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Consultation on a European common solvency ratio reporting framework (COREP)

Dear Madam, dear Sir,

Thank you for the opportunity to comment on your draft of a European common solvency ratio reporting framework.

We warmly welcome the fact that the Committee of European Banking Supervisors (CEBS) has taken the opportunity offered by the revision of Directives 2000/12/EC and 93/06/EEC to harmonise European solvency ratio reporting. We strongly support CEBS's aims of moving towards a level playing field in Europe and reducing the reporting burden on the banks. The solvency framework's key underlying principles of flexibility, consistency and standardisation are appropriate, in our view. In particular, we endorse allowing flexibility at national level regarding the frequency, volume and level of detail of reporting, as well as the implementation date of the new framework. This will ensure that an intensive dialogue will continue to be possible at national level.

In our view, however, the draft templates themselves are too extensive and too detailed, thus making the overall framework highly complex and unclear. The consultation paper argues that the draft represents the “highest common denominator” and that national supervisors, under the principle of flexibility, can opt for a lesser degree of detail. In our opinion, however, this is no justification for such an excessive volume of reporting requirements. Banks operating across borders, which had invested particularly high hopes in the CEBS initiative, may find themselves having to bear the implementation costs for the “maximum draft” and thus be unable to concentrate only on possibly less extensive national requirements. We therefore urge that the final version reflect the concept of harmonisation not only in a standardisation of formats, but also in a substantial reduction of the data to be reported. Furthermore, we believe it would be beneficial if, for groups operating throughout the EU, the principle of home country supervision applied to the solvency reports submitted by all units. This is the only way to ensure that reporting requirements for cross-border institutions will be consistent throughout the group.

I. General remarks

The structure of a common reporting framework should be geared to the objectives of reporting. A regulatory solvency reporting framework should give supervisors a clear idea about a bank’s risk situation and the adequacy of its own funds. In addition, the reporting burden on the banks should be kept within limits. For these reasons, the information in the templates should be confined to that which is necessary to calculate capital requirements. This can be adequately achieved by a presentation of the bank’s exposures broken down into several risk classes, its risk-weighted assets and corresponding capital requirements.

We reject any information going beyond the above since the additional costs involved would be out of all proportion to the additional insight for supervisors. When drawing up the reporting requirements, it should always be borne in mind that both the implementation of the reporting framework and the regular reporting process itself represent additional cost factors. In particular, any requirement to split data not for the purpose of calculating regulatory capital, but solely for reporting purposes, should be avoided.

The draft often requests data whose information value, in our view, lies only in checking the plausibility of the reported figures or the bank's calculations. This applies, for example, to much of the CRM templates and to the request for exposures to be broken down by credit conversion factors on the SA templates. The accuracy of calculations must be checked during the approval process, however, not by means of a standardised report submitted several times a year.

The same goes for the many Pillar II elements which are to be reported regularly and in a standardised format, such as those requested on the CA template (particularly rows 158-171 for the internal assessment of capital needs and the internal assessment of surplus/deficit capital) and the complete set of "other information" templates. We believe Pillar II information required for the qualitative supervisory review process should be collected and evaluated in the course of on-site inspections and interviews. We do not consider standardised quantitative solvency reporting a suitable means of assessing Pillar II elements such as concentration risk and other risks since these are difficult to measure and cannot be adequately reflected in only a few figures or ratios. The draft should therefore follow its mandate and focus on Pillar I information.

Furthermore, we request clarification that capital requirements are generally to be reported on the basis of the banks' internal calculation algorithms approved by the supervisory authorities, not on the data (possibly broken down into classes) in the templates. In particular, calculating risk weights under the IRB approach on the basis of data broken down into classes (PD, EAD, LGD, M) can give rise to discrepancies in the capital requirement compared to calculating risk weights at the level of individual loans. The overall difference in total capital requirements can be as much as several million euros.

