

EBA/ITS/2018/01

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Final Report

Draft Implementing Standards

amending Implementing Regulation (EU) No 680/2014 with regard to prudent valuation

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RESTRICTED

Executive Summary

Regulation (EU) No 575/2013 (the CRR) mandates the EBA, in, inter alia, Article 99(5) and Article 415(3), to develop uniform reporting requirements. These reporting requirements are included in Regulation (EU) No 680/2014 (Implementing Technical Standards (ITS) on supervisory reporting). These standards are aimed at collecting information on institutions' compliance with prudential requirements as required by the CRR and related technical standards, as well as additional financial information required by competent authorities to perform their supervisory tasks. Therefore, the ITS on supervisory reporting need to be updated whenever prudential or supervisory requirements change.

These ITS introduce amendments to Implementing Regulation (EU) No 680/2014 with regard to the following:

- a) new requirements as regards reporting of prudent valuation (PruVal) and ;
- b) changed requirements as regards reporting on COREP, IP losses, large exposures, leverage ratio and additional monitoring metrics for liquidity (technical amendments).

Article 105 of the CRR sets out requirements relating to prudent valuation adjustments of fair-valued positions and mandates the EBA to prepare draft regulatory technical standards (RTS) in this area. The EBA published final draft RTS on prudent valuation in January 2015. Those were endorsed by the European Commission in October 2015 and published in the Official Journal of the European Union as Commission Delegated Regulation (EU) No 2016/101 on 28 January 2016.

The reporting of the prudent valuation requirements under COREP has hitherto consisted in simply providing the aggregate 'Value adjustments due to the requirements for prudent valuation' in row 290 of COREP template C 01.00 - Capital Adequacy - Own funds definition. Though the reporting of the aggregate Additional Valuation Adjustments (AVAs) will carry on being required as before, the entry into force of the RTS on prudent valuation creates a new situation, which justifies the specification of more detailed reporting requirements for prudent valuation purposes, in accordance with the requirements set up in the RTS.

Alongside clarifications and corrections, these draft ITS include changes to the reporting on information on Pillar II and on securitisation exposures in order to take account of revisions to the regulatory framework (EBA SREP Guidelines, Regulation (EU) 2017/2401).

Given the scope of the changes introduced by these draft ITS in the instructions and templates, the relevant annexes are replaced in whole with those set out in these draft ITS, in order to provide a consolidated version of the updated draft ITS package. The relevant annexes are Annexes I, II, V, IX, XI, XVI, XIX and XXI to XXIII to Regulation (EU) No 680/2014.

Next steps

The draft implementing technical standards will be submitted to the Commission for endorsement before being published in the Official Journal of the European Union. The technical standards will apply from December 2018 (reporting reference date 31 December 2018).

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Background and rationale

Importance of uniform reporting requirements

1. Uniform reporting requirements in all Member States ensure data availability and comparability and hence facilitate a proper functioning of cross-border supervision. This is particularly important for the EBA and the European Systemic Risk Board (ESRB), which rely on comparable data from competent authorities in performing the tasks with which they have been entrusted. Uniform reporting requirements are also crucial for the European Central Bank (ECB) in its role of supervising institutions in the euro area.

Part of a single rulebook

2. One of the main responses to the latest financial crisis was the establishment of a single rulebook in Europe aimed at ensuring a robust and uniform regulatory framework to facilitate the functioning of the internal market and to prevent regulatory arbitrage opportunities. A single rulebook also reduces regulatory complexity and firms' compliance costs, especially for institutions operating on a cross-border basis. The ITS on supervisory reporting form part of this single rulebook in Europe and become directly applicable in all Member States once adopted by the European Commission and published in the *Official Journal of the European Union*.

Maintenance and updating of the ITS

3. The ITS on supervisory reporting reflect the single rulebook at the reporting level. Therefore, the ITS on supervisory reporting need to be updated whenever the underlying requirements of the single rulebook change.
4. The completion of technical standards by the EBA, as well as answers to questions raised in the context of the single rulebook Q&A mechanism, have contributed to a more complete and seamless application of the single rulebook. This has led in turn to more precise or otherwise changed reporting instructions and definitions. Experiences of using the reported data for supervision, as well as issues with data quality and feedback from institutions compiling data, have indicated a need to review some of the requirements. In addition, further changes to the reporting requirements were triggered by the identification, during the preparation for the application of the reporting requirements, of typos, erroneous references and formatting inconsistencies.

New requirements as regards the reporting of information on prudent valuation

5. Article 105 of the CRR sets out requirements relating to prudent valuation adjustments of fair-valued positions and mandates the EBA to prepare draft regulatory technical standards (RTS) in

this area. The RTS on prudent valuation were published in the Official Journal of the European Union as Regulation (EU) No 2016/101 in January 2016.

6. The reporting of the prudent valuation requirements under COREP has hitherto consisted in simply providing the aggregate 'Value adjustments due to the requirements for prudent valuation' in row 290 of COREP template C 01.00 - Capital Adequacy - Own funds definition. Though the reporting of the aggregate AVA will carry on being required as before, the entry into force of the RTS on prudent valuation creates a new situation, which justifies the specification of more detailed reporting requirements for prudent valuation purposes, in accordance with the requirements set up in the RTS.
7. The RTS on prudent valuation (RTS) put forward two approaches for the implementation of the prudent valuation requirements: a core approach and a simplified approach. A proportionality threshold was introduced, below which the simplified approach may be used to calculate additional valuation adjustments (AVAs), on condition that i) the sum of the absolute value of fair-valued assets and liabilities of an institution is less than EUR 15 billion and that ii) this institution is not included in the consolidation of a group breaching that threshold on a consolidated basis. In accordance with Article 4(3) of the RTS, the core approach becomes compulsory for institutions that are above the threshold or part of a group breaching the threshold on a consolidated basis, but may also be implemented, on a voluntary basis, by institutions that are below that threshold.
8. As a result of the above, four templates are provided for the reporting of prudent valuation requirements. While the first template (C 32.01) should be filled in by all institutions subject to prudent valuation requirements, the three remaining templates are dedicated to institutions under the core approach.
9. Due to the need to assess consistency with FINREP reporting, as well as to assess the effect of some provisions in the RTS on the calculation of the threshold (in particular the exclusion of exactly matching, offsetting positions, positions subject to hedge accounting and positions subject to a prudential filter), the first template sets up a detailed reporting of the threshold computation, including fair-valued assets and liabilities excluded from that computation.
10. For institutions under the simplified approach, the total additional valuation adjustment to be reported in template C 01.00 Capital Adequacy is directly obtained by applying a percentage of 0.1% to the aggregate absolute value of fair-valued assets and liabilities, which is to be reported template C 32.01, row 010, column 080.
11. In addition, institutions under the core approach are required to fill in:
 - one additional template (C 32.02) for institutions that are part of a group breaching the threshold on a consolidated basis, but do not exceed the threshold at their level;
 - three additional templates (C 32.02, C 32.03 and C 32.04) in all other cases.

