European Federation of Building Societies
Fédération Européenne d'Epargne et de Crédit pour le Logement
Europäische Bausparkassenvereinigung

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Response of the Bausparkassen to the EBA Consultation Paper "Draft ITS on supervisory reporting requirements for institutions" (CP 50)

The European Federation of Building Societies would like to make the following comments in response to the Consultation Paper CP 50 entitled "Draft ITS on supervisory reporting requirements for institutions", which was published by the European Banking Authority (EBA) on 20 December 2011.

The European Federation of Building Societies is an association of credit institutions and organizations that assist in and support the financing of home ownership. Its purpose is to encourage the concept of home ownership in a Europe that is growing together, both politically and economically. Bausparkassen grant loans secured by residential property to finance home ownership as a bulk business (retail). In addition to this Bausparkassen business in the stricter sense, Bausparkassen are also allowed to make investments, however only in particularly safe investment vehicles.

By introducing the technical implementation standard, the EBA would like to introduce common reporting requirements, drawing attention to the fact that proportionality is an integral part of the standard. However, in our opinion, the extent to which Member States have heeded the principle of proportionality has differed greatly. In terms of its complexity, reporting varies widely in Member States. The German banking supervisory authority, for instance, has very much focused on the key elements of the reporting system. COREP, was introduced in a reduced form only, and FINREP was not implemented at all. Institutions are now confronted with the standard's approach, which is very wide from their perspective and which was developed on the basis of COREP and FINREP. Some credit institutions, in particular specialised credit institutions and institutions that belong to (banking) groups, would have to make considerable efforts to implement this standard in its current form.

Against this background, we would like to make some comments of a general nature before we turn to the questions asked by the EBA:

A. Implementation period and first-time application

It is with great interest that we look forward to the validation rules announced by the EBA for the various recording forms. Given the wide range of requested information, the institutions will have to precisely specify the data requirements for IT implementation. Interfaces will have to be created for the large number of data inquiries from various systems, some of which are quite complex, and for consolidating the information in the reporting software. A sufficient amount of time will have to be allowed for the necessary integration work and the test runs.

In view of the considerable technical and professional effort required within the institutions, we believe that, even if the EBA finalises the reporting requirements by 30 June 2012, it will not be possible to implement the reporting requirements by the first quarter of 2013.

At most, we feel that the changes in solvency reporting as of 2013, which will result from the planned regulation that will deal with the activities of credit institutions and investment firms (Capital Requirements Regulation - CRR), may first be implemented through national interim solutions.

We would argue that at least 20 months should be allowed for implementation after the publication of the finalised standard. This means that the first time the standard should be applied in full for reporting purposes should not be any earlier than the end of the first quarter of 2014.

B. Set of dynamic forms

The IT systems used in the institutions are designed for supervisory templates based on the use of defined sets of forms. However, the forms listed in the standard draft contain dynamic elements, so that in future it would only become clear while the forms are being completed how many templates will have to be filled with content. The COREP reporting form No. 3.3.b on the "Geographical breakdown of financial exposures (CR IRB GB)" is a good case in point. It will be necessary first to develop, test and implement suitable solutions, not only for the introduction of the form, but also - and more importantly - for dynamic elements.

As far as the "geographical breakdown" is concerned, we are pleased to see that institutions will only be obliged to report this information if their entire international portfolio is substantial and exceeds 10 per cent of their total lendings. However, we strongly suggest that the reports on specific countries should not include any dynamic elements because the costs associated with the implementation would be excessive. The dynamic elements contained in the reporting form should be replaced by a fixed group of countries (e.g. the G20 countries). A report should have to be submitted for each of these countries if the exposure there is in excess of 1 per cent of total lendings.

C. Reports under supervisory requirements and under IFRS accounting rules

The current reports submitted by the institutions under accounting rules and supervisory requirements are based on different data storage systems. However, the COREP reporting form on the geographical breakdown, for instance, is to be used to report volumes based on the COREP definition for counterparties in accordance with FINREP.

The application of the supervisory system to IFRS figures, as stipulated in the standard, would require considerable changes in IT systems. In future, the institutions would have to duplicate data entry. Nevertheless, in our opinion, the reporting forms would not make it possible to carry out well-founded business analyses.

