The comments of the Polish Banks Association on the CEBS Consultation Paper on Common Reporting of the Solvency Ratio

General

1. The draft of common reporting of the solvency ratio, proposed by the Committee of European Banking Supervisors (CEBS), is a good solution, especially in a situation, where accounting standards (International Accounting Standards binding for all banking entities) are unified. This will allow easier data interchange both between the companies within the international holding companies and with other information recipients, especially in a situation, where a recipient is an entity from another country (although not in all cases, the shareholding structure generates the necessity of performing additional reporting for the owners).

   At the same time, we would like to point out that the delivered draft does not differ considerably from the draft evaluated by the banking community in December 2004.

2. It was intended that the scope of the reporting proposed would be limited to the area described in the pillar I of Basel II. However, the elements referring also to the second pillar can be found in the templates. In respect of the second pillar, it is difficult to talk about comparability of data between individual banks, and thus about the standardization of such data within uniform templates. It seems that the data of this type should be reported separately, within the framework of reporting to individual supervisors.

3. The scope of the required reporting raises some fears, as it seems to be too complex, which, on the one hand, is justified bearing in mind vastness of Basel II, but on the other hand, it can make be a hindrance, especially to smaller banks. A positive change could be condensation or even abandonment of certain information. In our opinion, the presented reporting system contains too many elements, which will be used for verifying the mechanisms of operation of new regulations concerning the capital adequacy ratio, however, they will not be necessary for supervising activities.

Such considerable “split-up” of the reported data may cause several adverse consequences:

- The detailed character of the data obtained increases the labour consumption when preparing the reports,
- In case of a lack of certain data in the hitherto prepared reporting and thus, in the databases - this means an additional large investment on the part of a bank,
- There is a higher probability that it will be necessary to give more details or to make exclusions and to put interpretations concerning specific conditions of the national legislative, institutional and market environments,
- The number of the data obtained can make them unclear.

4. The standardisation of the reporting system, proposed by CEBS, in the scope of capital adequacy and flexibility of this system, which allows applying a level of details dependent on a specific nature of a given Member State and on the requirements of the national supervisory institution, is desirable. A positive aspect is that the supervisors have a certain freedom in the scope of required information and in adjusting such requirements to their own needs. It seems, however, that the idea of standardization of the reporting may require certain limitation of national modifications. There is a fear that at the proposed very detailed character of data, a lot of divergences will occur, which constitutes an additional argument for limiting the detailed character of the reports. We propose to consider abandonment of detailed data in the areas, where divergences in the national legislations are significant.

5. According to EU regulations, the companies listed in the public trade are obliged to prepare consolidated financial statements in conformity with the International Accounting Standards. The accounting regulations impose this obligation also on the companies, which are not public companies. Therefore, a very important thing is the drive towards unification of the reporting obligations resulting from the International Accounting Standards and from the requirements of the New Basel Capital Accord. This will allow avoiding double reporting performed by banks, increasing transparency of the published reports, and reducing the costs.

Detailed comments – concerning the reports

CA Report

- Item 7 arouses some doubts – “Non cumulative preferential shares indirectly issued/Minority interest”, because despite placing this item in the table, it was not indicated clearly if it was recorded in the account of own funds.
- Reservations also appear with respect to items 156-171, which concern internal assessment of capital needs. Contrary to other items, these assessments are of very subjective nature and they are determined, among other things, by the target level of the financial power of a given institution resulting from strategic decisions. It seems that this part can be omitted or included in a separate statement.
- The report contains information concerning the second pillar of Basel II (the line 150 and successive lines). It is very difficult to standardise such data. The same remark concerns the reports: OPR, OPR LOSS and OTH.

CA IAS Report

- The report includes separately the items of net unrealised profits and net losses (in the “obtuse” row). Such a division of data is not required by the Directive and it is not practiced in accounting. We suggest that the amount should be treated jointly, i.e. net profit or net loss.
- It should also be particularized, whether the value of reserves, calculated in accordance with IAS, will be compared with the expected losses according to Basel II.

SA Report

We suggest standardization of portfolio division into separate subclasses with the records of the Directive (Article 79 of the Directive 2000/12/EC).

SA CRM Report

- We propose to take into consideration in the contents of the report that the net exposure amount after striking the balance can be determined both basing on the standard formula and with the use of the internal model.
- The division of entities into classes 1.1, 2.1 and 3.1 should be particularized.

IRB Report

The item “Credit Conversion Factor” is not included in the column 5, but there are no detailed directions instructing, in which other columns it should be placed.

FIRB CRM Report

It would be helpful to attach a detailed list of collaterals, which can be classified into the item “other physical collateral".

AIRB CRM Report

It is not clear what the record concerning the distribution of LGD assessments is about.

MKR-IM Report

- The interest rate risk was not provided in the form. Does this mean that the internal model could not be used with reference to this risk? So, how to calculate and where to report the capital requirement concerning the interest rate risk?
- It must be particularized, which type of risk the item: “Number of overshootings (during previous 250 working days)" concerns.

SA SEC2 and IRB SEC2 Reports

It should be particularized what the banks should show in the following items:

"Credit protection to the underlying assets - unfunded protection",

"Credit protection to securitisation exposures - unfunded protection", "Look-through treatment",

"Adjusted exposure value" - what types of adjustments should be taken into account when calculating this value (no specifications in the indicated paragraphs of the Directive).

SA CRM, FIRB CRM, AIRB CRM Reports and other

The item “inflows” and “outflows” is not described in the Directive, so it requires a broader definition. In addition, it seems that this may cause much trouble in gaining adequate data.

OTH 1 IND Report

No definition of “major exposures”.

<u>Detailed comments – other</u>

1. It must be particularized how appropriate ratios for the operating risk will be calculated in the reports. The method of their determination is not clearly given in the contents of the draft directive. In particular, this concerns determination of the gross result and the mean value of loans and borrowings in case of the alternative standard method.
2. In respect of classification of the exposure in the method of internal ratings, it should be particularized which entities ought to be classified into the class of exposure - institutions.
3. In connection with the wide range of reporting concerning securitisation transactions, we propose to restrict the frequency of its preparation to quarterly periods.