EBA Consultation paper

Prudential treatment of software assets

[Online submission]

Question 1: In case some software assets are classified within tangible assets in your institution, what are the main reasons for doing so and what is the percentage of this classification compared with the classification as intangible?

Response to Question 1:

N/A

Question 2: Do you have any comment on the proposed approach for the prudential treatment of software assets?

Response to Question 2:

Accountancy Europe welcomes the EBA initiative to provide additional capital relief to EU banks, especially in these challenging times due to the Covid-19 pandemic.

We understand that the proposed prudential treatment (i.e. option 4 'prudential amortisation') might indeed help (i.e. resulting in capital relief) smaller credit institutions with important software balances. The proposal would likely however not result in a material impact on CET 1 of larger banks and new banks.

Additionally the proposed approach might be complex to apply in practice, the prudential approach differs from the accounting one, relative to the limited CET 1 impact for especially larger banks.

We note that US banks and certain Swiss banks generally do not classify software as intangible assets as per accounting books (i.e. they book software under tangible assets), and as such do not deduct any balances from own funds.

To ensure a level playing field for EU banks, taking into account the above, we would suggest removing the CET 1 deduction of software balances for prudential purposes in the EU. We indeed propose to align prudential and financial reporting for software assets, i.e. applying the 'cost model' approach as stipulated in IAS 38 *Intangible Assets* using the 'useful life' as amortisation period. This approach would result in a real level playing field for EU banks in an international context, and would also be simple to implement.

It is important to note that the accounting treatment of software assets also includes a 'backstop', i.e. the remaining net book value is assessed on an ongoing basis for impairment. If the carrying amount exceeds the recoverable amount of the intangible asset, an impairment loss shall be recognised.

Question 3: What is your view on the calibration of the prudential amortisation period?

Response to Question 3:

The below response only applies if EBA decides to retain the 'prudential amortisation' approach (i.e. option 4):

Accountancy Europe recommends a longer prudential amortisation period than 2 years, depending on the 'useful life' of the software asset used for accounting purposes, to ensure a material capital relief for credit institutions.

Question 4: What is your view on the proposed alternative approaches illustrated above?

Response to Question 4:

The below response only applies if EBA decides to retain the 'prudential amortisation' approach (i.e. option 4):

Accountancy Europe believes that the proposed options (i.e. option A and B) regarding the starting date of the prudential amortisation process might unfortunately be too complex to implement in practice.

We suggest aligning the prudential treatment with the accounting principle, i.e. the prudential amortisation of each software asset would start from the date when it is available for use, without CET1 capital deduction of capitalized costs before the start of the prudential amortisation (as opposed to the proposed option B).

Question 5: If considered needed, please provide any complementary information regarding the costs and benefits from the application of these draft RTS.

Response to Question 5:

N/A

Question 6: If considered material, please provide your own estimate on the difference in the impact of prudential amortisation treatment between (i) assuming the capitalisation date of software assets as the starting point for prudential amortisation (i.e. Option A illustrated in this CP) and (ii) assuming the date of accounting amortisation as the starting point for prudential amortisation, but fully deducting from CET1 items the costs capitalised until this date is (i.e. Option B illustrated in this CP).

Response to Question 6:

N/A

Question 7: Please provide any additional comments on the Consultation Paper.

Response to Question 7:

We have the following questions regarding the scope of the proposed prudential treatment of software assets:

- **Does the proposed prudential treatment apply to ALL software assets that are classified as intangible assets for accounting purposes or does it only cover software assets (booked under intangible assets) for which the value is not negatively affected by resolution, insolvency or liquidation?**
- **Will software (booked under intangible assets), which was already included in the accounting books before the effective date of the revised prudential treatment, benefit from the new prudential treatment as well?**