ACCOUNTANCY EUROPE.

FINANCIAL INSTRUMENTS REPORTING - SUPERVISORY EXPECTATIONS VERSUS FINANCIAL REPORTING REQUIREMENTS

Analysis of the various objectives and approaches in the context of European banks

Information paper

FACTS.

REPORTING
AUGUST 2025

HIGHLIGHTS

Financial statements form an important input for banking prudential supervision. There are, however, different objectives between banking supervisory expectations and financial reporting requirements.

The banking supervisory expectations are primarily intended to ensure the stability and solvency of the supervised banks. On the other side, the purpose of financial reporting is to provide decision-useful information for a wide range of users.

The expectations of the banking supervisors with regard to certain financial reporting requirements are based on the above-mentioned primary objectives and set out what the supervisors deem to be a "prudent treatment" of financial reporting requirements.

There is a limit to harmonisation between these two requirements as supervisory and financial reporting requirements may not always be compatible.

This information paper is intended to provide an impulse for an in-depth discussion with all stakeholders, in particular the banking supervisory authorities, who have a legitimate interest in a stable banking system in Europe.

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1. MOTIVATION AND STRUCTURE OF THE ANALYSIS

Annual, consolidated and interim financial statements are an important source of information both for the European banking supervisory authority (European Central Bank (ECB)) and for the national banking supervisory authorities (Referred to interchangeably in the rest of the paper as the banking supervisory authority or the supervisor). The financial statements contents form an important input for prudential supervision and the prudential reporting systems. Accordingly, it is understandable that the supervisory authorities might have a conservative view or interpretation in certain domains. Nevertheless, the supervisory expectations described above cannot always be fully achieved. This applies regardless of any endeavours by individual banks to harmonise their management and reporting systems as far as possible in order to fulfil the various purposes of financial reporting and supervisory expectations. There are limits to harmonisation which results from different purposes and objectives, which can lead to differences between financial reporting requirements and supervisory expectations.

This Information Paper is intended to provide a basis for an in-depth discussion with all stakeholders, in particular the banking supervisory authorities.

We explain below the existing possibilities and limits of the convergence between supervisory expectations and banks' financial reporting, highlighting the different objectives and principles between the two. This is followed by an overview of similarities and differences based on specific accounting issues that are typically discussed between supervisors, banks and auditors.

Additionally, limits and trade-offs in the consideration of supervisory expectations in the exercise of options and discretionary decisions are presented. The examples in the appendix develop specific accounting issues in the domain of IFRS[1] 9 Financial Instruments.

[1] IFRS: International Financial Reporting Standards

2. SUPERVISORY OBJECTIVES IN COMPARISON TO OBJECTIVES OF FINANCIAL REPORTING UNDER IFRS

Regulatory and supervisory measures and IFRS have different purposes.

The objectives of the supervisory authorities under the Single Supervisory Mechanism[2] (SSM) are to:

- ensure the safety and soundness of the European banking system,
- to increase financial integration and stability and
- to ensure consistent supervision.[3]

The expectations of the supervisor with regard to certain financial reporting requirements are based on these objectives and set out what the supervisor deems to be a "prudent treatment" of financial reporting requirements. The aim is to avoid undesirable developments in balance sheets of banks in the future which would require supervisory measures.[4] The expectations of the supervisory authorities with regard to certain financial reporting requirements can therefore only represent supervisory standards in the context of the various supervisory activities, e.g. the asset quality review or the supervisory review and evaluation process.

IFRS aims to provide users of financial statements with "decision useful information". In particular, the information contained in the financial statements about the company's financial position, financial performance and cash flows should help existing and potential investors and lenders to assess future cash flows so that they can make judgements about the (further) provision of equity or debt capital. The IFRS Conceptual Framework (2018) reintroduced the concept of prudence. [see IAS 1.9 and IFRS (CF) (2018) 1.2]

However, the concept of prudence is not an overarching IFRS principle. It is merely intended to contribute to a true and fair view and support neutrality [see CF (2018) 2.16]). This is not synonymous with an asymmetrical accounting treatment of assets and income on the one hand and liabilities and expenses on the other [see CF (2018) 2.17].

