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**EBA/CP/2015/23**

**Draft ITS amending Commission Implementing Regulation (EU) 680/2014 on supervisory reporting of institutions with regard to financial reporting (FINREP) following the changes in the International Accounting Standards (IFRS 9)**

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as representative of the entire Austrian banking industry, appreciates the possibility to comment on the above cited consultation paper and would like to submit the following position:

We welcome that the EBA gives the target group of this consultation paper the possibility to comment on the proposal in advance of the endorsement of IFRS 9 on EU-level. As IFRS 9 published by IASB in July 2014 will have a significant impact on formats to be used for supervisory reporting of financial information we appreciate the possibility to have first impressions on the proposal as well to comment on it as early as possible.

We will use this consultation paper to provide feedback to selected questions within the Consultation Paper and we will also take the opportunity to highlight a few specific comments.

We believe that there are a few key messages that the EBA needs to consider when they push forward with the current consultation.

**In particular, we believe that the newly introduced template set for regulatory FINREP (Financial Reporting) should be synchronized as much as possible with IAS/IFRS regulations. In respect with IFRS 9 implementation within FINREP the amount of deviations from IFRS 9 and IFRS 7 (disclosure requirements) should be very limited to avoid additional burden for the reporting entities.**

**Questions for consultation:**

**Q1. Is there any additional change introduced by IFRS 9 Classification and measurement rules and principles that needs to be reflected in FINREP IFRS 9 templates to convey to supervisors an appropriate level of financial information on your institution?**

From our point of view all main disclosure requirements which are needed for financial statements based on IFRS are covered in the proposed template set which should in principle also reflect the main needs for supervisors regarding financial information. Nevertheless we want to point out that all additional requirements which are not needed based on IFRS disclosure requirements are connected with costs regarding implementation of requested information in the IT-systems as well staff resources and should therefore be avoided were it is possible from the regulators point of view.

We would like to use question 1 to reflect what is expected in **F1.1 row 097** respectively **F1.1 row 110**. We would appreciate to have examples for equity instruments in both rows. We are thinking that for equity instruments only one of the mentioned rows should be used. Thereinafter we question if the detailed tables **“F4.2.1 Non-trading financial assets mandatorily at fair value through profit or loss”** and **“F4.2.2 Financial assets designated at fair value through profit or loss”** are correct in the sense that for both accounting portfolios in table **F1.1** entries for equity instruments are possible whereas in table in **F4.2.2** there is no possibility for entries of equity instruments.

Additionally we suppose to precise the header for **row 161 in table F.1.1 “Fair value changes of financial assets measured at fair value through other comprehensive income”** to avoid misunderstandings regarding the fact that in mentioned row only debt instruments are in the scope and not all financial assets which are subject to this accounting portfolio.

Further we want to point out that in table **“F4.5 Subordinated financial assets”** entries for the (aggregated) “carrying amount” of such items (column 010) without distinguishing across different measurement models that may potentially apply, are requested. Certain types of subordination may trigger some subordinated financial instruments to fail the SPPI (Solely payments of principal and interest) condition (e.g. contractually stipulated right of the issuer, or of issuer’s regulatory authority to impose losses on the holder in certain circumstances -> e.g. non-viability). For such cases, “carrying amount” will equal fair value, given that the applicable measurement model will be FVTPL (Fair value through profit or loss). Also, for subordinated financial assets meeting the SPPI condition and managed under a “hold & sell” business model, “carrying amount” will equal fair value as well, given that the applicable measurement model will be FVTOCI. On the other hand, for subordinated financial assets meeting the SPPI condition and managed under a “hold to collect” business model, “carrying amount” will equal “amortized cost” (i.e. gross carrying amount less credit loss allowance). Is the column 010 “carrying amount” expected to potentially aggregate together fair values and amortized costs, stemming from different measurement models applying to different subordinated instruments?