We strongly recommend that reports under supervisory requirements and reports under IFRS accounting rules should continue to be prepared and submitted separately.

D. FINREP user group

The user group and the underlying accounting standard for the FINREP reports have not yet been defined.

Since individual institutions are not obliged across Europe to prepare their year-end financial statements in accordance with IFRS, these institutions could prepare a FINREP report only in accordance with their local GAAP, so that the data would not be comparable at European level. To be able to submit a FINREP report in accordance with IFRS, an individual institution would first have to programme a large part of the data requirements that are addressed at various internal units of the institution (such as Lending, Controlling, Regulation, Accounting). To calculate the figures, it would

first be necessary to establish the required links. This is as well analogously valid for groups of institutions applying national standards for accounting, which are, without exception, small and not systemically relevant groups of banks.

We strongly suggest therefore that individual institutions and groups of institutions applying national standards for accounting should not be obliged to submit FINREP reports. We would like confirmation that the FINREP reporting requirements are guided by the IFRS criteria.

E. Scope of consolidation for FINREP

In general, commercial and supervisory law reporting requirements are handled in separate systems in the institutions.

We fail to see the additional benefit for the EBA if the FINREP reporting system was applied to the supervisory scope of consolidation. In our opinion, a potential added value due to the fact that COREP reports could be reconciled with FINREP reports would not be in proportion with the additional efforts that institutions would have to make in terms of the required technical equipment and human resources. The necessary staff with in-depth expertise in terms of both commercial and supervisory law requirements would first have to be built up. A supervisory scope of consolidation would pose an enormous professional and technical challenge, in particular for specialised credit institutions which belong to a banking group and are obliged to supply the group with information.

We therefore suggest that the FINREP reports should be implemented on the basis of the scope of consolidation under IFRS accounting rules, instead of applying the supervisory scope of consolidation.

If the FINREP reporting requirements were based on the scope of consolidation under IFRS accounting rules, this would enable individual institutions covered by the reporting requirements to concentrate on the most important templates, and it would lighten the burden on institutions. The FINREP templates of Part 1 should be reported on a quarterly basis. For the templates of Parts 2 to 4, biannual reporting would seem to be sufficient.

We would like to answer the EBA's questions on behalf of the building societies as follows:

Q 1: How would you assess the cost impact of using only CRR scope of consolidation for supervisory reporting of financial information?

If the CRR scope of consolidation was used for FINREP, this would mean that individual institutions would have to implement FINREP, which would make it necessary for them to build up considerable technical and human resources. The number of employees who deal with supervisory reporting and accounting would have to increased by between 10 and 20 per cent. However, experts who have in-depth supervisory and IFRS know-how are currently not available.

Q 2: Please specify cost implications if parts 1 and 2 of Annex III and of Annex IV of this regulation would be required, in addition to the CRR scope of consolidation, with the accounting scope of consolidation?

See general comments in chapter E above.

Q 4: Does having the same remittance period for reporting on an individual and a consolidated level allow for a more streamlined reporting process?

Because of the much greater effort associated with the preparation of consolidated reports, we are against having the same remittance period for reporting on an individual and a consolidated level.

Q 5: How would you assess the impact if remittance dates were different on an individual level from those on a consolidated level?

In view of the consolidation steps and the finalisation of the financial statements under IFRS, which take a certain amount of time, the remittance date for reporting on a consolidated level should be much later than the remittance date for reporting on an individual level.

Q 6: When would be the earliest point in time to submit audited figures?

Our view is that it should be possible, as in the past, to use unaudited figures in the course of the year. We do not think that it would be justified to extend the scope of the obligation to have accounts audited, so that FINREP reports would also have to be certified by auditors.

Q 7: Do you see any conflicts regarding remittance deadlines between prudential and other reporting (e.g. reporting for statistical or other purposes)?

If the remittance deadline allows for a sufficient period of time (e.g. 40 business days), we do not think that there would be any conflicts. However, we would like to draw attention to the fact that no external audit will have been carried out at this time.

Q 8, 10: Do the proposed criteria lead to a reduced reporting burden?
What would be the cost implications if the second threshold of Article 5 (1) (c) (ii) were deleted?