During the transitional arrangements for the introduction of Basel II from 2007 to 2009, there is to be a limit on the maximum possible capital relief compared to capital requirements calculated under the existing rules. It is not clear, in our view, how this floor is to be taken into account in the templates.

II. Remarks on the basic structure

We reject the proposed mapping of the 16 standard approach classes to the seven IRB classes. Although we welcome the objective of achieving greater clarity by reducing the number of reported classes, we believe the associated implementation costs will outweigh the benefits. All banks which calculate part of their portfolio under the standard approach will have to carry out the granular division into 16 classes. Due to the unsystematic recognition of physical collateral in the standard approach, it will not be possible to map the 16 classes to seven simply by aggregating several standard approach classes into one IRB class. Mapping will therefore have to take place by reassigning each individual exposure to one of the IRB classes. This will necessitate two separate allocation processes for standard approach portfolio exposures: one to comply with the requirements of the standard approach and one for reporting purposes. Allocating the individual standard approach exposures to the 16 classes would therefore not merely be only an “interim calculation step” for reporting, but would have no function whatsoever. For this reason, we call on CEBS to modify the structure of the standard approach templates proposed in the draft.

III. Specific comments

1. Other information

In light of our views expressed above, we reject all the “other information” (OTH) templates. As we understand it, CEBS only received a mandate to draft a solvency reporting framework for Pillar I. The OTH 1 IND and OTH 2 SEC templates, however, request a mixture of large exposure reporting with Pillar I information for an analysis of concentration risk, which is to be monitored under Pillar II. OTH 3 AFF contains a diagram with an overview of reporting at solo level of the consolidated units of a banking group. The regular reporting of these figures will merely duplicate information which has already been reported to national supervisory authorities in another form. This imposes an additional burden on the banks without offering any added value. Moreover, the question arises as to why, in addition to reporting at solo and group level, it should also be necessary to report the figures for individual banks in the context of group reporting. In the OTH OPR template, the concept of monitoring

concentration risk in the area of credit risk is applied to operational risk. We fail to see how this will achieve any useful purpose and consequently consider the template inappropriate.

2. Recurring reporting requirements

The requirement for a breakdown by exposure type (on-balance, off-balance, OTC derivatives/repo transactions) will not, in our view, deliver any additional information of relevance to supervisors which would justify the additional costs involved, but will merely increase the volume of data to be reported. Examples of this are the breakdown of credit exposures by on-balance and off-balance transactions (divided into loans drawn on and open lines) and the associated (artificial) allocation of the collateral for a transaction to these two elements (required by SA CRM, for example).

The same is true of the memorandum items on all SA and IRB templates. Listing the number of borrowers provides no useful insight into the diversification of a portfolio since this ratio takes no account of correlation effects. Such data will only be relevant if the number of borrowers determines eligibility to apply partial use for sovereigns and banks portfolios. This would only be the case in the standard approach templates, however. Furthermore, we do not understand what purpose will be served by reporting expected loss (EL) and value adjustment by class of borrower (IRB templates). An aggregated presentation by risk class or at solo level is perfectly adequate. The requirement for this information to be reported in the proposed granularity should therefore be dispensed with.

3. Comments on the individual templates

3.1. CA

The requested information on regulatory capital is highly detailed and many points are in need of clarification. The question arises, for example, as to how the item “minority interest” in rows 7, 29, 46, 56 and 62 is to be understood, what, in concrete terms, is to be covered by “eligible value adjustments” (cf. rows 38-40) or “capitalized future margin income” (cf. row 17) and how “subordinated loan capital” (cf. rows 57-59) is to be defined. Nor is it clear where stock options or differences in the consolidation circle (e.g. consolidated non-banking subsidiaries in the context of accounting) are to be

reported or deducted. These are only a few examples of the numerous unclear items we believe require more concrete explanation. We will therefore refrain from commenting until this has been provided.

