

Our Ref: EBA CP 50 Response
Your Ref: EBA CP 50

20 March 2012

The President European Banking Authority
European Banking Authority
Tower 42 (level 18)
25 Old Broad Street
London EC2N 1HQ
United Kingdom

Dear Sir

Re: EBA CP 50

Our company is FRSGlobal, part of the Wolters Kluwer Financial Services Division, and are headquartered in Belgium. We are risk and regulatory reporting solution providers, enabling many financial institutions to calculate, monitor, and submit risk and regulatory reporting both internally to the senior management and externally to regulatory authorities. We provide regulatory solutions for over 40 national jurisdictions around the world, including 17 EU member countries, and include a wide range of prudential and statistical reporting. With over 1,500 customers around the world and 41 of the top 50 global institutions using our software and services, we read the consultation paper CP50 with keen interest. We would like to take this opportunity to comment on the questions raised in the paper.

CHAPTER 1

Subject matter, Scope and Definitions

1. How would you assess the cost impact of using only CRR scope of consolidation for supervisory reporting of financial information?

Cost of setting up

Currently customers prepare their financial information in accordance to statutory accounting standards, which has been the primary way for firms to collect and store financial information. Firms will have to create the necessary reporting infrastructure if/when the statutory accounting and the requirements for supervisory reporting diverge. Many firms will already have much of this in place, as most of the supervisory reporting structures will be unchanged. The previous regimes did not always require the same level of detail proposed under CP50, therefore the real cost of setting up - depending on the structure of the firm – will occur with each additional data element. These elements may require various levels of investigation, project work, system programming and in some cases process

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re-engineering. It is likely that all relevant firms will have some set-up costs. This is a one-off cost, the size of which is highly dependent on the condition of the firm's existing reporting infrastructure, the volume and type of new data required, and the similarity to the existing reporting framework.

Cost of monitoring

As well as putting the technical infrastructure in place to collect and produce the correct financial information, firms need to produce the operational framework to ensure that the reporting produced is correct, well understood, appropriately analysed and acted upon when necessary. This requires that firms have the requisite number of business experts in place to understand, check and create these reports. Where the recommendations in this CP create additional information not normally tracked by a reporting firm, for the requisite consolidation entities, there will be an incremental on-going cost for monitoring. This cost will be greatest where the information or consolidation entity being reported is not in line with the normal management reporting or legal entity reporting. It is also likely that this high cost information is likely to be of least usefulness, which is why it is not part of the existing reporting framework. Another danger with this type of mis-alignment is that the users of the information (supervisors) may place more reliance and significance to the information than on the producers of the information (financial firms), increasing the possibility of inappropriate conclusions.

Cost of report preparation

Report generation is an additional cost which has to be considered. External reporting must usually be signed-off by one or more senior person in the firm before it can be released. It is commonplace that the number of people available to sign off regulatory submissions within a firm is relatively small, and that these people have important roles to play in the management of the firm. Consequently any increase in the volume of reporting can have a material effect on the management capability of the firm, and may ultimately contribute to the cost of managing a financial firm.

2. Please specify cost implications if parts 1 and 2 of Annex III and of Annex IV of this regulation would be required, in addition to the CRR scope of consolidation, with the accounting scope of consolidation?

Please see our answer above. The significant part of the cost would not arise from the technical gathering of the information as this will be incremental to the existing proposal. However the cost relating to monitoring and preparation could grow significantly.

CHAPTER 2

Reporting reference and remittance dates

3. Financial information will also be used on a cross-border and on European level, requiring adjustments to enable comparability. How would you assess the impact if the last sentence of point 2 of Article 3 referred to the calendar year instead of the accounting year?

Where the calendar year and the accounting year are not the same, changing the reference to the calendar year may present a significant challenge. It is the case that there are some activities that are monitored on a weekly, monthly or quarterly basis. These periods will be synchronised with the accounting year calendar. By making the suggested change firms will need to be able to arrive at the correct starting points for the reporting. Furthermore the starting point will not be easily reconciled to the audited accounts. There will be additional reporting costs involved with regards to making and checking these adjustments and confidence in the validity of the information produced may not be as high as in the audited accounts.

4. Does having the same remittance period for reporting on an individual and a consolidated level allow for a more streamlined reporting process?

In our experience the effect of having the same remittance period for both individual and consolidated reporting will not allow for a more streamlined reporting process. The same personnel will be involved in producing and checking both sets of reports. By having the same remittance period amount of work needed to be done before submission will have been greatly increased. However, in the main the same issues that affect the individual will also affect the consolidated returns. It would be useful therefore to allow firms to complete and submit the individual returns, and then submit the consolidated reporting later. That way more time is allowed for any issues identified on the individual level to be correctly reflected in the consolidated view.

