II

(Non-legislative acts)

REGULATIONS

COMMISSION DELEGATED REGULATION (EU) 2021/930

of 1 March 2021

supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the nature, severity and duration of an economic downturn referred to in Article 181(1), point (b), and Article 182(1), point (b), of that Regulation

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ([1]), and in particular the third subparagraph of Article 181(3) and the third subparagraph of Article 182(4) thereof,

Whereas:

(1) Article 181(1), point (b), of Regulation (EU) No 575/2013 requires institutions, in quantifying the risk parameters to be associated with rating grades or pools, to use own-LGD estimates that are appropriate for an economic downturn if those estimates are more conservative than the long-run average. Similarly, Article 182(1), point (b), of that Regulation requires institutions to use own-conversion factor ('CF') estimates that are appropriate for an economic downturn if those estimates are more conservative than the long-run average.

(2) Given the specificities of different portfolios, institutions should be required to identify economic downturns separately for each type of exposures, as defined in Article 142(1), point (2), of Regulation (EU) No 575/2013.

(3) The nature of an economic downturn for a given type of exposures should be specified by reference to the set of economic indicators that are considered to be either explanatory variables for, or indicators of, the economic cycle specific to that type of exposures. The set of economic indicators should include both macro-economic and credit-related indicators. This is to ensure that, for a comparable type of exposures, institutions will, generally speaking, identify the same economic downturn.

(4) Even though the level of realised LGDs and realised CFs may be substantially above the long-run average as a result of an economic downturn, the conditions characterising an economic downturn should not be considered as the equivalent of the conditions used for stress testing. The conditions used for stress testing may be more severe and potentially use more extreme scenarios that are not necessarily based on historical observations. Regulation (EU) No 575/2013, and the delegated acts that supplement it, adequately provide for the carrying out of stress testing in cases where this is required, and the provisions relating to own-LGD and own-CF estimates do not include any such requirement for stress testing. The specification of an economic downturn for the purposes of own-LGD and own-CF estimates should be based instead on historically observed economic conditions.

([1]) OJ L 176, 27.6.2013, p. 1.

(5) The severity of an economic downturn should be specified by reference to the most severe 12-month values observed over an appropriate historical time-span for the set of economic indicators characterising the nature of a downturn for the particular type of exposures under consideration. For each economic indicator in the set, the most severe 12-month value should be used because it strikes a balance between stability and identification of the most severe conditions observed in an appropriate time-span. This approach was chosen for simplicity of the 12-month view and also because a longer average could potentially dilute adverse conditions observed on an economic indicator. More frequent values, for example quarterly values, could be subject to seasonal influences. On the other hand, less frequent values, for example values representing 36-month averages, could hide severe conditions.

(6) Even for economic indicators reported annually, the 12 months to which indicators relate are not necessarily the same in all cases. Some indicators relate to calendar years, others to financial years, others to tax years and so on. For the purpose of identifying economic downturns, it should therefore be possible, in the case of both economic indicators reported annually and indicators reported on a more frequent basis, to use 12-month periods that start at any point in time within the year.

(7) Given that a type of exposures may comprise exposures related to different businesses, sectors or geographical areas, an economic downturn for a type of exposures may comprise either one or several distinct 'downturn periods'. A downturn period should be recognised as a period of specified time in which a relevant economic indicator shows its most severe 12-month value. If the peaks or troughs related to the most severe 12-month value observed for two or more economic indicators are reached simultaneously or shortly after each other, those economic indicators should all be attributed to the same 'downturn period'. The reason for allowing for the possibility of an economic downturn comprising more than one distinct downturn period is to ensure that each relevant economic indicator is taken into account in specifying non-overlapping downturn periods which are to be analysed in the context of a downturn LGD estimation and a downturn CF estimation.

(8) In order to avoid excessive complexity, it is appropriate to establish a list of economic indicators to be taken into account in all cases. However, given the specificities of particular portfolios, institutions should also be required to take into account additional economic indicators that are explanatory variables for, or indicators of, the economic cycle specific to the particular type of exposures.

(9) Given the wide geographical and sectoral diversity of portfolios, it is not practicable to prescribe the precise data sources that must be used for each listed indicator in every jurisdiction of the world and every sector. Moreover, institutions are already required under Regulation (EU) No 575/2013 to use reliable data and to have robust systems in place for validating the estimation of all risk parameters. As a result, institutions will in any event be required to demonstrate the accuracy and reliability of the data sources used by them for obtaining indicator values. It is therefore not necessary to lay down specific rules in this Regulation about the precise data sources to be used.

