

EBA/ITS/2016/07

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30 November 2016

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# Final Report

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Final draft implementing technical standards amending Commission Implementing Regulation (EU) 680/2014 on supervisory reporting of institutions with regard to financial reporting (FINREP) following the changes in the International Accounting Standards (IFRS 9)

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# 1. Executive summary

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Regulation (EU) No 575/2013 ('the CRR') mandates the EBA, in Article 99(5), to develop uniform reporting requirements among other topics also on financial information (FINREP). These reporting requirements are included in Regulation (EU) No 680/2014 (Implementing Technical Standards on supervisory reporting- 'ITS on supervisory reporting'). They apply to investment firms subject to Article 4 of Regulation (EC) 1606/2002 and credit institutions required to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), as well as credit institutions required by supervisors to use IFRS endorsed by the EU for the determination of own funds. It was originally chosen to base the reporting of financial information (FINREP) on accounting standards to achieve efficient regulation by aligning supervisory reporting of financial information with accounting standards. Therefore FINREP needs to be updated whenever the underlying international accounting standards adopted in accordance with Article 6(2) of Regulation (EC) 1606/2002 are updated.

In July 2014 the International Accounting Standards Board (IASB) issued 'IFRS 9 Financial Instruments', which supersedes the reporting standard for financial instruments in force in the EU since 2005 (IAS 39). IFRS 9 fundamentally changes the way financial instruments are accounted for and, therefore, requires a thorough update of the financial reporting framework for IFRS reporters. In addition, FINREP forms an integrated package for supervisory reporting of financial information which also includes templates that may, when decided by their Competent Authority, be reported by institutions using General Accounting Principles in accordance with Directive 86/635/EC (Bank Accounting Directive, 'BAD'). Parts of FINREP templates are to be reported indistinctively by institutions using IFRS and by institutions under national Generally Accepted Accounting Principles (GAAP), and it is necessary to ensure that information reported by the two populations of reporters remains consistent to achieve a comprehensive view of risks. Updating FINREP IFRS templates in Annex III of the ITS therefore also requires an update of the GAAP templates in Annex IV.

The changes are limited to those needed for supervisory purposes and to obtain a comprehensive view of the risk profile of institutions' activities and the risks they pose to the financial sector or the real economy as per Article 99(4) of the CRR. In addition, while amendments are focused on changes coming from IFRS 9 and their consequences for GAAP templates it was deemed necessary to review some parts of the FINREP framework based on experience using the data transmitted and feedback received from compiling institutions.

Given the scope of the changes introduced by these draft ITS in the instructions and templates, the relevant Annexes are replaced in whole. The relevant Annexes are the following:

- Annex III of Regulation (EU) No 680/2014 'Templates for reporting FINREP IFRS' which is replaced by Annex I of these final draft ITS.

- Annex IV of Regulation (EU) No 680/2014 ‘Templates for reporting FINREP GAAP’ which is replaced by Annex II of these final draft ITS.
- Annex V of Regulation (EU) No 680/2014 ‘Instructions for reporting FINREP’ which is replaced by Annex III of these final draft ITS.

IFRS 9 has been endorsed into EU law on 22 November 2016, and the final draft ITS are based on the EU-endorsed version of IFRS 9.

## Next steps

The draft implementing technical standards will be submitted to the European Commission for endorsement before being published in the Official Journal of the European Union. The technical standards will apply, depending on the accounting year of each institution, from the first date where IFRS 9 as endorsed by the EU becomes applicable. For an institution with a January - December accounting year the first application date will be 1st January 2018, with a first reference date of 31 March 2018.

## 2. Background and rationale

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### Importance of uniform reporting requirements

Uniform reporting requirements in all EU 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 to perform 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

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. These draft ITS 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 EU.

### Maintenance and update of the ITS

The draft Implementing Technical Standards (ITS) reflect the single rulebook at the reporting level. Reporting of financial information (FINREP) is based on accounting standards and hence need to be updated whenever the underlying international accounting standards adopted in accordance with Article 6(2) of Regulation (EC) 1606/2002 are updated.

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 changed reporting instructions and definitions. Experience of using FINREP for supervision and experience with data quality and feedback from institutions compiling data have led to a need to review some of the requirements. In addition, further changes to reporting requirements were triggered by the identification, during the preparation for the application of reporting requirements, of typos, erroneous references and formatting inconsistencies.

