ABI Position paper

"EBA CONSULTATION PAPER ON DRAFT I.T.S. ON SUPERVISORY REPORTING REQUIREMENTS FOR INSTITUTIONS (CP 50)"

March 2012

Dear Sir/Madam,

The Italian Banking Association welcomes the publication of the EBA consultation paper on draft ITS on supervisory reporting requirements for institutions.

Find below our general comments.

FINREP needs to be aligned to IFRS

Financial information to be reported to supervisory authorities should only be drawn in accordance with IFRS as endorsed in the EU. The FINREP terminology should be consistent with IFRS and the use of options permitted under IFRS should be left to the institution. This is the only way to make sure that supervisory reporting remains in line with firms' accounting systems. Adopting another approach would not only generate considerable extra costs for firms 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 date of the first-time application of the Supervisory Reporting Framework needs to be postponed.

EBA intends to submit its finalised draft technical standard to the European Commission for approval on 30 June 2012 and takes the view that firms will have to submit a first set of data related to the reference date of 31 March 2013 to national authorities by 13 May 2013

The proposed timing means that firms will not be given one full year to prepare themselves. Even those firms that are subject to the today's framework(s) will need sufficient time to prepare and test their IT-systems taking into account that the consultation paper proposes a range of new, challenging requirements that will require time to be integrated within firms' internal reporting systems. Firms do not have any precedent for providing a project of this scale of complexity, also due to a meanwhile changing environment, in such a short timeframe.

EBA is expected to issue a range of other Technical Standards touching upon other reporting streams (large exposures; liquidity; leverage ratio; …) which institutions should, ideally, be able to integrate in their reporting systems together instead of introducing them on a piecemeal basis. Additionally, firms are currently also working on a number of other regulatory change projects which are draining resources and putting a strain on the same human resources dealing with the COREP/FINREP requirements.

Institutions cannot begin adapting their IT-systems before the requirements have been locked down, particularly taking into account that the Consultation Paper contains a range of mistakes that need to be rectified and, moreover, that many of the technical details of the proposals made in the Consultation Paper need additional clarification and the build-out of projects at firms will inevitably be delayed until there is sufficient clarity on what is precisely being asked for.

Against this backdrop, the industry believes that the new framework should become applicable only from 1 January 2014 onwards.

Pragmatic and workable solutions should be found to satisfy the information needs of the competent authorities in a less than perfect way in the meantime, without adding to the

firms' administrative burden. We would like to strongly suggest EBA organising a meeting with all the stakeholders involved to specifically examine a range of possible ways forward.

Remittance Dates need to be reconsidered

Because of the different nature of COREP and FINREP, both reporting streams do not necessarily need to share the same remittance period.

a) COREP Remittance Dates

The new COREP framework requires providing information on (i) the contribution of each entity to the consolidated statements as well as (ii) the stand-alone position of the regulated entities (which need to be calculated by the entities concerned after the consolidation exercise has been finalised). On top of that, the reporting frequency will increase.

We would like to suggest that firms be given sufficient time to adapt themselves to the new regulatory reporting framework by allowing transitional arrangements which would work as follows:

- during the first year, firms would be given 45 days to transmit the data
- the subsequent years, this period would be reduced with a batch of 5 days every year
- as a result, the 30 day remittance period would become applicable from 2015 or 2016 onwards (depending on when precisely the new COREP framework would become applicable).

Anyway, the impact assessment that EBA will need to submit to the European Commission, needs to take into account that, if firms have to provide the requirements in the timeframe proposed, the big cost to the EBA and the industry would be related to the quality of the data that they would receive and, more particularly, to the range of steps that will need to be taken to rectify them.

b) FINREP Remittance Dates

At least 45 days will be necessary for submitting FINREP reporting on consolidated level to ensure the quality of the reporting data both at consolidated and solo level.

Frequency of FINREP Reporting

Requiring all the FINREP tables to be submitted on quarterly frequency goes against principles of interim reporting under IFRS.

The proposed harmonised approach is welcomed

We fully supports the European Commission's intention to achieve a Single rulebook and, therefore, strongly welcomes the Consultation Paper for agreeing that the proposed implementing technical standard "will be part of the single rulebook enhancing regulatory harmonisation in Europe with the particular aim of specifying uniform formats, frequencies and dates of prudential reporting as well as IT solutions to be applied by credit institutions and investment firms in Europe." (page 4). As the Paper highlights, "uniform reporting requirements are necessary to ensure fair conditions of competition between comparable groups of credit institutions and investment firms and will lead to more efficient for institutions and more convergence of supervisory practices." (page 4)

If properly designed, uniform reporting can significantly enhance the efficiency of reporting processes, particularly where cross-border firms are concerned.

IT-Solutions: XBRL

In Italy, the financial, statistical, prudential and accounting reporting is founded on an integrated process. Such structure, whose development and maintenance are coordinated by Bank of Italy, *is per se* intended to grant standardization, uniformity of conducts and regulation compliance. In our view, thus, it already fully targets the goals which EBA intends ground the production of technical standards on, which we totally share.

Therefore we cannot see the necessary objective conditions to benefit from a potential switching to XBRL.

Furthermore, it must be underlined that the potential obligation to use XBLR would imply technical impacts and trigger consequent costs for the whole banks.

Such costs, even where limited, should however be assessed in the perspective of a ‘cost/opportunity against expected benefits’ evaluation model, taking into account that such benefits simply do not exist, as we have illustrated.

