European Banking Federation

Secretary General

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Email

Mr Arnoud Vossen
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Committee of European Banking Supervisors
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Brussels, 12 June 2009

Dear Mr Vossen,

***Subject*: EBF Comments on the CEBS Consultation on Amendments to Guidelines on FINREP**

The European Banking Federation (EBF)[1] welcomes any initiative aiming at reducing reporting burdens for banks. In particular, banks operating cross border are often exposed to heavy reporting requirements which differ across national jurisdictions. EU wide harmonisation in the area of reporting is much welcomed and supported.

Currently, there are various projects underway at the level of EU. The work of Joint Expert Group on Reconciliation (JEGR) which aims at convergence of reporting processes for statistical and prudential/financial reporting as well as the impact of the changes resulting from various initiatives in the field of reporting should be duly considered to avoid overlaps, ensure consistent and relevant information requests, timely setting of requirements and realistic implementation time frame.

It should also be kept in mind that the new requirements on Financial Presentation (IAS 1) should be finalized and need to be implemented in 2011. The new CEBS proposals on financial reporting will already be outdated at the moment of their implementation. The work of the IASB and their projects related to financial statements presentation and financial instruments reporting (IAS 39) must be taken into account to avoid costly changes to the reporting framework which will be redundant shortly after, due to the changes to IFRS.

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[1] Set up in 1960, the European Banking Federation is the voice of the European banking sector (EU & EFTA countries). The EBF represents the interests of some 5000 European banks: large and small, wholesale and retail, local and cross-border financial institutions.

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The EBF believes that FINREP has the potential to contribute to the standardization of reporting across EU. However, for reporting to be useful, a balance must be found between the needs of institutions operating cross border and those operating solely at the national level and the users of their reported data.

The EBF supports the "Maximum Data Model" as a very pragmatic approach. Institutions prefer to rely on one unique common data and reporting format without the need to provide additional information at national level. However the overall reduction of reporting burdens will depend on the level of non-core information collected by national authorities.

In total CEBS has achieved a reduction, compared to the current EU FINREP, in the total number of quantitative data. However, the current FINREP proposal also reflects an increase in data requirements via new tables and new cells. This increase of data requirements will inevitably result in a significant implementation effort whilst the benefit is not always clear.

The banking industry would therefore like to urge CEBS to reassess the proposed new data requirements in order to ensure that the requested information is essential to fulfill their responsibilities. Furthermore, there should be a clear business case for any proposed new data requirements in FINREP.

We hope you will find our comments below to questions raised in the consultation as well as specific comments on the various tables useful. We would be happy to discuss with you in more details any of the comments in our response.

Yours faithfully,

Guido Ravoet
Secretary General

Impact Assessment

a) Do you think the revised FINREP Guidelines will reduce reporting burden?

The reporting burden will only be reduced if the quantity of non-core information required would stay at a reasonable level. In some countries, the proposed FINREP may result in an increase of the reporting requirements. The rationale for the new data request should be explained and justified as relevant for the achievement of overall FINREP objectives. A potential increase should not be the result of the consolidation of the specific national supervisory needs within every EU country.

In defining their reporting needs out of the non-core package, national regulators need to take into account the relationship between the reporting content, the validation rules and the XBRL-taxonomy. Changes in one would without doubt impact the others which may lead to inefficiency and administrative burden for institutions as well as for regulators. The reporting content as well as the IT-framework which supports the reporting are highly interlinked.

The reduction of the reported data in the new Guidelines applies to the quantitative data, and unfortunately not for the qualitative reporting, where the proposed formats are not in line with the annual reports of the banks and thus form an additional reporting burden with no added value.

In this context, the EBF would advise against restricting the exercise of presentational options permitted under IFRS. The draft guidelines currently allow national supervisors to prescribe specific formats in the interest of national harmonisation. But there are good reasons why IFRS grant the options in question.

If FINREP approach differs from the IFRS, this would not only generate considerable extra costs for the banks but would also lead to differences between the figures presented in the prudential reports of financial statements and those shown in the financial statements themselves.

The EBF welcomes the reduction in the number of quantitative data which will have to be reported. However, the reporting burden cannot be measured only by the number of templates and cells to be reported. The new FINREP proposes new details which implementation's impact should not be underestimated. Much of the non-core information in particular does not correspond to information which has to be reported under IFRS. As such data would not be available at group level, it would have to be compiled and consolidated exclusively to fulfil FINREP requirements. The members of the EBF doubt the business case for the extended information and are not convinced of the rationale behind certain information request (e.g. the asset management schedule and the interest income and expense schedule) and why it is deemed relevant for the purpose of FINREP. In some instances, the additional level of granularity is likely to be sourced from risk systems (e.g. the details by customer dimensions). This type of information can be perceived as risk related although the details requested are similar but not the same as required for COREP. As risk and finance often have their own systems and definitions, FINREP should not be mixed up with detailed risk elements.