### Implementation of updated ITS and remittance

The first reporting reference date follows the first application date of EU-endorsed IFRS 9 for each institution. If an institution has an accounting year lasting from January to December, the first application date will be 1st January 2018, with a first reference date of 31 March 2018.

## Major changes brought by changes in the IFRS

In July 2014 the IASB issued IFRS 9 financial instruments, which consolidates the three phases on which it had been working since 2009 (classification and measurement, impairment, hedge accounting), and supersedes the reporting standard for financial instruments in force in the EU since 2005 (IAS 39). IFRS standards are of mandatory use in the EU for the consolidated accounts of listed companies, once they have been endorsed by the EU, in accordance with the provisions in Regulation (EU) 1606/2002. IFRS 9 has been endorsed by the EU on 22 November 2016.

Credit institutions and investment firms required to prepare their financial statements in accordance with IFRS as endorsed by the EU, as well as credit institutions required by supervisors to use IFRS endorsed by the EU for the determination of own funds, shall report to their supervisors financial information - the format of which is determined in Annex III of Regulation (EU) 680/2014 (FINREP reporting). The EBA originally chose to align the structure of the FINREP reporting templates to the IFRS requirements to the extent such alignment was compatible with the use of FINREP for supervisory purposes.

IFRS 9 fundamentally changes the way financial instruments are accounted for and requires a thorough update of the financial reporting framework for IFRS reporters. The EBA consulted on these updates early with the industry, even when IFRS 9 was not yet endorsed, to allow time for institutions to prepare for the final reporting framework which would be based on the endorsed standards. The consultation was therefore based on the IASB version of IFRS 9 published in July 2014, while the final version of templates, instructions, data point model and validation rules are based on the version of IFRS 9 endorsed by the EU.

As a result of the updates, while FINREP reporting remains aligned as much as possible with the relevant accounting standards the ITS also provide necessary information to obtain a comprehensive view of the risk profile of institutions' activities and a view of systemic risks posed by institutions to the financial sector or the real economy as stated in Article 99(4) of the CRR.

### FINREP for GAAP reporters

As per Article 99(6) of the CRR FINREP framework includes also templates and instructions for reporting financial information under national Generally Accepted Accounting Principles (GAAP). The majority of changes to the FINREP framework are stemming from the new IFRS 9 and yet the integrated nature of FINREP makes changes to templates and instructions for national GAAP reporters necessary in order to (i) ensure that GAAP reporters can use templates common to both national GAAP and IFRS reporters once they have been updated, and (ii) ensure that national GAAP and IFRS reporters report consistent information. The EBA has therefore run a decentralised public consultation on proposed changes to FINREP GAAP templates and related instructions.

## 2.1 Overview of the changes brought to FINREP IFRS templates

Changes to IFRS templates align the framework with the new IFRS 9 requirements limiting the changes to those needed for supervisory purposes as per Article 99(4) of the CRR. In addition, while changes are focussed on changes coming from IFRS 9 it was deemed necessary to review some parts

of the FINREP framework based on experience using the submitted data and feedback received from compiling banks.

In particular, refinements have been brought to the concepts of gross carrying amount, accumulated changes in fair value due to credit risk, non-performing and forborne exposures, the reporting of economic hedges, investments in associates, subsidiaries and joint ventures and their dividends, mortgage exposures, and the counterparty of financial assets.

The consultation has confirmed major changes.

### **2.1.1 Main changes due to IFRS 9 classification and measurement**

The following changes are introduced throughout the FINREP templates, whenever a breakdown of financial assets in accounting portfolios is required:

- Deletion of the Held to Maturity accounting portfolio which no longer exist in IFRS 9.
- Replacement of the 'Available for sale (AFS)' accounting portfolio by the 'Fair value through Other Comprehensive Income (FVOCI)' accounting portfolio.
- Replacement of the 'Loans and Receivables' accounting portfolio by the 'Amortised cost' accounting portfolio.

Under IFRS 9, the measurement of financial assets depends on the business model of the reporting entity (management intent vis-à-vis the asset) and on the characteristics of the cash flows. Fair value through profit and loss is used as a residual category when the business model and cash flow criteria for classification at amortised cost or at fair value through other comprehensive income are not met, or as an optional category to deal with accounting mismatches (fair value option).

