

## **Santander's comments on the European Banking Authority (EBA) Consultation Draft Technical Implementation Standards on Supervisory Reporting Requirements for Institutions**

Santander welcomes the EBA proposal on Technical Implementation Standards on Supervisory Reporting Requirements. The recent crisis has showed gaps in the information provided by the banking sector both to the supervisors and the markets that need to be addressed. Santander **supports the objective** to enhance the provision of information to supervisors in order they can effectively fulfill their tasks.

We also welcome the decision to issue **Technical Implementation Standards** that directly apply at national level.

A uniform set of reporting requirements within Europe will be a great step forward in terms of reducing the reporting burden for cross border institutions, ensuring a level playing field and making it easier the exchange of information among supervisors. We consider these common standards are implemented **national authorities should refrain from adding further layers of reporting requirements** unless fully justified.

Notwithstanding we would like to share with you some concerns we have regarding the current proposal.

**First, we think that the implementation date is unrealistic.**

We acknowledge the fact that, if Basel III requirements enter into force in 2013, new templates need to be implemented by this date in order to ensure compliance with the new regulatory requirements. **However, the rest of the changes in the reporting templates that are not directly related with Basel III but respond to other purposes, such as further reporting convergence within Europe and/or enhancing macro prudential supervision, should be postponed** at least until 2014 and a phase in period for its implementation should be defined. Even for a bank like Santander that uses to be subject to very demanding reporting requests by its home supervisor, the changes in definitions, breakdowns and scope that the proposal implies compared with our current reporting requirements will require significant IT developments very demanding in terms of time and resources. The delay in the publication of the consultative paper, fully understandable given the complexity of the matter, should not result in shortening the implementation period for institutions.

Moreover, at the international level an initiative is underway to develop a common template for the so called G-SIFIs. Notwithstanding the narrower scope of the initiative to the extent possible consistency should be warranted in order for the reporting process to be efficient in terms of cost and effective in terms of consistency. Thus it seems advisable to postpone implementation until the international framework is finally agreed. Besides, further convergence in accounting standards in Europe is also advisable before the full reporting package is implemented in order to have really comparable sets of information.

Regulators should take into account the accumulation of IT developments needed to respond to the wide regulatory reform package, not only in reporting (e.g. large exposures, liquidity, leverage) but on the rest of prudential requirements (e.g. capital, liquidity, stress test and

recovery and resolution plans). Making such an effort in such a tight deadline would have an important budgeting impact at a time where resources also need to be placed in providing credit to the real economy. It is important that these IT developments are carried out properly in order to be a real investment that could rend its benefits over time. If a piecemeal and provisional like approach is implemented just to comply with regulation this would result in the need to review the development again and again because it lacks a proper planning. Thus what should be investments would end to be a recurrent expense. On top of that the treatment of these investments in the capital minimum requirements envisaged in the CRD IV is extremely punitive. Given these investments are required by the supervisors in order to enhance micro and macro supervision and at the end to ensure financial stability the value of them should be fully recognized in the minimum capital calculations.

**Second, the 30 days remittance date for COREP is insufficient to provide quality data.**

As to the specific remittance period that should apply, it needs to be highlighted that reporting volumes and reporting frequencies have been increased substantially. The gathering, processing and verification of the information will take more time than under the current requirements. Therefore longer remittance periods would be necessary if similar quality standards are to be maintained.

Although we recognize the need to have the ability to provide information rapidly under stressed circumstances (as envisaged by the RRP), this should not imply that the same lags should apply on a business as usual reporting basis. This would help to avoid significant resourcing costs with little added value under normal circumstances.

Moreover, COREP information should be build upon FINREP information or at least be consistent with FINREP information in order to ensure a minimum of reliability. The alternative is that COREP information be based on estimations that would need to be reviewed later on. This alternative is inefficient both from a prudential point of view because supervisor's assessments would be based on estimations with different degree of reliability; and from an institution's burden perspective because calculations over a same data point should be performed twice.

The following examples illustrate some of the links between the prudential information and the financial information:

- Own Funds information must be reconciled with accounting information.
- The part of Minority Interests considered as Group's own funds requires to take into account the local capital ratios and, before of that, the local accounting information
- Deduction of financial and insurance investments from capital must be conciliated with the accounting information.
- Excess or deficit of provisions over expected losses is based in accounting information.