The presentation of risk assets raises the question of where counterparty credit risk in the trading book is to be reported. Trading book settlement risk is to be entered in row 143 but no separate position is envisaged for counterparty credit risk. We therefore assume that this is to be included in the presentation of banking book risk assets. Furthermore, we would like to point out that the template envisages no deduction item for any exceeding of the banking book limit for large exposures, but only for trading book exceeding of large exposures (row 142). This raises the question of where and in what form an exceeding of the limit for large exposures in the banking book is to be offset. Finally, for the reasons outlined above, we totally reject the memorandum item since this is a Pillar II element.

3.2. CA IAS

According to the explanatory notes, the aim of this template is to provide comprehensive information related to the effects of IFRS on regulatory capital. The effects of adapting IFRS accounting data for regulatory purposes are to be quantified and presented as clearly as possible by means of "prudential filters". CEBS announced the adoption of these filters and of further guidelines for calculating regulatory capital on the basis of IFRS group accounts in a press release issued on 21 December 2004.

In principle, we consider the idea of using CEBS's prudential filters for regulatory reporting purposes to be appropriate. We believe it is questionable, however, whether the template in its present form is a suitable means of implementing these guidelines correctly. It is not clear how the prudential filters recommended by CEBS are incorporated into the template. Our interpretation, however, is that the filters are to be reported in the columns. One of these filters, for example, requires the regulatory neutralisation of own credit risk in the application of the fair value option. The template, however, also requests valuation effects from the fair value option which do not relate to own credit risk and are thus not a matter for the CEBS prudential filters. We do not, therefore, consider the inclusion of this information in the columns of the template to be appropriate. We also feel that both the basic structure and the specific content of the rows need clarification. It is open to question, for example, how the item

“eligible reserves” is defined in this template and what elements it contains. The same applies to the data in the other rows and to the relationship between the various items. Further explanation and examples would be extremely helpful in this respect.

All in all, we consider the selected matrix presentation highly complex, detailed and unclear. We believe a fundamental simplification and explanation of the template is needed to ensure that the effects of the prudential filters will be calculated accurately. It is particularly important, moreover, that the prudential filters be clearly indicated in the template.

3.3. SA

In our view, reporting should be confined to columns 4, 9, 10 and 11.

3.4. SA SEC 1 and SA SEC 2

All the securitisation templates request extremely detailed information on securitised transactions and, in particular, require a number of interim calculation steps to be shown. The requested level of detail far exceeds what is needed. Dividing the templates into true sale and synthetic is unnecessary from a risk angle since the only difference lies in the credit protection to the underlying assets. We therefore recommend consolidating the two templates.

Investors

Securitised positions in which standard approach banks have invested are first to be divided into three different classes according to their rank (most senior, mezzanine and first loss). A further distinction is then to be made within each of these classes between rated and unrated tranches.

The proposed breakdown is largely unnecessary, in our view. Rank plays no role whatsoever in calculating capital requirements for rated securitised positions in the standard approach. As for unrated positions, rank is relevant only if the method of calculating capital requirements for securitised positions in an ABCP programme described in Annex IX, part 4, paragraph 12 is applied. Such positions must be at least second loss.

In contrast to the Basel capital adequacy framework, application of the look-through approach (Annex IX, part 4, paragraph 11) is not confined to the most senior-ranked positions. It is therefore sufficient to differentiate between rated and unrated positions. Unrated positions could, if necessary, be divided into those which are deducted from capital and those for which capital requirements are calculated using the methods described in paragraphs 11 and 12.

For each class of securitised positions, the exposure values net of the applicable value adjustments then have to be calculated (column 4). Subsequently, these values must be further reduced where applicable by the effects of credit risk mitigation techniques and the result entered in column 7. We would point out that credit risk mitigation techniques do not always lead to a reduction in the exposure value. This is normally only the case with funded securitisation. With unfunded securitisation, the risk mitigation effect is taken into account by adjusting the risk weight, and the transaction is recorded under the risk class to which the protection provider belongs. Column 6 is therefore not necessary for calculating capital requirements and may be deleted.