Furthermore we would ask for clarification that figures reported under column **005 “Gross carrying amount” in table F5.1 “Loans and advances other than held for trading by product”** should include, as far as non-performing non-trading loans and advances mandatorily measured at FVTPL and designated at FVTPL are concerned, their respective fair values (carrying amounts) grossed-up by any accumulated negative fair value change due to credit risk for the related assets. Consequently, the total figure in row 080, column 005 in table F5.1 is not reconcilable against table F1.1 Total Assets.

We see further in table **F6.1 “Breakdowns of loans and advances other than held for trading to non-financial corporations by NACE codes”** that the table is also designed to merge “Gross carrying amounts” of all related non-trading assets, irrespective of the underlying measurement model (FVTPL, FVTOCI, AC), with the Gross carrying amount of the FVTPL portfolio derived as fair value (carrying amount) grossed-up by any accumulated negative fair value changes due to credit risk. Consequently we see that the following reconciliation against table F5.1 should work: “**F5.1 row 080, column 050 = F6.1 row 190 (column 10, column 21 and column 22)”.**

**Q2. Is the FINREP representation of impairment on assets measured at fair value through other comprehensive income consistent with the way this information will be conveyed in your financial statements? In case of inconsistency, what are the improvements needed in FINREP?**

In general we do not see any inconsistency in the way how the templates shows the information for impairment on assets measured at fair value through other comprehensive income. Below we want to point out topics which would need further clarification.

In table **“F4.3.1Financial assets at fair value through other comprehensive income”**, **column 010** “Carrying amount” we question if the reported amounts are expected to reconcile against the net between (a) “Gross carrying amount” in columns 010,030,040 and (b) “Accumulated impairment” in columns 050-070. If yes, then such “Carrying amount” would be equal to these assets at amortized cost, which will differ from the fair value reported in F1.1 for such assets. If on the contrary, the amounts in column 010 are expected to show fair values then reconciliation to F1.1 would be possible but reconciliation within table F4.3.1 “Gross carrying amount minus Accumulated impairments” would fail. Based on Annex V Part 2.25 we assume that reconciliation to F1.1. is expected and therefore we ask for final clarification.

In table **“F4.3.1 Financial assets at FVTOCI”column 020** “of which: instruments with low credit risk” it appears that this column 020 is a sub column of column 015 “Assets without significant increase in credit risk since initial recognition (Stage 1)”. We are considering that the two headers may generate some confusion given that instruments with low credit risk as at reporting date may have acknowledged significant increase in credit risk since initial recognition but are still disclosed in stage 1 based on IFRS 9.5.5.10. A proposal for **renaming the columns** would be to create two separate columns for Stage 1 with the sub columns (1) Low credit risk instruments (2) Non low credit risk instruments for which there is no significant increase in credit since origination.

Additionally, we want to remark that a **separate disclosure** of this “Stage 1” sub-category may be seen as implicit requirement from regulatory point of view as in IFRS 7 there is no explicit requirement to disclose “low credit risk” assets assigned to “Stage 1”. We want to point out that this additional requirement which is not needed based on IFRS disclosure requirements are connected with costs regarding implementation of requested information in the IT-systems as well staff resources and should therefore be avoided.

Regarding **columns 050-070 “Accumulated impairment**” in table “**F4.3.1 Financial assets at FVTOCI”** we do not expect that there is a **direct** possibility to reconcile against any particular OCI (other comprehensive income) item disclosed in other related tables (F1.3, F14 columns 060-080, F46), given that these related tables are designated to disclose the combined (e.g. netted) fair value change accumulated in OCI from FVTOCI assets, without separation of the accumulated impairment element of such FV change. Additionally columns 050-070 will not be traceable against amounts reporting in column 090 “Closing balance” of table **“F12.1 ´Movements in allowances and provisions for credit losses”** because table F12.1 does not distinguish between AC (Amortized Cost) assets and FVTOCI assets. For the same reason, the amounts to be reported in the columns 050-070 “Accumulated impairment” of the **Table “F4.4.1 Financial assets at amortized cost**” will also be non-reconcilable against amounts reported in column 090 “Closing balance” of the Table “F12.1 Movements in allowances and provisions for credit losses”. However, when added-up with corresponding amounts in columns 050-070 of Table F4.3.1, they should fit against corresponding amounts in column 090 of T 12.1.