(10) Institutions should use appropriate reliable data sources, but they should not be required to acquire data for available economic indicators if the costs of doing so are disproportionate, having regard to the type of indicator as well as to the materiality of the type of exposures under consideration relative to the other types of exposures in the portfolio.

(11) The economic indicators are to be considered in levels or in changes of levels as appropriate, taking into account the way in which the economic indicator is commonly reported and the extent to which it is able to reveal cyclicality.

(12) An economic indicator should be included in the set of relevant economic indicators once for each jurisdiction, or smaller geographical area where appropriate, that represents a material share of the type of exposures under consideration. This is to ensure that the set of indicators fairly reflects the geographical mix of the exposures in that type of exposures. A similar rule should apply for each industry sector representing a material share of the type of exposures. Only where different jurisdictions or different industry sectors exhibit strong co-movements in realised values of economic indicators institutions should be allowed to group those jurisdictions or sectors for the purposes of identifying an economic downturn.

(13) The historical time-span over which values for a given economic indicator are to be examined should be specified. A default time-span of 20 years should be set for each economic indicator. This is to ensure that the historical observation period covers at least two economic cycles. However, where those 20 years do not contain sufficiently

severe values, institutions should be required to look further back into the data history. Values should be considered 'not sufficiently severe' if the variability of the economic indicator over that 20-year observation period is not representative of the likely range of variability of that indicator in the future.

(14) For reasons of simplicity and comparability, a downturn period should have a duration of at least 12 months. In order to ensure greater accuracy in the results, that period of time should be treated as a minimum. Institutions should be required to apply a longer duration where the most severe value(s) for the economic indicator(s) associated with a downturn period imply a longer downturn. The duration of a downturn period should reflect adverse conditions in cyclical behaviours specific to the type of exposures under consideration, rather than structural changes in the economy leading to long-term effects on the values of economic indicators.

(15) The requirements for estimating LGDs and CFs in Regulation (EU) No 575/2013 require institutions to document the design and operational details of their rating systems, including the design of their processes for identifying economic downturns, and to retain evidence to show compliance with the estimation requirements in that Regulation. Regulation (EU) No 575/2013 further requires institutions to review their LGD and CF estimates and any input data required to make these estimates when new information comes to light and, in any event, at least annually.

(16) The provisions in this Regulation are closely linked since they deal with the nature, severity and duration of an economic downturn affecting two different risk parameters that are both used for the purposes of applying the Internal Ratings Based (IRB) Approach, namely own-LGD estimates and own-CF estimates. To ensure that the provisions needed for identifying economic downturns for LGD purposes and the provisions needed for identifying economic downturns for CF purposes are consistent and that they enter into force at the same time, and to ensure ready access to those provisions, it is desirable to include the regulatory technical standards required by Article 181(3) and the regulatory technical standards required by Article 182(4) of Regulation (EU) No 575/2013 in a single Regulation.

(17) Given the interplay with other Union acts relevant for own-LGD and own-CF estimations, the date of application of this Regulation should be deferred until 1 January 2021. In particular, institutions will need to comply with the revised materiality threshold set by competent authorities in accordance with Commission Delegated Regulation (EU) 2018/171 ([2]).

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

(19) The European Banking Authority has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits, in accordance with Article 10 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council ([3]), and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of that Regulation,

HAS ADOPTED THIS REGULATION:

Article 1

Specification of the nature, severity and duration of an economic downturn

1. For the purposes of Article 181(1), point (b), or 182(1), point (b) of Regulation (EU) No 575/2013, an economic downturn shall be identified for each type of exposure, as defined in Article 142(1), point (2), of that Regulation.

([2]) Commission Delegated Regulation (EU) 2018/171 of 19 October 2017 on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the materiality threshold for credit obligations past due (OJ L 32, 6.2.2018, p. 1).

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

2. In identifying an economic downturn for a given type of exposures, the following specification rules shall apply:

(a) the nature of an economic downturn is characterised by a set of economic indicators that are classified as relevant for exposures within that type of exposures in accordance with the rules laid down in Article 2 ('the relevant indicator set');

(b) in terms of severity, an economic downturn is indicated by the most severe value relating to a 12-month period ('the most severe 12-month value') that is observed, for each economic indicator in the relevant indicator set, over a historical time-span determined for that economic indicator in accordance with Article 3 ('the applicable time-span');

(c) an economic downturn is comprised of one or more distinct downturn periods covering the peaks and troughs related to the most-severe 12-month values for the economic indicators in the relevant indicator set, each such period being of a duration determined in accordance with Article 4 ('the duration of a downturn period').

3. For the purposes of paragraph 2, point (b), the 12-month periods to which values for an economic indicator relate may start at any point in time within the applicable time-span.