With regard to the geographical breakdown, we welcome the materiality threshold, which exempts institutions with small international portfolios from the obligation to report. In our opinion, however, it should be examined whether the foreign receivables of the IRBA portfolio account for more than 10 per cent of the IRBA receivables. We assume that receivables are foreign receivables if both the counterparty and the collateral security are located abroad.

As already mentioned (see chapter B above), the second reporting threshold, which is related to a single country, leads to dynamic reports. The question of which countries will have to be reported changes from one remittance date to the next. The reporting requirements for individual institutions

that belong to a group and for the group as a whole may vary widely for a given remittance date. In this context, we would like to draw attention to our proposal for a simplified procedure.

In addition, we strongly suggest that only the supervisory receivables categories (but not the FINREP definition of counterparties) should be applied in supervisory reporting. See our general comments in chapter C above.

Q 11: Is the calculation of the threshold sufficiently clear?

With regard to the calculation to be performed to determine whether, or not, the reporting threshold is exceeded, we suggest that the following questions should be clarified:

- Does the value of the receivables have to be determined before or after credit risk mitigation?
- Is the foreign portfolio determined by assigning receivables to the country in which they originated?

Q 12: Do the provisions of Article 5 (2) lead to a reduced reporting burden for small domestic institutions?

Since the semi-annual reporting cycle is subject to certain requirements, the reporting burden of small institutions will often not be eased, especially not, if they are integrated into a group.

In this context, we do not think that quarterly reporting is necessary. For this reason, we support semi-annual reporting as a general rule.

Q 16: Are there specific situations where this approach (differentiating between institutions using IFRS and national accounting frameworks for supervisory reporting purposes) would not be applicable?

We suggest that banks which publish their consolidated financial statements in accordance with IFRS (and consequently do not use their national accounting frameworks for reporting purposes) and which will have to migrate to IFRS in their supervisory reporting due to the CRR, should prepare their FINREP reports in accordance with Annex III.

Q 17: What is your assessment of impact, costs and benefits related to the extent of financial information as covered by Articles 8 and 9?

The detailed breakdowns by sector and by country, and the mixture of supervisory and accounting data, lead to implementation efforts that are disproportionately high, in particular for Bausparkassen.

In our opinion, the benefit which banking regulators will have from the various types of financial information is not equally significant. We suggest that the scope of reporting should be considerably reduced.

We believe that quarterly reporting of financial data is not necessary. Since IFRS accounts are reported on a semi-annual basis, we suggest that financial data should also be reported on a semi-annual basis.

Q 18: In Articles 8(2) and 9(2) the proposed frequency is semi-annually. Does this reduce reporting burden? Please quantify the estimated cost impact of reporting with semi-annual frequency compared to quarterly.

We welcome ideas to the effect that the additional reporting burden of institutions should be kept within limits. To this end, we suggest in particular that the scope of reporting should be reduced. More specifically, FINREP part V should be dropped. The reporting frequency should be no more than semi-annual.

Q 19: What is your general assessment of applying reporting standards regarding financial information on an individual level?

We suggest that individual institutions should not be obliged to submit FINREP reports. See our general comments in chapter D above.

Q 21, 24, 27: If the proposal was to be extended, what implementation time would be needed?

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.

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

The standard cannot be applied any earlier than 20 months after its publication. See our general comments in chapter A above.

Annexes I and II (COREP)

Q 28: Do restrictions (restricted cells are cells which do not have to be reported to supervisors - displayed in the COREP templates as grey/blocked cells) reduce the reporting burden?

It will be easier to implement and use COREP templates if cells are blocked where applicable. We would therefore like to ask that cells be blocked where possible.

Q 29: Compared to previous versions of the COREP templates are there additional reporting requirements which cause disproportionate costs?

Since many of the recommendations made by the CEBS have not been implemented in some Member States, such as Germany, the introduction of the COREP templates will considerably increase the reporting burden in these countries. For specialised credit institutions, we believe that the following requirements act as cost drivers:

- Capital requirements in grandfathering,
- Definition of accounting counterparties for COREP reporting,
- Reporting of foreign counterparties.