5. How would you assess the impact if remittance dates were different on an individual level from those on a consolidated level?

Please see our previous answer. We believe allowing the consolidated returns to be submitted after the individual returns would most advantageous.

6. When would be the earliest point in time to submit audited figures?

No comment

7. Do you see any conflicts regarding remittance deadlines between prudential and other reporting (e.g. reporting for statistical or other purposes)?

No comment

CHAPTER 3

Format and frequency of reporting on own funds requirements

8. Do the proposed criteria lead to a reduced reporting burden?

No comment

9. What proportion of your total foreign exposures would be covered when applying the proposed thresholds? Please also specify the number of countries that would be covered with the proposed threshold as well as the total number of countries per exposure class.

No comment

10. What would be the cost implications if the second threshold of Article 5 (1) (c) (ii) were deleted?

No comment

11. Is the calculation of the threshold sufficiently clear?

No comment

12. Do the provisions of Article 5 (2) lead to a reduced reporting burden for small domestic institutions?

Yes. A semi-annual reporting process rather than a quarterly process will significantly reduce the reporting burden for most firms in terms of cost of monitoring and cost of report preparation.

13. Is the calculation of the threshold sufficiently clear?

Yes

14. Competent Authorities are obliged to disclose data on the national banking sector's total assets as part of the supervisory disclosure. Do you find these publications sufficient to calculate the proposed threshold?

No comment

15. What would be the cost implications if information on own funds as put forward in Part 1 of Annex I (CA 1 to CA 5) were required with a monthly frequency for all institutions?

In our analysis the cost of requiring the CA1 to CA5 returns on a monthly basis would be significant. The data gathering exercises and costs will be similar to quarterly reporting, as the vast majority of the calculations needed for a full quarterly reporting will be needed to complete the CA returns. The cost of monitoring will be increased as more attention will be needed throughout the month on data items not considered within the normal internal reporting information of the firm, but required for the monthly reporting of CA1 to CA5. This monitoring cost will not be as large as full quarterly reporting costs, but for many firms this may require additional headcount to complete adequately. The cost of report preparation will increase, but the increase is likely to be small over the longer term. This is because information produced monthly is more likely to be part of the internal MIS reporting, those responsible for sign-off will be clearer and more efficient at their review, and the report production likely to be more automated and streamlined than a quarterly reporting cycle.

Format and frequency of reporting on financial information

16. Are there specific situations where this approach (differentiating between institutions using IFRS and national accounting frameworks for supervisory reporting purposes) would not be applicable?

None we have considered.

17. What is your assessment of impact, costs and benefits related to the extent of financial information as covered by Articles 8 and 9?

For firms included under Article 8, the required changes to data when compared to existing FINREP reporting are not very large. Also the changes in format should not cause our customers material difficulties. As such we do not believe that the cost implications of the new reporting will be very large for these firms. Similarly the benefits over and above the existing reporting process will not be great.

For firms falling under Article 9, the cost and benefit of the change is very much dependent on the existing national reporting framework compared to what is being requested in Annex IV. The cost of setting up, report monitoring and report preparation could potentially be extremely high.

18. In Articles 8(2) and 9(2) the proposed frequency is semi-annually. Does this reduce reporting burden? Please quantify the estimated cost impact of reporting with semi-annual frequency compared to quarterly.

Firms will need to have a process that enables them to perform the required country breakdowns. This set-up cost will probably not be significantly reduced by reducing reporting to a semi-annual frequency. The amount of additional effort needed to perform the requisite monitoring of the information will not be great, as the total values need to be reported elsewhere and so much of the monitoring will have already been performed. For similar reasons the cost of report preparation will also be low. In conclusion, even though reducing the frequency of these reports will reduce costs, the actual savings are not likely to be material.

19. What is your general assessment of applying reporting standards regarding financial information on an individual level?

There may be advantages by implementing the same reporting processes for the individual level as the consolidated level of reporting e.g. uniformity of process, common data definition understanding, etc. However it is important to explore possible disadvantages. Increasing the number of reports collected to include the individual level means the cost of monitoring the information and the cost of report preparation will increase. Depending on the size of the firm, and the number of individual entities, this increase could be substantial. A second concern is the value attached to this information by the supervisor compared to the reporting firm. A firm's consolidated view is often referred to and used throughout a firm and hence comes under regular management and senior management scrutiny. This may not be true of the information at individual level, therefore the cost of monitoring and preparation of these reports may be disproportionately larger under these circumstances.