**Q3. Are instructions on the reporting of amounts partially and totally written-off clear enough? Which clarifications would you need to ensure good quality of reported data?**

Regarding question three we would like to **clarify the added value of the split between partial and full write-offs in columns 080 and 090 of tables F4.3.1 and F4.4.1 as well columns 110 and 120 of table F12.1** as there is no disclosure requirement corresponding IFRS 7. As this split is very burdensome and is connected with costs regarding implementation of requested information in the IT-systems as well staff resources an enlargement of IFRS needs should be avoided.

Further a clarification if **(accumulated) write-offs requested** to be reported in **columns 080 and 090 in tables F4.3.1 and F4.4.1** include write-offs made against related loss allowances (“usage”), having also in mind that (period’s) write-offs requested to be reported in the columns 110 and 120 of the table F12.1 are explicitly specified as referring to “direct charge offs” to P/L only.

Additionally we question whether **column 090 of tables F4.3.1 and F4.4.1 “Accumulated gross carrying amount of debt instruments totally written-off”** requires the time of the total write-off, or as at current reporting date?

**Q4. Do you believe some of the off-balance commitments listed in Annex I of Regulation (EU) 575/2013 will keep on being measured in accordance with IAS 37 instead of IFRS 9? In case you believe that all commitments listed in the said Annex will be applied the IFRS 9 impairment rules, please provide the rationale backing your view**.

We believe that some of the off-balance commitments listed in Annex I of Regulation (EU) 575/2013 will keep on being measured in accordance with IAS 37 and therefore agree with the proposal mentioned in the Consultation paper.

**Q5. Do you recognize loan commitments and guarantees at fair value or measure some financial guarantees in accordance with IFRS 4, as possible according to IFRS 9.2.3 (a) and IFRS 9.2.1 (e) in connection with IFRS 9.B.2.5 and ? If yes, are the respective outstanding notional amounts significant when compared with the overall notional amounts of loan commitments and guarantees?**

No, at the moment we do not recognize loan commitments and guarantees at fair value or measure some financial guarantees in accordance with IFRS 4, as possible according to IFRS 9.2.3(a) and IFRS 9.2.1(e) in connection with IFRS 9.B2.5.

**Q6. Are instructions on the allocation of changes in loss allowance between different drivers clear enough? Which clarifications would you need to ensure good quality of reported data?**

Referring to **table F12.1 column 040 “Changes due to update in the institution’s methodology for estimation (net)”** we are asking for clarification that if such changes result in re-assignment of certain exposures to a different “stage” (e.g. change in methodology for estimation in lifetime PD [probability of default] leading to re-assignment from stage 1 to stage 2 or vice-versa), then the effect of such changes (e.g. allocation or release) has be included in this column, rather than in column 020 “Impairment or reversal of impairment (net) with transfer between stages”? Additionally, please clarify whether the update/review of risk parameters is also classified as change of methodology (hence: changes in allowances due to such updates/reviews should be reported under column 040, although there is no change in the calculation models/update in used formulas/reviewed parameters as inputs). Also, we would like to point out that changes in allowances attributable to such methodology updates may only be quantifiable with a certain delay, which can run from 1 to 6 months. This may result in column 040 being populated with non-nil figures although the triggering change in methodology occurred prior to the start of the reporting period.

Within **column 060 “Changes due to repayments and disposals” in table F12.1**we would ask for confirmation that, in the light of the paragraph 132 of Annex V changes in allowances due to recurring contractual repayments do not have to be separately identified and reported under this column, unless it is the final contractual repayment collected upon asset’s final maturity, hence triggering asset’s full de-recognition due to expiry of all contractual rights over asset’s cash flows.

