidays from clients that have subsequently been revoked? These requests have technically been neither rejected nor approved by the institution.	If a request has been made by a client, this request should be reported in the relevant columns, i.e. columns 0010 and 0030 of templates F 90.01 and F 90.02, as per the instructions, even if it has later been revoked by the client.
Extended moratoria		
14	What does 'extended moratoria' mean and what should institutions report in column 0055?	'Extended moratoria' are defined as cases in which the maturity of the EBA-compliant moratorium (whether legislative or non-legislative) has been extended for a specific loan before the set deadline in accordance with EBA/GL/2020/02 and its updates. For example, initially a loan may be subject to an EBA-compliant moratorium (legislative or non-legislative) for 3 months. The maturity of this moratorium may be extended for another 3 months. In this case, this means that the gross carrying amount of the loan should be reported in the relevant column, 'Of which: subject to extended moratoria'.

No	Question	Implementation stance
		<p>However, if following the extension the moratorium is no longer EBA-compliant in accordance with EBA/GL/2020/02, the exposure should no longer be reported in the column for reporting extended moratoria, as per the instructions.</p>
15	<p>If a loan is initially subject to a legislative moratorium and then to a non-legislative moratorium, should institutions report this as an extension in column 0055 but not report it as an expiration in column 0060?</p>	<p>Exposures that are subject to both EBA-compliant legislative and EBA-compliant non-legislative moratoria should be reported only once, for legislative moratoria. In the situation set out in the question, when the EBA-compliant legislative moratorium expires and is replaced with the EBA-compliant non-legislative moratorium, institutions should report it in column 0055 without reporting it in column 0060. Column 0060 shows the gross carrying amount of loans and advances for which the EBA-compliant moratoria have expired as of the reference date. This implies that only loans and advances for which both legislative and non-legislative moratoria have expired should be reported in column 0060.</p>
<p>Residual maturity of moratoria</p>		
16	<p>With regard to residual maturity of moratoria (columns 0070, 0080, 0090, 0100, 0110 and 0120), does this include expired moratoria?</p>	<p>The expired moratoria have a residual maturity equal to zero and they should not be included in the breakdown by residual maturity in columns 0070 to 0120. The latter concerns active moratoria only. This is confirmed by the instructions in Part II, Annex 2, Section 1.2.1, column 0040, where it is stated that column 0040 should be the sum of columns 0060 to 0120.</p>
17	<p>With regard to residual maturity of moratoria (columns 0070, 0080, 0090, 0100, 0110 and 0120 in F 90.01), how should institutions report when there is a legislative moratorium on a loan first and then a non-legislative moratorium on the same loan?</p>	<p>Please refer to the relevant instructions in Part II of Annex 2 to EBA/GL/2020/07 on F 90.01. The residual maturity of a moratorium is the time that elapses between the reference date and the end of application of the moratorium. When the legislative moratorium measure has expired and been replaced with a non-legislative moratorium, the maturity of the</p>

No	Question	Implementation stance
		non-legislative moratorium should be reported.

4.1.3 F 90.02: Overview of other COVID-19-related forbearance measures

No	Question	Implementation stance
Scope of the template		
18	Should institutions report any measures in response to the COVID-19 crisis in addition to moratoria (legislative and non-legislative) and public guarantee schemes that involves a restructuring, whether or not it has been marked as refinancing?	Please see the implementation stance set out in response to question 5.

4.1.4 F 90.03: Overview of newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis

No	Question	Implementation stance
Scope of the template and reporting values		
		Please see the implementation stance set out in response to question 6.
19	Which exposures should institutions report in row 0010?	Please see also the instructions on F 90.03 in Part II of Annex 2 to EBA/GL/2020/07, specifically paragraph 11. The template covers newly originated loans and advances as referred to in paragraph 14 of the guidelines that are subject to public guarantee schemes introduced in Member States in response to the COVID-19 crisis. In the case of refinancing of previous debt with a new loan or in the case of repackaging of several debts into a new loan, the new loan recognised in the financial statements should be reported in this template provided that it is covered by a public guarantee scheme related to the COVID-19 crisis.

No	Question	Implementation stance
20	Should institutions report the cumulative value of newly originated loans and advances since the beginning of the COVID-19 crisis to the reference date or the flows during the reporting period?	Institutions should report, at the reference date, the cumulative value of newly originated loans and advances for which a public guarantee has been granted in response to the COVID-19 crisis since the beginning of the COVID-19 crisis to the reference date.
Called public guarantee		
21	What should institutions report in columns 0020 and 0040?	Please refer to the relevant instructions on F 90.03, columns 0020 and 0040, in Part II of Annex 2 to EBA/GL/2020/07. Specifically, institutions should report the number of obligors and the gross carrying amount of newly originated loans (or loans restructured in such a way that they are classified as new loans) on which a public guarantee received in response to the COVID-19 crisis has been called but payment has not yet been received from the guarantor.
22	In template F 90.03, should column 0090 'Payment received from the public guarantor during the period' be interpreted from a funding point of view (refinancing of the loan) or from a default point of view (guarantee payments in case of distress)?	In column 0090, institutions should report the guarantee payment received from the public guarantor in case of distress of the borrower in the last quarterly reporting period.
Residual maturity of public guarantee		
23	In columns 0050 to 0080 'Of which: residual maturity of public guarantee', if the public guarantee does not have a specific maturity, i.e. it has the same maturity as the loan itself, should the residual maturity of the loan then be reported?	The maturity buckets require a split depending on the residual maturity of the public guarantee. If the guarantee has the same maturity as the loan, institutions should report the gross carrying amount under the corresponding maturity bucket.
24	How should the gross carrying amount of loans and advances with public guarantees with a maturity exceeding 5 years be reported?	Newly originated loans and advances with public guarantees having a maturity of more than 5 years should not be reported in any of the buckets in columns 0050 to 0080. However, these loans and advances should be reported

No	Question	Implementation stance
		in the remaining columns, where applicable, e.g. in column 0030, so that the public guarantees with a maturity of more than 5 years can be derived by subtracting the remaining categories from the total.

4.1.5 F 91: Information on loans and advances subject to measures applied in response to the COVID-19 crisis

No	Question	Implementation stance
Scope of the template F 91.01 and relationship with template F 90.01		
25	In template F 91.01, should institutions report loans and advances for which the EBA-compliant moratoria have already been implemented?	Yes. Template F91.01 refers to the gross carrying amount of loans and advances for which EBA-compliant moratoria have already been implemented. This corresponds to column 0040 net of column 0060 of template F 90.01.