Nevertheless, it was deemed necessary for supervisory purposes to keep identifying separately 'Held for Trading' assets and liabilities, which correspond to a particular business model within the category of assets measured at fair value through profit or loss. This specificity is enshrined in the continuous definition of 'Held for Trading' assets and liabilities in IFRS 9 (Appendix A). However, separately identifying 'Held for Trading' assets leads to the creation of an additional subportfolio within assets measured at fair value through profit or loss to report those non-trading financial assets that are mandatorily measured at fair value through profit or loss. This new portfolio has been identified consistently in all FINREP templates.

In addition, the following changes have been implemented in specific FINREP templates to reflect more targeted changes in the classification and measurement requirements:

- Insertion of specific rows and instructions to take into account the measurement of changes in fair value of equities in other comprehensive income, their reclassification within equity and not in profit or loss (P&L), and changes in own credit risk in other comprehensive income (template F1.3 and template F3).

- Information on fair value option were limited to loans and debt securities, while the possibility to report a group of financial assets managed on a fair value basis in template F41.2 was deleted.
- Limitation of information required on hybrid instruments to those hybrid liabilities designated at fair value through profit and loss (template F41.2) and deletion of other information required on hybrid instruments (template F41.3), since split accounting between the host contract and the embedded derivative instrument of an hybrid is no longer allowed for hybrid assets.
- Deletion of the amount contractually required to be repaid at maturity for liabilities designated at fair value through profit or loss and focus of the information on fair value changes due to credit risk on non-derivative liabilities (template F8).

### **2.1.2 Main changes due to IFRS 9 impairment**

The FINREP templates with a focus on impairment (templates F4.3.1, F4.4.1, F7 and F12) have been modified to accommodate the changes introduced by IFRS 9:

- Each template breaks assets down between the different stages, and their associated allowance where relevant (templates F4.3.1 and F4.4.1).
- Templates F4.3.1, F4.4.1 and F7 convey information on the classification and impairment status of exposures for which exemptions and rebuttable presumptions are used in IFRS 9 (for instance the low credit risk exemption).
- Assets subject to specific impairment rules are separately identified when needed for supervisory purposes: credit-impaired financials are separately identified in templates F4.3.1 and F4.4.1, while contract assets and lease receivables are included in the scope of these templates as part of loans and advances measured at amortised cost in order to have a comprehensive view on impairment on all types of assets.
- Information on write-offs: information on the flow and accumulated amounts of partial and total write-offs, defined as in IFRS 9, has been included in templates F4.3.1, F4.4.1 and F12 (where direct write-offs are separately identified from write-offs through the use of impairment allowance). Information on write-offs is necessary to have comparable coverage ratios between institutions, regardless of their write-off requirements or practices.
- A breakdown of changes in the impairment allowance by different drivers for change for on-balance sheet and off-balance sheet assets is provided in template F12.1, measured at amortised cost and at fair value through other comprehensive income. The breakdown of changes in allowance permits monitoring moves due to credit risk changes and moves due to other reasons, such as updates of models or changes in the portfolios composition. Detailed instructions help for allocating the changes to each driver.