Moreover, the IFRS requirements are aimed at all users of IFRS worldwide. The ECB, on the other hand, "only" focuses on the euro area countries and other EU countries that have decided to participate in the SSM and on a sub-sector of the financial sector. A full alignment of supervisory expectations and IFRS must therefore also be viewed critically against the background of international comparability.

3. OVERVIEW OF THE ANALYSIS OF SIMILARITIES AND DIFFERENCES

A comparison of the supervisory expectations with IFRS standards can lead to the following two scenarios, depending on the circumstances:

1. Supervisory expectations have an equivalent in IFRS standards. The relevant supervisory expectations should then be already implemented by the bank compliant with IFRS standards.
2. Supervisory expectations can possibly be aligned with IFRS standards, the principle of true and fair presentation and the required consistency and comparability of financial statements (e.g. use of possible discretionary powers and options).

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[2] The European Central Bank (ECB) and the National Competent Authorities (NCAs) of the euro countries participate in the Single Supervisory Mechanism (SSM) of the financial supervisory system. The SSM is responsible for the supervision of all credit institutions in the eurozone. It officially started its activities in November 2014.
[3] See *ECB*, Guide to banking supervision, November 2014, p. 3, para. 1.
[4] See *ECB*, Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposures, March 2018, p. 2 (hereinafter: NPL addendum).

There are however limits to this concurrence of supervisory expectations and IFRS standards. In some situations, given the different objectives, supervisory expectations may not be compatible with IFRS requirements.

The Appendix provides a detailed, but not comprehensive, description of the following illustrative examples:

Appendix	Example	Description
1	Stage transfer (IFRS 9)	Adoption of the criteria defined by the ECB for assessing a significant increase in credit default risk in accordance with IFRS 9 requires an individual review by the bank. Concurrence is possible but cannot be achieved in every case.
2.	Low credit risk exemption (IFRS 9)	Due to the optional nature of the exception and the review at the measurement date provided for in IFRS 9.B5.5.24, the adoption of the supervisory expectation regarding the limited application of the stage transfer exception explained in IFRS 9.B5.5.22 f. is permissible as an exercise of the bank's management judgement.
3.	Design and probability of occurrence of scenarios (IFRS 9)	If the management of the bank decides to apply supervisory assumptions or scenarios, an individual judgement by management is required. Concurrence is possible but will depend on the circumstances.
4.	Minimum discounts on market prices in collateral valuation	The use of regulatory or supervisory haircuts may constitute, a permissible discretionary decision in IFRSs, depending on the magnitude of the haircut. The management of the bank must regularly make the assessment and justify it. Changes in the applied haircuts compared to previous financial reporting periods generally constitute a change in accounting estimate.
5.	Safety margins when using credit risk parameters due to model and data inadequacies (IFRS 9)	The inclusion of safety margins to address modelling uncertainties (e.g. in connection with insufficient data quantity and quality) will generally be considered acceptable for IFRS 9 purposes, provided that the margins generally decrease with higher data quality and quantity.
6.	Determination of fair values in accordance with IFRS 13	The supervisory authorities specify the following types of fair value adjustments: close-out/bid-offer, model risks, parameter uncertainties, liquidation uncertainties and future refinancing costs; but not additional valuation adjustments. These correspond in principle to adjustment factors that are observable in the market and taken into account in valuation practice. However, when implementing this in financial reporting, the management of the bank should assess whether the accumulation of various adjustments due to