Finally, we consider that a possibility for cross border groups to report under the Home selected tables for all subsidiaries as already provided for in some Member States would lead to further reduction of reporting burdens.

b) Do you think the revised FINREP Guidelines will make financial reporting in the EU more uniform?

In the current proposal it is left at the discretion of national authorities to decide the local information requirements in addition to the “core” information. In addition it is at the national supervisor discretion to decide on the deadlines, application of solo reporting and the reporting frequency. The decentralization of these decisions may result in a non-harmonization outcome, although it is understood that the objective of CEBS is to maximize harmonisation. To achieve a full harmonisation and a uniform reporting, the national discretions in the use of FINREP would have to be eliminated.

c) CEBS guidance is non-binding. However, the possibility has been discussed of making FINREP mandatory at the consolidated level, a step which lies beyond the responsibility of CEBS. In addition, some countries apply FINREP at the solo level as well. Against this background, we are interested in your views concerning:

***i*) The pros and cons of mandatory application of FINREP at the consolidated level by EU Member states**.

Pros

- harmonisation of data collected by local authorities
- reduction of the reporting burden for cross-border banking groups
- level playing field

Cons

- increase of reporting burden of maximum set of data is required in each country
- difficult process if individual countries have to align the set of data

***ii*) The possibility of extending the use of the FINREP guidelines to the solo level. Are all of your subsidiaries allowed to use IFRS?**

The EBF supports the voluntarily extension of FINREP to the solo level for those banks which have consolidated accounts only and their bank subsidiaries. The introduction of FINREP on solo level implies necessarily also the development of an accounting in conformity with IFRS. In order to avoid the use of double reporting standards (in countries where IFRS is not allowed at solo level or where entities are allowed to

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prepare IFRS financial statements but are not exempted from filling local GAAP accounts) entities should be granted an option to use IFRS (only) at solo level. Several issues related to the use of fair value for tax purposes and other implications need however to be addressed beforehand.

Summary of findings on amendments to FINREP guidelines

d) Do you expect there to be a link between the FINREP framework and the IFRS-GP taxonomy?

Much of the reporting burden will depend on how close these two elements of the reporting chain can be interlinked. In order to limit the reporting burden it is necessary to keep close link between the reporting content and the IFRS-GP taxonomy which is in line with IFRS standards. If the IFRS-GP taxonomy has to be updated yearly, so should the FINREP taxonomy.

e) What do you think of the proposals concerning reporting frequencies and reporting deadlines? Do you have alternative options?

FINREP's remittance dates and frequency should be aligned to the publication of financial statements. Concerning the alignment of reporting dates with COREP, FINREP should not share the same frequency as COREP. FINREP cannot be compared with COREP when it comes to remittance periods and frequencies, given the differences in contents. The scope of FINREP differs from COREP[2]; the latter is of prudential nature while the former has an accounting nature.

FINREP should be reported semi-annually at most. Taking into account the internal organization of financial staff — many of which operate on the basis of a centralized reporting platform - there should be no difference between the remittance period at solo and at consolidated levels. Therefore, a greater degree of consistency, thus of quality of reported data, could be achieved if the remittance period for the solo-level data is aligned with the remittance date for the consolidated data. Remittance dates for annual and semi-annual data should be set at 50 business days both at solo and at consolidated level.

[2] The EBF believes that the debate on COREP remittance dates should be reopened. European banks consider that the debate on the COREP remittance dates has to be re-opened. The decided remittance dates for solo COREP (20 working days) and consolidated COREP (40 working days) are impracticable because most of European banking groups have a centralized reporting platform meaning that consolidated figures are prepared before solo figures. The European banking industry has previously proposed to CEBS 40 working days for solo and consolidated COREP1. Please see the EBF letter to CEBS reference N° 0011 of 15 January 2009.

f) **Do you have any comments on the proposals relating to versioning policy?**

At this stage there is a lack of information about the procedure.

FINREP framework needs to stay in line with the IFRS standards. The versioning policy suggested in the consultation paper will ensure a higher degree of harmonisation level as Member States cannot adjust FINREP templates differently from each other. The implementation of the changes in FINREP should be further discussed.