12. Template C 32.02 is the main template for institutions under the core approach. It is reported by all institutions under the core approach. It requires, for broad categories of portfolios, the detail of the different AVA computed based on the RTS on prudent valuation, as well as the potential valuation adjustments that are already applied in the institution's accounting fair value and can be identified as addressing the same source of valuation uncertainty as the relevant AVA ('Fair Value Adjustment' – FVA). Information regarding the aggregation of AVAs, as well as AVAs computed under the fall-back approach, is also requested.
13. The two final templates supplement this main template by requesting more detailed information for the computation of the model risk AVA and the concentrated position AVA.

Supplementary requirements as regards the reporting of credit risk information

14. Currently, information on credit risk (excluding securitisations) is reported in templates C 07.00, C 08.01 / C 08.02, C 09.01 and C 09.02 of Annex I to the ITS on Supervisory Reporting. While templates C 07.00 and C 08.01 / C 08.02 apply to all institutions in general, templates C 09.01 and C 09.02 only apply to institutions that meet specified criteria. These criteria are set out in Article 5 of the ITS on supervisory reporting and basically exempt institutions with mainly domestic business activities from submitting information defined in templates C 09.01 and C 09.02.
15. The information included in templates C 09.01 and C 09.02 is deemed highly useful and important to analyse the riskiness and performance of institutions' credit risk portfolios. In particular relevant information such as the 'share of default exposure', 'observed new defaults in the period' or 'types of credit risk adjustments by exposure class' are key information items and as such should be reported by all institutions.
16. Having such information available at a total credit portfolio level from all institutions in the EU will also assist future Stress Test and Transparency Exercises. As the EU-wide Transparency Exercise is expected to be an ongoing and repetitive one, changing the regular reporting requirements is seen preferable, and ultimately less costly, compared to collecting additional data via other means (e.g. ad hoc data collections).
17. It is proposed to amend the ITS on supervisory reporting to require all institutions to complete templates C 09.01 and C 09.02 for the exposures at a total level (same as for other credit risk information reported in templates C 07.00 and C 08.01).
18. The requirement for institutions to submit the information included in templates C 09.01 and C 09.02 at a country level (i.e. for each market they are active in) will remain unchanged (i.e. only applicable to institutions that have 'non-domestic' exposures exceeding 10 % of total domestic and non-domestic original exposures).

Technical amendments: Information on Pillar 2 and securitisation exposures

19. Alongside clarifications and corrections, the draft ITS includes minor changes to the reporting on information on Pillar II and on securitisation exposures.
20. Pillar 2: A number of changes are introduced in template C 03.00, having a twofold aim: firstly to provide clarity on the Pillar 2 items to be reported in COREP, thus enhancing consistency and accuracy in data reporting, and secondly to align the regulatory capital ratios information reported via the regular supervisory reporting framework with the EBA SREP Guidelines (both existing and revised version).
21. Securitisation exposures: Regulation (EU) 2017/2401 amending the Capital Requirements Regulation on prudential requirements for credit institutions and investment firms to make the capital treatment of securitisations more risk-sensitive and able to reflect properly the specific features of simple, transparent and standardised securitisations will apply from 1 January 2019. This draft ITS introduces high-level items reflecting securitisation exposures the own funds requirement for which is determined based on this revised securitisation framework. The high-level items will be subject to review and refinement in a subsequent version of the reporting framework.
22. In the light of their very limited scope and technical impact, no public consultation has been conducted on these changes.

Draft implementing standards

**COMMISSION IMPLEMENTING REGULATION (EU) No .../... amending
Commission Implementing Regulation (EU) No 680/2014 laying down implementing
technical standards with regard to supervisory reporting of institutions according to
Regulation (EU) No 575/2013 of the European Parliament and of the Council**

of **XXX**

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and in particular the fourth subparagraph of Article 99(5), the fourth subparagraph of Article 99(6), the third subparagraph of Article 394(4) the fourth subparagraph of Article 415(3) and the third subparagraph of Article 430(2) thereof,

Whereas:

- (1) Commission Implementing Regulation (EU) No 680/2014 specifies the modalities according to which institutions are required to report information relevant to their compliance with Regulation (EU) No 575/2013. Given that the regulatory framework established by Regulation (EU) No 575/2013 is gradually being supplemented and amended in its non-essential elements by the adoption of regulatory technical standards, Implementing Regulation (EU) No 680/2014 needs to be updated accordingly to reflect those rules.
- (2) Given that Regulation (EU) No 575/2013 has been supplemented and amended in its non-essential elements by the adoption of Regulation (EU) 2016/101 with regard to prudent valuation¹ and it has also been amended by European Parliament and Council Regulation (EU) 2017/2401² with regard to its parts that relate to securitisation, Implementing Regulation (EU) No 680/2014 should be updated accordingly to reflect those rules and to provide further precision in the instructions and definitions used for the purposes of the institutions' supervisory reporting and to correct typos, erroneous references and formatting inconsistencies which were discovered in the course of the application of that Regulation.

¹ Commission Delegated Regulation (EU) 2016/101 of 26 October 2015 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for prudent valuation under Article 105(14) (OJ L 21, 28.01.2016, p.54).

² Regulation (EU) 2017/2401 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms (OJ L 347, p. 28.12.2017, p.1).

- (3) Regulation (EU) No 2016/101 sets out requirements relating to prudent valuation adjustments of fair-valued positions. It provides two approaches for the implementation of the prudent valuation requirements: a core approach and a simplified approach. To monitor compliance of institutions with those requirements and to assess the impact of that Regulation on valuation adjustments, additional reporting, relating to the prudent valuation requirements, is necessary.
- (4) Regulation (EU) 2017/2401 amends Regulation (EU) No 575/2013 to make the capital treatment of securitisations more risk-sensitive and able to reflect properly the specific features of simple, transparent and standardised securitisations. As a result, Implementing Regulation (EU) No 680/2014 should be amended to accommodate the reporting on securitisation positions subject to this revised securitisation framework.
- (5) Amendments to Implementing Regulation (EU) 680/2014 are also required to reflect competent authorities' ability to effectively monitor and assess the institutions' risk profile and to obtain a view on the risks posed to the financial sector.
- (6) This Regulation is based on the draft implementing technical standards submitted by the European Banking Authority (EBA) to the Commission.
- (7) EBA has conducted open public consultations on the draft implementing technical standards on which this Regulation is based that relate to prudent valuation and the total geographical breakdown, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010³ in relation to those. With regard to those parts of the draft implementing technical standards on which this Regulation is based that relate to the rest of the technical amendments contained herein, given that they are either of editorial nature or introduce only a limited number of items in the supervisory reporting framework, the EBA has not conducted any open public consultation, considering that it would be disproportionate in relation to the scope and impact of the draft implementing technical standards concerned.
- (8) Implementing Regulation (EU) No 680/2014 should therefore be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1

Regulation (EU) No 680/2014 is amended as follows:

1. Paragraph (4) of Article 5 (a) is replaced by the following:

“(4) the information on the geographical distribution of exposures by country, as well as aggregated at a total level, as specified in template 9 of Annex I, according to the instructions in Part II point 3.4 of Annex II.

³ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

With regard to the information specified in templates 9.1 and 9.2 in particular, information on the geographical distribution of exposures by country shall be reported where non-domestic original exposures in all ‘non-domestic’ countries in all exposures classes, as reported in row 850 of template 4 of Annex I, are equal or higher than 10 % of total domestic and non-domestic original exposures as reported in row 860 of template 4 of Annex I. For this purpose exposures shall be deemed to be domestic where they are exposures to counterparties located in the Member State where the institution is located. The entry and exit criteria of Article 4 shall apply;”

2. In Article 5(a), the following paragraph (12) is added:

“(12) the information on prudent valuation specified in template 32 of Annex I in accordance with the instructions in Part II, point 6 of Annex II as follows:

- (a) all institutions shall report the information specified in template 32.1 of Annex I in accordance with the instructions in Part II, point 6 of Annex II;
- (b) in addition to the reporting referred to in point (a), institutions that apply the core approach pursuant to Regulation (EU) 2016/101 shall also report the information specified in template 32.2 of Annex I in accordance with the instructions in Part II, point 6 of Annex II;
- (c) in addition to the requirements referred to in points (a) and (b), institutions that apply the core approach pursuant to Regulation (EU) 2016/101 and which exceed the threshold referred to in Article 4(1) of that Regulation at their respective reporting level, shall also report the information specified in templates 32.3 and 32.4 of Annex I in accordance with the instructions in Part II, point 6 of Annex II;

The entry and exit criteria of Article 4 shall not apply; ”

3. In Article 5(b) (3), all references to ‘point 6 of Part II of Annex II’ are replaced by references to ‘point 7 of Part II of Annex II’;

4. Letter (d) of paragraph 2 of Article 9 is replaced by the following:

“(d) the information specified in template 20 in Part 2 of Annex III with a quarterly frequency where the institution exceeds the threshold defined in the second sentence of paragraph (4) of Article 5 (a). The entry and exit criteria referred to in Article 4 shall apply;”

5. Annex I to Implementing Regulation (EU) No 680/2014 is replaced by Annex I to this Regulation.

6. Annex II to Implementing Regulation (EU) No 680/2014 is replaced by the text set out in Annex II to this Regulation.

7. Annex V to Implementing Regulation (EU) No 680/2014 is replaced by the text set out in Annex III to this Regulation

8. Annex IX to Implementing Regulation (EU) No 680/2014 is replaced by the text set out in Annex IV to this Regulation.

9. Annex XI to Implementing Regulation (EU) No 680/2014 is replaced by the text set out in Annex V to this Regulation.

10. Annex XVI to Implementing Regulation (EU) No 680/2014 is replaced by Annex VI to this Regulation.



11. Annex XIX to Implementing Regulation (EU) No 680/2014 is replaced by the text set out in Annex VII to this Regulation.

12. Annex XXI to Implementing Regulation (EU) No 680/2014 is replaced by the text set out in Annex VIII to this Regulation.

13. Annex XXII to Implementing Regulation (EU) No 680/2014 is replaced by the text set out in Annex IX to this Regulation.

14. Annex XXIII to Implementing Regulation (EU) No 680/2014 is replaced by the text set out in Annex X to this Regulation.

Article 2

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.
It shall apply from 1 December 2018.

This Regulation shall be binding in its entirety and directly applicable in all Member States.
Done at Brussels,

For the Commission
The President

On behalf of the President

[Position]

ANNEXES

[see separate documents]

Accompanying documents

for the new requirements as regards the reporting of information on prudent valuation and the supplementary requirements as regards the reporting of credit risk information

Draft cost-benefit analysis / impact assessment

23. Article 99(5) of the CRR requires the EBA to develop draft implementing technical standards (ITS) to specify supervisory reporting in the area of own funds requirements. Current ITS on supervisory reporting in the area of own funds requirements (i.e. COREP) is based on prudential requirements introduced by the CRD IV/ CRR and related technical standards. The reporting standards are therefore subject to amendment whenever the underlying provisions and technical standards are updated.

24. As per Article 10(1) of the EBA regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council), any ITS developed by the EBA – when submitted to the EU Commission for adoption - shall be accompanied by an Impact Assessment (IA) annex which analyses ‘the potential related costs and benefits’. Such annex shall provide the reader with an overview of the findings as regards the problem identification, the options identified to remove the problem and their potential impacts.

25. This section presents the IA with cost-benefit analysis of the provisions included in the ITS described in Consultation Paper EBA/CP/2016/02. Given the scope of the analysis, the IA is high level and qualitative in nature.

New requirements as regards the reporting of information on prudent valuation

A. Problem identification

26. Article 105 of the CRR sets out requirements relating to prudent valuation adjustment of fair-valued positions and on 31 March 2015 the EBA published final draft RTS introducing further standards on prudent valuation. The final standards introduce two approaches for prudential valuation: a) a simplified approach that (small) institutions with the size of positions recorded at fair value below the threshold (i.e. the sum of the absolute value of on- and off-balance-sheet fair valued assets and liabilities is less than EUR 15 billion) may apply and b) a core approach (for larger institutions or institutions not considering the threshold) that consists of calculating a series of adjustments on the fair value of positions based on a specified target confidence level (90%).

27. The common reporting framework currently includes aggregated information on ‘value adjustments due to the requirements for prudent valuation’. Institutions subject to common reporting framework report on a quarterly basis this information in row 290 of the template C 01.00 under Capital Adequacy - Own funds definition in COREP since June 2014 (first remittance date).
28. The publication of the RTS on prudent valuation renders the ITS on supervisory reporting outdated in the sense that the latter only delivers partial information on one specific aspect of the calculation of own funds and if the ITS were not updated they would not accommodate the new standards for prudent valuation adjustments of fair valued positions.
29. The lack of update for COREP would question its relevance for supervisory purposes, as figures reported to the supervisory authorities would not reveal the basis for the computation of own funds. The proposed update would provide supervisors with information on the valuation of positions, allowing for an evaluation of the specific 'valuation risk profile' of an institution.

B. Objectives

30. The main objective of the draft ITS is to fill in the gaps identified in the supervisory framework and more precisely is to integrate new standards introduced under EBA’s draft final RTS on prudent valuation. Also, by doing so the draft ITS aim to assure an optimum level of supervisory data collection and reporting, i.e. to achieve a balance between the proportionality of reporting burden imposed on the institutions and the quantity, scope and granularity of data to be collected for supervisory purposes.
31. The table below summarises the objectives of the draft ITS:

Problems to be addressed	Specific Objectives	General Objectives
Inconsistency in supervisory reporting with the technical standards under prudent valuation	Amending the current ITS on supervisory reporting to account for the new standards under RTS on prudent valuation	Assisting institutions in fulfilling reporting requirements under Article 99 of the CRR
Lack of data in supervisory reporting and asymmetric information	Ensuring that competent authorities receive all required information needed to obtain a comprehensive view of risk profiles and systemic risk	Increasing the effectiveness of monitoring and supervising risks
Increasing cost of reporting for the institutions and competent authorities	Designing a clear-and-fit-for-purpose-ITS that would avoid burdensome reporting requirements for the institutions and excessive operational costs for the competent authorities	Keeping EU regulatory framework cost-effective and at an optimum level

C. Baseline Scenario

32. Currently there are approximately over 6,500 credit institutions⁴ reporting supervisory data to their respective competent authorities across EEA Member States. The total value of assets of these institutions corresponds to approximately EUR 42,000 billion. These institutions are required to disclose information on prudent valuation in one single cell under COREP. In addition, there is currently an estimated of 750 institutions (or 11% of the total number of credit institutions)⁵ that are above the EUR 15 billion threshold as defined in the current draft ITS.

