

Our response to the EBA consultation on draft implementing standards on supervisory reporting on forbearance and non-performing exposures under article 95 of the draft CRR

Introduction

The Building Societies Association represents mutual lenders and deposit takers in the UK including all 46 UK building societies. Mutual lenders and deposit takers have total assets of over £375 billion and, together with their subsidiaries, hold residential mortgages of £245 billion, 20% of the total outstanding in the UK. They hold more than £250 billion of retail deposits, accounting for 22% of all such deposits in the UK. Mutual deposit takers account for 31% of cash ISA balances. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.

We welcome the opportunity to comment on the EBA's proposals on this new aspect of supervisory reporting.

Comments

We understand the EBA's desire to introduce uniform definitions and reporting requirements for forbearance and non-performing exposures in view of the general worsening asset quality across the European Union. But only to a point. The current plans will be costly and disruptive to implement, particularly in the timescales indicated. A more pragmatic and proportionate approach is called for.

European regulators need only such detailed information on forbearance and non-performing exposures from systemic institutions; the statistically insignificant information potentially provided by sub-systemic institutions adds nothing to the understanding of an individual member state's position. Regulators can form a picture of forbearance activities from the largest institutions alone. It is most unlikely that they will compare forbearance in a small regional building society in the UK with, for example, a Sparkasse in Germany. But they may do so with Barclays Bank and Deutsche Bank.

This additional information requirement hits smaller institutions disproportionately; they simply do not have the resources to implement these new changes especially in the time given. They have only a finite number of staff who are responsible for regulatory reporting. In some of our members, this can be as low as two people. They are already burdened with other changes mandated by the CRR and CRD, little of which brings any business benefit to them or their customers. This is particularly pertinent given the templates are not final, only six months before implementation on 1 January 2014. Institutions need time to absorb the changes, schedule system changes, build the system and then test it. This can take 18 months.

The EBA states it "wishes to empower supervisors with the appropriate tools to assess on a comparable basis across the European Union the level of non-performing exposures as well as of forbearance activities". While new FINREP

templates may help comparability (and we argue above, relevant only in the case of systemic institutions), they do not help supervisors understand the position at every institution. More than generic data is necessary. It is possible that two institutions will submit similar data but be in very different positions – only discussion and detailed investigation will reveal this, reports will not. Relying solely on data poses a major risk.

Definitions

The EBA states that the definitions are additional to those that member states use already and will be applied purely to FINREP. This could be confusing. It will also be expensive for institutions which may have different definitions embedded in their systems. Certainly, few in the UK use NACE codes. To effect such changes could be difficult, time-consuming and expensive.

In general, we welcome the new definitions that will apply to all loans and debt securities that are on balance sheet. They are mostly clear. In some cases, however, it would have been preferable to have used the COREP definition, where applicable. An example is past due items which is already defined in COREP. (We also believe that the COREP past due items definition should be used for forbore exposures in the non-performing category). European colleagues¹ have pointed out that the definition of non-performing appears to be in conflict with the existing definitions such as the one in Basel.

¹ Response from Swedish Bankers' Association, 19 June 2013