Annexes: revised FINREP templates (Annex 1) and Guidelines (Annex 2)

g) **What impact do you expect the revised FINREP framework to have on your reporting procedures?**

As already mentioned, the impact will depend on the level of information gathered by local authorities which in some countries may lead to increase of the reporting requirements. Information going beyond the IFRS requirements will also lead to an increase in institution's workload.

Some tables present a reference to IAS 1.55 and IAS 1.85 to justify some lines. But IAS 1.55 and 1.85 specify that if information is relevant, this information has to be disclosed by the entity. However, it is up to the entity's judgment to estimate what is relevant or not. We propose the deletion of those references.

h) **Is the new information added to the framework already available within your entity? Please specify reporting items that are not available**

Not all the requested data are available in all banks. Even if the information is available it is not necessarily available in readily usable format (for example tables 3, 9). Manual treatment or adjustments to IT systems will be necessary to report these data which will influence the time needed for reporting or will represent additional cost for banks. Some of the EBF members indicated non availability of the full set of tables in Annex 2 on consolidated level and also difficulties to report the reconciliation between the CRD and IFRS (table 26). Also the proposed geographic distribution is currently not readily available.

i) **FINREP guidelines do seek to interpret IFRS. Are the references and instructions sufficient for completing in the templates?**

Any guidance should be sufficiently clear in order to permit institutions to fill in the tables in a uniform way. However regulators should in any case not interpret the IFRS. The IFRS interpretation should remain an exclusive role of IFRIC. The references to IFRS seem sufficient.

Please specify where more instructions are needed.

Please see the EBF specific comments on individual tables below.

It is noted however that some questions may arise during the implementation phase. It would be useful to provide a contact point for banks implementing the new FINREP templates to discuss non-specific cells/information requests which could provide more detailed Guidance if necessary.

j) The Guidelines on FINREP (Annex 2) provide a definition of the counterparty breakdown. Section II.29 (6) identifies two possible definitions regarding Retail exposures. Which option do you prefer, and why?

Option 1 which is in line with the Basel II definition as well as with Articles 79 (2) and 86 (4) of the CRD is proffered. However, as referred to earlier, FINREP should not be mixed up with detailed risk elements as Finance and Risk often have their own systems and definitions. Certainly, as this mix up in combination with the additional granularity of requested information would result in a significant burden.

k) Do you think that all redundancies in the current framework have been eliminated?

The information requested by the CRD directive should remain in COREP reporting and not be included in FINREP. Also FINREP should be aligned with IFRS.

Harmonisation at IT level

l) Do you support CEBS's initiative of recommending IT best practices on cell definitions, as a complement to XBRL-related issues?

Recommendation on IT best practices will help increasing the harmonisation between institutions and between FINREP and other reports. In particular a harmonization of the codes identifying the individual reporting cells is supported to facilitate the identification and exchange of information.

By using XBRL, the duplication of the required information will be avoided and the collection of data will be made only once.

m) Do you have any comments on the work plan? Is your institution interested in collaborating on it?

The work plan seems to be reasonable and banks should be able to implement the new Guidelines within the indicated timeframe. However, it could be clarified how the implementation is scheduled, if it will be one shot or phased, how much lead time there will be once the proposed FINREP is finalized and how the national supervisor's decisions fit within this time frame.

<u>Comments on the tables</u>

*a) <u>**General comments**</u>*

Accrued interest and interest rate margin

Contrary to what the guidance indicates, the balance sheet and corresponding tables use a dirty price approach. As in the corresponding tables there is no extra line foreseen to indicate the accrued interest per portfolio, banks will be obliged to include the accrued interest in each financial instrument on the balance sheet. Banks should have the choice between a dirty or clean price approaches without violating the goal to develop a uniform reporting format. Such a change should also be taken into account in developing the XBRL taxonomy, referring to the IFRS-GP taxonomy.

The EBF would therefore like to suggest that for each portfolio an optional line is added 'accrued interest'. The use of this optional line should be choice of the banking institution and should in any case not turn into a national discretion.

Counterparty breakdown

The counterparty breakdown as proposed in the Guidelines is not seen as a workable solution. Ideally, the mapping of counterparties of two different reporting should happen on a "1 to 1" relationship between the counterparties as defined in the CRD and those used in FINREP. A use could be made of the mapping exercise already undertaken by the ECB in converging the statistical reporting with FINREP and COREP.

*b) <u>**Individual comments per table**</u>*

Consolidate balance sheet: assets, liabilities

No comments

Consolidate balance sheet: equity

The lines n° 4, 5, 8, 9, 11 until 19, 21, 22, 27 and 28 are already reported via the CA table under COREP.