**Thus, the remittance date for COREP should be at least 5 days longer than those of FINREP.**

Besides, there is information outside the financial reporting that is available with different time lags:

- (i) the contribution of each legal entity to the consolidated statements
- (ii) The stand-alone position of the individual legal regulated entities (which need to be calculated by the entities concerned after the consolidation exercise has been finalised).

Against this backdrop, we consider that in order to maintain the high quality standards of our reporting a minimum of **45 working days for FINREP and 50 for COREP**, both at individual and consolidated level should be established as remittance date.

Third, the **quarterly frequency** for the full set of information required is excessively burdensome and in many instances does not add value from a prudential point of view. We would suggest defining a set of core information to be reported on a quarterly basis, while a lower frequency could be set for the rest of the information.

With respect to the information required new COREP requires **information breakdowns** not related with the entity risk profile and which require entities to make important changes in data provision systems, reporting and information consolidation.

Some examples of the above are:

- CR SA: It is requested to differentiate in “Retail Exposures” (and Corporate) SMEs expositions, when SMEs and non SMEs consume the same RW 75%
- CR SA Detail: The section “memorandum items” request to make references between exposure classes for Institutions, Mortgages and Non performances, independently of, for example a non-performance institution, is considered a non-performance and not an institution for risk calculation.
- MKR FX: New breakdowns that give no new information about risk profile are required. Ej: “Breakdown of Total positions by exposure Type”: in this example, risk is originated for different currencies positions, independently that these are in balance out of balance or derivatives.

This would mean an important workload especially in large and geographically diversified groups that maintain decentralised information sources as it requires collecting, consolidate and process same information in these new breakdowns of information. Moreover, for groups with subsidiaries in third countries it should be taken into account the fact that these subsidiaries are also subject to local reporting requirements not harmonised in content, frequency and remittance dates with the European reporting which means an additional burden.

Any new breakdown implies to modify previous data models which consider new requirements with the subsequent incremental cost and complexity for new multidimensional models.

Moreover, clarifications would be necessary in some parts of the paper. Some examples are provided in Annex 1.

As more general comment we would like to stress the need to further work in **harmonized definitions in order to achieve the objective of comparability and level playing field**. We understand regulators' urgency under the current circumstances in desiring to fill-in the identified information gaps but this prior work is indispensable for a truly common reporting. Regulators should engage in a transparent way with the industry and other users of financial information in an open dialogue.

More work is also necessary with respect to establishing a **link between the information that is being requested and the gap this information is intended to cover**.

Finally, it is important also that **the possibility of asking for ad hoc information be kept at minimum** and only request when fully justified. As far as possible institutions' internal reporting should be exploited for ad hoc needs.

Summing up:

1. The implementation date is unrealistic. A phase in period would be a more balanced solution.
2. The 30 days remittance date for COREP is insufficient to provide quality data.
3. The remittance date for COREP should be at least 5 days longer than those of FINREP.
4. Quarterly frequency for the full package is too burdensome.
5. A review of the information required is necessary to avoid requiring inconsistent and meaningless breakdowns.
6. Clarifications are needed in a number of aspects (see Annex 1).
7. Further work is advisable in harmonized definitions.
8. The possibility of asking for ad hoc information to be kept at minimum.

If the above questions are not addressed we think this would be in a huge detriment of the quality of the information reported thus jeopardizing the objective of properly filling the information gaps identified.

