Division Bank and Insurance
Austrian Federal Economic Chamber
Wiedner Hauptstraße 63 | P.O. Box 320
1045 Vienna
T +43 (0)5 90 900-DW | F +43 (0)5 90 900-272
E bsbv@wko.at
W http://wko.at/bsbv

EBA-Office
CP51@eba.europa.eu

Your ref., Your message of	Our ref., person in charge	Extension	Date
	BSBV 115/Dr. Rudorfer/St	3137	13.03.2012

EBA – ITS large exposures

The Bank and Insurance Department of the Federal Economic Chamber appreciates the possibility to comment on EBA's Consultation Paper Draft Implementing Technical Standards on Supervisory reporting requirements for large exposures and forwards the following comments:

Questions and Answers according to CP51, Page 14:

Overview of questions for Consultation
1. What would be the minimum implementation period to adjust IT and reporting systems to meet the new ITS reporting requirements? Please elaborate on the challenges which could arise.

- It is not possible to change the large exposure report (LE report) according the new regulation until 1.1.2013. In general, the new regulations (changes, additional information, low reporting limits, definition according FINREP, IFRS, …) cause a lot of effort for institutions to implement these regulations. This would mean enormous additional costs and human resources. There have been huge changes regarding the LE report a year ago (31/12/2010). It is not understandable that the LE report will be changed again and in such a dramatic way just a few months after the last relaunch. We are having a closer look at the challenges in point 4.

- Article 94 of the CRR-proposal requires IFRS data also for own funds, own fund requirements and large exposures. This requirement would represent a severe problem, as IT-systems do not have IFRS data on single transaction level, which is necessary for this kind of reporting. It will not be possible to implement the necessary changes by the first quarter of 2013. Therefore a transitional period of at least 3 years would be necessary. Generally we pled for keeping Art 94 CRR as it is statued in the present version in the CRD.

- Additionally it has to be considered that Groups having a lot of branches and subsidiaries acting in many different countries will be even more affected. However, the implementation period should be more or less the same. Please also be aware that legal certainty is a prerequisite for IT implementation, otherwise it causes additional costs.

2. What would be the minimum implementation period required for institutions NOT subject to large exposures guidelines reporting at the moment to implement the large exposures reporting described in this consultation paper?

3. Would the required implementation period be the same for reporting requirements on an individual basis and on a consolidated basis?

Yes.
Implementing the new regulations on a consolidated basis will cause a lot of time and costs in addition to the implementation on an individual basis. However, the regulations for the individual and the consolidated basis have to come into force at the same time.

Annex VIII and Annex IX
4. Compared to previous versions of the large exposures templates are there additional reporting requirements which, cause disproportionate costs?

In general, the LE report shall not be used for any other purpose.

FINREP definitions:
According to ANNEX IX, Page 5 and 6 (Column 040 – 060 and 090 - 140 of template LE 1) the counterparty characteristics and direct exposures have to refer to FINREP definitions.

The large exposure report is part of COREP and thus can only follow COREP definitions. The calculation and the reconciliation of the figures for solvency and large exposure report follow COREP definitions. COREP and FINREP follow different scopes and contents (prudential vs. accounting nature). A mix of COREP and FINREP definitions would be impossible to achieve until 1/1/2013 and would cause enormous costs. Additionally we do not understand the rational behind that requirement. We have to reject the suggestion to use FINREP definitions for the large exposure report strictly.

IFRS:
According to ANNEX IX, Page 6 (Column 070 - 200 of template LE 1)
"The valuation of assets and off-balance-sheet items shall be effected in accordance with the accounting framework to which the institution is subject, according to Article 94 of CRR."

This would mean that we have to report large exposures on a consolidated basis according to IFRS and the large exposures on the individual basis according the local Austrian accounting framework (UGB). The same applies also to the other COREP reports. Therefore it is necessary to have book values according to local GAAP and for IFRS in all relevant systems. All transactions

have to be booked twice according to local GAAP and IFRS. However, at the moment we are not able to set up the consolidated report according to IFRS because the IFRS figures are not available on the basis of each single exposure. However this is necessary because the weighting factors for Large Exposures as well as for RWA are dependent on the single customer. The transition from the local accounting framework to IFRS in order to set up the consolidated balance sheet is being done by the accounting on an overall basis but not on the basis of every single exposure. This is done in a special EDP-System not linked to the Risk relevant System. Banks won't be able to report the large exposure report according to IFRS until 2016.