		uncertainties (model and parameters) does still lead to a fair value that meets the definition of IFRS 13 and not to an entity-specific value (IFRS 13.2). Adjustments to valuation practices will generally be categorised as changes in estimates.
7.	Supervisory minimum risk provisioning in accordance with the ECB's NPL guidance	The formula-based lump-sum calculation of the minimum risk provision in accordance with the NPL addendum does not conceptually fulfil the requirements of IFRS 9. IFRS 9 requires an entity to measure expected credit loss in a way that reflect a range of possible outcomes using: - reasonable and supportable information that is available at the reporting date about past events, - current conditions and forecasts of future economic conditions. While the minimum risk provisioning outlined in the ECB’s NPL guidance will generally not meet these requirements, there might be IFRS 9 compatibility under very specific circumstances. It should be thoughtfully assessed whether the resulting provision amount aligns with IFRS, taking into account facts and circumstances.
8.	Regulatory requirements for credit risk parameters	Adjustments are generally required when CRR[5] credit risk parameters are used for the purpose of determining expected credit losses under IFRS 9. The application of general Margins of Conservatism (MoC), within the credit risk parameters used in the calculation of loan loss provisions does not generally fulfil the requirements of IFRS 9.
9.	Supervisory cure periods	Regulatory requirements for cure periods should not, per se, automatically be considered in financial reporting to ensure compliance with IFRS 9 requirements.

4. EXERCISE OF OPTIONS AND DISCRETIONARY POWERS

Requirements or findings of the supervisory authorities on matters to be considered in the financial statements cannot be considered per se as a change in the use of options or discretionary powers by the bank. Rather, it has to be carefully evaluated, on a case-by-case basis, whether the supervisory views can be classified either as a change in accounting policies or as a change in estimates in accordance with the general principles of IFRS standards.

[5] Regulation (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, OJ L 176 of 27.06.2013, p. 1, referred to as the Capital Requirements Regulation (CRR). The CRR was amended by the Regulation (EU) 2024/1623 of 31 May 2024.

4.1 CHANGES IN ACCOUNTING POLICIES

IFRS defines accounting policies as specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting its financial statements (IAS 8.5). They must be applied consistently (IAS 8.13). A change shall only be made if required by an IFRS or if the adjustment results in the IFRS financial statements providing more reliable and relevant information (see IAS 8.14).

There is no automatic requirement to change the accounting method in accordance with IFRS solely as a result of (in particular, new or amended) supervisory expectations or views. Considering the different objectives of supervisors and financial reporting (see section 2), it must be assessed on a case-by-case basis whether the change in an accounting method would improve the usefulness of the financial statements and comply with IFRS.

4.2 CHANGES IN ESTIMATES

Items in financial statements may be required to be measured in a way that involves measurement uncertainty and requires the development of an accounting estimate involving the use of judgements or assumptions based on the latest available, reliable information. (IAS 8.32). Examples of matters that are regularly subject to estimates include the measurement of expected credit losses and the determination of fair values for financial instruments.

If changes occur in the circumstances on which an accounting estimate was based or as a result of new information, new developments or more experience, an entity may need to change an accounting estimate. Changes in accounting estimates are not corrections of prior period errors and do not require retrospective adjustment of earlier periods. In contrast to a change in estimates, a prior period error is an omission from, and a misstatement in, the entity’s financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information (IAS 8.5).

In practice, changes in estimates are made when the models or model inputs used by the bank evolve due to changes in future expectations or assumptions. An example is a change in the expected loss when determining general loan loss provisions.

It is questionable whether expectations of the supervisory authority are always to be considered as best practice. "Best practice" must also primarily serve to provide decision-relevant information on the financial position, financial performance and cash flows of a company or group and any changes thereto. Due to their own objectives, amongst others with respect to the sufficient capitalisation of banks, supervisory expectations cannot be regarded across the board as "best practice" for the purposes of financial reporting. However, on a case-by-case basis, the expectations from the supervisory authority could be categorised as changed future expectations, changes in estimates or as a further development of previous models.