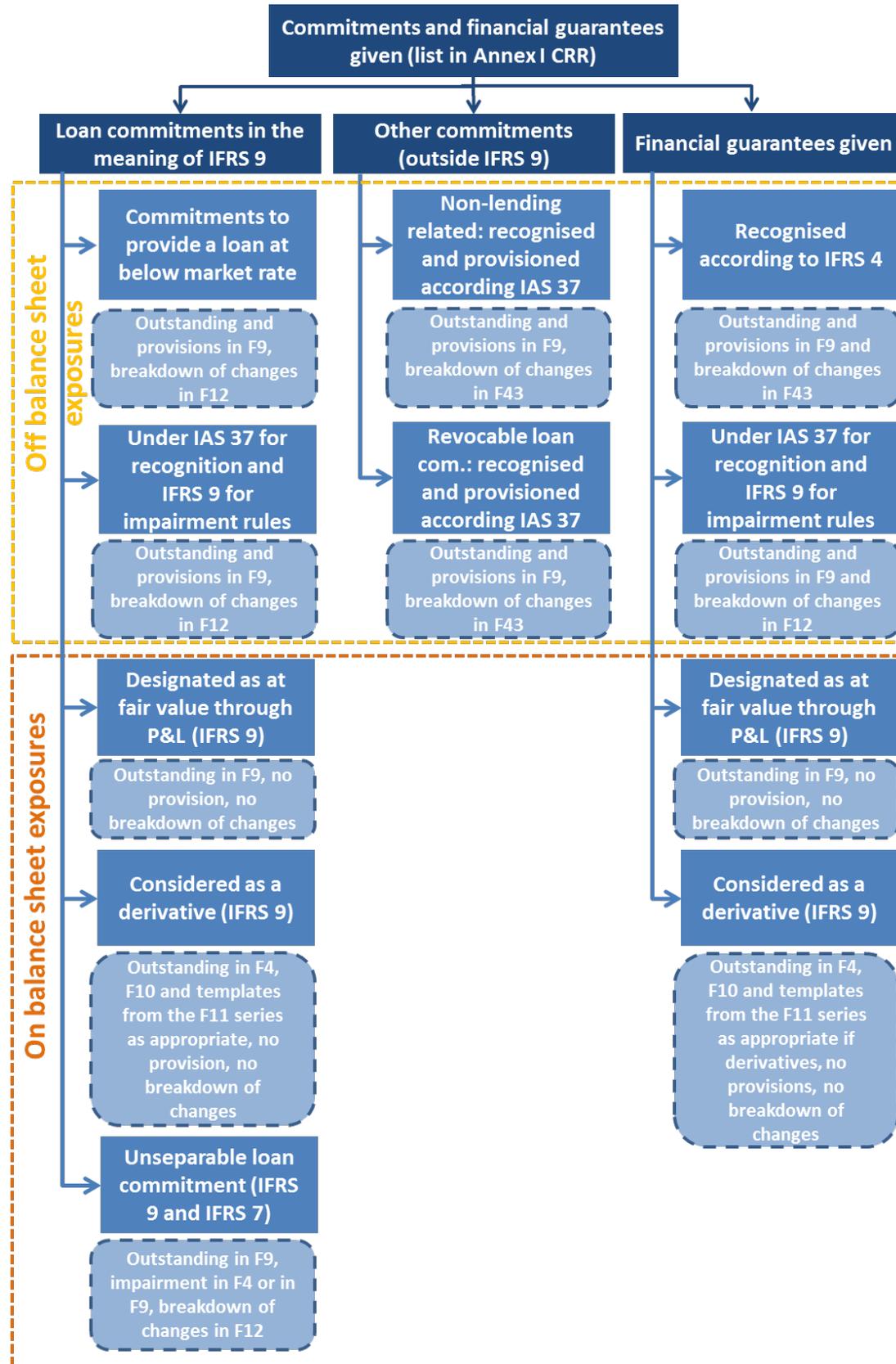
- In each impairment stage, the occurrence or not of a significant increase in credit risk since initial recognition can be assessed on an individual or collective basis. For each impairment stage, information on the end and beginning of period amount of the impairment allowance as well as on the changes in this allowance has to be reported separately for individually measured and collectively measured allowances.
- The impact of modifications of assets is now separately identified both in terms of P&L in template F2 and in terms of amount of allowance in template F12.1, with detailed instructions on how to report different types of modifications.
- Transfer of assets between impairment stages: the main driver for impairment is expected to be the transfer of assets between impairment stages, so template F12.2 provides a granular breakdown of the transfers of the gross carrying amount of financial assets to and from each stage.
- Information on interest income for impaired assets in template F16.7 was replaced by information on interest income for assets in impairment Stage 3 in template F16.1, due to the similarity in the accounting of interest income on these assets compared to the prevailing rule under IAS 39.AG93 for the impaired assets. Template F16.7 has been re-focused on impairment on non-financial assets. Instructions were clarified regarding the recognition of interest income on the amount of expected loss allowance and the reporting of this impact in template F12.1.

FINREP requires reporting of nominal amount and provisioning/impairment of off-balance sheet items listed in Annex I of CRR - regardless of whether they are cancellable or uncancellable. Off-balance sheet items are allocated to three different categories: loan commitments, financial guarantees and other commitments.