Q 30: Are the templates, related instructions and validation rules included in Annex I and Annex II sufficiently clear? Please provide concrete examples where the implementation instructions are not clear to you.

We would like to take the opportunity to point out some – from our point of view - unclear facts and to propose some modifications. Our comments relate to Part 3 of the COREP-templates for reporting on Credit Risk (CR):

- CR SA:

The reorganization of the templates concerning the standardised approach entails an increase of information in the template for reporting CR SA Total. Thus, this template has become more confusing. The plausibility check of the summary template becomes more difficult with regard to the detail-templates. From our point of view, it would be reasonable to enlist the own funds requirements because of individual exposure classes in the respective templates for reporting.

We would welcome a separate template for each exposure class and the maintenance of the structure of the templates for reporting.

We would especially appreciate the abandoning of the breakdown of exposure value by risk weights according to column 220 to 490 because this supplement makes the templates for reporting even more complicated.

Furthermore, we kindly request to complete the instructions for the templates for reporting (e.g. CR SA details, lines 560 to 590). The instructions do also not explain why the own funds requirement is no longer in the template CR SA Total but henceforth treated in the templates for reporting on own funds (CA).

- CR IRB:

Insofar as the institution respects securities for its own estimations of the Loss Given Default, it has to establish - in compliance with effective national law - internal requirements which need to be met by the management of the securities, the available securities and the risk management. The corresponding models of the IRB-approach have to be approved by the national supervisory authority.

For institutions which apply the IRB-approach, especially Bausparkassen and other institutions which finance the construction of residential property in large quantities (retail), it is common to determinate the characteristic of loss LGD based on the type of security. Often, the determination does not consider the value of the security because a more conservative valuation rate is legally required and procedurally established. A provision of securities in large quantities (retail) would imply for these institutions that requirements for data would become more severe.

Therefore, we would welcome an instruction in Annex II, pointing out that in lines 140 to 200 the collateralized position needs to be reported.

Furthermore, we kindly request with reference to column 10 an instruction on the Country Code and a direction telling how it would be made disposable.

- CR IP Losses:

To our opinion, changes on the housing markets cannot be registered from one quarter to the next by employing the loss rate of the financing of immobile property. The loss rate is, especially on the national markets of immobile property, which have made proof of their stability and functioning also during the financial and economic crisis, a hardly responsive indicator. In order to analyze properly, time series which rely on yearly facts – as they are collected e.g. in Germany, are largely sufficient.

Therefore and in respect of the extensive costs of the process for the institutions, we consider it of high importance to reduce the reporting frequency to just one reporting per year. The national supervisory authority should be granted the opportunity to renounce an additional inquiry on the loss rate.

Annexes III to V (FINREP)

Q 33: Are the templates included in Annex III and Annex IV and the related instructions included in Annex V sufficiently clear? Please provide concrete examples where the implementation instructions are not clear to you.

We are pleased to use this opportunity to draw attention to points that are not clear in our opinion and to propose changes if necessary. See our enclosure with our answer to question 33.

Q 35: What are the cost implications of introducing a breakdown by individual countries and counterparties?

A breakdown by country would have to be technically introduced in order to be able to aggregate information from various institutions at the level of individual business activities. The effort that would have to be made in bulk business (retail) would be enormous.

Q 36: What are the cost implications of introducing a breakdown by economic sector by using NACE codes?

In our opinion, the level of detail of the NACE code is too granular, and we therefore suggest that a simpler classification should be used for reporting.

Q 37: Would other classification be more suitable or cost efficient?

We believe that it is necessary to do without a detailed breakdown by country and by sector.

Q 38: What would be the difference in cost if the geographical breakdown would be asked only by differentiating between domestic and foreign exposures compared to country-by-country breakdown?

We would be very pleased if we only had to differentiate between domestic and foreign exposures in all the relevant tables. This would considerably simplify reporting, in particular consolidation of data for reporting on a consolidated level. One positive effect would be that the staff required for this purpose would be reduced (by a few employees).

Q 40: How would you assess the cost implications on providing a geographical breakdown of these items with the proposed breakdown to domestic, EMU countries, other EU and rest of the world?