5. CONCLUSION

- The objectives embedded in supervisory expectations and that of financial reporting differ. The supervisory expectations are primarily intended to ensure the solvency of the supervised institutions and are therefore rathe conservative. On the other side, the purpose of IFRS standards is to provide decision-useful information for a wide range of users. There is therefore a potential conflict of objectives between these two approaches
- Consistency between supervisory expectations and financial reporting for banks within the SSM can be contradictory with the objective of international comparability between banks worldwide
- The supervisory interpretations of financial reporting standards cannot be adopted in the preparation of financial statements without assessing their compliance with IFRS

- There is no automatic change in accounting policy solely as a result of regulatory requirements or supervisory expectations. It must rather be carefully examined on a case-by-case basis whether the change in accounting policy would improve the usefulness of the financial statements and comply with IFRS standards
- The expectations of the supervisory authority cannot be regarded as "best practice" in general for the purposes of financial reporting. However, they should be considered on a case-by-case basis
- The management of banks may use options and discretionary powers in assessing supervisory expectations with respect to the application of IFRS standards. These discretionary powers need to be used, considering the overall context. In particular, this use should not result in a distortion of the economic situation. Accordingly, the auditor and the supervisory body have to consider these discretionary decisions.
- If the application of supervisory expectations in the financial statements is considered contrary to IFRS standards, the auditors have to assess the possible effects on the audit opinion.

6. APPENDIX

The examples listed below provide further details on the differences and similarities between supervisory expectations and IFRS.

APPLICATION EXAMPLES

For the subsequent measurement of receivables, various supervisory expectations concern the determination of specific risk provisions and portfolio risk provisions. These include, among others:

1. STAGE TRANSFER (IFRS 9)

At each reporting date, the bank must assess whether the credit default risk for a financial instrument has increased significantly since initial recognition (IFRS 9.5.5.3, IFRS 9.5.5.9). If necessary, the loan loss provision is no longer determined at an amount equal to the 12-month expected credit losses (stage 1), but at an amount equal to the credit losses expected over the (remaining) term of the financial instrument (stage 2).

In general, the bank may use various approaches to assess whether the credit risk of a financial instrument has increased significantly since initial recognition (IFRS 9.B5.5.12). The definition of criteria (both quantitative and qualitative) is at the judgement of the bank management (IFRS 9.B5.5.16).

The ECB has disclosed its supervisory interpretation of the significance of a deterioration in credit risk. The four criteria defined in this interpretation cover a significant part of the non-exhaustive list of 16 indicators contained in IFRS 9.B5.5.17 that may be relevant when assessing changes in default risk. However, this is no substitute for an individual review of the appropriateness for the respective receivables portfolios of the bank based on the specific influencing factors.

Adoption of the supervisory expectations or an adjustment of the threshold values requires an individual review by the management of the bank.

2. LOW CREDIT RISK EXEMPTION (IFRS 9)

IFRS 9.5.5.10 grants the option of assuming, for the sake of simplicity, that the default risk of an instrument has not increased significantly if an asset has a low credit risk on the reporting date. In this case, the transfer criterion does not need to be examined, and the financial instrument can continue to be categorised in stage 1. The definition of low credit risk must be absolute. Current internal ratings may also be used as a basis, provided they are in line with a generally recognised definition of "low default risk" (e.g. investment grade) (see IFRS 9.B5.5.22 f.).

The Basel Committee expects a limited application of this stage transfer exemption for credit institutions. It must be demonstrated that the default risk on the measurement date is so low that a significant increase in default risk cannot have occurred since addition. [6]

Due to the optional nature of the exemption and the review at the measurement date provided for in IFRS 9.B5.5.24, the bank management is permitted to exercise judgement accordingly.

3. DESIGN AND PROBABILITY OF OCCURRENCE OF SCENARIOS (IFRS 9)

As part of the probability-weighted, unbiased estimate of the expected credit loss, IFRS 9.5.5.17 requires appropriate scenarios to be used, including relevant risk drivers for the specific lending business and to be assigned corresponding probabilities of occurrence.

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[6] See *Basel Committee on Banking Supervision (BCBS)*, Guidance on credit risk and accounting for expected credit losses, BCBS 350, December 2015, para. A51.

This assessment results from the specific macroeconomic context on a valuation date and cannot be regulated or specified in general.

Adoption of supervisory assumptions or adjustment to the scenarios defined by the supervisory authority requires an individual review by management.