Grace period of capital and interest (F 91.01, F 91.02)

26	In the columns 'Of which: grace period of capital and interest' of F 91.01 and F 91.02, should the payment holidays refer to both elements (capital and interest) or to only one of them?	Please refer to the instructions in Part II of Annex 2 to EBA/GL/2020/07, Section 4 on F 91.01 and F 91.02. The columns refer to EBA-compliant moratoria/COVID-19-related forbearance measures that are in the form of a 'grace period' for both capital and interest at the reference date. Therefore, the obligor does not have any payment obligations during the moratoria/forbearance period. On the other hand, in templates F 90.02 and F 91.04, the other COVID-19-related forbearance measures in the form of a grace period/payment moratorium refer to the type of forbearance defined in paragraph 358(a) of Part 2 of Annex V to the Regulation (EU) No 680/2014.
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Exposures with forbearance measures (F 91.01, F 91.03)

27	What type of operations should be included in the columns 'Of which: exposures with forbearance measures' in F 91.01 and F 91.03? Should they	Please refer to the relevant instructions in Part II of Annex 2 to EBA/GL/2020/07, Section 4 on F 91.01 and Section 6 on F 91.03. The columns are to include exposures that have been
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No	Question	Implementation stance
	include, in addition to EBA-compliant moratoria, operations that are subject to other types of restructuring triggering forbearance status?	qualified as forborne in accordance with the general rules set out in Article 47b of the CRR and Annex V to Regulation (EU) No 680/2014, either before or after the application of the EBA-compliant moratoria. These columns should include exposures both that are subject to EBA-compliant moratoria (active or expired) and that are subject to forbearance measures (COVID-19-related or non-COVID-19-related).
Economic loss (F 91.01,F 91.03)		
28	What is the sign convention for reporting 'Economic loss' in F 91.01 and F 93.01? Should it be reported as a positive or a negative value?	'Economic loss' should be reported as a negative value, i.e. with a minus sign. Please note that economic gains should not be reported.
Inflows to non-performing exposures (F 91.01, F 91.02, F 91.03, F 91.04, F 91.05)		
29	Should inflows to non-performing exposures be reported as quarterly inflows or cumulative inflows since the beginning of the financial year, as in FINREP?	Please refer to the reporting instructions in Annex 2 to EBA/GL/2020/07, Section 4 to Section 8. As per the instructions, institutions should report only loans and advances that are subject to COVID-19 measures that have migrated from performing to non-performing status within the reporting period, i.e. quarterly inflows should be reported. For instance, for the reference date 30 June, the inflows to non-performing status between 1 April and 30 June should be reported.
Instruments with significant increase in credit risk since initial recognition but which are not credit -impaired (Stage 2) (F 91.01, F 91.02, F 91.03,F 91.04, F 91.05)		
30	Regarding column 0140 'Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)', under 'performing exposures', should institutions report exposures with a significant increase in credit risk since initial recognition in Stage 2 or exposures with a significant increase in credit risk since initial recognition that are not in Stage2?	Please refer to the relevant templates and instructions in Part II of Annex 2 to EBA/GL/2020/07. 'Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)'should include exposures in Stage 2.

No	Question	Implementation stance
Inflows linked to new lending (F 91.05)		
31	Should 'inflows linked to new lending' (column 0170) be determined quarterly?	For inflows linked to new lending, please refer to the relevant instructions in Part II of Annex 2 to EBA/GL/2020/07 Section 8 on F 91.05, column 0170. Inflows should be reported quarterly since the last reference date for the various loan categories. This means that inflows resulting from the origination of new loans in the various loan categories over the last 3 months should be reported.
Relationship between F 91.05 and F 91.01		
32	Should data reported in template F 91.05 also be entered in template F 91.01?	The data reported in each template for EBA-compliant moratoria (F 91.01, F 91.03), other COVID-19-related forbearance measures (F 91.02, F 91.04) and newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis (F 91.05) are mutually exclusive. With regard to the interaction between F 91.05 and F 91.01, institutions should report in one of the two templates only, taking into account the provisions of EBA/GL/2020/02 and paragraphs 25 and 26 of the 'Background and rationale' section of those guidelines.
4.1.6 F 92.01: Measures applied in response to the COVID-19 crisis: breakdown by Nomenclature of Economic Activities (NACE) codes		
Question	Implementation stance	
Scope of the template		
33	What is the scope of reporting?	Please refer to the instructions in Section 9, paragraph 28, and Section 9.2.1 of Part II, Annex 2. The template covers loans and advances to non-financial corporations – other than those classified as 'held for trading', 'trading' or 'held for sale' in accordance with the applicable accounting framework – subject to non-expired EBA-compliant moratoria

Question	Implementation stance
	(legislative and non-legislative) (column 0010) or non- expired other COVID-19-related forbearance measures (column 0020) and newly originated loans and advances for which public guarantees have been granted in the context of the COVID-19 crisis (column 0030). In addition, in column 0040, the maximum amount of public guarantees received in the context of the COVID-19 crisis for all loans and advances to non-financial corporations, excluding those classified as ‘held for trading’, ‘trading’ or ‘held for sale’ in accordance with the applicable accounting framework, should be reported.

4.1.7 F 93.01: Interest income and fee and commission income from loans and advances subject to COVID-19-related measures

No	Question	Implementation stance
Interest income		
34	What definition of ‘interest income’ should institutions use?	Please refer to the relevant instructions in Part II of Annex 2 to EBA/GL/2020/07, Section 10 on F 93.01, row 0010. Interest income should be reported as specified in paragraph 31 of Part 2 of Annex V to Regulation (EU) No 680/2014.

Reporting period for interest income and fee and commission income

35	Should institutions report in rows 0010 and 0020 and columns 0010 and 0020, respectively, interest income and fee and commission income recognised during the period when COVID-19 measures are active (e.g. a moratorium from 1 April 2020 until 30 June 2020) or should they report on a yearly basis, from the beginning of the financial year?	Please refer to the relevant instructions in Part II of Annex 2 to EBA/GL/2020/07, Section 10 on F 93.01. The figures should be reported on a year to reference date basis from the beginning of the financial year used for FINREP.
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4.1.8 F 93.02: Prudential information on loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis

No	Question	Implementation stance
Scope of the template		
36	In row 0010, column 0010, should all exposures, both covered and uncovered, be reported?	Please refer to the relevant template and instructions in Part II of Annex 2 to EBA/GL/2020/07. Please report the exposure value of all exposures, both covered and uncovered, to which one of the following applies: (i) they meet the definition for the purposes of column 0200 of template C 07.00 for the Standardised Approach or (ii) they meet the definition for the purposes of column 0110 of template C 08.01 of Annex I to the Regulation (EU) No 680/2014 for the IRB approach. The value of these exposures has to be reported only where public guarantee schemes in the context of the COVID-19 crisis have been applied and the guarantees have not yet expired.
Definition of restructured loans and advances		
37	Could you please clarify the definition of "loan and advances restructured to apply those guarantees"?	Please refer to the relevant instructions in Part II of Annex 2 to EBA/GL/2020/07, Section 11 on F 93.02, row 0040. Please report the exposure existing at each reporting reference date. The term 'restructured' refers not only to refinancing (e.g. restructuring to existing exposures that qualify for new lending) but also to any other type of restructuring.
Comment column		
38	Should a comment be added when rows 0030 and 0060 are not equal to zero?	Please refer to the instructions in Part II of Annex 2 to EBA/GL/2020/07 for template F 93.02 which require institutions to provide further information where rows 0030 or 0060 are not equal to zero, i.e. the recognition of the public guarantee does not reduce the risk-weighted exposure amount of the loan or advance in question to zero.