As far as the geographical breakdown is concerned, we suggest that the breakdown should be the same for all the relevant tables.

Q 41: Would application of a materiality threshold similar to Article 8 (3) and 11 (3) (reporting the breakdown only if foreign exposures exceed 10 % of the total exposures) reduce reporting burden?

The introduction of a materiality threshold for reporting would certainly be helpful. See our general comments in chapter D above.

Annex to the position of the EFBS to EBA CP 50, Annex III to V (FINREP)

Q 33: Are the templates included in Annex III and Annex IV and the related instructions included in Annex V sufficiently clear? Please provide concrete examples where the implementation instructions are not clear to you.

From our point of view unclear facts and suggestions for amendments:

a) A confusion of supervisory and IFRS-data:

- According to Annex 1 „other commitments" include facts, which have already been covered for accounting by IRFS, as e.g. credit derivatives (table 6, table 16, table 18),
- The "geographical breakdown of financial exposure" intermixes the IFRS-data with supervisory off-balance sheet definitions (table 10).

The confusion of the supervisory inquiries with the IFRS-data entails that facts are collected twice and brings together in one table two totally different concepts. The significance of the table cannot be understood. Cf. general comments C.

b) Different breakdown respectively different notions for sector classes:

- General governments, credit institutions, other financial corporations, corporate (table 3.1),
- Other financial corporations, other non-financial corporations, corporate, retail (table 3.2).
- Non-financial corporations. Corporates, Non-financial corporations. Retail, Households. Corporates, Households. Retail (tables 3.3, 17.1),
- Agriculture, forestry and fishing, mining and quarrying, … (table 10.2)

We would welcome some consistency with regard to the sector classes. The breakdown should not be more detailed than here below:

- General governments,
- Credit institutions,
- Other financial corporations,
- Corporates.

c) Different breakdown respectively different notions for countries:

Cf. our general remarks B.

d) Definitions deviating from the current implementation of IFRS:

- Different definition of the residual maturity compared to the IFRS accounting (table 10.3).

  We kindly request the alignment with the subdivision of the IFRS in accordance with IFRS 7.B11.

- The schedule of provisions ("Rückstellungsspiegel"): the schedule which has been determined in IAS 37.84 applies also for provisions of IAS 19 in table 26. The types of development ("Entwicklungsarten") in IAS 37 cannot be applied for provisions as in IAS 19, therefore an inapplicable mapping of the types of development of IAS 19 to the IAS 37 schedule would be necessary.

  We advocate requesting the schedule of the provisions congruent with the scope of the IAS 37 (i.e. not for provisions in the scope of IAS 19). Via IAS 19.120A a schedule has been required for a large part of the provisions in the scope of IAS 19 (i.e. provisions for performance-orientated pensions) which can be consulted with table 27.2.

e) Unclear definitions/ false cross reference:

- Table 5: breakdown of savings deposits after agreed maturity respectively agreed period of cancellation, "Bauspar" deposits have an undetermined maturity, mapping unclear.
- Table 7: "Economic hedges"; confusion of economic and accounting facts.
- Table 9: Breakdown of type of loans and advances: Imprecise and inconsistent definition in Annex V, partly with cross references to ECB BSI Regulation.
- Table 10: Indication "of which: Small and medium sized enterprises" of the "financial assets subject to credit risk" and the "off balance sheet items subject to credit risk" without reference respectively with just selective reference to single characteristics. There is no differentiation in between SME and commercial real estate. Furthermore, there is a confusion of definitions used under commercial law and for supervisory purposes.
- Table 1.3: The distinction between line 180 "Share of other recognized income and expense of investments in subsidiaries, joint ventures and associates" and line 330 "Reserves or accumulated losses of investments in subsidiaries, joint ventures and associates" is unclear because the same cross reference applies for both of them (IAS 28.11).
- Table 1.3: In addition, the cross reference (IAS 28) for subsidiaries seems inapplicable as subsidiaries are not assessed at equity with the IFRS.
- Table 23.2: The cross reference on page 84 (8(c)) to table 3 and 4 appears to be illogical, a cross reference to table 7 seems more reasonable.
- Annex IV Part 5 No. 26: A cross reference to table 29.4 instead of table 29.3 is necessary.