IFRS 9 stipulates that all loan commitments, which are defined as firm and uncancellable commitments, are to be subject to impairment requirements, but the scope of Annex I CRR, and therefore of FINREP information, is broader, as confirmed by the responses to the consultation. In addition, IFRS 9 and the revised IFRS 7 allow not to separately consider and disclose the off-balance sheet component of a financial instrument when estimating impairment. As for loan commitments and financial guarantees, some of them may be considered as derivatives or designated at fair value through profit and loss, and therefore booked on-balance sheet.

Accordingly, information on off-balance sheet items is to be reported in different templates depending on whether:

- the commitment is within the scope of IFRS 9 or IAS 37;
- the commitment is separable from an on-balance sheet item of which it is a component;
- the commitment or financial guarantee is measured at fair value and booked on-balance sheet.



Commitments that are unseparable components of an on-balance sheet instrument are included in the scope of template F9 in order for this template to provide comprehensive information on the

nominal amount of commitments. Nevertheless, provisions for those commitments shall not be reported if they do not exceed the expected credit losses for the on-balance sheet instrument.

Information on commitments designated at fair value through profit or loss is necessary to keep consistency with the current FINREP, where this piece of information is also required, and to provide a comprehensive view on the commitments of institutions, irrespective of their measurement method. Nevertheless, to tailor the level of information requested to the level of use of this measurement method, the level of granularity of information required to be reported is low. In particular, these commitments, for which template F9 provides the amount of non-performing exposures and accumulated negative changes in fair value due to credit risk, are not included in the scope of templates F18 and F19.

### **2.1.3 The main changes due to IFRS 9 Hedge Accounting**

The new hedging requirements have led to the insertion of extra rows in existing templates to reflect the changes in the accounting for qualifying hedges due to the changes in the measurement rules of hedged items (equity instruments at fair value through other comprehensive income) and the possibility not to recognise some elements of an hedging instrument as part of the hedging relationship:

- In template F1.3 and template F3, new rows have been inserted to reflect the new hedging rules for specific hedged instruments (equities with changes in fair value in FVOCI) or hedging instruments (time value of options, forward points of forward contracts).
- The label of row 150 in F1.3 has changed from 'Hedging derivatives. Cash flow hedges [effective portion]' to 'Hedging derivatives. Cash flow hedges reserve [effective portion]' although this row is still intended to be used for reporting the effective part of the change in fair value of hedging derivatives in a cash flow hedge.
- In templates F41.2, F10, F16.3 and F16.5, new rows and columns have been inserted to reflect the new possibility of using fair value option to hedge the credit risk of a credit exposure with credit default swaps and allows for a monitoring of the appropriate use of this option and of its impact on the profit and loss of institutions.

IFRS 9 brings hedge accounting closer to risk management practices and therefore may lead to an increase in use of hedge accounting to portray hedge transactions. More information on the impact of hedge accounting on the financial position and financial results of institutions is necessary in line with the increase in disclosures introduced by the revisions to IFRS 7. To that end, the revision of FINREP introduces new templates:

- A new template F11.3 is inserted to report information on non-derivative hedging instruments in cash-flow hedges and fair value hedges, which allows keeping template F11 focused on hedging derivatives.
- A new template F11.4 on hedged item in fair value hedges and the impact of fair value hedges in the reporting period

In addition, a new row for interest income from derivatives in economic hedges was added in template F16.01 to align with the information already required for derivatives in hedge accounting to have comprehensive information on the impact of all hedging activities on interest income. The instructions were also amended to clarify that clean price accounting could be used, both for hedging and trading derivatives, including those used for economic hedging.

The relevant changes brought to FINREP apply equally to institutions that have decided to keep using the rules in IAS 39 – the only differences relate to the name of portfolios, and rules for the consideration of certain instruments which may not qualify as hedging instruments in a qualifying hedge under IAS 39 (mainly non-derivative hedging instruments and CDS).

## 2.2 Overview of other changes brought to FINREP IFRS templates

The other changes described in this part are changes that result from requests received in the consultation and from issues identified via the Single Rulebook Q&A process which need to be addressed to ensure better quality in the reporting of information. These changes apply to both IFRS and GAAP templates.