D. Assessment of the technical options

a. Status quo

33. Any change in reporting requirements entails cost for both the institutions subject to the reporting requirements and competent authorities requiring the information. Should the current ITS on supervisory reporting not be amended, the transition cost, e.g. one-off cost will be zero for the institutions and for the competent authorities.

34. However, in the long-run gaps in the supervisory information available to competent authorities for the definition of own funds and submission of information that is currently lacking the granularity required under the new regulatory standards (that are introduced under EBA RTS on prudent valuation in March 2015) are expected to generate costs especially for the competent authorities. The source of the cost for the competent authorities is in terms of shortcomings (e.g. due to lack of adequate data and asymmetric information) in the assessment of risk profiles.

b. Reporting of information on prudent valuation in line with the draft final RTS on prudent valuation

35. The option requires the amendment of the ITS on supervisory reporting in line with the standards introduced under EBA's RTS on prudent valuation. The option would incur operational cost to the institutions and to competent authorities since the former would disclose more granular information and the latter would receive and process this information. The impact of the option is proportionate. At the first place, current draft ITS suggest that all institutions or groups (regardless of the approach adopted to calculate additional valuation adjustments) fill out 'Assets and Liabilities' template so as to identify whether an institution or group falls below or above the threshold of EUR 15 billion. The option would then have a further impact only on a fraction of these institutions or groups (this is estimated to be about 11% of the total institutions), precisely on the larger institutions or groups that use core approach for the

⁴ EBA aggregate statistical data as of 2013.

⁵ The estimated figure is based on the SNL public data (2014). In the SNL database about 11% of the total sample of 431 listed and non-listed institutions (with complete dataset only) has total assets and liabilities held at fair value above EUR 15 billion. This figure is applied to total number of 6,500 credit institutions.

calculation of additional valuation adjustment and with net fair value of total assets and liabilities above the threshold. These institutions or groups using core approach would need to complete other three templates concerning specific positions they have.

36. The impact of the policy option in terms of further cost is higher for large institutions. The amendment of the ITS to accommodate the regulatory standards on prudent valuation would generate one-off transitional cost to the institutions and to the competent authorities. It is assumed that the institutions would already allocate experts to familiarise themselves with the changes and to revise their internal reporting routine to accommodate the changes under the RTS on prudent valuation. The additional cost of amending the ITS on supervisory reporting stems from one-off IT cost and is expected to be minimal for these institutions. Equally, competent authorities will carry out similar tasks to adopt the changes in the reporting requirements.
37. EBA analysis team believes that the benefits to receive complete supervisory data that allow adequately capturing risk profiles of the institutions and systemic risk to the financial sector exceeds the one-off costs that the option would generate on institutions and the competent authorities. Also, the amendment of the ITS would avoid further costs that may occur from potential ad-hoc data collection on prudent valuation run by the competent authorities. Additionally, accounting for the granular disclosure through the amendment of ITS would contribute to single rulebook and ensure equal treatment of the institutions across Member States. Consequently, option A2 is selected to be the preferred option.

Supplementary requirements as regards the reporting of credit risk information

A. Problem identification

38. Article 5 of the ITS on supervisory reporting exempts institutions with mainly domestic business activities from submitting the information defined in templates C 09.01 (Geographical breakdown of exposures by residence of the obligor (SA exposures)) and C 09.02 (Geographical breakdown of exposures by residence of the obligor (IRB exposures)).
39. This exemption affects not only small institutions but also institutions that are large and complex, albeit mainly active in domestic markets. The exemption therefore creates a gap in data collected and in the output of supervisory oversight. For example, the EU-wide Transparency Exercise 2015 included only 52 of the 110 largest institutions in the EU due to this exemption. The data disclosed for Q4 2015 as part of the Transparency exercise provided unsatisfactory and uneven information to the market. With the lack of adequate supervisory data available to the competent authorities, supervisory framework may fail to capture risk profile of the activities and, systemic risk to financial sector and real economy.

B. Policy objectives

The main objective of the draft ITS is to fill in the gaps identified in the supervisory framework and more precisely is to integrate changes of credit risk information. Also, by doing so the draft ITS aim to assure an optimum level of supervisory data collection and reporting, i.e. to achieve a balance between the proportionality of reporting burden imposed on the institutions and the quantity, scope and granularity of data to be collected for supervisory purposes.

The table below summarises the objectives of the draft ITS:

Problems to be addressed	Specific Objectives	General Objectives
Lack of data in supervisory reporting (credit risk) and asymmetric information	Ensuring that competent authorities receive all required information needed to obtain a comprehensive view of risk profiles and systemic risk	Increasing the effectiveness of monitoring and supervising risks
Increasing cost of reporting for the institutions and competent authorities	Designing a clear-and-fit-for-purpose-ITS that would avoid burdensome reporting requirements for the institutions and excessive operational costs for the competent authorities	Keeping EU regulatory framework cost-effective and at an optimum level

C. Baseline scenario

40. Out of 178 institutions that regularly report COREP figures to the EBA (the largest institutions in the EU), 30% are subject to exemption for the reporting requirements under templates C 09.01 and C 09.02.⁶ Note that the EBA sample is limited to the largest institutions in the EU. At the EU level among 6,500 institutions it is reasonable to estimate that approximately 60% of the largest institutions are subject to reporting requirements under C 09.01 and C 09.02.

D. Assessment of the technical options, cost-benefit-analysis and preferred option

a. Status quo

41. Similar to the arguments provided in the context of the new requirements as regards the reporting of information on prudent valuation, the status quo (or 'do nothing') option avoids further operational costs that the intervention may generate on institutions and competent authorities.

42. Under this option the current problems as mentioned above would prevail. Currently, supervisory reporting collects information on the 'geographical breakdown of exposures by

⁶ Based on OREP data as of Q2 2015



residence of the obligor', however Article 5 of the ITS allows an exemption for the institutions with mainly domestic business activities from submitting information required in the corresponding templates. However, information on the concepts included in the relevant templates is deemed highly useful and important to analyze the riskiness and performance of institutions' credit risk portfolios. Under this option 30 % of all institutions in the EBA sample (which consists of the largest institutions in the EU) will continue to be exempt from reporting. The cost of the option stems from the risk of adequately capturing the risk profiles of the institutions and ad-hoc data requests to cover this gap.