**Example:**

Between T0 and T1 the gross carrying amount (GCA) of a relevant (not impaired) asset decreases from 100 to 60due to contractual repayments. During the same period, there is an increase from 5% to 7% in the applied PD% (no stage transfer). LGD is constantly 50% and discounting is ignored. Overall, the related credit loss allowance (CLA) would decrease from (a) 2,5=100\*50%\*5% to (b) 2,1=60\*50%\*7%. Our understanding is that here is no necessity for the reporting of the CLA decrease by -0,4 from T0 to T1 to be split into (i) a decrease of -1,0 = (60-100)\*50%\*5% due the repayment (reported in column 060) and (ii) an increase of +0,6 = (7%-5%)\*50%\*60 due to the PD increase (reported in column 030). On the other hand, if the repayment between T0 and T1 is 100 (that is: fully extinguishing lender’s contractual rights over asset’s cash flows), then the full reversal of the related CLA (in amount of 2,5) shall be reported in column 060.

Additionally we are wondering whether the full “usage” of credit loss allowance upon contractual modifications triggering de-recognition of the modified asset have to be reported in this column, or rather in column **070 “Write-off through decrease in allowance account”**.

Generally speaking **IFRS 9.5.5.1 requires that, upon modifications not triggering de-recognition, the impairment is re-assessed based on the modified terms and conditions.** Therefore we ask for clarification if such re-assessments result in allocations or releases simultaneously with transferring of the modified exposure to a different stage, the mentioned allocation or release shall be reported in the **column 020 “Impairment or reversal of impairment (net) with transfer between stages”**, mixed up with non-modification related stage re-assignments. If not, in what column the effects of such modifications shall be reported? Additionally we question if such re-assessments result in allocations or releases without transferring of the modified exposure to a different stage, the mentioned allocation or release shall be reported in **column 030 “Impairment or reversal of impairment (net) without transfer between stages”**, mixed-up with non-modification related allocations/releases within the same stage. If not, in what column the effects of such modifications shall be reported? Based on point 129 of the draft new FINREP Instructions (Annex V), we understand that such modification-driven changes shall be reported in the columns 020 or 030, without separation from non-modification-driven similar changes. However, we considered useful to raise this question, notably by reference to IFRS7.35I.b which, in our current understanding, requires separate disclosure of changes in loss allowances due to modifications not triggering de-recognition.

In accordance with the resolution of **IASB’s ITG (IFRS Transition Resource Group for Impairment of Financial Instruments)** meeting dated 11th of December 2015, the credit loss allowance attributable to credit-impaired “Stage 3” exposures shall be equal to the present value of cash shortfalls identified in accordance with the IFRS 9 definition of credit loss and with IFRS 9.B5.5.29 by comparing all cash flows contractually due (hence: including interest receivables accruing after default) against expected recoveries. In practice this means that the amount of the Stage 3 credit loss allowance will increase every period by the difference between full effective interest (accruing into the gross carrying amount of the credit-impaired exposure and “unwinding” (that is: the interest income element resulting by applying EIR to the present value of expected recoveries). This increase in credit loss allowance reflects the adverse “time-value-of-money” effect over expected cash shortfalls. We are questioning in what column such recurring increase in Stage 3 credit loss allowance should be reported? Would it be in column 080 “Other adjustments”? By extrapolation to stages 1 and 2 in what column is the (adverse) discounting (“time-value-of-money”) effect over credit loss allowances expected to be reported? We assume that, for stages 1 and 2, the discontinuing effect embedded in the loss allowance change between any given two successive reporting dates shall not be separately identified and reported, but it will be integral part of the movements reported in column 020 and 030. We would ask for clarification if this assumption is correct. The above mentioned request for clarification equally applies to POCI assets against which a credit loss allowance is recognized, due to expectations of lifetime credit losses worsening compared to initial recognition. Additionally, we would like to clarify whether, by analogy to the reporting of discounting effects on credit loss allowances against on-balance exposures as referred to above, discounting effects on credit risk provision liabilities against Stage 3 and POCI off-balance exposures would need to be reported similarly (that is: under the column 080 “Other Adjustments” given their booking as interest-like expenses), whilst discounting effects on credit risk provision liabilities against Stage 1 and Stage 2 off-balance exposures would be integral part of the movements reported under the columns 020 or 030, as applicable.”