20. How would you assess costs and benefits of applying the ITS requirements regarding financial information on an individual level? (Please assess the impact for the two scenarios (i) application of parts 1 and 2 of Annex III and Annex IV on an individual level (ii) application of parts 1 to 4 of Annex III and Annex IV on an individual level (ii)) Would there be obstacles for applying reporting on an individual level?

Please see our answer to question 19. Including parts 3 and 4 will increase the costs. The requirement to produce regular information on an individual level would not be welcomed chiefly because the increase in the number of people required to run the reporting process could be prohibitive. The benefit is for the EBA to determine – whowould ideally demonstrate the supervisory benefit over and above consolidated reporting. Further it may be more proportionate to require that firms have the ability to supply this information when requested, rather than insisting that this level of detail forms part of the normal periodic reporting process. This approach would reduce the cost of monitoring and preparation.

21. If the proposal was to be extended, what implementation time would be needed?

This is difficult for us to say. However we could imagine an additional nine to twelve months being added to length of some implementation projects, especially when considering other risk/prudential projects that are currently being put in place.

CHAPTER 6

IT solutions

22. What cost implications would arise if the use of XBRL taxonomies would be a mandatory requirement in Europe for the submission of ITS-related data to competent authorities?

From our firm's viewpoint, the cost would be relatively small as we already have XBRL taxonomies in place.

CHAPTER 7

Final provisions

23. How would you assess the cost implications of the following two options?

(1) Implement the ITS as of the first possible reference date (31/03/2013)

(2) Delay the implementation of the ITS by 6 months (first reporting based on data as of 30/09/2013) and implement national interim solutions for reporting as of 31/03/2013.

Once financial firms have a final CRD IV rule book, and clear unchanging guidance regarding the reports to be submitted, it will realistically take firms between six and fifteen months (depending on the individual firm's circumstance) to understand the requirements and implications, put projects in place to collect the required data, install any new software solutions, and extensively carry out user tests. This needs to be in place before the start of the new regime, i.e. at least three months before the first reporting date, to ensure legal compliance. In reality the ITS implementation date needs to be set according to when final rules and reporting guidance is available. Requiring firms to start implementation before final rules and guidance will probably be more costly and delay any implementation effort as firms have to plan for uncertainty.

Where it is clear that the time required for implementation is not less than the time available, a delay is the best course of action. However depending on what is meant by the 'national interim solution' this approach could contain some considerable costs.

24. What would be the minimum implementation period to adjust IT and reporting systems to meet the new ITS reporting requirements? Please elaborate on the challenges which could arise.

For firms that are already reporting using COREP and have a solution such as ours, the very minimum implementation period we would expect is around six months. The challenge for our clients would be the identification and collection of the incremental data elements required to fulfil all the incremental reporting requirements. Our challenge would be to ensure that we have altered all the required calculation elements to adequately meet all new reporting requirements. We will also need to ensure that the report templates themselves are populated correctly and that the data transmission processes are fully operational. Once this is completed there will be a project to install the upgraded solution and then extensive testing typically lasting two months or more.

There will be challenges at each step for client firms and us. The customer has to have a clear idea of the new operational environment they wish to create to ensure that the resulting system configuration meets their needs. This means a good understanding of the new CRDIV/CRR framework and objectives. The customer may also need to re-engineer some of their supporting data infrastructure in order to collect any new data elements required. This may often mean extra resources to make the required adjustments.

The customer will need to have a team in place to install and test the new upgrade, both from technical and business requirement viewpoints. Often the best people to perform these roles are the same people that perform the business as usual reporting, resulting in a squeeze on critical human resources.

From the vendor perspective, we need to be able to understand the additional data requirements early so that we can give the financial firms we serve a view as early as possible. We then need to be very clear and precise on the actual calculation and reporting requirements so that we can build a compliant solution. It has been our experience that the exercise of making regulatory rule work in a system does allow us to see clearly logical inconsistencies in the rule and pinpoint areas of common misunderstanding. Key in this step is the ability to ask questions regarding the interpretation and meaning of the rules and guidance given, and to get prompt and helpful responses. In cases where it takes weeks to receive responses the result will be delay or errors for multiple clients, which in turn will have knock-on effects regarding planned completion dates.

