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European Banking Authority
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6 January 2016

**<u>Standard Chartered response to the European Banking Authority's ('EBA') Consultation Paper EBA/CP/2016/20 on Draft Implementing Technical Standards amending Implementing Regulation (EU) No 680/2014 with regard to operational risk and sovereign risk exposures</u>**

Dear Sir / Madam,

We welcome the opportunity to comment on the Consultation Paper EBA/CP/2016/20 on the on Draft Implementing Technical Standards amending Implementing Regulation (EU) No 680/2014 with regard to operational risk and sovereign risk exposures.

We support the EBA's objectives of moving away from ad-hoc reporting requirements for sovereign exposures and replacing them by a standardised solution allowing for automation of processes and further increase cross-border transparency in reporting.

In our letter, we provide responses to five of the nine questions (number 2 to 6) raised within the consultation paper, including specific comments and alternative suggestions.

Overall, we would like to highlight the following:

- The reporting requirements as proposed in this consultation paper deviate substantially from general banking practice as they combine financial and regulatory reporting. Specifically, financial information, credit risk including counterparty credit risk, and market risk information are collated in the same template. We recommend separating the three different concepts in different reporting templates based on their own specific characteristics.

- Implementing the new reporting requirements as part of the regular reporting framework will be complex, resource-intensive and may not be practicable in the proposed timeline of implementation by March 2018 which coincides with various other significant reporting initiatives such as IFRS 9 and G-SIB Phase III.

We would be pleased to discuss the contents of this letter, and related matters, with your or your representatives at your convenience. We refer the EBA to the technical comments and specific recommendations made the British Bankers' Association response to which we have contributed.

Yours faithfully,

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**Answers to specific questions from the Consultation Document**

**Q2: Could you please quantify both the implementation costs and recurring production costs (expressed in man days) that would arise when implementing the new reporting requirements on sovereign exposures as part the regular reporting framework? How would these recurring production costs compare to a situation in which institutions were required to comply with ad-hoc data requests that are required (i) to comply with the EBA's transparency exercises and (ii) to comply with competent authorities' requests on institutions' sovereign exposures (e.g. SSM short-term exercise)?**

We expect the implementation of the new reporting requirements for sovereign exposures as part of the regular reporting framework to require additional data sourcing, complex mapping and reconciliation between FINREP, COREP and IFRS 9 systems.

This will involve a project team to deliver the solution consisting of business analysts, subject matter experts, technical and systems analysts, developers and vendor resources. We expect the project cycle to run between nine months to a full year after promulgation of the Implementing Technical Standard. This estimate does not include incorporating the market risk information into the proposed template which will take longer. Additional costs would also arise from external systems providers.

**Q3: The threshold defined in Article 5 (b) 3 (a) exempts institutions that fall short of the threshold from the new requirements. Do you think that this threshold is appropriate so that (i) institutions with material sovereign exposures are required to report (and hence supervisors will have the relevant information for their assessments) while (ii) smaller and less complex institutions are more likely to be exempt from the new reporting requirements? [see page 17]**

We have assumed that Standard Chartered would be required to report the proposed templates on a country by country basis.

We note that the test described under Article 5 (b) 3 (b) is difficult to perform as it requires carrying amounts of non derivative financial assets to be broken down by General Governments, domestic and non domestic exposures. This level of data granularity is not readily available within FINREP. Moreover, COREP does not use the concept of General Governments, nor does it include carrying amounts.

**Q4: Is there a noteworthy difference in terms of costs between point (b) which requires a full country breakdown and point (c) which limits the breakdown to a total and domestic country? If there is a noteworthy difference, please try to quantify the cost difference and put it into context with the overall implementation costs that you expect with the new reporting requirements on sovereign exposures. [see page 17]**

Our high-level estimates suggest that there is not a material difference in cost between country breakdown and total, domestic level reporting.

**Q5: Are the reporting templates related to sovereign exposures (C 33.01 and C 33.02) as set out in Annex I and related instructions in Annex II sufficiently clear? In case of uncertainties on what needs to be reported, please provide clear references to the respective columns/rows of a given template as well as specific examples that highlight the need for further clarifications. [see page 18]**

**Financial and regulatory reporting information**

Template C33.01 seeks to increase data transparency between FINREP and COREP by combining financial with regulatory reporting. Specifically, financial accounting, credit risk and counterparty credit risk, and market risk information are collated in the same template.

This is not in line with current general banking practice: Carrying values (in columns) are not used as basis of regulatory exposure calculations and the suggested asset classes by internal models and standardised approaches (in rows) are not recognised in financial reporting. The combination of multiple reporting frameworks in one platform will result in significant challenges and require system changes.

We recommend separating the three different concepts in different reporting templates.

