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**FBF comments and responses to EBA consultation paper  
on draft ITS amending Regulation (EU) 680/2014 on supervisory reporting  
with regard to FINREP following IFRS9**

## **Introduction**

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 425 commercial, cooperative and mutual banks. FBF member banks have more than 39,000 permanent branches in France. They employ 380,000 people in France and around the world, and service 48 million customers.

The French Banking Federation is pleased to take the opportunity to comment the Consultation Paper on draft ITS amending Implementing Regulation (EU) 680/2014 with regard FINREP following IFRS9.

We do welcome this consultation and are happy to stress the high level of documentation of each change. We also welcome that the EAB proposes to update the ITS FINREP package introducing changes coming from IFRs9 prior to IFRS 9 endorsement. However, as acknowledged by the EBA, institutions need time to implement the new version of the reporting framework. Thus, sufficient time should be considered between finalisation of the reporting templates along with validation rules and first period of reporting of the new FINREP version.

We also advocate that the revised FINREP templates shall be based on IFRS standards and that new additional information required by the revised FINREP should be limited to the new requirements introduced by IFRS 9 and revised IFRS 7. Moreover, while IFRS 9 supports narrative disclosures, the revised FINREP goes far beyond the standard when translating qualitative information into quantitative templates.

We welcome that the reconciliation of the changes in the accumulated loss allowances are cumulative from the beginning of the financial year to the end of the financial year. We understand that templates related to these movements are yearly reported and that the only net effect of these movements are reported.

While the proposed instructions are, in general, sufficiently clear, some clarifications may be needed as explained in our comments to the questions of the consultation paper.

We hope you find these comments useful and remain at your disposal for any questions or additional information you might have.

## Classification and measurement

***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?***

We see no additional change introduced by IFRS 9 Classification and measurement to be reflected in FINREP templates.

Some clarifications are needed as follows:

### **F5.1. Loans and advances other than held for trading.**

We understand that the line 90 “of which: mortgage loans [Loan collateralized by immovable property]” includes loans guaranteed by guarantee companies.

### **F41.2. Use of the fair value option.**

Column 020 requires information regarding financial assets managed on a fair value basis. But IFRS 9 does not provide for the case of fair value option for a group of financial assets. The column 020 should be shaded for the part related to assets or clarification should be provided on the information to report in these cells.

### **Equity instruments.**

IFRS 9 does not provide equity instruments to be designated at FV through P&L. Therefore, lines related to financial assets designated at FV through P&L should be deleted in templates F1.1, F14, F15, F17.01 and F20.01, notably as these lines have already been deleted in templates F4.2, F41.2 and F16.5.

We understand that, for the need of regulatory purposes, the accounting category of financial assets measured at fair value through P&L is split between trading financial assets, non-trading financial assets measured mandatorily at fair value and financial assets designated at fair value through P&L. However, we would like to stress that, in this regard, a clear border between trading book and banking book would be needed.

## Impairment

***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?***

Regarding debt instruments measured at fair value through other comprehensive income we believe that further clarification is needed. Indeed, in the example of the Consultation paper page 19, if we refer to the IFRS 9 definition of gross carrying amount (GCA) (IFRS 9 Appendix A GCA stand for the amortised cost of a financial asset, before adjusting for any loss allowance”), we understand that the GCA will amount up to 1000 (IFRS9 definitions) whereas it will amount up to 980 according to the EBA instructions for FINREP.

**F4.3.1 – F4.4.1. Low credit risk.**

Column 020 “of which instruments with low credit risk” should be deleted as it is equivalent to column 015 related to stage 1 assets.

**F4.3.1 – F4.4.1. Purchased Credit impaired financial assets.**

**F16.1. Interest income and expense by instrument and counterpart sector.**

Under IFRS 9 and IFRS 7, purchased credit impaired financial assets are a distinct category of credit impaired assets and should be shown separately in disclosures. Therefore, it would be more appropriate to delete the lines “of which: purchased credit impaired financial assets” should be deleted.

***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?***

**F4.3.1 / 4.4.1:** Annex V Part 2.67 states that accumulated partial or full write-off (columns 080 and 090) must be reported in these templates until the total extinguishment of all the institution’s right **or** until recovery of the loan. Therefore when the rights of an institution are not extinguished, written-off amounts shall be reported even though the loans has been entirely derecognised and no enforcement has been taking place.