### 2.2.1 The gross carrying amount of financial assets in FINREP

When applying the concept of gross carrying amount to financial instruments measured at fair value through profit or loss, several difficulties arose and the new definition of this concept in IFRS 9, while it had so far been used in supervisory reporting only, offers an opportunity to fix the difficulties encountered.

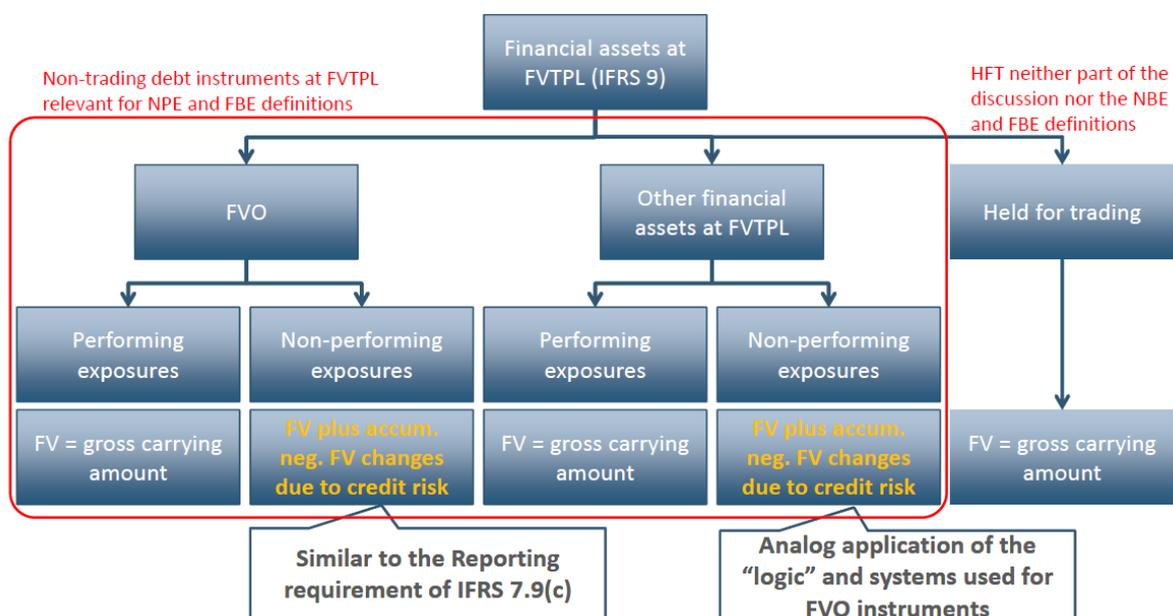
Indeed, for financial assets measured at fair value through profit or loss, FINREP required to adjust the carrying amount from the accumulated fair value changes due to credit risk, i.e. to add back to the carrying amount the net loss in fair value due to credit risk, and to deduct from the carrying amount the net gains in fair value due to credit risk. However, because the carrying amount of assets categorized and measured at fair value through profit and loss is their fair value, which already includes the positive and negative changes due to the variation in credit risk, the deduction of the accumulated net gains in fair value due to credit risk causes the gross carrying amount to be less than the carrying amount.

As IFRS 9 now provides a definition of gross carrying amount, a new FINREP definition, building on the IFRS 9 one, was inserted in FINREP:

- The gross carrying amount of exposures subject to impairment is their carrying amount before adjusting for (i.e. adding back) accumulated impairment.
- The gross carrying amount of held for trading exposures is their fair value.
- The gross carrying amount of other exposures measured at fair value through profit or loss is their fair value for performing exposures. For non-performing exposures it is their fair value before adjusting for (i.e. adding back) accumulated negative fair value changes due to credit risk.

The ultimate objective is to enable a monitoring of the credit quality of all exposures that are not held for trading (the exclusion of held for trading exposures from the scope of the definition is consistent with their non-consideration in the definition of non-performing exposures). The EBA believes that the changes in the definition bring significant improvement compared to the current situation where institutions are required to identify and track the fair value changes due to credit risk on all exposures measured at fair value through profit or loss, including held for trading exposures, by reducing the requirements on banks and ensuring better quality of data.

In addition guidance on the level of computation of the changes in fair value due to credit risk as well as separate information requests for the different types of gross carrying amounts will allow improving the quality of reported data on both accumulated negative changes in fair value due to credit risk and gross carrying amount.