43. In the long run the costs associated with gap in supervisory reporting and with further ad-hoc data collection exercises run by the competent authorities are expected to exceed the cost of amending the ITS.

b. Submission of templates C 09.01 and C 09.02 at country level by all institutions

44. An option would be that all institutions submit data on geographical location of the exposures by residence of the obligor. This requires an amendment to Article 5 of the ITS. Under this option all institutions would incur cost. Under this option, data on country-level would be collected even from institutions for which the cross-border dimension of the exposures is negligible, which does not provide crucial input for supervisory oversight. One objective of the draft ITS is to achieve a balance between the proportionality of reporting burden imposed on the institutions and the quantity, scope and granularity of data to be collected for supervisory purposes. This option is not in line with the principle of proportionality and does not seem a cost-effective option to reach the objectives.

c. Submission of templates C 09.01 and C 09.02 at country level by institutions with at least 10% share of non-domestic exposures and at aggregate level by institutions for all other institutions

45. This option combines status quo and a further reporting requirement at aggregate level. Under this option, institutions with a share of non-domestic exposures above threshold would continue reporting data on exposures by residence of the obligor. In addition to this, all institutions (both those that are above and below the threshold) would submit aggregate figures for templates C 09.01 and C 09.02.

46. The option would be a cost-effective solution to address the identified problems and to reach defined objectives; it was therefore deemed as the preferred option.

Feedback on the public consultation

47. The EBA publicly consulted on the draft proposal on new requirements as regards the reporting of information on prudent valuation and supplementary requirements as regards the reporting of credit risk information.
48. The consultation period lasted for one month and ended on 30 March 2016. 12 responses were received, of which 11 were published on the EBA website.
49. This section presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments and the actions taken to address them if deemed necessary.
50. *New requirements as regards the reporting of information on prudent valuation:* In many cases several industry bodies made similar comments or the same body repeated its comments in the response to different questions. In such cases, the comments, and EBA analysis are included in the section of this paper where EBA considers them most appropriate.
51. Changes to the draft ITS have been incorporated as a result of the responses received during the public consultation.
52. *Supplementary requirements as regards the reporting of credit risk information:* None of the responses received contained comments on the proposal. Consequently, the preferred solution c has been incorporated in the draft ITS.

New requirements as regards the reporting of information on prudent valuation: Summary of key issues and the EBA's response

53. Respondents were in general supportive of the introduction of reporting requirements for the AVAs computed under the RTS on Prudent Valuation, although pointing out that the proposed reporting requirements exceeded those of the RTS, thus resulting in unnecessarily burden and costs to banks without supervisory benefits.
54. Based on the feedback received, the EBA performed significant amendments to the templates and instructions, with a view to both simplifying the templates and reducing the burden, in particular for smaller banks:
- In addition to the proportionality already provided in Regulation (EU) 2016/101 via the existence of a simplified approach, the EBA introduces a reduced reporting requirement for institutions that are part of a group breaching the EUR 15 billion threshold on a consolidated basis, but do not exceed the threshold at their individual or sub-consolidated level. Those institutions will be required to report templates 32.01 and 32.02 only, whereas institutions that are part of a group breaching the EUR 15 billion threshold, but also exceed that threshold at their level, will have to also report templates 32.03 and 32.04 in addition to templates 32.01 and 32.02. In a nutshell, the ITS will require institutions under the simplified

approach to report one template only (C.32.01), while, in contrast, institutions under the core approach will be requested to provide all four templates for the largest institutions, or two templates only (C.32.01 and 32.02) for institutions that do not exceed the EUR 15 billion threshold at their level.

- Template C 32.01: FINREP categories have been made consistent with new FINREP templates under IFRS9. In addition, two columns 'Of which: trading book' (columns 020 and 080) have been included.
- Template C 32.02:
 - The Banking Book/Trading Book portfolio allocation is removed and replaced by a unique row 'Of which: Trading book' (row 20).
 - The distinction vanilla/exotic is removed.
 - The allocation of positions (FV assets and liabilities) to the broad risk categories (rows 090 to 130) is simplified: the allocation should be firm-specific, based on the firm's internal organisation (business lines, trading desks) and subject to expert judgment, provided that the reporting is consistent at row level.
 - Two rows (rows 070 and 080) are included to assess the amount of FV assets and liabilities subject to zero value AVA.
 - The columns 'Other' (column 270) and 'Overhedges' (column 280) are removed.
- Template 32.03:
 - The detailed reporting of model risk AVAs is reduced from the top 50 to the top 20 individual model risk AVAs.
 - Columns 040 ('Product description'), 050 ('Model description'), 110 ('Number of positions'), 140 ('Gross notional'), 200 ('Other') and 210 ('Overhedges') are removed.
- Template 32.04:
 - The detailed reporting of concentrated positions AVAs is reduced from the top 50 to the top 20 individual concentrated positions AVAs.
 - Column 060 ('Gross notional') is removed.

55. Instructions have been revised to reflect those changes.



New requirements as regards the reporting of information on prudent valuation: Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
General comments			
Consultation process	One respondent asks for clarification of the reason why the EBA did not allow a three month consultation and urges the EBA to consult its stakeholders for a second time on this topic. Other respondents point out that due to the short consultation period it is likely that potential additional issues may remain unidentified.	A consultation period of 1 month was considered to be appropriate as the proposed COREP templates, which are essentially affecting institutions using the core approach, were inspired by the templates used for the 2013 Prudent Valuation QIS exercise, which many banks took part in. Any additional issues that may arise during and after the implementation period will be handled in the Q&A process.	Consultation process
Scope of the ITS & Implementation burden	While respondents in general are supportive of the introduction of reporting requirements that are consistent with the provisions in the adopted RTS on Prudent Valuation (Regulation (EU) 2016/101) several respondents point out that the proposed reporting requirements in these ITS exceed those of the RTS which would result in unnecessarily burden and costs to banks without supervisory benefits. The reporting requirements demand contributions from different parts of the institutions and request additional investments in new reporting and IT architectures.	The EBA decided to incorporate several reporting suggestions that were made in order to reduce the requested reporting effort and align with industry practice. More elaboration on these proposals is included in the EBA response to the different questions below. With regard to proportionality and in addition to the proportionality already provided in Regulation (EU) 2016/101 via the existence of a simplified approach, the ITS will require institutions under the simplified approach to report one template only, while, in contrast, institutions under the core approach will be requested to provide four templates for the largest	Scope of the ITS & Implementation burden



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	Some respondents are of the opinion that costs would be proportionally higher to smaller institutions or institutions with a small trading book in the current form of the ITS.	institutions, or two templates only for institutions that do not exceed the EUR bn 15 threshold at their level.	
Responses to questions in Consultation Paper EBA/CP/2016/02			
Question 1. Do you agree with this statement? If not please explain your reasoning.	<p>While some respondents argued that the information is of limited usefulness to regulators, or that its purpose was unclear, others indicated that it might be useful.</p> <p>In particular, some respondents were concerned that the individual institutions' approaches might be inconsistent and that this would be hard to distinguish from true differences in valuation uncertainty.</p> <p>In addition, they considered that the upside would be the opposite sign to the downside as a result of institutions assuming symmetrical uncertainty distributions and therefore provide little additional information.</p> <p>Most respondents argued that calculating the upside numbers would be disproportionately costly for institutions as it is not a requirement of the RTS. This was of particular concern where the expert-based approach is used; this approach does not lend itself to calculating the upside through a simple 'tweak' to the downside calculation. Some respondents suggested this would lead to a</p>	<p>Respondents generally expressed concerns about the relevance or usefulness of the upside uncertainty measure given it is not a direct requirement of the RTS and about the additional burden that this calculation would impose.</p> <p>1/ With regard to the relevance, CRR Article 105(7)(a), RTS Articles 18(2), RTS 19(2)(c) & 19(3)(b) collectively require calculations of valuation uncertainty based on approved methodologies using information from the AVA calculation; records of this analysis; and reporting to senior managers at an aggregate level so that they can understand the materiality of the uncertainty that this creates over the performance and risks of the business. Calculating uncertainty requires estimation of an upside as well as the downside of the uncertainty range.</p> <p>Whilst CAs may principally be concerned with the downside, they should (in common with the senior management of the institution) also be interested in the upside impact. If AVAs are relatively low there are two possible interpretations:</p>	No change.