4.2 COVID-19 disclosure

4.2.1 General: definitions and scope

No	Question	Implementation stance
Level of application		
39	<p>According to paragraph 8 of EBA/GL/2020/07, Section 4 (reporting) and Section 5 (disclosure) of the guidelines should be applied at individual, sub-consolidated and consolidated levels, as set out in Part One, Title II of the CRR. In the case of the disclosure templates, and following Article of the CRR, should these templates be disclosed by large subsidiaries on an individual basis, or where relevant, on a sub-consolidated basis?</p>	<p>By default, the level of application for section 5 of the guidelines (disclosure) is the level of application for the disclosure requirements set out in Part Eight of the CRR, as specified in Articles 6, 10 and 13 of Part One, Title II of that Regulation. Article 13 of the CRR requires large subsidiaries to disclose the information specified in certain articles of Part Eight on an individual basis or, where relevant, on a sub-consolidated basis. The disclosure templates in Annex 3 to EBA/GL/2020/07 include information that institutions have to disclose in addition to that required by Part Eight of the CRR in order to properly convey their risk profile in the context of the COVID-19 crisis, in accordance with Article 431 of that regulation. Article 431 is not among those articles referred to in Article 13 of the CRR with regard to disclosures to be made at the level of large subsidiaries. Therefore, the disclosure templates in Annex 3 to EBA/GL/2020/07 are not applicable to large subsidiaries on an individual or a sub-consolidated level, unless competent authorities decide to apply them at that level, following point (e) of paragraph 19 of EBA/GL/2020/07.</p>
Means of disclosure		
40	<p>Where and when should institutions disclose the information specified in Section 5 of EBA/GL/2020/07?</p>	<p>Institutions should disclose the information required in the guidelines in the same medium or location in which they disclose the information required in Part Eight of the CRR (i.e. Pillar 3 reports) and on the same date. This also aligns the practice with Article 434 of the CRR.</p> <p>Where institutions do not have other Pillar 3 disclosures or disclose annually, they should disclose the information as required under EBA/GL/2020/07 semi-annually in a timely manner and in a medium or location that is easily accessible to a wider audience.</p>

No	Question	Implementation stance
Number of obligors and gross carrying amount		
41	<p>What should institutions disclose in row 1, 'Loans and advances for which moratorium was offered', and row 2, 'Loans and advances subject to moratorium (granted)', of template 2, 'Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria', columns (a) and (b), of Annex 3 to the guidelines?</p>	<p>Please see the corresponding definitions in template 2 of Annex 3.</p> <p>Institutions should disclose in columns (a) and (b) of row 1 the same information that they report in row 0010, 'Overview of EBA-compliant moratoria (legislative and non-legislative)', columns 0010 and 0030, respectively, of template F 90.01 in Annex 1.</p> <p>In row 2 in template 2 of Annex 3, institutions should disclose in columns (a) and (b), the same information that they report in row 0010, columns 0020 and 0040 of template F 90.01 in Annex 1, respectively.</p> <p>Please see also other relevant answers to questions 9 - 13 above.</p>

4.3. Additional implementation questions on COVID-19 reporting received after the first remittance date

4.3.1. General issues

No	Question	Implementation stance
Extension of an existing EBA-compliant moratorium where the extension has been granted before 30 September 2020		
42	<p>How should an extension of an existing EBA-compliant moratorium be reported where the extension has been granted before 30 September 2020?</p>	<p>If the extension granted before 30 September 2020 complies with the conditions set out in Article 10 of EBA/GL/2020/02 as amended by EBA/GL/2020/15, then the loan should continue to be reported in templates F90.01 and F91.01.</p> <p>If the extension does not comply with Article 10 of EBA/GL/2020/02 as amended by EBA/GL/2020/15, it should be treated like a new measure and assessed on a case-by-case basis in accordance with the usual prudential and reporting framework. If the extension is related to the COVID-19 crisis and satisfies the forbearance definition, the</p>

No	Question	Implementation stance
		loans associated with this measure should be reported in templates F90.02 and F91.02.
Reporting of COVID-19-related measures granted after 30 September 2020 and before 31 March 2021		
43	How should new COVID-19-related moratoria as defined in EBA/GL/2020/02 that are granted after 30 September 2020 and before 31 March 2021 be reported?	<p>New moratoria as defined in EBA/GL/2020/02 that are granted after 30 September 2020 and before 31 March 2021 can be considered EBA-compliant moratoria, provided that they meet the conditions set out in paragraphs 10 and 10(bis) of EBA/GL/2020/02 as amended by EBA/GL/2020/15 and should be reported in templates F90.01 and F91.01 accordingly.</p> <p>If they do not meet these requirements, they should be assessed on a case-by-case basis in accordance with the usual prudential and reporting framework. Specifically, if the moratorium is related to the COVID-19 crisis and satisfies the forbearance definition, it should be reported in templates F90.02 and F91.02.</p>
44	How should the extension of EBA-compliant moratoria be reported where the extension has been granted after 30 September 2020 and before 31 March 2021?	<p>If the extension of EBA-compliant moratoria occurs after 30 September 2020 and before 31 March 2021, the extension can be considered EBA-compliant, provided that it meets the conditions set out in paragraphs 10 and 10(bis) of EBA/GL/2020/02 as amended by EBA/GL/2020/15.</p> <p>If the extension does not meet these requirements, it should be treated like a new measure and should be assessed on a case-by-case basis in accordance with the usual prudential and reporting framework. If such extensions are related to the COVID-19 crisis and satisfy the forbearance definition, they should be reported in templates F90.02 and F91.02.</p>
Reporting of COVID-19-related measures granted after 31 March 2021		
45	How should COVID-19-related measures (new measures or extensions of existing one) that are granted after 31 March 2021 be reported?	<p>Any COVID-19-related measure granted after 31 March 2021 cannot be considered compliant with EBA/GL/2020/02 as amended by EBA/GL/2020/15.</p> <p>The measure should be assessed on a case-by-case basis in accordance with the usual prudential and reporting framework. Specifically, if the measure is related to the COVID-19 crisis and satisfies the forbearance definition, it should be reported in templates F90.02 and F91.02.</p>