150 million EUR reporting limit:

<u>According to CP 51, Page 8-9:</u>

Exposures to be reported are the following:

a) *Every large exposure defined in Article 381 of CRR, including large exposures exempted from the application of Article 384 (1) of CRR and*
b) *Every Exposure not considered large exposure according to Article 381 CRR with an original exposure value larger than or equal to 150 million EUR.*

- The large exposure report should only contain large exposures as it is defined by the name of the report. However, 150 million EUR are not a large exposure for big institutions. A large exposure is defined as an exposure that exceeds 10% of the eligible capital. For one of the large banks, the 150 million are 1% of our eligible capital, so it is just one-tenth.
  For large institutions and their consolidated reports the number of reported customers/groups would rise enormously in the case of the 150 million EUR limit. Consequently the manual effort to set up the reports and to answer the plausibility checks of the national authority would increase severe.
  In addition, on a consolidated base it is necessary to report the 20 largest exposures. Thus, institutions already report the most interesting groups which are below the large exposure limit (10% of eligible capital).

- This absolute threshold of 150 million EUR will penalise large institutions by increasing the reporting burden in some cases ten times, or even more. Therefore, we suggest to apply additionally a relative threshold of 5 % of the eligible capital. For the assessment of concentration risk the higher of both should be valid, which would ensure the limitation of reporting burden for small and large institutions.

  The absolute threshold above which an exposure has to be reported should not be subject to the decision of the competent authorities because this would lead to an uneven playing field.

  An absolute threshold is furthermore not in line with the CEBS Guidelines on large exposures, published in December 2009, Part I, Connected Clients, where it is stated that institutions should in general examine interconnections, but the examination has to be intensive for exposures exceeding 2% of eligible capital.

  We prefer a separate framework and reporting for the monitoring of concentration and contagion risks, as the purpose of the monitoring of large exposures is completely

different from that of concentration risk (macro-economic and geographic aspects). Furthermore this would enable separate thresholds for large exposure reporting and reporting of concentration risk. This separate framework should also be defined in an ITS or of the same nature like an ITS.

Type of connection:
ANNEX IX, Page 11 (Column 035 of template LE 2)
The type of connection between the individual entity and the group of connected clients shall be specified by using either
'a' with the meaning of Article 4 (46) point a CRR (control) or
'b' with the meaning of Article 4 (46) point b CRR (interconnectedness)

Providing this information would cause costs which are above the benefit of this information. Most of the connection types will be "control" and the Austrian National Bank already gets the information regarding groups and their individual entities including the type of connection.

Exemptions - show the paragraph:
According to ANNEX IX, Page 10 (Column 330 of template LE 1) "*Additional qualitative information may be asked in order to show the paragraph of the exemptions used.*"

We would appreciate it if this additional information won't be necessary because of the costs and the restricted time for the implementation.

5. Are the templates, related instructions and validation rules included in Annex VIII and Annex IX sufficiently clear? Please provide concrete examples where the implementation instructions are not clear to you.

Annex IX, Part II, 1. General Remarks
As large exposures reporting is a part of regulatory reporting (COREP) the breakdown of exposures (columns 90-140, 150-190, 260-300) should be according to COREP (on-balance, off-balance, counterparty credit risk) instead of referring to FINREP. This does not generally rule out a more detailed breakdown regarding equity exposures and undrawn credit lines, but still the same criteria like in COREP reporting should apply.

Annex IX, Part II, 2. LE Limits

- Row 030 / Institutions in %
  In the specification it is missing that the applicable limit for institutions has to be put in relation to the eligible capital. It would be clear if the first sentence would read: The applicable limit for institutions based on Article 384 (1) of CRR has to be reported as percentage of the eligible capital.

Annex IX, Part II, 3. LE 1 Template and 4. LE 2 Template

- Columns 010-060 / Counterparty Identification and counterparty characteristics
  In many countries a fully developed system for the identification and characterisation of counterparties is in place. Institutions are reporting these master data already to the

national authorities for the coding process. Therefore, we suggest that in countries where the competent authorities consider the current master data system sufficient, the authority may allow to report only the code of the counterparty and the code of the connected client belonging to the group.

If this suggestion cannot be accepted please consider the points raised below for columns 010 – 060.

- Column 010 / Name
  The name should not be requested because the code is already sufficient to identify the individual clients and the group of connected clients. If the reason for reporting the name is the idea to identify the client on EU level by its name, because the code is only a national code, one has to object that the identification of a client by its name only will produce misleading results.