## 2.2.2 The reporting of information on non-performing exposures and forbearance

Despite the change of the IFRS impairment model from an incurred loss approach under IAS 39 to an expected loss approach under IFRS 9, the definitions of non-performing exposures and forbearance keep their relevance.

Indeed, these definitions are not meant to replace the ones in the accounting standards, and therefore are not equivalent to the impairment stages under IFRS 9. They are rather tools for asset quality assessment that can be used as benchmark to assess the levels of asset quality in different institutions under different accounting frameworks. This autonomy compared to accounting standards will become especially important under IFRS 9, as all national GAAP may not embrace the expected loss approach, which could further impact comparability of GAAP and IFRS figures in FINREP.

In a context where non-performing and forborne exposures are under increased attention by supervisors, the revised FINREP will enhance the quality and granularity of data collected on these exposures via:

- Clarifications regarding the mapping between IFRS 9 and GAAP portfolios on the one hand, and IFRS and GAAP accounting portfolios on the other hand.
- Clarifications on how the concepts of non-performing exposures and forbearance map with impairment stages and the concept of modified assets under IFRS 9 (non-performing exposures can be identified in any IFRS 9 impairment stage, but all assets under Stage 3 are to be identified as non-performing; modified assets that meet the criteria in the definition of forbearance are forborne exposures).
- Separate identification of Stage 2 and Stage 3 expected loss allowance on non-performing exposures.
- Enhancement in the granularity of data in terms of exposures, value adjustments and geographical and sectorial breakdowns, with separate identification of non-performing exposures subject to impairment and non-performing exposures subject to accumulated negative fair value adjustments due to credit risk.
- Enhancement in the granularity of the past-due monitoring for non-performing exposures, with identification of non-performing exposures past-due by more than 5 years.

### 2.2.3 The reporting of information mortgage loans

Some respondents identified the need for clarification regarding the concept of mortgage loans in FINREP, noting it was used inconsistently across templates and open to interpretation regarding its inclusiveness of loans for house purchase that are guaranteed by an insurance company.

Mortgage loans are currently modelled and intended to be used as a synonym for loans collateralised by immovable property. Mortgage loans currently refer to loans secured by immovable property collateral (residential/commercial) as defined in both cases in the CRR, independently of their loan/collateral ratio. Accordingly, loans guaranteed by insurance companies do not qualify as mortgages and will not be reported as such in the different template F5 They will be reported as loans secured by financial guarantees in template F13.

However, not all templates that require information on loans collateralised by immovable property use the concept of mortgage. The lack of consistent use of the concept of mortgage could lead to misinterpretation as regards the synonym nature of the concept of mortgage loans, meaning that they could be interpreted as subcategory of loans collateralised by immovable property, for which a definition has been provided in Q&A 2014\_1108 (loans collateralised by immovable property consist of loans secured by residential and commercial immovable property, the concepts of residential and commercial being defined by reference to the CRR). Indeed, mortgage refers to a specific type of security on real estate lending and accordingly, not all real estate lending could be considered as mortgage loans, i.e. mortgage could refer to only those loans that are real estate secured by way of a security that qualifies as a mortgage in accordance with applicable law.

The possibility of misinterpretation is enhanced due to differences that exist between the FINREP definitions of mortgages and loans collateralised by immovable property on the one hand, and the categories used in the CRR and in the COREP reporting on the other hand, mainly exposures secured

by mortgages on immovable property (Article 124, 125 and 126 CRR, standardised approach) and retail exposures secured by immovable property collateral (Article 153(4) CRR, IRB approach). Indeed, the exposure class under the standardised approach explicitly refers to mortgages, unlike the exposure class under the IRB approach, which has allowed institutions to include exposures secured by real estate using other security types than mortgages available in their legal framework. In addition, the exposure class under the standardised approach requires specific conditions to be made, for instance in terms of degree of collateralisation, and these conditions do not exist in FINREP.

This lack of clarity of the concept of mortgage in FINREP has an impact on the quality of the reported data. In addition, risks are more related to different types of lending (such as lending for house purchase, or real estate-based lending) than to the type of security for the lending exposures (a mortgage, a pledge or other security). However, currently, there is information reported in FINREP on the exposure value related to lending for house purchase (in template F5), but not on the collateral associated with such exposures (since template F13 requests information on the collateral for mortgages).