4. For the purposes of paragraph 2, point (c):

(a) a downturn period is a period in which an economic indicator reaches its most severe 12-month value;

(b) where, for different, significantly correlated economic indicators, the peaks or troughs related to the most severe 12-month values are reached simultaneously or shortly after each other, the downturn periods in which those indicators reach their most severe 12-month value are to be treated as one single downturn period covering the most severe 12-month values for all those indicators.

Article 2

The relevant indicator set

1. The following economic indicators shall be classified as relevant for exposures within a given type of exposures:

(a) for all types of exposures:

(i) gross domestic product (GDP);

(ii) unemployment rate;

(iii) externally provided aggregate default rates, where available;

(iv) externally provided aggregate credit losses, where available;

(b) in addition to the economic indicators listed in point (a):

(i) for exposures to corporates or to retail small and medium-sized enterprises (SMEs): sector- or industry-specific indices;

(ii) for residential property exposures to corporates or to retail obligors: house prices or house price indices;

(iii) for commercial immovable property exposures to corporates or to SME retail obligors: commercial immovable property prices or commercial immovable property price indices, and commercial immovable property rental prices or commercial immovable property rental price indices;

(iv) for retail exposures other than those falling within point (i), (ii) or (iii): total household debt and disposable personal income, in each case where available;

(v) for specialised lending exposures:

— in the case of immovable property: immovable property prices or immovable property price indices, immovable property rental prices, or immovable property rental price indices for residential, commercial or industrial property, as applicable,

— in the case of project finance: prices for the underlying products supplied,

— in the case of object finance: indices for the relevant type or types of collateral,

— in the case of commodity finance: prices or price indices for the relevant type of commodity;

(vi) for exposures to institutions: financial credit indices;

(c) in addition to the economic indicators listed in points (a) and (b), any other economic indicators that are explanatory variables for, or indicators of, the economic cycle specific to exposures in the type of exposures under consideration.

2. The economic indicators identified for exposures within a type of exposures in accordance with paragraph 1 shall reflect the geographical distribution and, where applicable, the sectoral distribution of the exposures within that type of exposures.

For that purpose, an economic indicator shall be included in the relevant indicator set as follows:

(a) once for each jurisdiction or, where appropriate, once for each geographical area within a jurisdiction, covered by a material share of that type of exposures; and

(b) once for each sector, where applicable, covered by a material share of that type of exposures.

However, where economic indicators to be included in accordance with the second subparagraph show strong co-movement across the different jurisdictions, or where appropriate, different geographical areas within a jurisdiction, or, where applicable, different sectors, a common economic indicator may instead be selected to reflect those jurisdictions, geographical areas or sectors overall.

Article 3

Determining the applicable time-span

For the purposes of Article 1(2), point (b), the historical time-span applicable to an economic indicator shall be the period of 20 years ending at the point in time at which the institution identifies the economic downturn in accordance with this Regulation. However, where the variability of an economic indicator over that 20-year period is not representative of the likely range of variability of that indicator in the future, the historical time-span applicable to that indicator shall be of such longer length as is sufficient to provide values that are representative of that likely range of variability.

Article 4

Duration of a downturn period

For the purposes of Article 1(2), point (c), the duration of a downturn period shall be determined as follows:

(a) in a case falling within Article 1(4), point (b), the single downturn period shall be such period that is long enough to cover all the peaks or troughs related to the most severe 12-month values observed for the different economic indicators associated with that single downturn period;

(b) in all cases, whether or not falling within Article 1(4), point (b), where the various 12-month values observed for the economic indicator or indicators in question over the applicable time-span do not significantly deviate from their most severe 12-month value over a specific, continuous period of time within the applicable time-span, the downturn period shall be long enough to reflect the prolonged severity observed for the economic indicator or indicators in question;

(c) in all cases, whether or not falling within Article 1(4), point (b), where the economic indicator or indicators show adjacent peaks or troughs to those peaks or troughs related to the most severe 12-month values observed for the economic indicator or indicators in question over the applicable time-span and those adjacent peaks and troughs do not significantly deviate from the most severe 12-month value observed for that indicator or those indicators over that time-span and those adjacent peaks and troughs are related to the same overall economic condition, the downturn period shall be long enough to reflect the whole prolonged period over which those adjacent peaks or troughs are observed;

(d) in a case falling within Article 1(4), point (a), where neither point (b), nor point (c) of this Article applies, the downturn period shall be the 12-month period to which the most severe 12-month value relates.

Article 5

Entry into force and application

This Regulation shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union.

This Regulation shall apply from 1 January 2021.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 1 March 2021.

For the Commission
The President
Ursula VON DER LEYEN