We question the relevance of reporting written-off amounts once the institution’s rights are extinguished, which would lead institutions to maintain any reporting chain for loans where no enforcement is allowed anymore, this is burden reporting for banks, in addition the information does not appear relevant for us for supervisory purposes.

**F12.1:** We understand that written-off amounts of the reporting period should be reported in this template.

We wonder which amount should be reported in the columns “amounts written-off”: gross carrying amount (we would prefer to report this amount) or net amount after impairment (as suggested by the example) ?

***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.***

The off balance sheet commitments listed might be classified into two categories. The first one includes off balance sheet items recognised in the financial statements and measured according to IFRS9, the second one deals with the instruments which are not recognised in the financial statements and are neither measured according to IFRS9, nor to IAS37.

***Q5. Do you recognise 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? If yes, are the respective outstanding notional amounts significant when compared with the overall notional amounts of loan commitments and guarantees?***

**F9.1.1. Off balance-sheet exposures.**

We see no commitments or guarantees to be measured at fair value or in accordance with IFRS 4. Therefore, we believe that the two related columns (100 and 110) of the template should be deleted. Would the EBA maintains the two columns, at least, it should be possible to report a nil amount or related checks should be abandoned as such off balance-sheet exposures might not exist.

***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?***

**F12.1 / F12.2:** Even though reporting that considers any reconciliation from opening balances to closing is difficult to achieve in an industrialized way, the changes in allowances that FINREP requires should stick to IFRS9 and the revised IFRS 7 disclosure requirements.

**Drivers of changes in loss allowances.**

**F12.1.** The allocation of changes in loss allowance might have many different drivers. Thus, IFRS9 requires qualitative description of these drivers. The template F12.1 enters into a level of detail too specific that might be burdensome to report. For example, changes due to updates in methodologies are too difficult to define and track in the IT systems to provide a relevant information. Therefore we suggest to merge the columns 030, 040 and 080, as well as the column 110 and 120.

**F12.1. Individual vs collective basis of measuring or assessment.**

IFRS 9 9 B5.5.1 – B5.5.6 paragraphs refer to individual vs collective assessment in two different contexts, (i) assessing whether an increase in credit risk is significant, and (ii) measuring expected credit losses. The template requires to make a distinction between « individually assessed allowances » and « collectively assessed allowances », notably for allowances related to stage 1 and stage 2. We question such distinction as IFRS 7 does not require to disclose the information.

But, should the distinction be maintained, clarification should be provided on whether the requirement applies to the assessment of the significant deterioration of the credit risk or to the measurement of the expected credit losses.

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

Banks will define methodologies in compliance with IFRS 9.

***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?***

**Transfers between impairment stages. Gross carrying amount presentation. Impairment allowances presentation.**

In the instructions, paragraph 136 relates to F12.2 and gross carrying amount presentation. It indicates that intermediate transfers between impairment stages occurring during the reporting period should not be reported.

Therefore, should only be considered the impairment stages of the financial assets at the beginning of the reporting period and the impairment stage of those assets at the end of the reporting period. The Consultation Paper page 22 also explains that “Only transfers between the initial stage to the final stage shall be reported, not the intra-period transfers”. This should be clarified in Annexe V.

**Reconciliation of the changes in the accumulated loss allowance. Amounts of movements of allowance to be reported when reclassification of assets between stages.**

The measurement basis to apply for impairment losses is either 12-month expected credit losses or lifetime expected credit losses depending on the stage assets classification. When assets are reclassified - including modified assets – between stages due to a significant increase (or decrease) in the credit risk since initial recognition, the measurement basis of expected credit losses changes.

Therefore, when transfers between stages, amounts of impairment or amounts of reversal of impairment related to stage 1 assets and stage 2 assets are different and could not be equal. Indeed, the reversal of the stage 1 loss allowance is calculated on a 12-month expected credit losses and the provision of the stage 2 loss allowance is calculated on the lifetime expected credit losses.

The Consultation Paper page 19 shows an example of transfers of loss allowance from stage 1 assets that are modified and consequently reclassified in stage 2 assets due to an increase in credit risk. We understand that the amounts of loss allowances transferred out of stage 1 and into stage 2 in Q2 are equal –amount of 1 800 - for the only purposes to illustrate a simplified example. We believe this should be clarified and we wish no formulae would be implemented on the basis of this example. .