4. MINIMUM DISCOUNTS ON MARKET PRICES IN COLLATERAL VALUATION

Haircuts on market prices for collateral valuation for non-liquid collateral are defined for the determination of specific risk provisions as a result of supervisory reviews of individual cases. Corresponding methodological requirements can be found in the ECB's Asset Quality Review Phase 2 Manual. [7]

Haircuts on collateral values in connection with the calculation of specific loan loss provisions can be used to ensure adequate valuation as a substitute for a specific calculation of collateral realisation, or settlement costs, or as a valuation adjustment in the event of increased uncertainty in the market value, e.g. due to a lack of marketability.

The use of haircuts may constitute a permissible discretionary decision. The management of the bank must regularly assess the adequacy of these haircuts for comparable loan or collateral portfolios and justify it. Changes compared to the previous reporting dates generally constitute a change in estimate.

5. PREMIUMS WHEN USING CREDIT RISK PARAMETERS DUE TO MODEL AND DATA INADEQUACIES (IFRS 9)

In the regulatory context, a safety margin must be applied when estimating the credit risk parameters. Adoption of the regulatory adjustments requires an individual review by the bank. If the use of these adjustments results from model or data inadequacies, their use for financial reporting purposes is generally a permissible discretionary decision.

The inclusion of safety margins to address modelling uncertainties (e.g. in connection with insufficient data quantity and quality) will generally be considered acceptable for IFRS 9 purposes, provided that the margins generally decrease with higher data quality and quantity.

6. DETERMINATION OF FAIR VALUES IN ACCORDANCE WITH IFRS 13

When applying valuation techniques to determine fair value in accordance with IFRS 13, as many relevant observable parameters or input factors and as few unobservable parameters as possible must be used (IFRS 13.67). The categorisation of the parameters used is decisive for the classification of the entire fair value measurement in the fair value hierarchy of IFRS 13, which is based on the level of the lowest categorised significant parameter (IFRS 13.73 et seq.)

While Level 1 fair values may not be adjusted, the determination of Level 2 and Level 3 fair values is subject to judgement, both in their derivation and in the determination of the parameters used. The determination of fair values considers the various price components on the basis of market parameters and market practices in accordance with the requirements of IFRS 13. Any estimation of unobservable parameters requires judgement.

For example, market parameters for market-listed government bonds are observable. In addition, sub-sovereign bonds (e.g. municipal bonds) may have the same default risks as government bonds in case of guarantees. However, haircuts for market tightness, lack of fungibility, etc. may have to be considered. In case such haircuts are not directly measurable they will be subject to auditor review.

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[7] See *ECB*, Asset Quality Review Phase 2 Manual 2023, in particular section 5 (Collateral and real estate valuation).

For the valuation, the ECB has presented an exhaustive list of fair value adjustments that must be considered in any determination of fair values.[8] The list includes adjustments for close-out/bid-offer, model risks, parameter uncertainties, liquidation uncertainties and future refinancing costs.

The types of fair value adjustments prescribed by the supervisory authorities generally correspond to adjustment factors observable on the market and taken into account in valuation practice.

However, preparers should assess if the entity specific value according to IFRS 13 definition of fair value is met after the accumulation of various adjustments for uncertainties (model and parameters). Adjustments to valuation practices will generally be categorised as changes in estimates.

7. SUPERVISORY MINIMUM RISK PROVISIONING IN ACCORDANCE WITH THE ECB'S NPL GUIDELINES

On 20 March 2017, the ECB published its "Guidance to banks on non-performing loans", which clarifies the supervisory authorities' expectations regarding the identification, management, measurement and write-offs of NPLs.[9] Just under a year later, on 15 March 2018, the "Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposures" was published[10] - “NPL addendum”. The NPL addendum is currently being revised by the ECB.[11] It contains supervisory expectations for minimum risk provisioning to achieve a prudent approach to non-performing exposures (NPE) and to prevent a build-up of uncovered older NPE. It concerns loans that are classified as "non-performing" as defined by the European Banking Authority (EBA) after 1 April 2018. With the publication of an information document on 22 August 2019, the ECB communicated its expectations for dealing with new NPEs. [12]

When determining the expected prudential provisioning for non-performing loans, the ECB considers, among other things, the period over which a risk position has already been classified as non-performing (i.e. the "time period") and any collateral available. Unsecured exposures should be fully covered by a loan loss provision after two years and collateralised exposures after seven years.