The information required by FINREP is broadly similar with the one required in COREP which demands a more detailed disclosure of the “Equity”. The EBF recommends deleting the splits for “Other equity”, “Revaluation reserve and other valuation differences”, “Reserves” and “Minority interests” as the information is already disclosed in COREP[3].

Profit and loss:

It is proposed to add a line ‘Interest on impaired assets’.

Table 3: Derivatives held for trading

This table has changed significantly compared to the previous version. The meaning of the descriptions ‘assets’ and ‘liabilities’ as related to notional amounts is unclear. It is not clear if institutions should look at the finality of the contract itself or at the result of the contract to define the notional amount. For example: writing puts can be considered as an amount to sell (finality of the contract) or as a possible obligation to buy (result of the contract). However, because some of derivatives instruments are not asset or liabilities but belong to assets or liabilities according to their valuation at the closing date, there will be no possible link between the balance sheet and the notional amount. It is also noted that there will not always be a notional amount available. This should be taken into account when creating the validation rules. A unique amount is proposed.

Also, “Economic hedges” do not exist in the IFRS and the requirement should be removed. Furthermore, the EBF has some reservations regarding the details requested by product or by type of market.

Table 4: Financial assets designated at fair value through profit & loss

As the line ‘Debt securities’ as it is not required by IFRS, it is proposed to remove it from the table.

Table 5A: loans and receivables and held to maturity investments

In the IAS 39, the impairment is made in 3 steps:

- Calculation of specific impairment on individually assessed financial assets
- Calculation of specific impairment on collectively assessed financial assets
- Calculation of collective impairment on collectively assessed financial assets of all unimpaired assets (which is also called “incurred but not reported losses”)

[3] Differences in the reporting frequency and time frame may exist between FINREP and COREP.

In order to achieve alignment with IFRS, it is proposed to change “incurred but not reported losses” into “collective impairment on collectively assessed financial assets”.

Moreover the detail requested by lines is not possible for collective impairment since they are calculated on a global basis.

Table 5B: Available for sale financial assets

It is proposed to delete the last column, as it represents an overlap with table 4. In addition, the members of the EBF believe that a business case should be elaborated to justify the new format.

Table 5C: Counterparty breakdown for financial assets held for trading and financial assets designated at fair value through profit or loss

It is proposed to limit the counterparty breakdown to financial assets designated at fair value through profit or loss.
The breakdown by counterparty is not relevant for equity instruments as there is no credit risk neither counterparty risk. It is proposed to delete this breakdown.

Table 5D: Geographical breakdown of financial assets by residence of the counterparty: carrying amount

The members would like to understand the business case which would justify the table in its current format.
The definition of domestic for consolidated reporting is not clear. If domestic means the country of the home regulator, the meaning will be different for the subsidiaries of a cross border group.

Table 6: Breakdown of loans and advances by product: carrying amount

This table requests a breakdown of loans and advances by product type and asset class/economic sector. There are existing differences in asset classes between FINREP and COREP and the given correspondence tables in Annex 1. Although it is appreciated that there may be good reason for the definition given the different purposes of both reports, as banks want to reconcile FINREP and COREP, such differences in definition create problems. E.g. the asset class ‘retail’ in COREP refers to three asset classes in FINREP ('Other financial corporations', 'Non-financial corporates' and 'Retail'). Banks would appreciate additional clarification on definitions for the three retail-related asset classes.

Banks would also appreciate more guidance as to which products can form part of which categories and clarification of the meaning of ‘other secured loans’.

Table 7: Information on impairment and past due

The members would like to understand the reason of inclusion of the table in its current format which would lead to an additional reporting burden for many European banks. A unique column in place of “specific for individually assessed financial assets” and “allowances for IBNR” is proposed.

Table 8: Derivatives - Hedge accounting

Please refer to EBF comments under table 3.

Table 9: Tangible and intangible assets

No comment

Table 10A: Financial liabilities: breakdown by product and by counterparty

1) It is unclear where regulated saving deposits should be classified.
2) Own credit risk should only be given at the level of deposits and debt certificates, without further detail. It is assumed that this request is only valid for the FIFV portfolio and not the HFT.
3) Amount contractually required to pay at maturity should only be given at the level of deposits and debt certificates, without further detail. It is assumed that this request is only valid for the FIFV portfolio and not the HFT.

The breakdown by counterparty according to Basel 2 is not relevant for liabilities.

Table 10B: Subordinated liabilities

No comment.

Table 10C: Geographical breakdown of financial liabilities by residence of the counterparty: carrying amount

No comment.

Table 11A: Derecognition and financial liabilities associated with transferred financial assets

New information required by the last column (financial assets entirely derecognised) is not required by IAS 1. The “amount derecognised for capital purposes” refers to CRD. It is proposed to delete these two columns.