- Column 020 / Code of the group

  Annex IX states:
  "The actual composition of the code depends on the national reporting system …" and "For a group of connected clients, the entity's code to be reported is the code of the parent company …".
  These two rules contradict each other. There are national reporting systems that have already a certain composition of group codes, but these group codes do not necessarily consist of the parent company's code.

  Moreover, if the group's code is the code of the parent company, the group's code would change whenever a new company becomes the head of an existing group. This would be confusing.

  Furthermore, when reading a code, one will not know whether it is the code of the individual client or the code of the group of connected clients. Only together with the value "1" (for individual) or "2" (for groups) of column 030 one will know whether the code belongs to the individual or to the group. Better solution: a prefix at the beginning of the code indicates which kind of code it is, e.g. "1" for individual and "2" for groups.

  Preferred solution: The national codes currently used, without a new prefix, should stay in place until a uniform codification is available on EU level.

Group of connected clients (GCC) - commercial-law-partnership:
ANNEX IX, Page 11 (Column 035 of template LE 2)
The type of connection between the individual entity and the group of connected clients shall be specified by using either
'a' with the meaning of Article 4 (46) point a CRR (control) or
'b' with the meaning of Article 4 (46) point b CRR (interconnectedness)

According to Article 4 (46) CRR there are two reasons that two or more persons constitute a single risk; control and interconnectedness. This type of connection has to be reported in LE2; Column 035.
According to the Austrian Banking Act there are further types of connection that lead to a group of connected clients, especially "commercial-law partnerships and their personally liable partners".
Is it no longer necessary to connect single clients due to that type of connection? If so, how should these types of groups be integrated in the large exposure report?

GCC – group without a parent:
ANNEX IX, Page 4 (Column 010 of template LE 1)
For a group of connected clients, the entity's name to be reported is the name of the parent company or, when the group of connected clients does not have a parent, the name of the client in the group with which the reporting institution has the biggest exposure.

We are asking for clarification/explanation for group of connected clients without a parent. An example would be helpful.

GCC – central governments:
According to Article 4 (46) (c) of CRR the existence of a group of connected clients formed by the central government and other natural or legal persons should be assessed separately for each of the persons directly controlled by - or interconnected with - the central government.
Please clarify: which natural persons should be included in the group, presidents, ministers? Which fact establish a control relationship between a natural person and a central government?

- Column 050 / Sector

  Since the NACE code indicates also the sector to which the client belongs, we suggest to report the NACE code for all the clients, but not to report the Sector. If this suggestion is not accepted, we request to use COREP definitions such as "central government", "institutions", "corporates" and "retail".

  If also this suggestion is not accepted, please clarify the following points:
  Are "General governments" the central governments and the regional governments, or only central governments? To which sector belong local authorities, public sector entities, multilateral development banks and international organisations?

- Column 060 / NACE code
  We suggest to report the NACE code for all the clients, but not to report the Sector.
  The link in Annex IX leads to a page that is no longer updated since 26 March 2010, please include an up to date link. Please give also examples of the format to be reported for one level detail and for two level detail.

- Column 070 – 200 / Original exposures
  Paragraph 5 says: "Exposures deducted from own funds, which are **not** exposures according to Article 379 (6) point (e), are included in these columns. These exposures are deducted in the columns 220."

This implicates that exposures mentioned in Article 379 (6) point (e) are not included in these columns, which is in line with CRR Article 379, and hence cannot be deducted anymore.

But the description of column 220, (-) Exposures deducted from own funds, refers to Article 379 (6) point (e) CRR.

Please specify clearly which exposures, which are deducted from own funds, have to be included in column 70 – 200.

- Column 100 / Equity instruments
  The explanation refers to Articles 150 and 163 which describe the Internal Ratings Based Approach. Why is here referred to the Internal Ratings Based Approach while the explanation of the columns 070-200 Original Exposures refers to Article 106 i.e. Standardised Approach?

- Column 220 / (-) Exposures deducted from own funds
  CRR Article 379 (6) Point (e) is stated as legal reference. But according to CRR Article 379 the exposures mentioned in Paragraph (6) Point (e) shall not be included in the exposures at all, therefore they cannot be deducted in column 220.
  Please specify clearly which exposures should be deducted here.

- Column 260-320 / (-) eligible credit risk mitigation (CRM) techniques
  The column numbers in the last paragraph are wrong.