On top of the merely technical issues, however, a relevant assessment should also be carried out on the material need for the user banks and their software house to gain the necessary organizational and procedural implementation and know-how (e.g. knowledge of taxonomy, etc.).

The potential impact of implementing new procedures and instruments of the kind would certainly be remarkable and, most importantly, would affect to the largest amount just smaller banks.

Should XBRL be deemed a suitable international standard, however, nothing prevents EBA from adopting it. In doing so, in fact, the European Banking Authority could nevertheless keep the incumbent national level standards untouched (without any prejudice whatsoever to the necessary consistency and homogeneity of the contents which need be signalled by means of such standards). This, however, does not exclude *per se* technical problems for banks: EBA’s corrections in fact would be transposed into XBRL format and would need to be trans-codified into the language currently in use in the exchange between the Central Institution and the supervised subjects. Such solution, however, would be preferable to that of a similar exercise to be carried out by the single signaling institution, since it seems more suitable to grant uniformity and adequacy of the translation.

It must be further highlighted that, nevertheless, it would be more problematic to keep two languages in line: the “standard Banca d’Italia” one for all data referred to supervision’s signals and the XBRL type for the EBA section solely.

More in detail, please find hereunder further reasoning deriving from the specific Italian experience: the simultaneous use of XBRL and the adoption of the "data point model" would entail the re-mapping (with a significant implementation effort and, therefore, higher costs) of the fields presently managed at Banca d’Italia level according to EBA’s codifications and the consequent XBRL rules of validation.

Although – as said - the cost could be sustainable from a purely IT point of view (limitedly to the aspects pertaining to the acquisition of the software for codification and to the initial

cost of implant), a relevant criticality would appear under the organizational profile: the maintenance of the links between Banca d'Italia codifications and EBA ones should be managed by the software houses with presumably quite high costs and economic-organizational relapses within each single bank (in terms of hours spent for the management of the mentioned links).

Furthermore, the adoption of the XBRL taxonomies would trigger the redefinition of the signaling formats at the level of each banking group. This would force the simultaneous use of different tracks: EBA signaling and Banca d'Italia signaling, thus diverting the attention on the consistency between the sent tracks and the relevant remarks.

The adoption of XBRL for the forwarding of information would need some integration: for instance, the realization of a "proprietary" format of the corrections and remarks, since at present XBRL does not envisage any standard for such kind of transmissions. Moreover, out would arise the necessity of validating with the same language the controls which usually Banca d'Italia applies to the information received. Finally, also necessary would become certain interventions intended to "modify" the type of field currently provided for supervision signals, which does not at present provide the insertion of alphanumeric characters.

Proportionality

The application of the proportionality principle in supervisory reporting is welcomed. In this contest, we appreciate the possibility of different reporting intervals as a suitable manner to take account of different types of institutions.

However, we take the view that the Consultation Paper needs to better underpin the proposals that it makes concerning a proportionate application of the requirements by referring to the objectives underlying the reporting requirements, especially with regarding the amount of information to be provided. According to the CRR '*the reporting formats shall be proportionate to the nature, scale and complexity of the activities of the institutions*.'

First of all, the aggregation of some templates in the COREP reporting on credit risk capital requirements for institutions suing the standardized approach is especially burdensome for small institutions in Member States which have implemented the CEBS Guidelines, because small institutions generally use less sophisticated approaches

We would like to suggest the proposal that EBA would introduce a materiality clause and prepare a limited COREP package for institutions which only develop a limited range of activities.

Asset management firms, leasing companies or institutions involved in the factoring business – to mention some typical examples – are merely concerned by a limited number of COREP templates. Yet the EBA proposal is to oblige those firms to analyse pages and pages of templates to find out precisely which ones are relevant to them – despite the fact that their resources are extremely limited. We believe that it would be extremely helpful to those firms if EBA were to develop a COREP package that would include only those templates that are relevant to their specific activities.

It should be examined if it would be possible to develop "a COREP light" for institutions which are exclusively undertaking retail activities.

Use of CRR scope of consolidation for supervisory reporting of financial information

EBA's proposal to apply the CRR scope of consolidation, which is different from the accounting group is, in our opinion, not logical and would imply high costs. This causes at least some complication as banks have to create another look-through and maintain the appropriate details and specifications. In addition, the audit work requires extra work for this regulatory approach during the accounting related work flow. Moreover, FINREP terminology should be consistent with IFRS in order to ensure that supervisory reporting remains in line with the institutions' accounting system.

There are good reasons why the scope of consolidation for accounting and prudential purposes diverge. Prudential consolidation includes only financial institutions. Accounting consolidation also includes insurance firms and non-financial corporations, which are not included in the scope of the CRD/CRR. Mixing up these approaches will be too complicated and costly without achieving benefits (added value) from the prudential perspective. Especially non-financial entities since they are not covered by the scope of the CRD, would have to be 'deconsolidated' from the FINREP formats for reporting of financial data. This would be a burdensome exercise.

Therefore, we propose that institutions deliver the FINREP on the basis of the consolidation cycle according to accounting standards. And as a link to the materiality principle mentioned above, only subsidiaries (e.g. insurance subsidiaries; industrial holdings or special purpose entities) that have a significant effect on the assets, liabilities and shareholders' equity must be considered in consultation with the national supervisor for the reporting of financial data in FINREP.