Regarding the **simplified approach allowed by IFRS 9.5.5.15** (lease receivables, trade receivables, contract assets) in our opinion table F12.1 does not included dedicated lines for the mentioned in-scope instruments. As Annex V states this information should be merged into dedicated lines in stage 2 and stage 3.On the other hand, IFRS 7.35 H.b.i requires separate disclosure of the development in credit loss allowances for such items which would not be fulfilled in the current version of the aforementioned template for reporting purposes to regulators.

There are also not foreseen dedicated lines for development in loss allowances **against POCIs (Purchased or originated credit impaired)** for which lifetime expected credit losses worsened since initial recognition (hence: loss allowances are built-up in accordance with IFRS 9.5.5.13). On the other hand, IFRS 7.35H.c requires separate disclosure of the development in credit loss allowances for such items.

In every stage for allowances there is the requirement to report of which position for collectively and individually assessed allowances **(F12.1 row 160/170, 330/340, 510/520)**. We question in what sense the word **“assessed”** is meant. In more detail what is the trigger to distinguish between “individual” or “collective” assessed. Is the trigger based on the granularity ofused parameters for the credit loss calculation or based on the granularity of used criteria for staging? According to **IFRS 9 B5.5.1 – B5.5.6** the stage allocation can be performed based on assessments of the significant increase in credit risk on individual or collective basis. We question if these different types of assessment relate to the requirement to split credit loss allowances to “individually assessed” and “collectively assessed”. **If yes**, we would appreciate more detailed instruction how to proceed in case if stage allocation is performed on individual basis and credit loss allowances are assessed on collective basis.**If not**, and the requirement relates only to the approach according which credit loss allowances are calculated we would appreciate detailed instruction if

* Credit loss allowances are calculated on individual basis if risk parameters PD (Probability of Default), LGD (Loss Given Default) and CCF (Cash conversion factor) customized on client/asset level, meaning each of these risk parameters is estimated for client/asset individualized cash flow forecasts.
* Credit loss allowances are calculated on collective basis if the conditions/criteria for individual assessment (bullet point 1) are not fulfilled.

Referring to the below shown example within template F12.1 and in regard of Annex V Part 2.129 which stipulates that *“Impairment or reversal of impairment (net) with transfer between stages” shall include the net amount of changes in expected losses due to a significant increase or decrease in credit risk since initial recognition. This shall include also changes in the expected losses related to modified assets [IFRS 9.5.4.3 and Appendix A] . When the increase or decrease in credit risk is due to a change in credit risk, including because of a modification without de-recognition [IFRS 9.5.4.3 and Appendix A], but does not imply a transfer between impairment stages, institutions shall report the net amount of changes in expected losses in the column “Impairment losses or reversal of impairment (net) without transfer between stages”.*

We ask for clarification if this would mean that the sum of the positive (transferred-in) and negative (transferred-out) amounts reported in the column **“Impairment or reversal of impairment (net) with transfer between stages”** should be equal to zero, hence always reflecting only P/L-neutral changes in the respective three loss allowance balances? To make it more visible we added below an example.

**Example:**

Quarter 1:

Loan is freshly originated and measured at 12 months expected loss in Stage 1 with loss allowance of 100.

Quarter2:

Due to significant increase in credit risk the loan is transferred to Stage 2 which leads to an expected loss of 300.

According to our interpretation, this scenario shall be cumulatively reported as follows for the first half of the reporting year:



*Picture 1: Illustrative example “Impairment or reversal of impairment (net) with transfer between stages”*

Further clarification is needed if throughout the reporting period, loss allowances against certain exposures **are no longer individually assessed but collectively assessed** (e.g. because the exposure felt below the minimum threshold for individual assessment) or **vice-versa**, how such changes in granularity of loss allowance assessment are expected to be reflected in the above mentioned rows.

