

## Template for comments

### Public consultation on the draft ECB Regulation on the definition of the materiality threshold for credit obligations past due pursuant to Commission Delegated Regulation (EU) 2018/171

#### Institution/Company

Spanish Banking Association (AEB)

#### Contact person

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#### General comments

The Spanish Banking Association (from now on, "AEB") welcomes the public consultation on the draft ECB Regulation on materiality threshold for credit obligations past due. The setting of a single materiality threshold is considered positive as it will increase comparability of banks' defaulted exposures, but it's important to note that there're relevant issues related to the practical implementation of the .threshold that should be further clarified in the proposed regulation

The main issues arise particularly when the thresholds are implemented in subsidiaries outside the Euro Area. In this regard it should be :highlighted that

An absolute threshold could be a reference in a single uniform context of standard of living, consumer costs, etc., but this is not the case • for institutions present in different geographical regions, currencies and markets. The effect of inflation should also be taken into account .as could vary significantly in different countries

In this regard, paragraph 4 of the Commission Delegated Regulation 2018/171 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 states that the materiality threshold should be adapted to the local particularities of each jurisdiction. The differences in economic conditions, including the different price levels in jurisdictions, justify that the absolute component of the materiality threshold can vary from .jurisdiction to jurisdiction

In order to make these thresholds meaningful for EU subsidiaries outside Euro-area, for countries within the scope of the CRR whose • competent authority is not ECB (Poland, UK), we would also like to confirm that the thresholds decided by competent authorities will be .applicable according to paragraphs 83 and subsequences of EBA guidelines on the application of the definition of default



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In our view the ECB Regulation should clearly state that EU subsidiary undertakings outside the Euro-area, shall only comply with the ECB Regulation when the local competent authorities have not set any materiality threshold. In this regard, and when the local currency is different to the euro, the absolute amount of the threshold may be nominated in the local currency and updated accordingly to take account of changes in the foreign exchange rate and/or inflation. In this sense, in its paragraph 5, the Commission Delegated Regulation establishes that even though the conditions for setting the materiality threshold across the different jurisdictions in the Union 2018/171 should be harmonised, some differences in the levels of the thresholds applicable in the different jurisdictions should be allowed to remain, reflecting different levels of risk that are perceived as reasonable by relevant competent authorities under national market specificities.

Subsidiaries in third countries do have to comply with their local regulations; the thresholds set by the local authorities at local level may differ from the thresholds under consideration in the ECB Regulation. In our view the ECB Regulation should clearly state that for exposures in subsidiary undertakings in third countries, the ECB Regulation threshold must be applied only when any materiality threshold has not been agreed with local authorities. Particularly, regarding the absolute figure of the ECB threshold, it should be highlighted that the implementation in third country subsidiaries shall be done in the base currency of each country under consideration and updated (nominated in local currency) accordingly, otherwise changes in the exchange rate would provoke changes in the level of the threshold and this requires continuous adjustments on the parameters as the threshold becomes a moving target.

This initiative would permit a better alignment with the local management, allow the costs of the developments required to implement the Regulation to be reduced, while maintaining the necessary levels of conservatism and consistency. Otherwise, very significant costs could be incurred for the development of processes, systems, reconstruction of historic data, etc., which would mean undertaking projects with high costs in terms of time and resources.

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Please enter all your feedback in this list.

When entering feedback, please make sure that:

- each comment deals with a single issue only;
- you indicate whether your comment is a proposed amendment, clarification or deletion.

**Deadline:** 17 August 2018

ID	Type of comment	Detailed comment	Concise statement as to why your comment should be taken on board	Name of commenter	Personal data
1	Amendment	An absolute threshold could be a reference in a single uniform context of standard of living, consumer costs, etc., but this is not the case for institutions present in different geographical regions, currencies and markets. The effect of inflation should also be taken into account as could vary significantly in different countries.	In this regard, paragraph 4 of the Commission Delegated Regulation 2018/171 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 states that <i>the materiality threshold should be adapted to the local particularities of each jurisdiction. The differences in economic conditions, including the different price levels in jurisdictions, justify that the absolute component of the materiality threshold can vary from jurisdiction to jurisdiction.</i>	Rizo, Carmen	Publish
2	Amendment	In order to make these thresholds meaningful for EU subsidiaries outside Euro-area, for countries within the scope of the CRR whose competent authority is not ECB (Poland, UK), we would also like to confirm that the thresholds decided by competent authorities will be applicable according to paragraphs 83 and subsequences of EBA guidelines on the application of the definition of default.	In our view the ECB Regulation should clearly state that EU subsidiary undertakings outside the Euro-area, shall only comply with the ECB Regulation when the local competent authorities have not set any materiality threshold. In this regard, and when the local currency is different to the euro, the absolute amount of the threshold may be nominated in the local currency and updated accordingly to take account of changes in the foreign exchange rate and/or inflation. In this sense, in its paragraph 5, the Commission Delegated Regulation 2018/171 establishes that even though the conditions for setting the materiality threshold across the different jurisdictions in the Union should be harmonised, some differences in the levels of the thresholds applicable in the different jurisdictions should be allowed to remain, reflecting different levels of risk that are perceived as reasonable by relevant competent authorities under national market specificities.	Rizo, Carmen	Publish

3	Amendment	Subsidiaries in third countries do have to comply with their local regulations; the thresholds set by the local authorities at local level may differ from the thresholds under consideration in the ECB Regulation	In our view the ECB Regulation should clearly state that for exposures in subsidiary undertakings in third countries, the ECB Regulation threshold must be applied only when any materiality threshold has not been agreed with local authorities. Particularly, regarding the absolute figure of the ECB threshold, it should be highlighted that the implementation in third country subsidiaries shall be done in the base currency of each country under consideration, and updated accordingly, otherwise changes in the exchange rate would provoke changes in the level of the threshold (nominated in local currency) and this requires continuous adjustments on the parameters as the threshold becomes a moving target.	Rizo, Carmen	Publish
4	Amendment	This initiative would permit a better alignment with the local management, allow the costs of the developments required to implement the Regulation to be reduced, while maintaining the necessary levels of conservatism and consistency. Otherwise, very significant costs could be incurred for the development of processes, systems, reconstruction of historic data, etc., which would mean undertaking projects with high costs in terms of time and resources.		Rizo, Carmen	Publish