No	Question	Implementation stance
Consistency in reporting across templates		
46	Where should banks report a newly originated loan subject to public guarantee schemes in the context of the COVID-19 crisis if at a later stage receives payment holidays under an EBA-compliant moratorium?	<p>Banks should report newly originated loans subject to public guarantee schemes in the context of the COVID-19 crisis in templates F90.03 and F91.05 when these loans do not at the same time benefit from an EBA-compliant moratorium.</p> <p>If at a future date this loan becomes subject to an EBA-compliant moratorium in accordance with the requirements of paragraph 10 of EBA GL 2020-02 (in particular, the new loan contracts were granted before the date when the moratorium was announced), banks should stop reporting it in template F90.03 and continue the reporting of this specific loan in template F90.01.</p> <p>Likewise, banks should stop reporting it in template F91.05 and continue the reporting of this specific loan in template F91.01, where column 0190 indicates the public guarantee dimension of this loan.</p>
47	Where should banks report loans that are subject to an EBA-compliant moratorium that at a later stage receives public guarantees?	<p>A loan subject to an EBA-compliant moratorium should be reported in templates F90.01 and F91.01. When an existing loan that is subject to an EBA-compliant moratorium receives public guarantees, the loan should continue to be reported in template F90.01 and not in template F90.03, even when a bank may derecognise this loan from its balance sheet and recognise it as a new loan subject to public guarantees. The information on the public guarantee of the loan will be reported in column 0190 of template F91.01.</p>

4.3.1 F90.01: Overview of EBA-compliant moratoria (legislative and non-legislative)

Question	Implementation stance
Expiration date of moratoria (F90.01; F91.03)	

Question	Implementation stance
<p>48 What does the expiration date of moratoria refer to? What should be reported in columns 0070-0120 in the first (Q1), second (Q2) and third quarters (Q3) of 2021 if a borrower receives a 12-month moratorium (payment holiday) for the loan between 30 June 2020 and 31 May 2021?</p>	<p>The expiration date of moratoria refers to the end of the period during which the borrower benefits from payment holidays, and from which the repayment of the loans on the agreed schedule resumes.</p> <p>As set in the question, the expiration date is 31 May 2021. The borrower, on the basis of an agreement, stops paying the loan instalments that are due between 30 June 2020 and 31 May 2021.</p> <p>In Q1 2021, the bank will report the gross carrying amount of the loan with residual maturity of 2 months in columns 0040 and 0070 of template F90.01.</p> <p>In Q2 2021, the bank will report the gross carrying amount of the loan with residual maturity of 0 months (expired) in columns 0040 and 0060.</p> <p>In Q3 2021, the bank will report the gross carrying amount of the loan with residual maturity of 0 months (expired) in columns 0040 and 0060.</p>

4.3.2 F90.03: Overview of newly originated loans and advances subject to public guarantee schemes in the context of the COVID-19 crisis

Question	Implementation stance
<p>Timing of reporting public guarantees (F90.03; F91.05; F92.01)</p>	
<p>49 Should banks report newly originated loans and advances subject to public guarantee schemes as soon as they are originated or, if the public guarantee applies only a certain time, e.g. some months, after the loan origination, when the guarantee becomes active?</p>	<p>Template F90.03 covers newly originated loans and advances subject to public guarantee schemes that Member States introduced in response to the COVID-19 crisis. Specifically, new loans that are originated with contractual provision of a public guarantee should be reported for their whole amount when the public guarantee becomes active. The time when the public guarantee becomes active</p>

Question	Implementation stance
	may be different from the date of loan origination.
Payment received from the public guarantor during the period	
50 In column 0090 'Payment received from the public guarantor during the period', should the payment received be reported net of any reimbursements made by the client and repayable to the guarantor?	No. Only payments received from the public guarantor during the period should be reported, regardless of any reimbursement.

4.3.3 F91: Information on loans and advances subject to measures applied in response to the COVID-19 crisis

Question	Implementation stance
Economic loss (F91.01; F91.03)	
51 In column 0210, should the accumulated economic loss or the economic loss recognised for the reporting period be reported?	The economic loss recognised for the reporting period should be reported. Specifically, it should be reported cumulatively since the first day of the accounting year to the reference date, in line with the accounting policy applicable for FINREP reporting.
Scope of template F91.02 and relationship with template F90.02	
52 In template F91.02, should banks report information on other loans and advances for which the COVID-19-related forbearance measures have already been implemented?	Yes. Template F91.02 refers to the gross carrying amount of other loans and advances for which the COVID-19-related forbearance measures have already been implemented. This corresponds to column 0040 net of column 0050 of template F90.02.

4.3.4 F92.01: Measures applied in response to the COVID-19 crisis: breakdown by Statistical Classification of Economic Activities in the European Community (NACE) codes

Question	Implementation stance
Scope of public guarantees received for loans and advances to non-financial corporations in the context of the COVID-19 crisis	
53 Which public guarantees are included in column 0040?	The scope of column 0040 covers all public guarantees received in the context of the COVID-19 crisis for all existing loans and advances (including the ones for which the moratoria or other forbearance measures have expired or for which neither EBA-compliant moratoria measures nor other forbearance measures have been implemented) and new loans, excluding only the loans and advances classified as ‘held for trading’, ‘trading’ or ‘held for sale’.

4.3.5 F93.01: Interest income and fee and commission income from loans and advances subject to COVID-19-related measures

Question	Implementation stance
Accounting year different from the calendar year	
54 How should interest income and fee and commission income be reported when the institution does not follow an accounting year corresponding to the calendar year?	Institutions should refer to their accounting year, although it is different from the calendar year, in line with the accounting policy applicable to FINREP reporting. Therefore, interest income and fee and commission income should be reported cumulatively from the first day of the accounting year to the reference date.
Planned position	
55 In column 0020, should ‘Planned position at accounting year-end’ include the figures of 2020 or 2021 year-end?	Please refer to the instructions for column 0020 of template F93.01. Institutions should report the planned position at the following accounting year-end considering the effects of the COVID-19 pandemic. In order to identify the following accounting year-end, institutions should apply the accounting policy used for FINREP reporting and then report

Question

Implementation stance

information from the first day of the following accounting year to the following accounting year-end.

5. Downturn LGD estimation

This section deals with the complexities around the likely identification of a COVID-19-triggered downturn period and its incorporation into downturn LGD estimation. It aims at clarifying how the policy should be applied in the light of COVID-19 crisis and points out to aspects that might need further clarification.

For the purpose of discussing the impact of the COVID-19 crisis on downturn LGD estimations, it is very important to recall that the regulation is split into two parts, namely the:

- RTS on economic downturn providing a specification of how institutions shall identify the relevant downturn periods to be used for downturn LGD and CCF estimations;
- GL on downturn LGD estimation providing guidance on downturn LGD estimations starting from the downturn periods identified in accordance with the RTS.

