



Revised Asset Quality Review (AQR) manual

FAQ

1 What is the AQR manual?

The AQR manual contains the methodology applied in the execution phase of asset quality reviews (AQRs) on supervised entities in the Single Supervisory Mechanism (SSM). AQRs are carried out by supervisors to review the valuation of banks' assets from a prudential perspective, increase transparency on the condition of their balance sheets and assess the adequacy of their capital levels.

2 Who uses the AQR manual?

The AQR manual is used by all parties involved in the execution of AQRs. ECB Banking Supervision leads the exercises and conducts central quality assurance. National supervisors from the national competent authorities (NCAs) conduct quality assurance at the national level. External consultants and auditors support the execution of the exercises.

3 Why have you updated it?

The AQR manual has been updated in order to reflect two major developments in the AQR methodology. First, the entry into force of the new accounting standard IFRS 9 on 1 January 2018. Second, bank business models focused on investment services have become increasingly important for ECB Banking Supervision, in particular in the context of Brexit.

4 What has changed in the updated AQR manual?

The methodologies for all AQR work blocks now reflect the new accounting rules of IFRS 9, which entered into force on 1 January 2018. The changes ensure alignment in particular with new approaches to determining impairments and classifying financial instruments. The revised methodology for the work blocks focussed on the assessment of provision levels on credit exposures (credit file review and collective provisioning) incorporates the IFRS 9 staging model, which introduces the concept of "significant increase in credit risk since initial recognition", and forward-looking approach to provisioning based on expected credit losses.

The increased relevance of bank business models focused on investment services for ECB Banking Supervision has been reflected by broadening the scope of the fair value exposures review. In addition to level 3 assets, the revised review includes complex and illiquid level 2 assets and uses some new methodological elements. Furthermore, a review of conduct risk related to investment services has been added to the revised manual.

5 Do updates to the manual have any impact on AQR exercises conducted in the past?

No. The updated methodology will be applied in AQR exercises going forward.

6 Do you plan further updates in the future?

Yes. The manual will be updated if and when changes to the methodology in general, or to the calibration of specific methodological elements, are deemed necessary and material.