

DECISIONS

COMMISSION DELEGATED DECISION (EU, Euratom) 2021/135

of 12 November 2020

supplementing Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council with detailed conditions for the calculation of the effective provisioning rate of the common provisioning fund

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union, in conjunction with the Treaty establishing the European Atomic Energy Community,

Having regard to Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 ⁽¹⁾, and in particular Article 213(2), second subparagraph, thereof,

Whereas:

- (1) According to Article 212(1) of Regulation (EU, Euratom) 2018/1046 ('Financial Regulation') the provisions made to cover the financial liabilities arising from financial instruments, budgetary guarantees or financial assistance are to be held in a common provisioning fund. The resources of the common provisioning fund will be allocated into compartments corresponding to each of those contributing instruments. Pursuant to Article 213(1) of the Financial Regulation, the provisioning of budgetary guarantees and financial assistance to third countries in the common provisioning fund is to be based on an effective provisioning rate.
- (2) The effective provisioning rate should be established on the basis of the initial provisioning rates determined separately for each budgetary guarantee or financial assistance to third countries pursuant to Article 211(2). Pursuant to Article 213(2) of the Financial Regulation, it should apply only to the amount of resources in the common provisioning fund foreseen for the payment of guarantee calls over a one year period. The effective provisioning rate will apply to all the compartments in the common provisioning fund that can create a contingent liability for the Union budget.
- (3) The methodology for the calculation of the effective provisioning rate should be based on established methods for measurement and management of credit risks, widely employed in the financial sector. These methods rely heavily on the estimation of the loss distribution of the credit portfolio separately and jointly for all contributing instruments. The methodology focusses in particular on the assessment of two components of the credit risk – expected and unexpected losses.
- (4) The effective provisioning rate should reflect the benefits of pooling budgetary guarantees and financial assistance to third countries with different risk profiles and cash flows patterns. Thus, the methodology to establish the level of effective provisioning in the common provisioning fund should be based on a diversification concept, allowing for the optimisation of the level of provisioning required by the respective basic acts of the contributing instruments.
- (5) The correlation of losses between compartments within the common provisioning fund is an important input for the determination of the effective provisioning rate. A robust approach to assess the level of correlation between compartments should therefore be established.

⁽¹⁾ OJ L 193, 30.7.2018, p. 1.

- (6) The effective provisioning rate is to be the reference for the Commission's calculation of the contributions from the budget to the provisioning pursuant to Article 211(4)(a) of the Financial Regulation, for any replenishment of the common provisioning fund pursuant to the Article 213(4)(b) of the Financial Regulation or for the return to the budget of any surplus of provisions pursuant to Article 213(4)(a) of the Financial Regulation, for each contributing instrument separately. The effective provisioning rate should therefore be calculated by the financial manager of the resources of the common provisioning fund ('the financial manager') in conformity with the annual budgetary procedure.
- (7) In accordance with Article 213(1) of the Financial Regulation, the effective provisioning rate is to provide a level of protection against the financial liabilities of the Union equivalent to the level that would be provided by the respective provisioning rates if the resources were held and managed separately. If the information necessary to determine the effective provisioning rate in a prudent manner is not fully available, the financial manager should be allowed to set the effective provisioning rate at 100 %, as a safeguard measure to ensure compliance with that Article.
- (8) In accordance with Article 282(3)(g) of the Financial Regulation, Article 213 of that Regulation on the effective provisioning rate is to apply only as from the date of application of the post-2020 multiannual financial framework. This Decision should therefore apply from the same date,

HAS ADOPTED THIS DECISION:

Article 1

1. The Commission shall provide the financial manager with the following information:
 - (a) forecasts of inflows and outflows for the relevant compartments of the common provisioning fund for the relevant period;
 - (b) other relevant information necessary to determine the adequacy of the provisioning, based on the methodology for the effective provisioning rate calculation.
2. The financial manager shall calculate the effective provisioning rate applicable for the relevant annual period in conformity with the budgetary procedure, using the information provided in accordance with paragraph 1.

However, by derogation to the first subparagraph as regards the conformity with the budgetary procedure, the financial manager shall calculate the effective provisioning rate applicable for the first annual period using available and relevant information as soon as possible.

3. The financial manager shall calculate the effective provisioning rate using the methodology set out in the Annex. The financial manager shall accompany the calculation of the effective provisioning rate with an assessment of the market conditions and with any other relevant assumptions, as set out in the methodology, used in the calculation.

Article 2

1. The financial manager may set the effective provisioning rate at 100 %, in order to fulfil the requirement of Article 213(1) of the Financial Regulation, to ensure that the level of protection against the financial liabilities of the Union is equivalent to the level that would be provided by the respective provisioning rates if the resources were held and managed separately.
2. Paragraph 1 shall apply only when the information related to a significant contributing instrument in the common provisioning fund, essential to calculate the effective provisioning rate in a prudent manner, is not fully available.

Article 3

This Decision shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

It shall apply as from the date of application of the post-2020 multiannual financial framework.

Done at Brussels, 12 November 2020.

For the Commission
The President
Ursula VON DER LEYEN

ANNEX

1. The effective provisioning rate of the common provisioning fund shall be calculated taking into account the amount of expected and unexpected losses for each contributing instrument and the diversification ratio, which accounts for the correlation between the contributing instruments' losses, as set out in the following formula:

$$EPR_t = \frac{\sum_{i=1}^N EL_{i,t} + x_t * \sum_{i=1}^N UL_{i,t} * DR}{\sum_{i=1}^N EL_{i,t} + x_t * \sum_{i=1}^N UL_{i,t}}$$

Where

EPR_t – the effective provisioning rate, expressed as a percentage of the amount of the resources foreseen for the payment of the guarantee calls for the year t , if the provisioning for contributing instruments were held and managed separately;

$EL_{i,t}$ – the expected loss for the compartment i , for the year t , determined by the authorising services for the relevant compartment and representing the amount of resources that is necessary to meet expected guarantee calls for the year t ;

$UL_{i,t}$ – the unexpected loss for the compartment i , for the year t , determined by the authorising services for the relevant compartment and representing the volatility (standard deviation) of the expected loss for the compartment;

i,j – the compartment $\overline{1,N}$;

t – the year $\overline{1,T}$, where T represents the total lifetime of the relevant compartment;

x_t – the adjustment coefficient, expressed as percentage of $UL_{i,t}$ for the year t , reflecting the margin necessary to cover the short term volatility of the loss estimates, providing additional protection against insufficient liquidity;

$\rho_{i,j}$ – the correlation matrix between the individual compartments' losses over the lifetime of the contributing instruments;

DR – the diversification ratio, reflecting the difference between the sum of the lifetime unexpected losses of all the contributing instruments in the denominator and the lifetime joint unexpected losses for all the compartments, calculated as follows:

$$DR = \frac{\sqrt{\sum_{i=1}^N \sum_{j=1}^N UL_{i,T} UL_{j,T} \rho_{i,j}}}{\sum_{i=1}^N UL_{i,T}}$$

2. The diversification ratio shall be calculated by the financial manager for the year t , based on the inputs from the authorising services and correlation matrix estimates.
3. The correlation matrix between the compartments shall be determined by the financial manager, using historical data when available, proxies for the compartments using publicly available data (such as bond, equity indices) that represent the geographic or sectoral coverage for the respective compartments. The correlation matrix may be adjusted by the financial manager to take into the account market conditions and other relevant factors.