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>doubling of the effort required or require another calculation run.</p> <p>One respondent questioned how diversification would be calculated in these circumstances.</p>	<p>(1) that their implementation of accounting fair value is at the prudent end of the range of plausible values; or</p> <p>(2) that they have not rigorously assessed the full range of plausible values.</p> <p>The comparison of reported upsides along with other data available in the template would provide a means of assessing which of above applies.</p> <p>The argument that inconsistent approaches might make comparability difficult applies equally to AVA. The EBA would agree that quantifying valuation uncertainty is a difficult exercise; this is why an adequate dataset is needed to ensure institutions are doing this consistently.</p> <p>It does not follow, as suggested by some respondents, that the upside and downside will be symmetrical where institutions assume normal distribution for uncertainty. This would only be the case if institutions select fair value in the middle of the range. Where this is the case however the upside calculation will be easier.</p> <p>2/ With regard to the additional burden, whilst it is expected that calculation of an upside has some cost, much of this would be incurred as a result of complying with aforementioned CRR/RTS requirements and similar requirements to calculate an upside uncertainty for accounting fair value level 3 disclosures. The calculation costs do not therefore</p>	



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		<p>arise solely from this regulatory reporting requirement.</p> <p>Therefore, the EBA would not expect the additional cost to be significant compared to the cost of the AVA calculation. In particular, the suggestion of some respondents that this leads to a doubling of workload seems exaggerated. Where sufficient data exists to construct a plausible range the upside will be a natural output to the existing prudent valuation methodology. Similarly, in order to make an expert-based estimate of the 90% confidence downside estimation of the full range, and the FV's position within it is required. No further information would therefore be needed to calculate the upside and this second estimate could be made based on facts already gathered.</p> <p>Furthermore it is not a new concept as is suggested by some responses; institutions that are members of groups reporting under IFRS already have to report a downside and upside range for their valuation of Fair Value Level 3 positions.</p> <p>Finally, only upside uncertainties before diversification are required – therefore the effect of diversification on the upside does not have to be considered for this template.</p>	



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<p>Question 2. Would the ‘upside uncertainty’ measure defined above and used in column 120 of template C 32.02 be suitable as a definition of the upside uncertainty? If not please provide reasons and any alternative suggestions for how such an upside measure could be defined.</p>	<p>Most respondents indicated that the definition is generally suitable; the remainder were silent on the specific question.</p> <p>Some of those respondents requested more detail on how to treat adjustments that are not required by accounting standards but are required for prudent valuation (concentration adjustments, future administrative costs, early termination adjustments and adjustments arising from the CRR 105(5) requirement to mark to bid or offer mentioned as falling in this category). In such cases fair value may be above the 10% confidence exit cost leading to ‘negative’ upsides. This may distort the result, which is presented on an aggregate level. Some suggested restricting this requirement to certain AVA categories.</p> <p>Some other respondents suggested only requiring an upside where sufficient data exists.</p>	<p>The upside uncertainty will be used to analyse estimation uncertainty. This will be derived by subtracting the AVA from the upside.</p> <p>If adjustments are required for prudent valuation purposes only, because they are not allowed by accounting rules, then the fair value should be close to the expected value - with no estimation uncertainty. As a result, the AVA and the upside will be the same and the contribution to estimation uncertainty will rightly be assessed zero.</p> <p>It is not possible to restrict the calculation to certain AVA categories because there is no consensus on which types of AVAs are disallowed by accounting standards. Some interpretations of IFRS 13 for example allow concentration adjustments in fair value on less liquid positions. This is one of the reasons for the prudent valuation framework.</p> <p>It would be counter-productive to exclude positions calculated under the expert approach as these are likely to be a material driver of the overall number and by definition the most subjective AVAs. They should therefore of most interest to competent authorities.</p>	No change.
<p>Question 3. Is the above approach to splitting out fair valued assets and liabilities and fair-value adjustments on the</p>	<p><u>Balance Sheet and Revenue split</u></p> <p>Some respondents raised concerns about splitting accounting assets and liabilities amounts by assets class on the basis provided & excluding internal</p>	<p>The purpose of the balance sheet and revenue information is to obtain an indication of business size for comparison to relevant uncertainty measures. It is acknowledged that this is an imperfect reference;</p>	<p>Removal of BB/TB & exotic/vanilla splits. Allocation to asset classes should follow</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<p>one hand between the different types of AVAs and on the other hand between asset classes and product categories practical to implement? If not please describe the practical obstacles. Please suggest any alternative approaches (particularly if an alternative approach has been found useful for internal reporting purposes).</p>	<p>trades. According to them, accounting systems are not set up to do this. Two respondents suggested instead using institutions' existing business line hierarchies.</p> <p>Two respondents said that it was not obvious why QTD revenue is necessary.</p>	<p>there are many factors that might drive valuation uncertainty other than business size. Nevertheless these natural and widely-used size indicators are expected to form a starting point for competent authorities' analysis.</p> <p>Given this expected use for the data and its indirectness as an indicator, it would not be proportionate to request a methodology that requires significant re-alignment of institutions' systems.</p> <p>We therefore propose allowing institutions flexibility to align the product/asset class categories in rows (090 to 130) with business units used for internal reporting of balance sheet and revenue data, which should be used for the purpose of completing columns 130-150.</p>	<p>institutions' internal risk management structure.</p>
	<p><u>Trading Book vs non-trading book split</u></p> <p>Some respondents highlighted that it would be difficult to split assets and liabilities or AVAs between trading book and non-trading book portfolios. Trading book is not an accounting concept and risks may be managed together.</p>	<p>Based on the feedback received, the EBA decided to simplify the reporting template and include a unique row 020 "Of which: Trading Book" providing the relevant information at the aggregated level only.</p>	
	<p><u>Other</u></p>	<p>Some institutions take concentration adjustments within fair value, some do not. It seems that both approaches have been tolerated by auditors and interpretation of accounting standards is beyond the</p>	