Thus, the following discussion around the complexities of downturn LGD estimations in the context of the COVID-19 crisis is split into two parts: issues (i) related to the identification of a (likely) COVID-19 downturn period; and (ii) related to the incorporation of such a downturn period into downturn LGD estimations.

Lastly, to be specific on the scope of the discussion, it should be recalled that institutions have to identify **downturn periods in accordance with the draft RTS starting from 1 January 2021** (pending endorsement by the Commission) and that institutions should estimate **downturn LGD in accordance with the GL on downturn LGD estimation starting from 1 January 2022 (for most portfolios)**. For stand-alone rating systems for exposures to institutions, financial institutions treated as corporates or large corporates as defined under the final Basel III framework, the implementation date is set as 1 January 2024 to provide enough time for institutions to withdraw IRB approval for those types of exposures for which this is implied by the final Basel III framework.

In any case, and regarding the identification of likely downturn periods triggered by the COVID-19 crisis as well as regarding downturn LGD estimation for such downturn periods, the EBA is mindful of the fact that the current economic conditions might reflect an early state of the COVID-19 crisis and that accordingly the full potential of the crisis as well as effects materialising in credit losses might only be assessable in the course of the economic developments and potentially with a significant delay.

5.1 Identification of (a likely) COVID-19 downturn period

The EBA agrees that the downturn period, which the COVID-19 pandemic is likely to trigger should be identified in accordance with the draft RTS on economic downturn. The mechanics of the RTS are recalled in the technical box below.

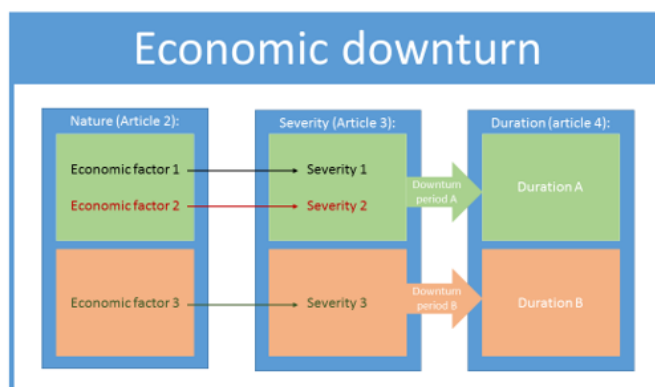
This means in particular that:

- a COVID-19 downturn period specific to a considered type of exposure will only be identified **once 12-month values of economic indicators**, such as GDP growth, unemployment rate, sector-specific indicators, or aggregated default rates and loss rates, where available, reflect the macroeconomic impact;
- a COVID-19 downturn period is likely to be identified by institutions in the annual review in 2021 in accordance with the CRR and paragraph 218(c)(i) of the GL on PD and LGD.

Technical box – RTS on economic downturn

The notion of ‘economic downturn’ laid down in the RTS on economic downturn relies on jurisdiction- and sector-specific economic conditions, observed via economic indicators. As such institutions may have to consider **several disjunctive downturn periods** when estimating downturn LGD and CCF. It is crucial to understand that these downturn periods are specific to the type of exposure considered, but **not specific to the credit losses observed for an individual institution**. This concept is illustrated in the Report accompanying the RTS as follows:

Figure 1: Economic downturn



As illustrated in Figure 1 from the Background and Rational (B&R) of the RTS on economic downturn, the nature of an economic downturn is specified via a set of economic indicators and the severity of an economic downturn is specified via the most severe values observed on these factors. Lastly, a downturn period as specified in the RTS is a period of time where the peaks and troughs related to the most severe (observation of one economic indicator is reached or) observations of several relevant economic indicators are reached simultaneously or shortly after each other.

Following the draft RTS there are economic indicators that have to be considered relevant for each type of exposure, namely GDP; unemployment rate; externally provided aggregate default

rates (where available); externally provided aggregate credit losses (where available). Other economic indicators should be considered relevant for certain exposure classes, such as e.g. sector or industry-specific indices for SMEs or house prices for residential real estate exposures. In addition institutions shall consider other economic factors as relevant, where these are explanatory variables for, or indicators of, the economic cycle specific to the type of exposures under consideration.

To conclude, it can be stated that the policy as regards the identification of an economic downturn should also be followed in identifying likely downturn periods triggered by the COVID-19 crisis. The identification of relevant downturn periods will depend on the development of the macroeconomic context specific to the jurisdiction(s) and sectors covered by the type of exposures considered.

Given the variety of economic indicators to be considered, EBA does not currently expect that the COVID-19 downturn period (likely to be identified in 2021 or 2022) will lead to disregard all of the previously identified downturn periods. This expectation should however be monitored over time because of the uncertainty of macroeconomic developments in the course of the pandemic.

5.2 Calibrating COVID-19 downturn LGDs

For the purpose of assessing the impact of the likely COVID-19 downturn period on downturn LGD estimations in accordance with the GL on downturn LGD estimation, the following aspects have to be taken into account:

- As pointed out above, the GL on downturn LGD estimation will apply starting from 1 January 2022 (for most portfolios).
- Generally, the policy requires downturn LGD estimations to be provided for all identified downturn periods relevant to a calibration segment under consideration. The finally relevant downturn period is chosen in accordance with paragraph 15 of the GL on downturn LGD estimation.
- The type of estimation introduced in paragraphs 24 to 25 of the GL on downturn LGD estimation that is used for the purpose of calibrating downturn LGD.

The policy in the GL on downturn LGD estimation is briefly recalled in the textbox below.

The policy for **estimating downturn LGD** is laid down in the GL on downturn LGD. In essence, downturn LGDs have to be provided for each relevant downturn period. In the case that **multiple downturn periods are relevant for one calibration segment, one finally relevant downturn period is chosen in a conservative manner.**

In line with the general principle of the internal ratings-based (IRB) approach that the quantification of risk parameters **should be based on observed data**, the calibration of downturn LGD should be based on the observed impact of the downturn period on the relevant losses, where possible, and, where not, it should make use of certain methodologies in order to estimate the impact. The GL therefore differentiate between a **hierarchy of three approaches for the calibration of downturn LGD for a specific downturn period**, introduced in paragraphs 23 to 25, which are increasing in prescriptiveness and with regard to aspects that need to be covered by appropriate margin of conservatism (MoC):