Column 15 is for positions which are to be deducted from Tier 1 and Tier 2 capital. Positions deducted from Tier 1 only are to be entered in column 16. The draft directive allows banks the option of either assigning securitised positions with a 1250% risk weighting to the weighted risk assets or deducting them from the components of non-consolidated own funds. A capital deduction of securitised items from core capital only is not envisaged in the directive. Instead, it follows the Basel approach, under which 50% of securitised positions are deducted from Tier 1 and 50% from Tier 2 capital. We would also point out that the information in row 15 already has to be entered in aggregated form in row 78 of the CA template. Columns 15 and 16 can therefore be deleted.

In columns 17 to 21, the exposure values for rated securitised positions in column 7 are to be distributed according to the risk weights in Tables 1 and 2 of Annex IX, part 4, paragraph 6. The reference in brackets to “BB or above” should be deleted since risk weights are allocated to the various risk classes only at a later date by national supervisors.

Unrated securitised positions that are not deducted from capital can either be assigned a risk weight of 1250% or – if certain conditions are met – treated with one of the two

look-through approaches in Annex IX, part 4, paragraphs 11 and 12. The cross-references and commentaries should indicate which risk weights are meant by the “average risk weights” in column 23.

Originators

In principle, exposures retained or repurchased by originators should be reported using the same system as that for investors. The above comments therefore also apply here.

In addition, we advocate using the same terminology for the division into the various exposure classes and the corresponding explanatory notes (e.g. subordinated loans/mezzanine loans). Furthermore, we see no obvious benefit in reporting ABCP positions separately in the off-balance sheet items; these rows should be deleted.

For the reasons outlined above, both templates need to be fundamentally revised. A number of issues also require clarification:

- Does the term “value adjustments” refer to specific provisions and general value adjustments for the pools underlying the relevant ABS positions?
- Where are the value adjustments for the underlying exposure pool to be entered?
- Does risk provisioning have to be calculated before application of the cap? How should capping at transaction level be reported?

3.4. IRB

Under the IRB approach, capital requirements (column 11) and risk-weighted assets (column 10) are calculated by applying the PD, LGD, EAD and (if necessary) M risk parameters in the respective capital function. With this in mind, we consider it sufficient to indicate these parameters only (PD (column 4), LGD (column 8), EAD (column 7) and, if necessary, M (column 9)). In addition, we would appreciate clarification that the scaling factor (currently 1.06) should be reflected in column 10.

In principle, the banks are obliged merely to calculate an average PD for each borrower class (Annex VII, part 4, paragraph 59). The directive does not require all banks to indicate the PD range. This is mandatory only for banks whose corporate portfolios are concentrated in a specific market segment and a specific PD range. These banks have

to ensure that there are a sufficient number of borrower classes within the PD range to avoid an excessive concentration of borrowers in certain classes. If there is a significant concentration in one borrower class, the bank must demonstrate that this class covers a sufficiently narrow PD range (Annex VII, part 4, paragraph 8). In these cases, the PD range has to be indicated for each individual borrower class. There should be no general requirement to indicate PD ranges. This should be mandatory only in cases in which there is a “significant concentration” in one borrower class. In the case of retail portfolios, we believe paragraphs 16 to 19 of Annex VII, part 4, offer no basis whatsoever for a requirement to calculate PD ranges. A breakdown by range for these exposures could consequently be dispensed with.

We do not believe it would serve any useful purpose to report EL and LGD in columns 13 and 8 respectively for loans drawn and open lines (on-balance and off-balance transactions). This would not deliver any meaningful information.

3.5. IRB EQU 1

Since the PD/LGD approach is essentially the application of the IRB foundation approach to participations, the template is very similar to the IRB template. Our comments on the latter therefore also apply here. In particular, we believe it would make good sense to confine reporting to columns 4, 5, 8, 9, 10 and 11. Reporting the average LGDs in column 7 would provide no information of relevance to supervisors since the weighted LGDs involved are only those prescribed by supervisors. Columns 8 and 9 already request allocation to the two possible alternatives.