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>One respondent questioned the compliance of certain Fair Value Adjustment categories with IFRS 13 (concentration, other).</p> <p>One respondent suggests requiring a break-down of the trading book only where it exceeds EUR bn 15.</p>	<p>scope of these ITS. Anomalies of this type are part of the motivation for the Prudent Valuation framework.</p> <p>With regard to proportionality and in addition to the proportionality already provided in Regulation (EU) 2016/101 via the existence of a simplified approach, the ITS will require institutions under the simplified approach to report one template only, while, in contrast, institutions under the core approach will be requested to provide four templates for the largest institutions, or two templates only for institutions that do not exceed the EUR bn 15 threshold at their level.</p>	
<p>Question 4. Is the above portfolio-based approach to splitting out AVAs and other attributes between 'Exotic' and 'Vanilla' practical to implement? If not please describe the practical obstacles. Please suggest any alternative approaches (particularly if an alternative approach has been found useful for internal reporting purposes).</p>	<p>Respondents raised similar concerns in relation to the exotic vanilla split to those raised answer to Question 3.</p> <p>Some respondents repeated concerns about splitting AVAs (and / or FVAs - Fair-Value Adjustments) by portfolio given that they are generally calculated on an institution-wide net-risk basis.</p> <p>Other respondents made the point that vanilla risks arise from both vanilla and exotic positions, so that they cannot be mapped to a specific product category. A portfolio based approach would involve</p>	<p>The EBA recognises that the allocation of internally defined business units between exotic and vanilla categories may raise additional significant operational difficulties, compared to the allocation to broad risk categories only. Therefore, the EBA proposes an allocation according to the following risk categories only i.e. without reference to 'exotic' or 'vanilla': Interest Rates, Credit, Equities, Commodities, Foreign exchange.</p> <p>For the purposes of the allocation to the risk categories, institutions should rely on their internal risk management structure and, following a mapping developed based on expert judgement, allocate their</p>	<p>Removal of exotic/vanilla split. Removal of BB/TB & exotic/vanilla splits. Allocation to asset classes should follow institutions' internal risk management structure.</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>artificially splitting the AVAs on these vanilla risks or additional effort to map risks to the principle portfolio.</p> <p>Further to that, two respondents pointed out that business organisation structures did not split neatly along the lines of vanilla / exotic and that principal activity of a portfolio would hard to determine.</p> <p>To sum up, some respondents suggested a risk-based split for which the above categories would still be relevant, whereas other respondents suggested a split based on the institution's existing business organisation.</p>	<p>business lines or trading desks to the most appropriate risk category. AVAs, Fair Value Adjustments and other requested information, which correspond to the allocated business lines or trading desks, should consistently be allocated to the same relevant risk category, in order to provide for each risk category a consistent overview of the adjustments performed both for prudential purposes and accounting purposes, as well as an indication of the size of the positions concerned (in terms of fair-valued assets and liabilities). Where AVAs or other adjustments are computed at a different level of aggregation, in particular at firm level, institutions should develop an allocation methodology of the AVAs to the relevant sets of positions.</p>	
<p>Question 5. Do you think such mismatches between the portfolio-level AVAs and the institution-level AVAs would be significant? Please give examples.</p>	<p>Three respondents would not expect there to be a big mismatch.</p> <p>Most respondents point out that the extent of the mismatch is institution specific as it depends on how much offsetting of valuation exposures exists between the different portfolios. One respondent further elaborates that the materiality of the mismatch is difficult to assess as currently the individual risks are aggregated on the group level and AVAs are calculated for the group as a whole instead of at a lower level of the hierarchy. They do</p>	<p>Based on the new proposal for portfolio breakdown in C32.02 (see question 4), institutions are requested to develop, where AVAs or other adjustments are computed at institution level, an allocation methodology of the AVAs to the relevant risk categories (or 'asset classes').</p>	<p>Allocation to asset classes should follow institutions' internal risk management structure.</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>not believe there is value in performing calculations based on grossed-up risks that do not properly reflect the group's aggregate risk profile.</p> <p>Three respondents think that the difference could be significant. One respondent further elaborates that this could be significant due to the unclear method for assigning trades to the given asset class and product type. In addition the separation would not account for hedging effects, internal risk transfer and macro-hedging of certain exposures so that AVA would artificially increase.</p>		
<p>Question 6. Where the difference is significant what additional practical difficulties would arise from calculating AVAs for each of the portfolio categories in rows 050-170.</p>	<p>The majority of the respondents point out that the effort to build and operate the additional calculation processes compared to the approach they currently apply is significant. In addition, one respondent believes it is in some cases impossible to calculate all AVAs on a portfolio level. One respondent also points out the difficulty of aggregating exposures from different portfolios in different companies of the group to get the net exposures with the granularity requested. In this regard one respondent believes that risks/valuations exposures should be able to be netted at the institution level for the AVA calculations while another respondent expresses preference for a simplification. Two respondents</p>	<p>Based on the new proposal for portfolio breakdown in C32.02 (see question 4), institutions are requested to develop, where AVAs or other adjustments are computed at institution level, an allocation methodology of the AVAs to the relevant risk categories.</p>	<p>Allocation to asset classes should follow institutions' internal risk management structure.</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>request clarification on whether the portfolio reporting split is required for all AVA's.</p> <p>Two respondents point out that this is a realistic requirement.</p> <p>One respondent believes that the difficulty of splitting some of the AVA (especially MPU and CO) because they are generated in portfolios with exposures that net each other.</p> <p>Several respondents point out the difference with the RTS on Prudent Valuation where the AVAs should be calculated on the basis of valuation exposure level which is not necessarily the same as the portfolio based.</p> <p>Some respondents point out that the proposed split is not beneficial for the internal steering purposes and capital allocation to individual trading desks.</p>		
<p>Question 7. What are stakeholders' views on the ability to usefully summarise in a few key words the models and products concerned, as well as on the associated reporting burden or IT issues?</p>	<p>Most respondents do not see specific issue with the requirement to provide these textual descriptions but respondents note that 60 characters would only allow the institutions to list the basic features of the model. Several respondents point out that the limitation of the characters would however not allow them to list all products especially in the case of exotic and structured products. A possible solution requiring the introduction of more than one cell was suggested by some respondents as well</p>	<p>For the sake of simplification, columns 040 and 050 of template C32.03 are removed. Firms are not required anymore to provide the model and product descriptions, but only the model and product names used internally. The product name should be in line with the institution's product inventory required under RTS Article 19(3)(a).</p>	<p>Removal of columns 040 and 050 of template C32.03. Reporting limited to the top 20 individual model risk AVAs and top 20 individual Concentrated Positions AVAs.</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>as the possibility to send further information to the supervisor on request.</p> <p>Many respondents are of the view that a standardised and well-defined taxonomy is needed in order to obtain data that is useful for cross-firm analysis. Currently the ITS does not specify the granularity of the required model reporting. One respondent suggests the inclusion of standard fields with pre-determined answers which could be borrowed from the templates used in the Asset Quality Review. Two respondents also raise the concern about the lack of a name for the product group and request more guidance with regard to naming conventions as well.</p> <p>Two respondents are of the view that it is impossible to usefully summarise models and products in a few key words. The first respondent proposes to leave out template C32.03 while the other one proposes to remove column 040 and 050 from C32.03.</p> <p>Several respondents are of the view that these reporting requirements are quite fair but at the same time also substantial as developments would be required in Model risk and IPV process to provide the requested breakdown. One respondent believes the reporting should be relatively stable</p>	<p>The EBA takes note of the concerns expressed and simplified the reporting template. However, the EBA also recalls that RTS Article 19(3)(a) requires the specification of an institution-wide product inventory</p>	