- **Type 1** - downturn LGD calibration based on observed impact: Where sufficient (in terms of timespan covered and quantity of data, to arrive at stable estimates) loss data are available to assess the impact for the downturn period under consideration, which has been identified in accordance with the RTS on economic downturn, the institution should conduct a standardised impact assessment with a prescriptive minimum scope. The impact assessment requires that institutions analyse whether there is evidence of elevated realised LGDs, decreased annual recoveries, decreased number of cures (i.e. exposures that defaulted and returned to non-defaulted status) or prolonged time in default caused by the downturn period under consideration. Downturn LGD should then be calibrated for the downturn period under consideration in a way that it is coherent with the results obtained from that impact assessment, i.e. the institution is required to consider the results of the impact assessment and to model appropriately the loss components materially affected by the downturn period under consideration.
- **Type 2** - downturn LGD calibration based on estimated impact using historical loss data (haircut or extrapolation approach or a combination of the two): Where loss data are not available to base the downturn LGD calibration on an observed impact for a considered downturn period, the downturn LGD should be calibrated using a haircut approach or an extrapolation approach. The approaches may also be combined and be used for the downturn calibration of intermediate risk parameters (such as recovery rates or cure rates) and risk drivers.
- **Type 3** - free modelling flexibility with minimum fixed add-on: Where available data is insufficient to quantify downturn LGDs for the downturn period under consideration based on observed or estimated impact using the approaches outlined above, the institution still has to provide downturn LGD estimates, given the explicit requirement in the CRR. However, in this case the estimates also need to fulfil a minimum level of MoC, covering the lack of data and methodological deficiencies. Moreover, the institution must justify to the satisfaction of the competent authority (CA) that it cannot apply any of the other approaches outlined above. Under this third approach, it is required that the final downturn LGD estimates plus an appropriate MoC be higher than the corresponding long-run-average LGDs plus 15 percentage points.

Figure 3 from the Report accompanying the GL illustrates the decision tree for calibrating downturn LGD for a given downturn period.

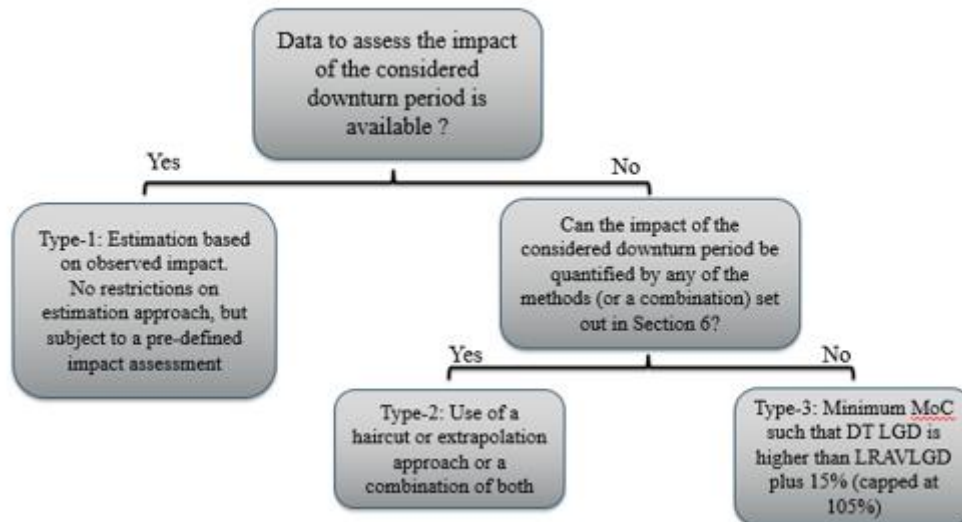


Figure 3: Downturn LGD estimation for one considered downturn period

Two aspects of downturn LGD estimation will be crucial for the assessment of the impact of a potential COVID-19 downturn period on downturn LGD, namely the choice of the relevant downturn period for the final calibration and the methodology to calibrate downturn LGD for the potential COVID-19 downturn period.

The EBA is mindful of the complexities that the application of the policy entails in the context of the COVID-19 crisis. The EBA is in particular mindful of not introducing procyclical effects that might result from taking into account a very recent or current downturn period in the estimation of the downturn LGD. Generally, a downturn period under consideration should be taken into account in downturn LGD estimation once the relevant data become available.

The EBA however expects that institutions have already started to actively collect, analyse and understand the pandemic impact on credit losses even if the likely COVID-19 downturn periods might only be identified in 2021 or 2022 and even if the full impact may only unfold with significant delay (e.g. up to several years for some types of exposures).

6. Treatment of public guarantee schemes

6.1 Approaches available to recognise public guarantees

The EBA must ensure that the way institutions recognise public guarantee schemes (PGS) is compliant with the regulation requirements. In this context, it is important to note that the EBA has already clarified how to apply the CRR in various regulatory products.

In cases of guaranteed exposures risk-weighted according to the SA or the IRB approach without own LGD estimates, the relevant clarifications have been provided in the EBA's report on the credit risk mitigation framework (hereinafter the CRM report)³⁷. In particular, following Article 108(1) of the CRR regarding the recognition of credit risk mitigation (CRM) techniques, unfunded credit protection (UFCP) may be recognised in accordance with Part Three, Title II, Chapter 4 of the CRR, i.e. by using a substitution approach:

- If either the guaranteed exposure or the guarantor is risk-weighted according to the SA, this involves the direct substitution of the risk weight (RW) associated with the guaranteed part of the exposure with the RW associated with the guarantor as determined under the SA.
- Otherwise, i.e. if both the guaranteed exposure and the guarantor are treated under the IRB approach without own LGD estimates, institutions shall calculate the risk-weighted exposure amounts by either one of the following approaches:
 - by applying the PD of the guarantor and the regulatory LGD applicable in accordance with Article 236(1) of the CRR to the covered portion of the exposure (substitution of risk parameters);
 - by applying a PD between the PD of the obligor and the PD of the guarantor and the regulatory LGD applicable in accordance with Article 236(1) of the CRR to the covered portion of the exposure (PD modelling approach);
 - by applying the formula specified in Article 153(3) of the CRR (double default treatment) subject to the conditions set out in Articles 202 and 217 of the CRR.

Therefore, the rules for treating UFCP under both the SA and the IRB approach without own LGD estimates are quite straightforward, since there is limited choice left to institutions in terms of the methods that can be used to recognise UFCP.

³⁷ [Link to the CRM report.](#)

In cases of guaranteed exposures risk-weighted according to the IRB approach with own LGD estimates, following Article 108(1) of the CRR, UFCP may be recognised in accordance with Part Three, Title II, Chapter 3 of the CRR. The methods of treating UFCP have been clarified in the recently published EBA Guidelines on credit risk mitigation for institutions applying the IRB approach with own estimates of LGDs (EBA/GL/2020/05, the GL on CRM)³⁸, where, in accordance with the CRR requirements, UFCP may be recognised by adjusting PD and/or LGD estimates, under the constraint that the resulting adjusted RW should not be lower than the RW of a comparable direct exposure to the guarantor. Overall, the rules are more flexible, and three broad methodologies are highlighted.