3.6. IRB EQU 3

Only columns 1, 4 and 5 should have to be reported. Column 3 contains the same data as column 4 multiplied by 12.5. Reporting these figures will therefore deliver no added value.

3.7. IRB SEC 1 and SEC 2

Investors

Securitised positions in which IRB banks have invested also have to be divided initially into three different classes according to their rank (most senior, mezzanine and first loss). A further distinction is then to be made within each of these classes between rated and unrated tranches.

It is true that, when calculating capital requirements for securitised positions under the IRB approach, it is necessary to distinguish between rated and unrated items and between different ranks. These distinctions should not, however, be made as proposed in the template.

With *rated* positions, special risk weights apply under the IRB approach for the most senior tranches. It therefore makes good sense to distinguish between “normal” and senior positions in these cases.

Unrated positions must be deducted from capital regardless of their rank unless the SF is applied to them. When applying the SF, however, no distinction needs to be made on the basis of rank. Although rank certainly plays a role in the SF, this is reflected in the credit enhancement level (L), which is determined by calculating the ratio of junior positions to the total securitisation volume. A distinction between most senior and other tranches can therefore be dispensed with for unrated positions.

In columns 18 to 25, the exposure values in column 8 for rated securitised positions are to be distributed according to individual ratings. The wording in brackets “BB or above” should be deleted since risk weights are allocated to the various risk classes only at a later date by national supervisors.

Furthermore, the data required in columns 15 to 18 will result in the risk weights, which differ in the case of rated positions according to the granularity of the underlying exposures or the rank of the securitised tranche, becoming mixed. This renders the information untransparent. When allocating the exposures to the individual risk weight classes, it is not clear whether the value of the exposures or the risk-weighted assets are to be entered. Furthermore, the division into the indicated risk weights seems arbitrary.

We therefore believe the whole system needs to be totally revised, bearing in mind that this should not result in any increase in the reporting volume.

Originators

For the originators, no amounts can be entered in the two columns for the internal ratings based approach (28 and 29). Since the internal ratings based approach is also to be applicable to balance sheet items, we consider that it must also be possible with originators to calculate on-balance sheet positions in ABCP securitisations under the IRB approach and enter these on the template.

Off-balance sheet assets

Rows 26 and 27 are for entering the exposure values or “average risk weights” calculated by applying a look-through approach under Annex IX, part 4, paragraphs 11, 12 and 14. We would point out that these rules apply only to the standard approach. In the IRB approach, a look-through is possible only under Annex IX, part 4, paragraph 57. This is a special rule to be applied in the event that banks, in their capacity as sponsors of liquidity facilities, are not in a position to use the SF or IAA. An “average risk weight” is not, however, calculated in this case. On the contrary, the risk weight applied is the highest risk weight of the securitised exposures.

In summary, we would suggest thoroughly revising these templates.

3.8. SA CRM

We would like to make the general point that the structure of all the CRM templates is highly complex, which undermines their information value. Sufficient information about the transfer of risk between the approaches and about credit risk mitigation is provided by columns 3, 4, 5, 6, 7, 8, 9, 14, 19, 20, 21 and 26. The remaining columns, particularly those for the memorandum item (22-25), show individual calculation steps, whose accuracy should be monitored in the approval process. We would like to point out, in this context, that the calculation required by column 22 will not produce the desired result. We assume that the purpose of the calculation is to determine the collateral value C by comparing columns 21 and 22. If the maturity mismatch haircut h

is calculated by $h = C_{va} \times (1 - (t - t^*) / (T - t))$, however, as indicated in the legal references & comments, this will not give the desired result.

3.9. FIRB CRM

For the same reasons as those outlined above, we also consider this template too complex and reject the requirement to show interim calculation steps. We therefore suggest limiting the content of the template to columns 1, 2, 3, 4, 5, 6, 11, 19, 20, 21, 22, 28, 30 and 32. The requested information about the distribution of LGD estimates in columns 33 and 34 will not serve any useful purpose, in our view, since we are dealing here exclusively with LGDs prescribed by supervisors.