Our assumption is also that changes in loss allowances due to **foreign-exchange differences** are expected to be reported within column **080 “Other adjustments”.** Therefore we would appreciate some clarification in Annex V if our assumption is correct.

Additionally we ask for clarification how **movements of credit loss allowances triggered by existing off-balance sheet exposures becoming on-balance during the reporting period** (i.e. fresh drawings from an existing committed facility) shall be reported in the table F 12.1.

**Example:**

A credit loss provision liability of 100 is recognized against a Stage 1 corporate loan commitment exposure existing at the beginning of the reporting period (T0). During the reporting period (T0;T1), half of the commitment is drawn (hence: it becomes an on-balance exposure in the form of a loan asset). Assuming, for simplification purposes, that the credit loss provision liability attributable to the drawn commitment (at the time of the drawing) is 50, please clarify what is the column where the 50 shall be reported in the line 560 of Table F 12.1. Also, please clarify whether same 50 shall also be reported in the column 050 line 130 of Table F 12.1, while any residual difference up or down to the amount of the credit loss allowance calculated against the newly arising on-balance asset as at T1 going in the column 030 line 130.

**Q7. How will you identify the different drivers for change in loss allowance for open retail portfolios?**

Please refer to our comments and requests for clarifications, as documented in our response to Q6. The mentioned comments and requests for clarification indicate our concerns in respect of data processing & collection processes necessary for reporting movements in expected credit loss allowances as requested under the draft template 12.1, notably for open retail portfolios but not only.

**Q8. Are the instructions and template on the reporting of transfers of financial assets between Stages sufficiently clear? If not, what changes could be made to the template or the instructions to ease the reporting by institutions and improve the supervisors’ understanding of the application of the significant increase in credit risk threshold over time?**

Referring to the instructions in EBA/CP/2015/23 where it is stated that “*Transfer between Stages refer to situations where a financial asset* ***that is still recognized at the end of the reporting period is not included in the same impairment Stage in the end of a reporting period (final Stage) as the Stage it was included in at the beginning of the reporting period (initial Stage).*** *Only transfers between the initial Stage to the final Stage shall be reported, not the intra-period transfers*”.

Does this mean those financial assets that were originated or acquired during the period (hence: no “initial Stage” assigned to them at the beginning of the reporting period) are **outside the scope** of table **F12.2,** even if they were re-assigned to a different stage subsequent to their initial recognition but before the reporting date?

**Example:** An asset is originated on 1st of February and assigned to Stage 1. As of 30t of November it is transferred to Stage 2 due to significant increase in credit risk. Will this asset fall in the scope of the Table F12.2 for the full reporting year?

Further EBA/CP/2015/23 states that “*The amount reported as transferred shall be the gross carrying amount included in the final Stage as at the reporting date, and not the gross carrying amount included in the initial Stage as at the transfer date*”.

We ask for clarification if this also applies to assets that **suffered partial write-offs** during the reporting period?

**Example:** An asset is in “Stage 2” as at the beginning of the reporting period, with a gross carrying amount of 100. During the reporting period, the asset becomes credit-impaired and an amount of 70 is written-off as reasonably assessed irrecoverable. The gross carrying amount as at the end of the reporting period is 35 (30 + 5 accrued interest). To be confirmed that the amount to be reported in column 030 of F12.2 is 35.

Similarly to the Table F 12.1, no dedicated lines appear to have been designed for instruments for which the **simplified approach is allowed by IFRS9.5.5.15** (lease receivables, trade receivables, contract assets). As Annex V states in general that this information should be merged into dedicated lines in stage 2 and stage 3.Nevertheless, IFRS 7.35 H.b.i requires separate disclosure of the development in credit loss allowances for such items which is not fulfilled in the reporting template to regulators at the moment.