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>over time and therefore manageable while others think not all of it would be a one off cost.</p> <p>In particular, some respondents question the appropriateness and point out the conceptual and implementation burden of having to break down the FVA and AVA on model, asset class and product type basis. In addition, one respondent mentions that as hedging effect would no longer be visible, AVAs would become substantially larger.</p> <p>Several respondents point out the additional burden of having to collect the new parameter observability which would involve the collection and aggregation of continuous intra-day communication. One respondent is doubtful on the ability to aggregate this information across different institutions while another respondent requests this to be excluded unless a clear benefit of this reporting requirement can be shown. For two respondents also the fields IPV Difference and IPV Coverage would be challenging.</p> <p>Several respondents believe that the reporting requirements in the model risk AVA template but also the concentration positions AVA template might be onerous to implement even for banks with little exposures to these AVAs. As an alternative, a materiality filter to the requirement (e.g. 1% of total</p>	<p>ensuring that every valuation position is mapped to a product definition.</p> <p>The number of price observations for a product or group of products, valued using a same model, is a useful information to assess valuation uncertainty. Requirements in this respect were aligned with the FRTB language used in the final standards for market risk (pg. 57-58).</p> <p>The EBA agrees with limiting the reporting to only the top 20 individual model risk AVAs and top 20 individual Concentrated Positions AVAs.</p>	



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>AVA) or a restriction to only the top AVAs is proposed. One respondent proposes to limit to the top 20 model risk AVAs as they expect this will still ensure 95% coverage of the model AVA.</p> <p>One respondent points out the challenge of reporting individual model risks from subsidiaries, especially when an additional aggregation step is required in case common models and product types are used in different subsidiaries.</p> <p>One respondent requests more clarification on whether entries for the top 50 model risk AVA are to be made in decreasing order before or after diversification and whether valuation exposures with a model risk of zero after diversification need to be included.</p>	<p>Based on the feedback received in the consultation, a reduced reporting requirement is introduced for subsidiaries: templates 32.03 and 32.04 are to be completed only by institutions that exceed the threshold referred to in Article 4(1) of the RTS at their level. Institutions that are part of a group breaching the threshold on a consolidated basis, but do not exceed the threshold at their individual or sub-consolidated level, are required to report templates 32.01 and 32.02 only.</p> <p>The entries for the top 20 model risk AVA should be made in decreasing order before diversification.</p>	
<p>Question 8. Do you find the proposed instructions on prudent valuation clear? Are there specific parts where definitions or instructions should be clarified?</p>	<p>One respondent requests more information on the reporting of overhedges. Many other institutions point out that overhedges is not a general concept in Fair value accounting nor in the RTS on Prudent valuation and that introducing this increases the reporting workload. One respondent proposes to remove this reporting as they did not believe inclusion would pass the cost benefit ratio.</p>	<p>Based on the feedback received, the reporting templates were streamlined and instructions were clarified on many aspects. In particular, the reporting of overhedges was removed.</p>	<p>Removal of column 'Overhedges'.</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>Some respondents request clarification on the calculation and the split in valuation adjustments for Unearned Credit Spreads and Investing and funding costs especially into MPU, CO and model risk.</p>	<p>At this stage, the RTS do not specify any methodology for splitting investing and funding costs AVA and unearned credit spreads AVA between model, MPU and COC.</p>	
	<p>Two respondents request clarification on whether the core approach has to be applied for the individual calculation in case the threshold is breached on consolidated level but not on individual level. The respondent point out the operational burden in case the core approach would have to be applied on individual level as well.</p>	<p>In accordance with RTS Article 4(3), where the threshold is breached at the consolidated level, the core approach shall be applied to all entities within a group included in the consolidation also for the calculation at individual level of this entity.</p> <p>However, based on the feedback received in the consultation, a reduced reporting requirement is introduced for subsidiaries: templates 32.03 and 32.04 are to be completed only by institutions that exceed the threshold referred to in Article 4(1) of the RTS at their level. Institutions that are part of a group breaching the threshold on a consolidated basis, but do not exceed the threshold at their individual or sub-consolidated level, are required to report templates 32.01 and 32.02 only.</p>	
<p>Question 9. Do respondents have any comments on the structure and content of the proposed templates on prudent valuation?</p>	<p>Concerning C32.01, one respondent is of the view that the additional reporting of exclusions could be sensible for institutions that are close to the EUR 15 bln but is an unnecessary burden for institutions far above the threshold. In addition, clarification is needed in general on the reporting for subsidiaries</p>	<p>Template C32.01 is to be completed by all institutions, whether or not they have adopted the simplified approach. The additional reporting of exclusions is also useful for the supervisor in case the institutions are far above the threshold as it allows to look for inconsistencies.</p>	<p>Template 32.01 aligned with IFRS 9. Removal of column 'Gross notional' in template 32.04.</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>of a group and more specifically on whether this table has to be filled out for local GAAP as well.</p> <p>Concerning C32.01 row 120, two respondents are of the view that the principles of prudent valuation/fair value accounting should not apply when the valuation basis is lower of cost or market (LOCOM).</p> <p>Concerning C32.04, one respondent is of the view that the reporting should be based on valuation exposure given that the concentrated position AVA is an incremental cost to close out cost. This respondent proposes to remove Gross notional and Market value from this reporting and only require reporting the main Asset class/product/underlying that composes the valuation exposure.</p>	<p>Template C32.01 should be reported in line with FINREP template F01.01 of Regulation (EU) No. 680/2014 depending on the institution's applicable standards:</p> <ul style="list-style-type: none"> - IFRS as endorsed by the European Union in application of Regulation (EU) 1606/2002 ('EU IFRS') - National accounting standards compatible with EU IFRS ('National GAAP compatible IFRS') - or National GAAP based on Directive 86/635/EC, the Bank Accounting Directive (FINREP 'National GAAP based on BAD'). <p>The scope of the RTS/ITS are positions that are held at fair value for accounting purposes, it is therefore considered to be implicit that positions held under other valuation regimes (e.g. LOCOM) are not within the scope.</p> <p>Column 'Gross notional' is removed.</p>	



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>One respondent is of the opinion that the expected changes in accounting treatment due to IFRS 9 should be considered in these COREP templates.</p>	<p>EBA agrees with this suggestion and reconsiders the categorization of the portfolio breakdown to align this with IFRS 9.</p>	
	<p>Some respondents suggest introducing an additional threshold besides the EUR 15 billion that is based on the total aggregated AVA amount and making the comprehensive reporting compulsory for institutions breaching this additional threshold.</p>	<p>EBA rejects the suggestion to include another threshold. However, based on the feedback received, the ITS will require institutions under the simplified approach to report one template only, while, in contrast, institutions under the core approach will be requested to provide four templates for the largest institutions, or two templates only for institutions that do not exceed the EUR bn 15 threshold at their level.</p>	
	<p>One respondent points out the duplication with the existing reporting for C32.01, column 010/Row10-210.</p>	<p>Although this information might for some banks be available already in FINREP, it is necessary that it is included again in these prudent valuation templates. This reporting should however not represent an important additional effort.</p>	