Another challenge that can arise is the acceptance of test data transmitted from vendors rather than regulated firms by the supervisory authorities. If vendors can test and liaise with the recipients of the data, this is often more efficient than having each client firm test independently all the vendor functionality. However, it has been our experience that not all EU regulators have been willing to interact with vendors on this basis.

It should be noted that large business changes (and CRR would certainly count as one) require larger amounts of technical changes. Larger technical changes will typically require longer times for system testing as well as user acceptance testing, so the likelihood of costly iterations of bug report, bug fix, code change, rerelease, reinstall, retest is greater than with smaller projects.

25. What would be the minimum implementation period required for institutions already subject to FINREP reporting to implement the financial reporting described in this consultation paper?

Our understanding is that for our customers the FINREP changes will not be as difficult as the COREP changes. Once the finalised rules are available FINREP changes can be implemented from three or more months.

26. What would be the minimum implementation period required for institutions NOT subject to FINREP reporting at the moment to implement the financial reporting described in this consultation paper?

For firms who are not already reporting FINREP the changes will be much more onerous. It is difficult to estimate since it will depend on the degree of difference between existing financial reporting and the new FINREP requirements, which can be very different for each jurisdiction. For firms who are not subject to FINREP, the main challenge will be accessing the incremental data required. The underlying data model of our solution will not have to change significantly and customer will be able to leverage our years of experience providing FINREP compliant reporting solutions. We would stress however that even our customers may need to add another two months over and above that required by existing FINREP reporters.

27. Would the required implementation period be the same for reporting requirements on an individual basis and on a consolidated basis?

No generally it will not take as long to implement on an individual basis, as the consolidated view is almost always the most complicated case. Also one implementation will inform another. However resourcing requirements need to be considered. Clearly if the consolidated and the individual basis implemented concurrently, to the same deadline firms would probably suffer resourcing constraint problems which could considerably lengthen both implementation periods.

Annex I and Annex II

28. Do restrictions (restricted cells are cells which do not have to be reported to supervisors - displayed in the COREP templates as grey/blocked cells) reduce the reporting burden?

The cost of setting up data to populate the grey cells on the COREP report will only be saved if the information needed for that cell is not directly or implicitly used in any other calculation or disclosure.

The cost of monitoring the data will similarly only be saved if the information needed for that cell is not directly or implicitly used in any other calculation or disclosure.

The cost of creating the report without the grey cell items will be lower than with these items. The main savings coming in less required management review time.

29. Compared to previous versions of the COREP templates are there additional reporting requirements which, cause disproportionate costs?

Having analysed the previous, current and suggested versions of COREP, we do not feel that there are any additional reporting requirements that have disproportionate costs. Individual financial firms may however find some of the required input data is difficult to collect, but we are unable to comment on this matter.

30. Are the templates, related instructions and validation rules included in Annex I and Annex II sufficiently clear? Please provide concrete examples where the implementation instructions are not clear to you.

We are finding that there are areas where the guidance on completing the reporting is unclear. Examples include;

In CR SA Total rows 120, 150, 170, 190, 210, 240, 280, 330 and 370 it's required to report "of which: with credit assessment by a nominated ECAI". Is it required to report in these rows only the exposures where the exposure itself holds a credit assessment, or should I include in these rows also the exposures which do not hold a credit assessment for itself but where the counterparty or the issuer of that exposure holds a credit assessment? So in short, should I report in these rows (1) only exposures with issue rating? or (2) exposures with any of the two ratings: issue or issuer rating?

ITS ref list is very vague as it points to "See part 3 title II chapter 2 of CRR" which corresponds to all Standardised approach.

2. In CR SA Total, does rows 310, 320, 330 and 331 are mutually exclusive or they can overlap?

We have also seen examples where the titles in the detailed reports do not correspond to the summary reports, and where the fonts used on some of the Excel sheets are of mixed point sizes making it difficult to use the sheets as provided.

31. CR IRB – What is your assessment of cost implications of the new lines for "large regulated financial entities and to unregulated financial entities"? What is the most cost efficient way of incorporating this kind of information in the reporting framework?

The requirement to identify large regulated financial entities can be onerous. Firms will need to regularly update their counterparty information in terms of total assets and regulated status. Asset size information may not always be available with the required timeliness for all jurisdictions with which an institution transacts. Indeed there may be examples where total assets size information is not publically available.

The regulatory status of an institution is usually known as this will guide other rules in relation to know your customer and capital calculation regulations.

Cost could be reduced considerably if there was a central register publically available of institutions that fell into the asset size category.

32. CR SA – What is your assessment of cost implications of the new lines to gather information about exposures without a rating or which have an inferred rating? What is the most cost efficient way of incorporating this kind of information in the reporting framework?