**Q9. Do respondents agree with the approach suggested in the example above on “the reporting of impairment on assets measured at fair value through other comprehensive income (FVOCI)” to present impairment of debt instruments measured at FVOCI on a net basis?**

**Yes** we agree with the approach suggested in the example on the reporting of impairment on assets measured at FVOCI to present impairment of debt instruments measured at FVOCI on a net basis.

**Q10.What further improvements are needed in FINREP IFRS 9 templates in order to convey supervisors with appropriate and comprehensive information regarding the level of impairment and its developments in your institution?**

Addressing/answering the clarification requirements mentioned under some of the questions Q2 to Q9 above may be instrumental for us in indicating whether further improvements to the templates would be necessary.

**Q11.What further improvements are needed in FINREP IFRS 9 templates in order to convey supervisors with appropriate and comprehensive information regarding the level of hedging activities and its impact on the financial position and profit or loss of your institution?**

Please refer to Q12-Q14 below for any specific comment or clarification request.

**Q12.Do you agree with the allocation of hedged items and hedging adjustments by derivative risk categories in templates F11.4 and F11.5 or could a more relevant split be implemented?**

Generally speaking we agree with the allocation of hedged items and hedging adjustments by derivative risk categories in the mentioned templates with the following remarks.

**IFRS9.6.6.5** mentions that, for assets and liabilities that are hedged together as a group in a fair value hedge (e.g. portfolio hedge of interest rate risk, as relevant for reporting under column 050 of table **F11.4 “Hedged items in fair value hedges”**), the gain or loss in the statement of financial position on the individual assets and liabilities shall be recognized as an adjustment of the carrying amount of the respective individual items comprising the group. Furthermore, IFRS7.24B.(a).(i) requires for separate disclosure of fair value adjustments accumulated in the carrying amount of fair value hedged items, irrespective of whether those hedged items are subject to micro-hedge or are hedged on a group basis. From this perspective we would like to clarify whether the “carrying amount” expected to be reported under column 050 of table F 11.4 is before or after consideration of related accumulated fair value adjustment. We expect that, despite the IFRS presentation and disclosure requirements mentioned above, it shall be before consideration of such adjustment, having also in mind that Table 1.1 and 1.2 continues to request for such adjustment to be presented in a dedicated line of the balance-sheet. In respect to the above mentioned we question if table F 11.4 must be filled from institution which will make use of the **carve-out** option?

Still with regards to **F11.4** we would appreciate clarification that **“Remaining adjustments for discontinued hedges”** arising from discontinued portfolio fair value hedges are outside the scope of this table.

**Q13. Is the maturity schedule provided in template F11.5 adequate to allow the proper identification of structural hedging transactions?**

Generally speaking the maturity schedule provided in **F 11.5 “Hedge accounting – timing of expected hedged cash flow for cash flow hedges and disposal of foreign subsidiaries for hedges of a net investment in a foreign operation”** is adequate. However, we are questioning whether the requested information would be sufficient to satisfy the requirements of IFRS7.23A/23B, also considering that Table F 11.5 addresses only cash flow hedges and hedges of net investments in foreign operations, whilst the mentioned IFRS7 requirements address quantitative information about how terms and conditions of all hedging instruments are expected to affect the amount, timing and uncertainty of future cash flows of the entity.

Additionally, given our above mentioned understanding, based on its title, the Table 11.5 does not cover fair value hedges. In regard of this we would ask for a clarification as to what is the expected content of line 080 “HEDGED CASH FLOWS IN A PORTFOLIO HEDGE OF INTEREST RATE RISK”. We assume portfolio hedges of interest rate risk can normally be found under the title of fair value hedges.

**Q14. Would a reporting of the expected reclassification timing of the cash flow hedge and hedge of a net foreign investment reserves by types of risk, or a reporting of the timing of the nominal amount of the hedging instrument be preferable to a maturity breakdown of the hedged cash flows as currently proposed in template F11.5 in order to show the possible impact of the cash flow hedge on the future performance of your institution?**

From the point of view of achieving full consistency with the requirement of IFRS7.23B.a, a reporting of the timing of the nominal amount of the hedging instrument might be preferable to the currently proposed maturity analysis.