- If a individual customer is reported in LE 1 because it is not part of a group of connected clients, does it have to be reported in LE 2 too?

6. What are the cost implications of introducing a breakdown by residence of the counterparties?

ANNEX IX, Page 5 (Column 040 of template LE 1 and LE 2)
ISO code of the country of the counterparty shall be used.

The report of the name and the residence of the counterparty would cause considerable costs and this information does not bring relevant additional benefit. As we are clearly identifying every counterparty via reporting the code (identification number of the Austrian National Bank) it is not necessary to report this information because it already exists at the national authority. Further, the name can not be an appropriate identification for an international report as we have special letters and signs in nearly every language which cannot be used correct in other countries.

7. What are the cost implications of introducing a breakdown by sector of the counterparties?

ANNEX IX, Page 5 (Column 050 of template LE 1 and LE 2)
One sector shall be allocated to every counterparty:

(i) general Governments and Central Banks; (ii) Credit institutions; (iii) Investment firms; (iv) Financial corporations other than institutions; (v) Non-financial corporations; (vi) Households.

The costs would be enormous due to the suggestion to use FINREP definitions as mentioned above. We request to use COREP definitions such as "central government", "institutions", "corporates" and "retail". Another suggestion is to report the NACE code for all the clients but not to report the sector.

8. What are the cost implications of introducing a breakdown by economic sector by using NACE codes?

ANNEX IX, Page 5 (Column 060 of template LE 1 and LE 2)
For the economic sector, the NACE codes shall be used.

This would cause considerable costs.

9. Would other classifications be more suitable or cost efficient?

COREP- instead of FINREP definitions, or NACE code for all the clients but no sector.

- It should be avoided that the sector code and the NACE code has to be reported on group level, and depending on the biggest exposure of the group members. It should be sufficient to have this information on the level of the single counterparties of the group.

Comments to CP 51

IV. Draft ITS

- CHAPTER 5, Article 11 (3) on page 9
  According to Article 383 (1) CRR the exposures on a consolidated basis, excluding those exempted from the application of Article 384(1) has to be used to determine the 20 largest exposures. In the ITS should be clearly stated which column has to be used to determine the **20 largest exposures**. In Annex VIII this value is in column 340.
  Please note that the CEBS Guidelines on reporting requirements for the revised large exposure regime of December 2009, in paragraph 47 – on the contrary - stipulate that the determination of the 20 largest exposures has to be based on the exposure value before credit risk mitigation and exemptions. This is not in line with the CRR.

- CHAPTER 5, Article 11 (4) on page 9
  The absolute **threshold** above which an exposure has to be reported should not be subject to the decision of the competent authorities because this would lead to an uneven playing field.

  If the rule is not discarded: Does this paragraph authorize the competent authorities to set a lower absolute amount only for all the institutes of a country, or even for individual institutions within a country? The latter should not be allowed and the wording should be changed accordingly.

V. Accompanying documents

- a. Validation rules 1.a on page 11:
  The legal references are included in Annex IX, not in Annex VIII as stated in point a.1.a.

- Validation rules 1.e on page 11:
  XBRL must not be mandatory as this would cause huge additional IT effort which would seriously endanger the overall project.

  Following our feedback regarding CP50:
  XBRL is currently not used in Austria. A mandatory requirement to use XBRL would mean to start an IT-implementation project immediately.

  As a necessary precondition, all forms/definitions/… have to be available right now, as such a project has a minimum time frame of 12 to 18 months. Having said that, it is obviously too late to direct the usage of XBRL for first reporting date March 31st 2013.

  Additionally: Introducing XBRL as a mandatory requirement in parallel with the implementation of Basel 3 and the new solvency forms increases the needed IT-effort and therefore increases the risk of not achieving the Basel-3-goal.

  Furthermore all investments in current solutions would be sunk costs.

  The mandatory introduction would cause problems not only on the side of the commercial banks but also for the supervising authorities, as also they would have to change their IT for receiving regulatory reports accordingly in new XBRL format.

  Therefore we oppose this idea as it does not improve the supervision of banks but increases the project risks dramatically.

- Validation rules that sum up the components of a counterparty in LE 2 and compare this sum with the value of the counterparty in LE 1 should allow for **rounding differences** of +/- 1.

Kindly give our remarks due consideration.

Yours sincerely,

Dr. Herbert Pichler
Managing Director
Division Bank & Insurance
Austrian Federal Economic Chamber