## Annex 1. Examples of aspects that need further clarification

- Group Solvency:
  - column 100 – reference is not correct
  - column 180 – reference is not correct
  - The entity code must be unique and it should not depend on local regulators.
  - Further information needed to clarify the information to provide in column 130.
  - To obtain the contribution of subsidiaries to the group RWA would demand very expensive procedures and would imply management estimations, especially in terms of operational risks (the current information is based on business lines) , market risks (how take into account the diversification factor?) and FX risk (in term of net position and/or hedged positions the sum of the parts is not equivalent to the consolidated Total).
  - There are some contradictions between instructions (annex 2) and template (Annex I). For example, in annex I col 320=capital conservation buffer, and in Annex II capital conservation buffer=col 360.
- CA1, row 120 ID 1.1.4.2.3 - no reference to any article.
- CA1, row 180 ID 1.1.3 Accumulated other comprehensive income - not crystal clear what to include in this cell, especially in relation to ID 1.1.9.2 Cash flow hedge reserve
- CR SA column 510 - definition of how to calculate number of counterparties in SA (individual, group) is needed.
- CR IRB - If reporting both in FIRB and AIRB, shall there be one “CR IRB - Total” for FIRB and one for AIRB?
- CR IRB - definition of how to calculate number of counterparties in IRB (individual, group) is needed.
- CR IRB GB - confirmation needed from the authorities if it is the country of the exposure (e.g. host country of the accounting unit) or country of the customer.
- CR IRB GB - confirmation needed from the authorities regarding country how to treat exposures against a customer’s foreign branches?
- CR IRB GB: The exposure classes in this report are not the same as in the CR IRB report. The reference list mentions that these are FINREP breakdowns; Is it correct that the exposure classes in this report are FINREP and not COREP breakdowns? From IT perspective this means that for this report we will need to build a new exposure classification.
- CR IP LOSSES: Consultation paper does not provide a definition for the “loss”. This needs clarification. The definition has a large impact on IT implementation.
- MKR SA EQU - Authorities need to define what they mean with markets when reporting equity risk.
- 3.2A CR SA TOTAL: Providing the information about the number of counterparties is going to be difficult as not all subsidiaries have all their risk information in a centralised database. We would appreciate this field to be removed or partially informed.
- 3.2B CR SA DETAILS: the portfolios to be informed should comply with IRB criteria or with SA? Instructions are not clear about what to inform in each category.
- CVA capital charge is calculated on an Entity level, so we do not agree with the obligation to report it broken down by portfolio. What should be the criteria to distribute

the calculation between the different portfolios? In our opinion it may create some inconsistency.

- 3.3A CR IRB: CVA capital charge is calculated on an Entity level, so we do not agree with the obligation to report it broken down by portfolio. What should be the criteria to distribute the calculation between the different portfolios? In our opinion it may create some inconsistency.
- Displaying the information broken down by off- balance and on-balance items will cause risk database to be reorganised as it works with a “contract vision” with cost impacts that should be analysed as it seems to be a big change.
- Regarding to large regulated financial entities, which are the criteria to considered an entity large regulated financial entity? Should we assume that are banks, and unregulated financial entities are all the institutions not classified as banks? If they are forming part of Institutions, maybe they could be treated as two new portfolios “of which large regulated financial entities” and “of which unregulated financial entities”.
- 3.3B CR IRB GB: There is a mismatch between the template and the instructions as there is some information to be completed according to the instructions that has not been included in the template.
- 3.8 SEC DETAILS: There is a mismatch between the template and the instructions as there is some information to be completed according to the instructions that has not been included in the template. ISIN code is required to be reported as part of the Identifier code. As there are more than one ISIN associated to a securitisation, which one should be included here?
- Does the scope of this template include investor’s securitisations or only originator securitisations?
- % of reporting and compliance with the retention requirements are required in case of informing “Unknown” in Type of Retention. In our opinion they should be exempted.
- 5.7 MKR IM: We don’t understand the practical use of the columns ALL positions which is divided between LONG and SHORT. The RP35 refers to IM for Market Risk which is measured using VaR figures, and the concept of dividing your derivatives between long and short does not make sense when you’re speaking of measuring a VAR figure. The concept of long and short nominal or mtm values only makes sense when you are measuring capital requirements under standard models, which are more related to the accounting standards. We believe that these two columns should not be included in the RP35, they do not give you additional information and cannot be related in any direct way to the final VaR figure that is measured and that drives your capital figure (as VaR is a result of a combination of volatility and sensitivities which are not directly related with a total long and short notional in derivatives). The same comment applies to the Top Currency Positions which has also been included in this draft of the template.

CR IRB: (Further information required):

- Regarding breakdown about exposure origin countries, organised by exposition level: it s unclear how it will be determined the exposition: operations booking? branches? counterparty residence?
- We would like more details about “obligators” and “counterparties” precise definition referred to in the last pro-memoria columns. It is also needed a definition for “Commercial Real Estate”.