Technical box – GL on CRM: three methodologies to reflect the effect of UFCP on RWA for guaranteed exposures risk-weighted according to the IRB approach with own LGD estimates

The **first methodology** refers to the adjustment of PD or LGD estimates and considers three alternative sub-approaches:

- The **modelling approach**: This reflects the effects of the UFCP in the estimation of risk parameters, i.e. by considering the UFCP in the estimation of LGD, and in some cases also in the estimation of the PD of the obligor.
- The **substitution of risk parameters approach**: This is understood as an extreme adjustment of PD and LGD in which both the PD and LGD of the underlying guaranteed (part of the) exposure are substituted with the PD and LGD that the institution would assign to a comparable direct exposures to the guarantor whose direct exposures are treated under the IRB approach (A-IRB guarantor and F-IRB guarantor, depending on whether own LGD estimates or regulatory values are used³⁹).
- The **override**: In accordance with Article 172(3) of the CRR and Section 8.2 of the EBA Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures (GL on PD and LGD), if there are individual and exceptional circumstances that the model cannot reasonably take into account, institutions have the option of adjusting risk parameters in the application of the model, through overrides in the grade assignment process. This adjustment may be applied to the recognition of a given UFCP.

The **second methodology** solely applies in the case of guarantors whose direct exposures are treated under the SA (SA guarantors): according to Article 183(4) of the CRR, institutions may recognise the UFCP in accordance with the requirements (eligibility criteria and methods) of Chapter 4 and therefore substitute the RW associated with the guaranteed part of the exposure with the SA RW that the institutions would assign to comparable direct exposures to the guarantor (the **substitution of risk weight approach**).

³⁸ [Link to the GL on CRM.](#)

³⁹ Further clarifications on the terminology 'A-IRB' and 'F-IRB' are given in footnote 9 of the CRM report.

Finally, the **third methodology** is described in Articles 153(3), 154(2), 161(4) and 164(3) of the CRR (the **double default treatment**), provided that the requirements under Articles 202 and 217 of the CRR are met.

Unlike exposures risk-weighted under the SA or the IRB approach without own LGD estimates, some of the methodologies may raise some challenges for the exposures risk-weighted under the IRB approach with own LGD estimates and covered by PGS:

- For the **override approach**, institutions need to comply with the requirements set out in Article 172(3) of the CRR and Section 8.2 of the GL on PD and LGD⁴⁰. These might hamper the use of this approach as a standard option for a large number of exposures.
- The **double default treatment** could be a solution for corporate exposures including corporate and retail SMEs guaranteed by guarantors fulfilling the criteria set out in Articles 202 and 217 of the CRR⁴¹, but not for non-SME retail exposures.
- For the **modelling approach**, institutions need to comply with the requirements set out in Part Three, Title II, Chapter 3 of the CRR and the additional clarifications presented in the GL on PD and LGD. According to Article 179(1)(a) of the CRR in particular, ‘an institution’s own estimates shall incorporate all relevant data, information and methods. The estimates shall be derived using both historical experience and empirical evidence, and not based purely on judgemental considerations. The estimates shall be plausible and intuitive’. Therefore, the recognition of PGS by adjusting (PD and) LGD estimates seems challenging in cases in which public guarantees were non-existent in the past and their appearance was unforeseeable.

Instead, the alternatives are:

- Use a **substitution approach**, either of **RW or of risk parameters**, depending on which approach is used to risk-weight the guarantor.
 - If the guarantor currently is treated under the SA⁴² and subject to the eligibility requirements of Chapter 4 of the CRR, in accordance with Article 183(4) of the CRR, institutions may use the substitution of RW approach.
 - If the guarantor is treated under the IRB approach and subject to the eligibility requirements of Chapter 4 of the CRR (see paragraph 36(a) of the GL on CRM), institutions may use the substitution of risk parameter approach. If using this approach implies using a different approach from the one already approved or

⁴⁰ [Link to the GL on PD and LGD](#). Note that the application date for these guidelines is described in the [Progress report on the IRB roadmap](#).

⁴¹ Note that central governments are not eligible protection providers.

⁴² Note the requirements in Article 183(4) of the CRR, i.e. ‘for guarantees provided by institutions, central governments and central banks, and corporate entities which meet the requirements laid down in Article 201(1)(g) if the institution has received permission to apply the Standardised Approach for exposures to such entities’.

making changes to the currently approved (PD and) LGD models, these model changes need to be assessed in accordance with Commission Delegated Regulation (EU) No 529/2014 (hereinafter the RTS on model changes)⁴³, a point further discussed in the section ‘Categorisation of the changes to the rating systems’ below. In addition, it should be noted that, when the guarantor is treated under the IRB approach, institutions may use the substitution of RW approach only if they request permission from the competent authority to revert to the use of less sophisticated approaches and change the scope of its PPU or roll-out plan for direct exposures to the guarantor (further discussed in the section ‘IRB guarantors and changes in the scope of PPU’ below). This request would be subject to the requirements and conditions set out in Articles 148, 149 and 150 of the CRR.

- **Change the scope of the PPU in order to risk-weight the exposure via the SA₋**– this decision would, however, be subject to the conditions specified in Articles 149 and 150 of the CRR and would always require permission from the CA. Moreover, considering that a change in the scope of the PPU may lead to a change in the range of application of the rating system, any subsequent adjustment to the rating system that may be needed after the approval of the PPU as a result of the new range of application of the rating system should be considered in accordance with the RTS on model changes, which is further discussed in the next section.

6.2 Categorisation of the changes to the rating systems

This section elaborates the EBA’s stance on how CAs should assess the decisions of the institutions to treat the public guarantee schemes in their rating systems (for example by using the substitution of risk parameters approach), pursuant to Article 143(3) of the CRR and in accordance with the RTS on model changes.

This section is of particular importance for cases where the rating system change is considered material and therefore requires ex ante approval by the CAs.

In this context, it is important to stress that, while the rules about the permission given by the CA are general rules, intended to prevent regulatory arbitrage, they do not rule out the possibility of CAs having a particular process in place to provide an efficient response to ensure the timely authorisation of the model change during the pandemic. Hence, CAs may assess the changes in a flexible risk-based manner, possibly using an approval process that could adopt different forms in order to adapt to current necessities and challenges, and ideally commensurate with and appropriate to the materiality, complexity and nature of the proposed changes.

The RTS on model changes provides the lists of qualitative conditions for classification of extensions and changes to the internal approaches into one of the following categories:

⁴³ [Link to the RTS on model changes.](#)

- material extensions and changes (to the scope of application or to the rating system itself), which according to Article 143(3) of the CRR require permission from the CA;
- less material extensions and changes, but still material enough to require notification to the CA before their implementation; and
- non-material extensions and changes, which therefore need only be notified to the CA at regular intervals, after their implementation.

