



13 January 2006

Cover Note to the Framework for Common Reporting of the New Solvency Ratio

Summary

The Committee of European Banking Supervisors (CEBS) has finalised its common reporting framework (COREP) for the new solvency ratio for credit institutions and investment firms. COREP is an important step towards CEBS' objective of promoting convergence in supervisory practices within the EU. It will improve the exchange of key prudential information between supervisory authorities, thus helping to promote a more level playing field in Europe.

The implementation of the Capital Requirements Directive (CRD)¹ and the adoption of International Financial Reporting Standards (IFRS) in Europe have made it necessary for supervisors to introduce updated reporting requirements to the industry. CEBS felt that the transition to these new standards created a unique opportunity to develop a common reporting framework.

The key features of the new common reporting framework are homogeneity and flexibility. At the centre of the common framework is a core set of data that will be used almost uniformly throughout the EU. Surrounding this core are standardised supplemental information details which provide sufficient flexibility to meet the needs of different supervisory authorities. Thus, the application of COREP will not be entirely uniform: the degree of granularity may differ among supervisory authorities. Nevertheless, COREP represents a significant step towards convergence. For the first time, key prudential information will be reported in the same manner, using formats and variables with clear common definitions directly linked to the relevant solvency Directives. This makes COREP important not only for European supervisors but also for the European banking industry and investment firms and, particularly, for those entities with cross-border activities.

The goal of COREP is to develop a common language for communication in the context of a common European regulation. COREP is of great interest to pan-European institutions, since it will enable them to satisfy the reporting

¹ Recast Directives 2000/12/EC and 93/6/EEC.

requirements of all EU supervisory authorities with a single database, or at least using a common vocabulary and definitions where similar pieces of information are required. The opportunity to use XBRL – eXtended Business Reporting Language – reinforces the aims of COREP (standardization, consistency) with the introduction of a unique taxonomy.

1. Background and Industry Input

CEBS began working on a common reporting framework for the new solvency ratio in July 2004, assisted by an expert group that included representatives from all EU banking supervisory authorities. The expert group focussed largely on Pillar I requirements and its scope was limited to Basel II/CRD regulatory capital, credit risk, operational risk, and market risk.

Industry consultation was considered essential to successful implementation of COREP. An extensive dialogue was conducted with market participants, including the issuance of a formal consultation paper (CP04) in January 2005. In addition, several meetings were held with the industry while the expert group was finalising the reporting framework.

The reporting templates contained in CP04 focused primarily on regulatory capital and the Basel II Pillar I capital requirements for credit risk, operational risk, and market risk. The templates contained references to the appropriate provisions in the proposed CRD as it was drafted at that time.

Responses to CP04 included comments on the complexity and detailed nature of the reporting. In general, the industry requested that the number of required reporting items be reduced and advocated the removal of data not directly linked to the computation of solvency requirements.

In response to the feedback from industry, CEBS streamlined and restructured the framework, reducing the number of reporting cells from 70,000 to the current maximum of 18,000 cells.

Nevertheless, some banking groups have expressed concern that their IT-systems may be unable to deliver some of the potentially data that may be required, especially data relating to the use and impact of credit risk mitigation techniques (CRMT) and to the application of credit conversion factors (CCF) in the templates on Credit Risk. CEBS recommends that national authorities be permitted to allow a certain degree of flexibility in their roll-out plans in order to give these banking groups enough time to update and fine-tune their reporting systems. National authorities should discuss with banking groups what would be a reasonable transition period for upgrading their IS/IT systems.

2. Implementation, Scope and Frequency of Reporting

The common reporting framework applies to credit institutions and investment firms. Each CEBS member will endeavour to implement COREP as fully as possible according to its specific needs. Thus each country will retain some national flexibility on implementation issues such as frequency, scope, level of detail, and implementation date.

3. Structure of COREP

In formulating the templates, the expert group kept the following three principles in mind:

- **Flexibility** – allowing each supervisor to choose, among the common elements, the level of detail appropriate to its supervisory practices and consistent with its particular cost-benefit analysis;
- **Consistency** – linking each element to its definition or the description of its use in the applicable European Directive; and
- **Standardisation** – achieving uniformity through a common approach to calculating and reporting key data elements.

3.1 Framework: templates

CEBS directed the expert group to focus the templates on Pillar I requirements and to limit their scope to Basel II/CRD regulatory capital, credit risk, operational risk and market risk.

The framework consists of four blocks of templates;

1. An overview of regulatory capital, including the appropriate filters between IAS Accounting Standards and regulatory capital; capital requirements; and, in the case of consolidated groups, an overview of the fulfilment of the solvency requirements by consolidated subgroups and individual affiliates.