3.10. AIRB CRM

Reporting should be confined to columns 1, 2, 3, 4, 5, 6, 11 and 19 for the reasons outlined above in our comments on the FIRB CRM template. The item “credit risk mitigants affecting LGD* estimates” (columns 20-31) will deliver no additional risk-relevant information over and above the actual LGD estimate. We assume the intention of requesting this information is to check the plausibility of the LGD estimates. Their accuracy should be verified in the approval process, however, and not in the context of standardised reporting. What is more, we have reservations about whether the information requested in columns 20-31 is suitable for monitoring LGD estimates. We would also ask CEBS to specify the percentiles to be used in columns 32 and 33 and to explain exactly what information has to be entered.

We should like to take this opportunity to refer to a probable future development currently under discussion in Basel:

For derivatives and repo/lending transactions, it will be possible to calculate the exposure and thus the capital requirement by applying the EPE approach. The consideration of the risk mitigation effect of collateral, in particular, differs fundamentally under the EPE approach from the recognition of collateral under the other Basel II approaches and from the recognition of collateral for other product classes (especially loans). We therefore believe there is a need to adapt the templates so that only meaningful information will have to be entered if the EPE approach is applied. It would, in particular, serve no useful purpose in our view to require the

separation of collateral in a master agreement from the underlying derivative or repo/lending transaction. Since the EPE calculation is typically based on Monte Carlo scenarios of market risk drivers such as interest rates, FX rates etc., a precise product division is extremely problematic and would therefore make little sense. If cross-product netting were applied, banks and supervisors would together have to find a pragmatic method of differentiating between OTC derivatives and repo/lending, for example, in the event that supervisors insisted on retaining a requirement for a breakdown by exposure type in such cases.

3.11. CRM I-O

We totally reject these templates since we fail to see how the observation of flows of collateral between the segments can assist in evaluating a bank's risk profile. In our view, the insight provided by such an approach is more of an academic nature.

3.12. MKR-IM Daily

This template does not appear to offer supervisors any additional information value. Authorisation and testing procedures already provide supervisors with sufficient information about the specifics of the banks' models and the suitability of any subsequent significant changes to the models also has to be confirmed by the competent authorities. Given the title of the template ("Daily"), we wonder at what intervals CEBS intends the information to be reported. The data in columns 11, 12 and 14, for example, is monitored and updated only once a year. More frequent reporting would therefore offer no new insight. The data on the internal value at risk calculation, on the other hand, represents a Pillar II element, which should have no place in solvency reporting. We therefore advocate dispensing with this template.

3.13. OPR

The OPR template contains regulatory reporting information on the operational risk basic indicator approach (BIA), standard approach (SA) and advanced measurement approach (AMA).

If the AMA is applied, reporting requirements should be confined to that which is necessary to allow supervisors to evaluate whether the bank is complying with the

rules. If a bank wants to reduce capital requirements for operational risk on the grounds that EL is covered by alternative means, Annex X, part 3, paragraph 8 of the draft directive amending Directive 2000/12/EC merely requires it to demonstrate that appropriate measures are in place. An obligation to report a concrete amount cannot be inferred. This requirement is therefore to be rejected. Furthermore, the precise distinction between the reporting fields “of which: due to expected loss” and “expected loss captured in business practice excluded from capital requirements” is not clear. We interpret the item “of which: due to expected loss” to be a statistical measurement of the AMA model and “expected loss captured in business practice excluded from capital requirements” as the expected loss measured in terms of value adjustments and budgeting. We do not consider such a comparison appropriate. Current accounting practices do not make it possible to build up adequate provisions for the expected loss from operational risk. A comparison with the quantitative risk measurement would therefore not be justified.

3.14. OPR LOSS

This template contains the 7x8 business-line/event-type matrix from Annex X, parts 2 and 5 of the draft directive amending Directive 2000/12/EC.