The NPL guidelines are not binding. The ECB will review at least once a year whether the banks' procedures are in line with the expectations for prudential provisioning set out in the addendum. The ECB has also clarified that the addendum does not substitute or supersede any applicable regulatory or accounting requirements.[13] However, banks were expected to inform the ECB - from early 2021 onwards - as part of the Supervisory Review and Evaluation Process (SREP) supervisory dialogue about all cases in which the respective bank's approach deviates from the expectations for prudential provisioning[14] *(*"comply or explain"*)*.

The formula based, lump-sum calculation of the minimum risk provision in accordance with the NPL addendum *does not generally fulfil the requirements of IFRS 9*. According to IFRS 9, the expected credit losses are to be determined as an unbiased and probability-weighted average value of the credit losses,

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[8] See *ECB*, Asset Quality Review Phase 2 Manual 2023, pp. 240 and 258.

[9] See *ECB*, Guidance to banks on non-performing loans, March 2017, p. 6 (hereinafter: NPL Guidance).

[10] See footnote 3.

[11] The reason for the revision is Regulation (EU) No 2019/630 of the European Parliament and of the Council of 17 April 2019 amending Regulation (EU) No 575/2013 as regards minimum coverage of non-performing exposures, OJ EU No L 111 of 25.04.2019, p. 4. Although the intentions of the ECB and the European Commission in introducing minimum risk provisioning backstops are identical, the two institutions currently differ in terms of the addressees and the content of the requirements for the design. Cf. the ECB's press release of 22 August 2019 on the announcement of the revision of the supplement to the ECB Guide, available at: https://www.bankingsupervision.europa.eu/press/pr/date/2019/html/ssm.pr190822~f3dd1be8a4.en.html (accessed on 28 May 2025).

[12] See *ECB*, Communication on supervisory expectations for NPE coverage, 22 August 2019, available at: https://www.bankingsupervision.europa.eu/press/letterstobanks/shared/pdf/2019/ssm.supervisory_coverage_expectations_for_NPEs_201908.en.pdf (accessed 28 May 2025).

[13] See *ECB*, NPL Addendum, p. 2 f.

[14] See *ECB*, NPL Addendum, p. 3.

which is to be based on several scenarios. The expected credit losses may not be based on a best-case or worst-case scenario (see IFRS 9.B5.5.41 f.). Therefore, the loan loss provision determined in the balance sheet may deviate from the ECB's supervisory expectations. Under very specific circumstances, there might be an IFRS 9 compatibility with ECB's NPL guidance. The resulting provision amount should be thoughtfully assessed whether it aligns with IFRS standards, considering the unique aspects of each situation.

8. REGULATORY REQUIREMENTS FOR CREDIT RISK PARAMETERS

The Capital Requirements Regulation (CRR) contains two alternative approaches for determining the capital requirements for credit risk:

1. the Credit Risk Standardised Approach (CRSA) and
2. the approach based on Internal Ratings (IRB).[15]

Under the Standardised Approach, institutions may determine the risk weighting of credit risk exposures for certain classes of exposures on the basis of:

- rating agencies recognised by the supervisory authorities, or
- credit assessments published by export insurance agencies.

If no external credit ratings are available, or for selected exposure classes for which external credit ratings are not relevant, flat risk weights must be applied.

The use of the IRB approach, in which the institution's own rating systems are used, requires authorisation from the banking supervisor, which is granted on the basis of a suitability test of the internal rating systems. Significant changes or extensions to the scope of application also require authorisation from the banking supervisor. Within the IRB approach, a distinction is made as to whether an institution only estimates the probability of default (PD) itself beyond the retail business (basic approach) or whether it also includes the loss given default (LGD) and the credit conversion factor (CCF) (advanced approach).