Information related to the application of different approaches for the assessment of Pillar I capital requirements related to:

2. Credit risk.
3. Market risk.
4. Operational risk.

3.2 Framework: layers

The framework consists of two sets (or 'layers') of data:

1. The first ('core') layer represents the core of the framework, the most essential information for supervisors.

2. The second ('detailed') layer provides additional information that will be useful in interpreting the core data.

The framework is designed to ensure a maximum level of harmonization while providing flexibility to accommodate different supervisory practices. It does not constitute a mandatory minimum reporting requirement – it allows national supervisors some flexibility – but it will give institutions a good idea of what supervisors throughout the EU expect them to be able to report. The core layer represents the most essential information for supervisors; CEBS' expects that there will be almost full convergence on these data elements. The detailed layer provides additional information that will be useful in interpreting the core data; CEBS expects substantial, but not full convergence on these elements. Together, the two layers will provide a comprehensive view of the elements of the calculation of the solvency ratio and afford a more in-depth assessment of it.

European supervisors were asked to complete a questionnaire indicating their projected use of each layer, based on the version of the templates presented to CEBS in October 2005. The responses to the questionnaire were in line with CEBS' objectives: the intended use of the core is quite high (an average use of around 80% of the proposed cells), while the second layer is projected to have a slightly lower utilisation rate (average use of 63% of the cells). Based on these projected utilisation rates, there is a widespread agreement among COREP expert group members that for each layer the proper balance has been attained between homogeneity and flexibility.

The following table indicates the number of reporting cells in the two layers of COREP as well as its average, minimum, and maximum expected use among CEBS member countries:

	Number of Cells	Average Use % (non-weighted average)	Minimum use %	Maximum use %
Core	1,227	83% for all; 90% disregarding securitisation and market risk templates	20%	100%
Detailed	21,606	63%	5%	100%

As not all the templates apply to any one institution (for example, an institution would never have to fill out both the Standardised approach and the IRB approach templates for the same exposures), the maximum number of cells that an institution could possibly be asked to report is 18,000. In practice, the actual number of cells to report will generally be lower. Small institutions and institutions using standardised approaches will have even fewer cells to report.

A small number of supervisors may choose to use an additional set of templates that were either presented in CP04 or discussed with the industry. These additional templates provide information that certain supervisors consider essential for their overall supervisory responsibilities. These templates, although not part of the final COREP package and therefore not annexed to this document, will remain available at national discretion and will be included in the XBRL taxonomy to be released by CEBS.

Financial groups headquartered in jurisdictions that require a significantly lower level of granularity in regular reporting will not be expected to develop group-wide systems to comply with the entire COREP framework. Subsidiaries of such groups located in other Member States may, however, be asked to develop a more granular version of the framework.

4. XBRL

While national supervisory authorities are free to decide on the technical transmission specifications to implement the reporting framework, CEBS considers that XBRL² can be a helpful tool in constructing a harmonised European reporting mechanism. CEBS will therefore develop an XBRL platform and make it available free of charge to national authorities and supervised institutions. XBRL taxonomies will be developed for both the COREP and FINREP (Financial Reporting) frameworks. See www.corep.info for additional details on XBRL developments.

5. Relation to the financial reporting framework (FINREP)

CEBS has made particular efforts to ensure that the COREP framework is as consistent as possible with the standardised framework for FINREP. Special emphasis has been placed on uniformity between the calculation of accounting equity and regulatory capital, and on consistent definitions and references. Although some uniformity has been achieved, complete standardisation between the two frameworks is not possible, since COREP is based on the CRD and FINREP is based on IAS/IFRS standards.

6. Disclosure

The implementation of COREP (requested cells in the templates, reporting frequencies, date of first reporting, etc.) will be posted on the CEBS website as soon as final decisions are made by the national authorities.

7. Follow-up

² XBRL (eXtended Business Reporting Language) is a language for the electronic communication of business and financial data. It is an open standard, free of licence fees, that was developed by a non-profit international consortium.

CEBS will monitor the implementation of the framework by its members, and will host a list of frequently asked questions and answers on its website (<http://www.c-eps.org/>) that addresses COREP implementation issues as they arise. Maintenance will be ensured by a CEBS sub-group.

CEBS will continue to strive for further convergence in supervisory reporting and aims to achieve, in the longer term, as far as possible, a more homogenous application of the Common Reporting Framework. COREP should thus be considered as a first, but a crucial step in the direction of achieving a more integrated European financial market.