**Reporting market and credit risk**

Market risk is managed at portfolio level, based on off-setting risk profiles, as opposed to at individual exposure level. The listed asset classes (in rows) do not exist under the current market risk architecture. Accounting and credit risk definitions used in column headings are not common to market risk information. Reporting market risk within the same framework with financial and credit risk data will be very challenging (see above) and in certain instances misleading.

It is unclear how banks are expected to report accounting values for instruments subject to both standardised and internal model based (IMM) market risk assessment. For example, a bond might be subject to own funds requirements for general interest rate risk under IMM and for specific interest rate risk under Standardised approach.  This requires further clarification on how to report accounting values and exposures of such instances within rows 160 to 260 and whether double count is intended.

**Institutions using IFRS and national GAAP**

It is currently unclear from the guidance provided which parts of the template are applicable to institutions following IFRS and which ones are applicable to institutions reporting under national GAAP.

In respect of columns 030 to 140, instructions in “Annex II - Reporting on Own Funds and Own Funds Requirements” refer to the Final draft ITS amending ITS on Supervisory reporting of FINREP due to IFRS9 (EBA-ITS-2016-07) . Annex V of this document “Reporting on Financial Information” clearly defines in paragraphs 15 and 16 accounting portfolios based on IFRS and separately for national GAAP. However, this does not clarify the specific columns institutions using IFRS or national GAAP are required to report.

Having separate sets of templates designed for users of IFRS and national GAAP would ensure consistency with current reporting practices. Alternatively, we suggest expanding the instructions to clarify which columns are applicable to IFRS and national GAAP institutions.

We further suggest harmonising column headings and reporting instructions across IFRS and national GAAP. Template headings, for column 280 and 290, state “Positive/Negative Fair Value”. The instructions accompanying these columns require IFRS firms to report carrying amount and national GAAP firms to report fair value. The purpose of this distinction is unclear and may be misleading to users of the template.

**Further instructions and guidance**

We would welcome additional guidance to ensure accurate and consistent reporting, in particular regarding the following parts of the template:

- Column 010 and 020: Reporting instructions are identical for these columns with both of them required to include the sum of columns 030 to 120. However, column heading for column 010 title suggests column 130 should also be included within it but excluded from column 020. We recommend changing instructions provided to column 010.
- Columns 170 to 190: It is unclear from the instructions whether column 170 is intended to sum values reported in columns 180 and 190 as per template layout, or report values over and above. Column 180 and 190 are indicated to be "of which items" of column 170 with reference to positions reported in columns 060, 070 and 090 within the same template. Column 170 is defined as Accumulated negative changes in fair value due to credit risk relating to positions reported in columns 060, 070, 090 and 050. Instructions exclude column 050 as reference portfolio from columns 180 and 190. We would welcome additional guidance to ensure accurate and consistent reporting.
- Column 270 to 310: Indirect exposures. We have found instructions insufficient on what constitutes indirect position in this section of the template. FINREP does not use the concept of indirect exposures. Depending on definition reporting of these columns may result in additional infrastructure enhancements increasing the cost of implementation potentially significantly.
- Column 270: Total Indirect Exposures, requires including Risk Weighted Exposure amounts reported in column 320. It would be good if the EBA could explain the rationale for this inclusion as it is not clear from our point of view.
- Row 010: Total exposures are defined as aggregate of exposures to General Governments. It would be helpful to have further detail on the exact meaning of aggregate when applied to the template. There is, for instance, the question whether row 10 should include the sum of all exposures as reported in rows 030 to 260. The total created this way may contain double counting as per our comment on market risk section above, and will not reconcile to FINREP reported total loans and advances and debt securities for general governments. We recommend including the description of the intended formula within the instructions.
- Rows 020, 030, 080, 160, 170 and 220: The guidance does not provide sufficient detail on the direct purpose of these rows. Our assumption is that there will be no reporting requirements in these rows as they serve only as section headings. We suggest expanding the instructions provided with detailed guidance on the intent.

**Q6: Are the reporting templates related to OpRisk losses (C 17.01 and C 17.02) as set out in Annex I and the related instructions in Annex II sufficiently clear? In case of uncertainties on what needs to be reported, please provide clear references to the respective columns/rows of a given template as well as specific examples that highlight the need for further clarifications. [see page 19]**

In template C17.02, we would like to highlight that there may be legal and confidentiality challenges with populating column 200, "event description". There may be legal proceedings related to an event and/or event details may be confidential. It is a customary legal advice not to disclose sensitive information on events under legal proceedings.

We would therefore like to understand how this information is going to be used and suggest EBA to publish a pre-defined list of drivers or causes for selection by users. This would also promote consistency across banks.