In the supervisory context, a Margin of Conservatism (MoC) must be applied when estimating the credit risk parameters.[16]

IFRS 9 does not specify a concrete model for determining expected credit losses. In this respect, many institutions that use the IRB approach fall back on the credit risk parameters already used for regulatory purposes as a starting point.[17] However, IFRS 9 explicitly requires an unbiased estimate of expected credit losses [see IFRS 9.5.5.17(a)].

Due to the different regulatory requirements and accounting provisions of IFRS 9 described above, the IASB also believes that adjustments are necessary when using the CRR credit risk parameters for the purpose of determining expected credit losses in accordance with IFRS 9.[18] The application of flat-rate conservatism premiums to the credit risk parameters used in the calculation of loan loss provisions does not generally fulfil the requirements of IFRS 9.

[15] See CRR, Chapters 2 and 3; see also footnote 4.
[16] See CRR, Article 179(1)(f) in conjunction with. *European Banking Authority (EBA*), Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures, EBA/GL/2017/16, 23 April 2018, para. 41 et seq.
[17] See *Global Public Policy Committee of representatives of the six largest accounting networks (GPPC)*, The implementation of IFRS 9 impairment requirements by banks, 17 June 2016, section 1.4, in particular para. 1.4.3.
[18] See IFRS 9.BC5.283 ff.

9. SUPERVISORY CURE PERIODS (CURE PERIODS)

The EBA has laid down so-called cure periods both in the technical implementation standard on reporting requirements for forbearance and non-performing exposures[19] and in the guidelines on the application of the definition of default in accordance with Article 178 of the CRR[20] :

- A probation period of three months must be observed for the retransfer of a risk position to a non-defaulted status. In the event of crisis-related restructuring, the period is extended to one year.[21]
- In accordance with the EBA's definition of non-performing exposures, which forms the basis for the FINREP reporting requirements, a probation period of one year applies to non-performing exposures to which forbearance measures have been applied. [22]

Cure periods analogous to the CRR measures or the non-performing exposure designations for FINREP reports are not defined in IFRS 9. According to IFRS 9, the stage allocation must be symmetrical. Financial instruments are transferred back from stage 2 to stage 1 as soon as the credit quality of the financial instrument has improved sufficiently, i.e. there is no longer a significant deterioration in credit quality (see IFRS 9.5.5.7). A financial instrument is reclassified from stage 3 if the indicators of credit impairment are no longer present (see IFRS 9.5.4.2). IFRS 9 does not provide for an explicit "recovery" period for either stage 2 or stage 3 financial instruments.

However, in connection with the modification of financial assets that do not require derecognition, a transfer back from the respective stage only takes place if the debtor has fully and sustainably serviced the debt, i.e. a corresponding period has passed in which the debtor's creditworthiness has sustainably improved.[23] At this point, IFRS 9 requires an asymmetrical stage allocation, taking into account a corresponding "cure periods". However, IFRS 9 does not further specify the temporal scope.

The regulatory requirements for cure periods should not be applied automatically for financial reporting without further assessing their compliance with IFRS requirements.

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[19] See *EBA*, Final draft Implementing Technical Standards (ITS) - On supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013, EBA/ITS/2013/03/rev1, 24 July 2014. See also Commission Implementing Regulation (EU) No. 2021/451 of 17 December 2020 laying down implementing technical standards with regard to the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council to supervisory reporting of institutions and repealing Implementing Regulation (EU) No 680/2014.
[20] See *EBA*, Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013, EBA/GL/2016/07, 18 January 2017. The guidelines have applied since 1 January 2021.
[21] See article 178 para. 5 CRR in conjunction with. EBA/GL/2016/07, para. 71 f.
[22] See EBA/ITS/2013/03/rev1, p. 14, para. 157(b), adopted in Article 47a, para. 6 of the CRR with Regulation (EU) No. 2019/630.
[23] See IFRS 9.B5.5.27; *EBA*, Guidelines on credit institutions' credit risk management practices and accounting for expected credit losses, EBA/GL/2017/06, 12 May 2017, para. 126.

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