Hence, the first step in the classification of the change is whether the recognition of the public guarantees leads to a change of the rating system falling in the scope of the RTS. For this evaluation, the changes that require notification or approval do not refer to models but more broadly to the notion of 'rating systems', as defined in Article 142(1)(1) of the CRR⁴⁴. Because the approach used by institutions to reflect the effect of guarantees is one key element of the rating system under the IRB approach, any change with respect to the currently authorised model in the way guarantees provided by certain types of guarantor are recognised in a certain rating system should be considered a change of the rating system applicable to exposures to the obligor. In addition, any change in the approach used to recognise public guarantee should be assessed at the rating system level: the use of public guarantees in a certain rating system should not be relevant to assessing changes in other rating systems. Hence, two cases can be envisaged:

- Case 1: The institution already had clear policies stating which approach to use to recognise certain types of guarantor (i.e. sovereign) in the approved rating system, and sticks to it. In this context, this would be out of the scope of the RTS on model changes, and the institution may recognise the public guarantee without any new approval from or notification to the relevant CA. This is consistent with recital (7) of the RTS on model changes⁴⁵.
- Case 2: The type of guarantor or the method used to recognise the guarantor is new in a certain rating system. This is the case when either the treatment was not authorised by the CA or the type of guarantor (i.e. sovereign) to be recognised in a certain rating system was already considered in the policies of the institution but the institution decided to change the approach used to recognise the UFCP. In both cases, there is a change of the rating system and the RTS on model changes applies.

Following this first assessment, the materiality of model changes for public guarantees falling under case 2, and the corresponding need of approval or notification, should be evaluated by institutions on a case-by-case basis in accordance with the RTS on model changes.

⁴⁴ 'Rating system' means all of the methods, processes, controls, data collection and IT systems that support the assessment of credit risk, the assignment of exposures to rating grades or pools, and the quantification of default and loss estimates that have been developed for a certain type of exposures.

⁴⁵ The permission of competent authorities relates to the methods, processes, controls, data collection and IT systems of the approaches; therefore, ongoing alignment of the models to the calculation data set used, based on the approved methods, processes, controls, data collection and IT systems, should not be covered by this regulation.

In this context, the classification of changes to rating systems should take into account the effect of the change on RWA: where the potential drop in the associated RWA is above the threshold provided in Article 4 of the RTS on model change, the change has to be considered material. Moreover, institutions should also assess whether some change towards the qualitative criteria specified in the RTS on model changes has been triggered and classify the change to the rating system accordingly.

6.3 IRB guarantors and changes in the scope of PPU

When the guaranteed exposures are risk-weighted in accordance with the IRB approach with own LGD estimates, the substitution of the RW approach is only applicable where the guarantor is risk-weighted according to the SA (and subject to compliance with the eligibility requirements presented in Chapter 4 of the CRR). This question is very important, as, in many cases, the use of this approach would lead to the application of a 0% RW to the covered part of the exposure. Two cases can be distinguished:

- Case 1: The guarantor is currently risk-weighted in accordance with the SA via a PPU or roll-out. The substitution of RW can be used.
- Case 2: The guarantor is currently not risk-weighted in accordance with the SA (and is currently not in the scope of the PPU or roll out). In this respect, the possibility of changing the scope of the PPU is an aspect that requires more consideration, taking into account the legal feasibility according to Article 150(1) of the CRR.

The EBA believes that, in this second case (in which the guarantor is not risk-weighted in accordance with the SA), Article 150(1)(j) is the only solution provided in the CRR for a change in the scope of the PPU for the guaranteed exposure. However, this article excludes guarantees provided by SPV institutions, and solely applies to guarantees referred to in Article 215(2). In particular, this last article refers to counterparties listed in Article 214(2). Other alternatives do not seem viable in the case of public guarantees.

- The criterion of limited number of counterparties as specified in Article 150(1)(a) of the CRR applies to direct exposures to central governments and central banks.
- The criterion specified in Article 150(1)(c) of the CRR can be applied to all types of exposures that are considered immaterial. As a 'type of exposures' is defined as a group of exposures that are homogeneously managed, when institutions can demonstrate that exposures covered by a certain guarantee scheme are managed in a distinctive manner, this criterion of PPU can be applied. However, the immateriality criterion may be difficult to meet in cases when public guarantees are applied to large portfolios.
- Article 150(1)(d) of the CRR does not seem to be a solution in cases of sovereign IRB guarantors. In fact, the condition given under point (d) is that the protection provider is treated under the SA ('exposures to the central government and central bank are assigned a 0 % risk weight under Article 114(2), (4) or (5)'). Moreover, in cases of a SA protection provider and in accordance

with Article 183(4) of the CRR, institutions have already the option to treat the covered part of the exposures under the SA without the need of a PPU approval, i.e. leaving the exposures under the IRB approach but deriving the risk weight of the covered part from the SA⁴⁶.

Following these considerations, two subcases can be distinguished:

- Case 2a: The institution does not have direct exposures to the guarantor. In this case, institutions may consider a change in the scope of the PPU in order to risk-weight the exposure in accordance with the SA. This possibility exists in accordance with Article 150(1)(j) of the CRR for all exposures covered by 'State and State-reinsured guarantees referred to in Article 215(2)' regardless of the size of the portfolio and the number of counterparties. These are guarantees provided in the context of mutual guarantee schemes, or provided or counter-guaranteed by central governments, central banks, regional governments, public sector entities or multilateral development banks.
- Case 2b: The institution already has direct exposures to the guarantor, which is risk-weighted in accordance with the IRB approach. In this case, the EBA believes that institutions should not request permission to use the risk weight of the guarantor calculated using the SA (SA RW) because more sophisticated approaches are available, in particular the substitution of risk parameter approach.

As a matter of fact, the use of the SA RW for risk-weighting direct exposures to the guarantor (in order to use a substitution of RW for the guaranteed exposures) through the request to apply the PPU would be conditional on the approval by the CA of a reversion to the use of a less sophisticated approach under Article 149 of the CRR. In particular, institutions would have to demonstrate 'to the satisfaction of the competent authority that the use of the Standardised Approach is not proposed in order to reduce the own funds requirement of the institution, is necessary on the basis of nature and complexity of the institution's total exposures of this type and would not have a material adverse impact on the solvency of the institution or its ability to manage risk effectively' (Article 149(1)(a)). As stated in recital (6) of the RTS on model change, this reversal is out of scope of these regulatory technical standards⁴⁷.

⁴⁶ Article 150 of the CRR sets out conditions for the CAs to approve that some exposures to certain obligors are to be treated under the SA, whereas the CRM provisions set out how to adjust capital requirements for IRB exposures, in order to take into account the guarantees that are attached to such IRB exposures. Therefore, through Article 183(4) of the CRR, institutions have already the option to use the SA when the guarantee provided by the SA guarantor complies with the eligibility requirement of Chapter 4 of the CRR, without the need for a PPU authorisation.

⁴⁷ Changes to the permanent partial use of internal approaches or, where applicable, to the sequential implementation of internal approaches are covered by Articles 148 and 150 of the CRR for the IRB approach and Article 314 of the CRR for the AMA. Therefore, those types of changes should not be covered by this regulation.



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