



Zaventem, 8 June 2021

NOTICE TO THE ACCREDITED AUDITORS

NOTICE 2021/05

Dear Members,

Subject : Deduction of software assets from Common Equity Tier 1 (CET 1) items¹

The regulation 2019/876 introduced the article 36 (4) into the regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms (“the CRR”), also applicable for payment institutions and electronic money institutions (“the institutions”), that required the European Banking Authority (EBA) to develop draft regulatory technical standards specifying the deductions related to software assets from Common Equity Tier 1 items. To ensure coherence of the provisions related to own funds and to facilitate their application, it was necessary to incorporate these regulatory standards into the Commission Delegated Regulation (EU) 241/2014 that groups all technical standards concerning own funds.

On 12 November 2020, the Commission Delegated Regulation (EU) 2020/2176 amending the Delegated Regulation (EU) N° 241/2014 relating to the deduction of software assets from CET 1 items was published in the Official Journal of the European Union and entered into force on the day following that publication (or 23 December 2020):

<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R2176&from=EN>

The regulation (EU) 2020/2176 provides that the prudential treatment of certain software assets was revised (by Regulation (EU) 2019/876) in order to further support the transition towards a more digitized banking sector. This regulation further specifies how the exemption from deductions is to be applied, by defining the exact scope of software assets to be exempted and how they will be risk-weighted. In connection with the revision of the CRR, the EU focused on supporting digitalization and encouraging IT investments in the banking sector.

The CRR 2 amended the provisions relating to the treatment of certain prudently valued software assets which should no longer be deducted from CET 1. Accordingly, the prudently valued software assets (the value of which is not negatively affected by the resolution, insolvency or liquidation of the institution) are excluded from the deduction mechanism. Due to the diversity in software used by institutions, it is difficult to assess which software assets would preserve value in case of resolution,

¹ Update on Point 3.5. *Changes in the Prudential Treatment of Software Assets* – Notice 2021/01 dated 19 January 2021



insolvency or liquidation. It is therefore essential that the prudential treatment of such assets includes an appropriate balance between prudential concerns and the value of those assets from a business and economic perspective.

The prudential treatment of software assets is simple to implement and applicable to all institutions, including payment institutions and electronic money institutions which also apply CRR requirements in the calculation of their own funds requirements, in a standardized manner. The standardized prudential treatment should not prevent an institution from continuing to fully deduct its software assets from CET 1 items if required.

Further, given the changes in technology, institutions often invest in maintenance, enhancements and/or upgrades of their software. To mitigate any regulatory risk, those investments should be amortized separately from the software that is maintained, enhanced or upgraded, provided that such investments are recognized as an intangible asset in accordance with the applicable accounting framework.

Only software assets that are available for use and that fulfill the conditions of the Delegated Regulation (EU) N° 241/2014 should not be deducted. However, the institutions need to calculate a prudential accumulated amortization of a maximum three years or the useful life of the software assets if the latter is shorter.

The application of the prudential treatment of software assets require an appropriate internal control framework such as procedures relating to the nature of software assets to be capitalized for prudential purposes, their business and economic value, the moment they are available for use, the identification of the maintenance, enhancements or upgrades and the determination of their useful life.

Should you have any questions regarding this notice, please do not hesitate to contact me, any member of the Management Board of the IRAIF / IREFI or Claude Louckx (c.louckx@irefi-iraif.be).

Yours sincerely,

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President IRAIF / IREFI