Moreover, we would welcome a general clarification on whether the Table 11.5 is designed to primarily address hedged items (as its title and also the header of its columns 010-040 might suggest) or whether it rather focuses on hedging instruments (as the reference to IFRS7.23B in line 070 might indicate).

**Q15. How do the requirement to report changes of fair value due to credit risk match with your approaches for valuation in the financial statements, disclosures in the notes to the financial statements and risk management practices?**

N/A.

**Q16. If you disagree that reporting accumulated negative changes in fair value due to credit risk on non-performing exposures achieves a credit risk metric approximating impairment for exposures measured at fair value, which other metric would you propose to be used?**

N/A.

**Q17. Compared to the current reporting requirement of the fair value changes due to credit risk on all exposures at fair value through profit and loss except held for trading, would monitoring accumulated negative changes on non-performing exposures only entail significant increase or decrease in the cost of monitoring and reporting those fair value changes due to credit risk?**

Probably not, given that we expect that a majority of non-trading exposures that will be measured at FVTPL under IFRS9 would fall under the “Level 3” fair value hierarchy defined by IFRS13. Hence, monitoring the fair value changes due to all significant drivers (including credit risk of the counterparty) will be anyhow necessary in order to be able to fulfill all disclosure requirements of **IFRS13 in respect of “Level 3”** valuations (e.g. sensitivities).

Further, we ask for the following clarification in respect of negative changes in credit risk to be reported in the **Tables F 18 “Information on performing and non-performing exposures”**and **F 19 “Information on forborne exposures”.**Negative changes in credit risk of “DEBT INSTRUMENTS AT FAIR VALUE THROUGH profit or loss, OTHER THAN HFT” that are **“performing”** shall not be reported anywhere in these tables. For example, if the counterparty of a non-trading non-SPPI loan measured at FVTPL becomes defaulted, then the related negative change in fair value due to credit risk shall be reported in the column 150 of Table 18 (and also in the column 140 of Table 19, if the loan is also forborne). However, if that counterparty is non-defaulted but its credit risk increased significantly since origination (hence: the loan would have been allocated to “Stage 2” and impairment allowance would have been calculated based on lifetime expected credit losses if the loan hadn’t been measured at FVTPL due to having failed the SPPI criterion), then the related negative change in fair value due to that significant increase in credit risk since origination is outside the scope of reporting in both Table 18 and Table 19.

**Q18. At which level (portfolio, instrument by instrument) do you compute and track fair value changes due to credit risk? Do you implement any aggregation/offsetting between gains and losses in fair value due to credit risk when estimating them?**

According to the internal methodology (which is in process of review and potential improvement, in preparation of transition to IFRS9) fair value measurement (hence: changes in fair value due to various drivers, notably credit risk) has to be computed and tracked at instrument level for all instruments accounted for at fair value based on IFRS, including for those that according to IAS32 have to be netted-off in the balance-sheet for presentation purposes. Aggregated computation has been sometimes used due to technical limitations, but only in respect of fair valuation of financial instruments at amortized cost for disclosure purposes, and only based on dedicated plausibility checks. It is still under analysis whether, by the time of adoption of IFRS9, instrument-level calculation would be fully practicable for instruments not accounted for at fair value.

**Annex I - Abbreviations**

AC Amortised Cost

CLA Credit loss allowance

CP Consultation Paper

EBA European Banking Authority

EIR Effective interest rate

FINREP Financial Reporting

FVTOCI Fair Value through other comprehensive income

FVTPL Fair Value through profit or loss

GCA Gross carrying amount

HfT Held for trading

IFRS International Financial Reporting Standards

ITG IFRS Transition Resource Group for Impairment of Financial Instruments

OCI Other comprehensive income

P/L Statement of profit and loss

POCI Purchased or originated credit impaired

PD Probability of default

SPPI Solely payments of principal and interest

We ask you to give our remarks due consideration.

Yours sincerely,

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