According to Annex X, part 3 paragraph 14 of the draft directive amending Directive 2000/12/EC, the reporting of the losses shown in the business-line/event-type matrix has to be submitted to the competent authorities only on request. If the template is intended as a basis for regular mandatory reporting, therefore, it must be rejected.

Should the template, however, be intended as a basis for information which may, under certain circumstances, be requested by the authorities, it should first be clarified that presentation in this form could only become necessary under the AMA. In addition, the requirement to indicate the highest single loss and the number of losses for each business-line/event-type must be deleted. The draft directive envisages no such requirements; nor would they provide supervisors with any discernable information value.

AMA modelling is not conducted by measuring the median and deviation per “cell”. An AMA model produces data about probable total annual loss, not individual losses. Furthermore, most models base their modelling of large losses on external data. The

number of loss events will also provide little meaningful information. One event may have to be allocated to several business lines. This would mean that the total by business line would be higher than the number of losses actually suffered. It must also be borne in mind that the thresholds for capturing events are normally assigned to internal business lines. These internal business lines are then assigned to the external ones. Several thresholds can therefore sometimes apply in a single external business line.

3.15. OTH 4 OPR

As already explained above, we reject all “other information” templates. The proposed reporting requirements go far beyond those prescribed by Annex X, part 3 paragraph 14 ff. of the draft directive amending Directive 2000/12/EC. A bank’s major losses should be reported and discussed in the course of the qualitative supervisory review process.

3.16. MRK SA TDI, MRK SA EQU, MRK SA FX, MRK SA COM

Given the considerable workload for the banks associated with implementing Basel II, particularly in the areas of accounting and reporting, additional requirements should be avoided as far as possible at this stage. For this reason, we would like to suggest that the new templates for the standard method of calculating general and specific market price risk should be excluded from the solvency reporting framework for the time being. These templates could then be integrated into the regulatory reporting regime after Basel II and COREP have been implemented.

As to the content, our initial examination in the short time available suggests that the volume and degree of detail of the new templates are generally appropriate. We welcome the aggregated reporting of non-delta risks in the individual market risk templates. The approach of requiring interest rate risk and currency risk positions to be reported for all currencies needs to be modified, in our view. We believe it would be sufficient to concentrate on the five most important international currencies (euro, US dollar, Swiss franc, pound sterling and yen) and report the rest under a collective item “other currencies”. Similarly, the reporting of market risk from equities by country of origin should be confined to a few core regions (e.g. USA, Japan, EU). Finally, we should like to point out that the reporting system of the MRK SA COM template

suggests the need to calculate a capital requirement for illiquid positions which is not envisaged in this form by the directive. Annex IV, part 5 requires banks merely to provision for liquidity crunches, not to report an "illiquidity risk". We therefore suggest deleting row 7 from the MRK SA COM template.

3.17. TB SA SETT

A definitive discussion of this template cannot take place until the end of consultations on the European Commission's consultative document *The application of Basel II to trading activities and the treatment of double default effects*.

IV. Comments on the consultation process

We should like to conclude by commenting briefly on the consultation process itself. When consultations began in early February, it was announced that explanatory notes on the templates would be issued at the end of February. The industry was also asked at this time whether it would welcome a draft of the standard method of measuring market risk. Mid-April then saw publication of the explanatory notes and – totally unexpectedly – of draft templates for reporting market risk. There was no extension of the deadline for consultation on these documents. We should like to stress that such action makes it impossible for the industry to conduct reasonable and co-ordinated discussions. It is unhelpful to set a timeframe and then not respect it. Furthermore, we would point out that the so-called explanations failed to fulfil our expectations. They offered no reply to the oft-raised question "what is meant by that?". Instead, the document focused on describing the structure, which was of little practical assistance two and a half months after the draft's publication.

Yours sincerely,

On behalf of the Zentraler Kreditausschuss
Bundesverband deutscher Banken


von Kenne


Zattler