

20 July 2005

## MEMORANDUM CEBS Consultative Panel – COREP Initiative

### 1) Background

Following discussions at the last CEBS Consultative Panel, a sub-group of member banks has met to discuss the current CEBS proposal for common reporting standards and to agree a way forward. Whilst sharing the concerns highlighted within the EBF response to the consultation we encourage CEBS to pursue the objective of the COREP initiative as outlined in the consultation paper:

- to improve co-operation between supervisors driving convergence in the EU,
- to move towards a level playing field in Europe, and
- to reduce the administrative burdens on firms.

### 2) Key Principles

Whilst firms fully support the objectives outlined above, we believe that many of the problems with the current proposal arise from the principles included within the CEBS paper. In particular, we believe that the third principle of *Flexibility* conflicts with the requirements around *Consistency* and *Standardisation*.

We believe that the existing package of reporting requirements was driven by a desire to satisfy multiple regulatory objectives – in part high level reporting requirements, in part details more suitable for model validation. As it currently stands, the proposal fails to achieve the stated objectives - and is far too detailed for a common reporting standard. A more focused approach around what is needed for common reporting, with an emphasis on the important management information for regulators in understanding the key changes in risk profiles, is far more appropriate.

If adopted, banks will focus on providing effective and timely management information to regulators that will provide real insights into changes within a firm's risk weighted assets profile.

Under the Basel II framework regulators have a range of complementary supervisory tools in order to require information within a context rather than relying purely on an extensive number of detailed data providing limited value. Those tools include a regulatory approval process confirming banks compliance with requirements of Pillar I, an ongoing model review/validation process, as well as a supervisory review process under Pillar II providing regulators with an in-depth insight into a bank's internal processes. Finally, the disclosure requirements under Pillar III "market discipline" combined with extensive financial reporting provide regulators with a substantial range of additional information to assess a bank's capital adequacy appropriately, especially as the frameworks for these reporting requirements should be developed in a consistent manner.

Also, if a situation arises where regulators require additional information on specific topics, e.g. in the event of a crises or new market developments, we suggest that information is obtained on the basis of surveys and ad-hoc queries. Such a procedure already proved to be valuable in the current regime, e.g. in the recent hedge funds discussion.

The common reporting standards should not seek to duplicate any of these processes – they are insufficient for that purpose and would cause substantial internal requirements for little gain.

### 3) Templates

We would like to support CEBS in designing a common reporting framework and have prepared a set of reporting forms reflecting the above mentioned considerations. We believe that these proposals (see attached) represent a well balanced reporting package that should be used by all European regulators. As you will see, we have used the COREP proposal on market risk to serve as a guiding example. We think that a common reporting framework should focus exclusively on the essential components required to inform supervisors of a bank's capital requirements and should apply the following basic ideas:

- ***Provide key management information as to a firm's underlying regulatory capital requirements:*** The focus should be on meaningful management information that highlights key trends
- ***Focus standardized reporting on value-adding information:*** Focus should be on key information which is of value for a regular regulatory reporting. Additional information could be presented on an ad-hoc basis as discussed above.
- ***Use regular reporting as a complementary tool of the regulatory framework:*** e.g. reporting forms should not be seen as a substitute or instrument for model validation and can not replace any model audits
- ***Choose an evolutionary approach:*** Compared to the scope of information provided under the current regime, the COREP proposal represents a massive change in reporting requirements. Instead, we recommend an evolutionary approach which starts with a practical solution and allows a review after a certain time.

We are conscious that XBRL has been the subject of a separate CEBS meeting on 29<sup>th</sup> June. Whilst we support early discussions on this subject, debate around the detailed application of XBRL is premature. It is more important to agree the basic framework and design a solution that can evolve over time.

### 4) Way Forward

This Memorandum of the consultative panel is based on the preparatory work by an expert group (see participants in appendix). A meeting between CEBS and the expert group (along the lines of the recent AMA expert group), occasionally extended to other appropriate members of the industry, would offer an interesting opportunity for further debate.

The panel looks forward to follow up on this important aspect of the implementation of CRD.

## Appendix: Participating Banks

CP Member	Nominated Experts
Hugo Banziger, Deutsche Bank	Ralf Leiber, Deutsche Bank Joerg Hornischer, Deutsche Bank
Richard Gossage, RBS	Adrian Haines, RBS Jonathan Gray, RBS Glenn Woodcock, RBS
Carl-Johan Granvik, Nordea Klaus Willerslev Olsen, Danish Bankers Association	Johan Giertz, Nordea Hans Jeager, Nordea
Herbert Pichler, FEC Austria	Gerhard Motlik, Erste Bank Helmut Starnbacher, RBZ/RBG Austria
Freddy v. d. Spiegel, Fortisbank	Alain de Brauwere, Fortisbank