Table 11B: Collateral pledged

Typo: there are 2 columns foreseen without heading, it is assumed that is meant ‘reference’ and ‘carrying amount’ is meant.

Table 12: Provisions

No comment.

Table 13: Minority interests: Revaluation reserves and other valuation differences

It is proposed to delete the line ‘Share of other recognised income and expense of entities accounted for using the equity method’ as this is only applicable in very rare cases.

Table 14: Fee and commission income and expenses

More Guidance is needed to complete this table as the differences between the different fees and commissions are unclear.

The information is too detailed compared to the previous version and will not be readily available. It is proposed to reduce the requests into lines for custody, securities, and customer resources and to avoid the breakdown.

Table 15A: Breakdown of interest income and expenses

Banks do not use internally a split between interest income and interest expenses. Only the interest margin is important for managing the interest results. Banks do not manage the P&L by counterparty. Therefore it is difficult to understand the value of this table for regulators. Compared to its very limited use, the costs of implementing this table are huge and hard to realise. This table should be reviewed taking into account similar changes to the validation rules and XBRL taxonomy.

The members would like to understand the reason of inclusion of the table in its current format.

Table 15B: Breakdown of gains and losses

Banks do not use internally a split between gain and losses as there might be symmetrical positions. They only disclose the net gain and losses.

Table 16A: Information on Credit Risk and Impairment

No comment.

Table 16B: Allowances movements for credit losses

It is proposed to simplify this table by deleting all detailed movements between the openings and closing balance as such table should be limited to the opening and closing balance of credit losses per counterparty.

Table 16D: Collateral held

No comment.

Table 16D1: Loans and advances - maximum collateral that can be considered

Table 16E: Collateral obtained by taking possession during the period

No comment.

Table 17: Repurchase agreements, reverse repurchase agreements and related agreements

Clarification of ‘Related agreements’ is requested.

Table 18

IAS 24 17 (b) does not require information about the commitment. And concerning derivatives we propose a unique line (not two for assets and liabilities).

Table 19: Defined benefit plans and employee benefits

No comment.

Table 20: Loan commitments, financial guarantees and other commitments

The breakdown per counterparty of doubtful loan commitments and financial guarantees is very hard to implement. The notional amount refers to CRD which might be different from the accounted amount. The EBF does not support the level of detail requested.

Table 21: Statement of comprehensive income

No comment.

Table 22: Statement of changes in equity

No comment.

Table 23: Scope of the group

The need to obtain a full report of the consolidated entities each quarter and its use by supervisors is questioned, in particular for big cross- border groups which include hundreds of companies in consolidation. Filling in all the requested data fields which may not be always available from central systems of banks and checking the report may be quite burdensome.

Information on changes in the report (new entities and sold entities) would give much more insight, providing that a full report is submitted on a yearly basis.

Table 24: Asset management, custody and other service functions

The members would like to understand the reason of inclusion of the table in its current format. The requested data are not accounting data so the deletion of this information is proposed.

Table 25A: Information on fair value of financial instruments

The EBF would like to understand the reason of inclusion of the table in its current format.

IFRS 7 requires splitting unrealized gains and losses only on level 3 valuations, we don't have the information requested by CEBS. So it is proposed to delete the columns "unrealized gains and losses" for level 2 and "gross unrealized gains and losses" for level 1 and 2. Such requirement is very expensive to implement and it is not consistent with the way banks monitor the portfolio.

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Table 25B: Information on unrealised gains and losses

The EBF fails to understand the reason of inclusion of the table in its current format. It is proposed to delete the table.

Table 25C: Use of the Fair Value Option [IFRS 7.B5 (a)]

The members would like to understand the reason of inclusion of the table in its current format.

Table 25D: Hybrid financial instruments not designated at fair value through profit or loss

After separation from the host contract it is very difficult to identify "rest of separable hybrid contracts". The EBF is proposing the deletion of this template.

Table 26: Reconciliation from CRD to IFRS scope of consolidation

The consolidation scope under IFRS differs from the consolidation scope under the CRD. The adjustments are only available on the total of the balance sheet and certainly not line by line, as it is impossible to calculate e.g. the value of an adjustment at the level of debt securities.

Because of the huge differences between the different scopes mentioned, there is no obvious added value of the table.

Another significant issue is the column 'insurance activities' as the balance sheet (especially the liability side) from an insurance company is completely different from the one of a bank.

Lastly, it is unclear to us whether the grey filled column 'adjustments and eliminations' need to be filled in.
The EBF is proposing the deletion of this table.

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