



CEBS CP04
January 2005

COVER NOTE ON COMMON REPORTING

This consultation paper is the first of two CEBS consultations planned for this year in connection with the reporting requirements for credit institutions and investment firms. This paper concentrates on defining a common reporting framework around the solvency ratio for credit institutions and investment firms under the future EU Capital Requirements Directive (CRD). The second consultation, planned for end March 2005, will focus on prudential reporting requirements around the balance sheet and income statement based on International Financial Reporting Standards (IFRS). CEBS encourages all firms caught by the CRD and IFRS to read and provide comments on this consultation paper.

The implementation of new IFRS and the CRD provide the EU with a unique opportunity to harmonise the data framework. Both supervisors and firms will need to develop new reporting requirements and CEBS is keen to seize the opportunity to promote greater convergence in this area, noting also that the industry has raised this as a key priority. The aim is to reduce the reporting burden on firms and encourage an increased level playing field across Europe. The benefits for cross-border groups should be achieved whilst limiting the burden for small, local banks.

Common reporting will also make it easier for supervisors to co-operate and exchange information and will contribute to reduce the differences in the implementation of the new solvency rules. CEBS aims to ensure that this reporting framework is applied in all Member States.

The proposed framework comprises of a number of templates to be filled in by the reporting institutions. Under this common framework, the basic elements to be reported will be similar across the EU, with possible differences in the degree of details requested in each country.

Before this consultation, national authorities presented a draft framework to the banking industry to get some initial informal feedback. The reaction by the consulted institutions was positive. Banks generally welcomed the aim of harmonising the reporting requirements and of reducing the administrative burden on institutions operating cross-border. In a few countries, some banks and associations expressed the concern that the framework could prove to be too extensive and complex. It has to be stressed that, most banks will not be asked to report the whole set of items included in the framework. Each national supervisor will select the degree of detail of the information to be reported, depending on the practices and the degree of sophistication of the banks in the various national markets. The inclusion of all these potential requirements in a common

framework will ensure that the same information will be requested according to the same format, thus reducing the compliance burden for reporting institutions.

With the aim of achieving the highest level of standardisation across the EU, CEBS adopted the following principles:

- *Flexibility*: each supervisor is allowed to choose the scope as well as the level of aggregation of information required; the framework will allow for flexibility also to accommodate for differences in the exercise of the national options foreseen in the CRD, for instance with reference to the treatment of small institutions;
- *Consistency*: the same concepts and terminology have been used as far as possible;
- *Standardisation*: the number of different templates has been minimised.

The work presented in this consultation paper is primarily focused on regulatory own funds and Pillar I capital requirements for credit risk, operational risk and market risk.¹ The reporting framework does not cover areas such as liquidity, large exposures and credit registers. In the templates, the items are presented with references to the appropriate provisions in the proposal for the CRD issued by the Commission in July 2004. CEBS guidelines on prudential filters have also been taken into account.

CEBS is aware that both the Directive and the prudential filters may be subject to changes. The present consultation does not intend to interfere with the decision process of the European Commission, of the Council or of the European Parliament. All changes to Community legislation will be transposed in the supervisory reporting templates, with a view to providing a fully developed framework as soon as the Directive will be adopted. While CEBS will continue to work on the templates, changes to the basic structure of the framework or major modifications of the overall information content are not anticipated.

CEBS is now working on the development of templates for a common reporting of market risk under the standardised approach. Comments on the need for such an expansion of the common reporting framework will be welcome as part of the responses to this consultation paper.

A data model and an Information System solution were designed to support the common reporting framework and at the same time being compatible with existing reporting systems. The adoption of a common technology protocol based on XML/XBRL² language, which will allow taking full advantage of the data model's functionality, is recommended in the consultation paper. CEBS also intends to provide a complete XML/XBRL coding and taxonomy for the reporting of the solvency ratio. This does not intend to prejudice national decisions about the technical processes for the transmission of data to supervisors. However, in several countries XBRL seems to be regarded as a future reporting standard, for supervisory as well as financial and other reporting. The XBRL taxonomy can serve as a useful reference library, even if other standards, like SDMX³, will eventually be chosen in some countries. The work on an XBRL taxonomy will

¹ The reporting framework is not final, both the accounting changes and the CRD are still being discussed and the framework will have to include any changes as well as the results from the trading book review.

² The abbreviation XML stands for eXtensible Mark-up Language and XBRL for eXtensible Business Reporting Language

³ Statistical Data and Metadata Exchange.

continue during the consultation and is expected to be finished by the end of June 2005.

Although the work is not fully completed, CEBS believes that a formal consultation of the reporting templates at this stage is of value to both the industry and supervisors. We understand that implementation of a new supervisory solvency reporting framework requires time and effort for both the competent authorities and the industry. As the common reporting framework for the solvency ratio will have to be implemented when provisions transposing CRD are adopted by the different EU countries, an early consultation seems necessary. Furthermore, some authorities might wish to adopt – fully or partially - the proposed framework for the so-called “parallel running” for the computations of Basel 2 versus Basel 1 ratios in 2006.

Large banks will be expected to report according to the common framework at least on a quarterly basis. The frequency of supervisory reporting for the other credit institutions is to be determined at the national level. In the same vein, national authorities may request to differentiate the reporting frequency for different templates. More detailed explanations on the content of the templates will also be provided by the end of February.

CEBS invites comments on this consultation paper by 30 April 2005 (CP04@c-eps.org). The received comments (unless the respondent requests otherwise) will be published on the CEBS website.