***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?***

We believe that the templates should follow the way that the transactions are recognised in the financial statements, i.e. the impairment is recognised in P&L and the reversal to fair value in OCI, similar to the example in IFRS 9 IE88. .

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

**F6.1 NACE Codes**

The template deals with the NACE code of the loans and advance. The NACE code is not used to monitor the credit risk. We do not believe that it is used for supervisory purposes. We do not agree with the requirement according to the NACE code. This template should be deleted

**F16.1. Interest income on credit-impaired financial assets.**

We question the need to require interest income on credit-impaired financial assets as such information is not required under IFRS 7. We suggest deleting the line 280 of the template.

**Hedging**

***Q11. What further improvements are needed in FINREP IFRS 9 templates in order them 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?***

**Application of information to institutions that use the option to apply IAS 39 rules for hedge accounting.**

The revised IFRS 7 requires additional disclosures for both IFRS 9 and IAS 39 hedge accounting. However, some new disclosures that do apply to financial institutions that use the new IFRS 9 general hedge accounting model are not required to be provided by financial institutions that continue to apply IAS 39. Thus, we believe that such clear distinction should be made within the changes brought to the IFINREP templates related to hedging.

**F10 - F11.1. Type of markets.**

While the question on specification of derivative by type of market has already been raised in the Q&A, we believe that instructions should clarify how to define OTC or Organized market.

***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?***

We question the relevance to have hedged items broken down by expected cash flows as it is not required by IFRS9 nor IFRS7 regarding hedging relationships. In addition, this information is already reported out in the Pillar 3 Disclosures. Thus, we advocate EBA to stick to IFRS9 requirements when revising FINREP and not to include in it information that is already disclosed in Pillar3.

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

Please refer to question 12.

***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?***

Please refer to question 12.

We believe that FINREP reporting requirements should be consistent with revised IFRS 7 regarding hedging, i.e. break down of hedging instruments with expected cash flows should be required instead of requiring break down of hedged items by expected cash flows based upon IFRS7 B11B which is referring to liquidity risk, assuming FINREP does not provide with liquidity cash flow but NSFR and LCR do.

**Changes in fair value due to credit risk.**

***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?***

We welcome the removal of separate disclosures of fair value changes in credit risk for financial assets held for trading. However, we believe that such removal should apply to all financial assets measured at fair value through P&L, whether they are fair valued by designation or mandatorily. Splitting the reasons for changes in the fair value for financial assets managed on a fair value basis is of little interest and difficult to collect.

Moreover, information on fair value changes due to credit risk on forborne exposures and NPE is not required for debt instruments held for trading. We believe that it should not be required either for all debt instruments measured at fair value through P&L, whether they are fair valued by designation or mandatorily.

***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?***

Please refer to question 15.

***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?***

We have no specific comments

***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?***

Level (individual basis or portfolio basis) of measurement and tracking of fair value changes due to credit risk depends on the type and nature of financial instruments.

**Other Questions.**

***Q19. Do respondents have any comments on the structure and content of the proposed templates and in particular the amendments proposed to Annex III of Regulation (EU) No680/2014? Where there are disagreements to not amending or further amending a particular cell or templates please provide substantiated reasons.***

F18 – F19. Concerning the scope of financial assets to be considered for non-performing and forborne exposures, we understand that both financial assets designated at fair value and financial assets measured mandatory at FVPL should be included in the scope.

We would welcome clarification on the rationale to include those assets in the scope of non-performing and forborne exposures. We would favour to exclude them as these assets are measured at fair value through P&L.

***Q20. Do respondents find the proposed instructions clear? Are there specific parts where definitions or instructions should be clarified?***

Generally speaking, the proposed instructions are sufficiently clear. Clarifications when needed have been asked in our comments to the questions.

***Q21. What are the aspects, if any, of the revised FINREP proposal that trigger additional costs beyond the costs incurred to implement IFRS 9 and the revised IFRS 7, and the unavoidable costs from the difference in scope between FINREP and the financial statements?***

The revised FINREP requires more granular information than information required by IFRS 9 and the revised IFRS 7. Thus, these additional disclosures (for example breakdown by counterparty sector, geographical location) increase costs engaged when building IT systems and implementing IFRS 9.