This new requirement will have implications on the way information is processed and so will mean a degree of re-engineering of the calculation processes. However as a vendor, we do not consider this adjustment to be particularly difficult as the cost of set up will be low. The cost of monitoring the correctness of the data item will also be low, as the process will be automated. The cost of report production should also be low.

Annex III, Annex IV, and Annex V

33. Are the templates included in Annex III and Annex IV and the related instructions included in Annex V sufficiently clear? Please provide concrete examples where the implementation instructions are not clear to you.

We believe that the forms are reasonable first drafts, but are not problem-free. For example there are some missing references on the reports (See Row 470 and Row 480 from Table 2).

For the Non-IFRS templates finding the correct section of the directive as it applies to the reporting is often challenge.

Example: Annex IV Table 1.1 Row150 reference - 4th Directive art 42a(1);

Considering the instructions mention:

-“4th Directive” refers to Fourth Council Directive of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies as last amended by Directive 2009/49/EC [Directive 83/349/ECC].

It is not immediately clear that article 42a(1) refers to DIRECTIVE 2001/65/EC and not Directive 2009/49/EC or Directive 83/349/EEC.

Template 10 (Annex III and Annex IV)

34. Do the provisions of Article 8 (3) and 11 (3) lead to a reduced reporting burden?

Yes they will. Cost of setting up the reporting will not change as the base information is needed to determine if the threshold requirements are met. The cost of monitoring will be reduced by virtue of the fact that firms will have fewer items to consider. Also the cost of preparing and reviewing the report will be reduced as firms will have a smaller amount of reporting to present.

We would comment however that the because of the potential number of reports, one for each country that reaches the threshold, the cost associated with producing and monitoring these reports is from the inception high.

35. What are the cost implications of introducing a breakdown by individual countries and counterparties?

Country and counterparty breakdowns from a data perspective are normally available, so in terms of setting up the reporting the costs are not great. However in terms of monitoring and preparation the cost can be considerable, as the volume of reporting needed to be prepared and submitted increases.

36. What are the cost implications of introducing a breakdown by economic sector by using NACE codes?

The use of NACE for FINREP reporting would be advantageous as it would tie FINREP with other regulatory reporting. We are seeing that several EU countries currently use NACE codes as part of their national reporting framework. Therefore we view the cost of including these codes as low as compared to many other alternatives

37. Would other classification be more suitable or cost efficient?

No.

38. What would be the difference in cost if the geographical breakdown would be asked only by differentiating between domestic and foreign exposures compared to country-by-country breakdown?

Geographical by country-by-country breakdown is commonly used in financial reporting; hence this suggestion will not reduce costs of setting up reporting in any significant way. In terms of monitoring of the reporting we also do not see a significant reduction in cost as the process of monitoring the relevant information will not change significantly as a result of this suggestion. There will be some saving in terms of report preparation as the amount of data that needs to be approved and signed off will be reduced.

39. What are the cost implications of introducing breakdown of sovereign holdings by country, maturity and accounting portfolio?

We do not believe that such an introduction would be very costly. Financial firms are generally well aware of their sovereign holdings and are usually able to allocate these holdings by country, maturity and accounting portfolio.

Template 14 (Annex III and Annex IV)

40. How would you assess the cost implications on providing a geographical breakdown of these items with the proposed breakdown to domestic, EMU countries, other EU and rest of the world?

Please see our answer to question 38. We do not believe that this measure will significantly reduce the cost associated with this report.

41. Would application of a materiality threshold similar to Article 8 (3) and 11 (3) (reporting the breakdown only if foreign exposures exceed 10 % of the total exposures) reduce reporting burden?

Yes as per our answer to question 34.

42. What would be difference in cost implications if breakdown would be requested only with differentiation between domestic/ foreign or alternatively country by country with similar threshold than in Article 8 (3) and 11 (3) compared to the proposal in the Consultation Paper?

As above. We do not see that there is generally a significant cost saving between these alternatives.

Templates for reporting financial information according to national accounting frameworks

43. Are there specific aspects of national accounting framework that has not been covered or not addressed properly in the templates?

No comment

Instructions in Annex V

44. Does the IAS 7 definition of cash equivalents follow the practice used when publishing financial statements?
How would this definition interact with definitions of IAS 39 for assets in held for trading portfolio?

No comment

45. How do you assess the impact of reporting interest income and interest expense from financial instruments held for trading and carried at fair value through profit and loss always under interest income and interest expense?

No comment

Yours Faithfully

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