As a result, the EBA decided to delete the reference to 'mortgages' in FINREP and replace it by references to loans collateralised by immovable properties, for which the definition currently in use for mortgages will apply. This deletion was accompanied by the following changes:

- The exposure class of loans for house purchased was introduced in template F13, as it currently exists in template F5.
- The scope of template F13 was aligned with the revised scope of template F5 (i.e. exclusion of held for trading exposures).
- Clarification that, in template F13.01 commercial immovable property include offices, commercial premises and other commercial immovable property
- Clarification in template F13.01 that the allocation is done based on loan type first and then collateral (e.g. loans collateralised by immovable property and another type of collateral will only have immovable property collateral reported to allow calculation of level of collateralisation).
- Clarification in template F5 that collateralised loans are clarified based on the collateral irrespective of their purpose.
- Clarification that, in template F5, carrying amounts shall be reported only once.
- Clarification that, in template F5, legal form of the collateral does not impact the classification of loans.

#### **2.2.4 Counterparty of exposures**

FINREP reporting remains based on the direct counterparty (paragraphs 42-44 of the revised FINREP). Nevertheless, clarifications were brought in the instructions for different types of transactions and in particular for two types of exposures; trade receivables and financial guarantees given.

Trade receivables, in particular when they result from factoring, can be with recourse and without recourse. In a trade receivable with recourse, the institution recognising the receivable expects to recover the amount of the receivable from the transferor, which is the guarantor of that receivable. As for itself, the transferor of the receivable may be considered as having transferred all the risks and rewards of ownership, and therefore derecognise the receivable, or, on the contrary, continue to recognise it when all the risks and rewards of ownership have not been transferred.

It was decided to reflect this specificity in the reporting of trade receivables:

- For trade receivables with recourse, the counterparty will be the transferor of the receivable (i.e. the transferor of the receivable keep all the risks and rewards of ownership of the receivable).
- For trade receivable without recourse, the direct counterparty will be the party obliged to pay the receivable.

Financial guarantees given benefit the receiving party by providing a loss mitigation mechanism for an exposure that is covered by the guarantee. The risk for the guarantee provider, therefore, refers to that guaranteed exposure. The counterparty for financial guarantees given is, therefore, the debtor who is referenced in the financial guarantee (when there is a risk on that debtor that a provision may be booked in accordance with IAS 37 or IFRS 9)

### **2.2.5 The reporting of investments in associates, subsidiaries and joint ventures**

Investments in entities outside the scope of regulatory consolidation are, under the current FINREP, not reported within the different accounting portfolios (Part 1 paragraph 12, now renumbered as paragraph 13). Nevertheless the current description of the content of row 260 - Investments in subsidiaries, joint ventures and associates - in template F1.1 has led to some ambiguity as regards its content.

Indeed, the current description of the row could be understood as if only investments in subsidiaries, joint ventures and associates should be reported separately. This creates an ambiguity given that, while IFRS 9 excludes from its scope of application, interests in subsidiaries, associates and joint ventures measured in accordance with IFRS 10, IAS 27 and IAS 28, these standards allow or require some of those investments to actually be accounted for in accordance with IFRS 9. Instructions could be misunderstood as requiring the reporting of investments at equity method in row 260, and reporting of the investments measured in accordance with IFRS 9 in the other accounting portfolios.

Instructions were consequently clarified to require all investments in subsidiaries, joint ventures and associates that are not fully or proportionally consolidated under the regulatory scope of consolidation to be reported in row 260 in template F1.1 independently on how they are measured, to make clear that this row does not include only those investments measured under the equity method.

## 2.2.6 The reporting of dividend income from subsidiaries, associates and joint ventures

Dividend income from subsidiaries, associates and joint ventures outside the scope of regulatory consolidation that are not accounted for under the equity method are currently not reported separately in template F2. In accordance with the validation rules for template F2 and template F31.2, which identifies the dividend income from related parties, dividend income from unconsolidated entities shall be reported in row 160. Yet, this row is broken down by accounting portfolio, which should normally exclude dividends from subsidiaries, associates and joint ventures as investments in those entities are excluded from the breakdown by accounting portfolios.

In addition, the current instructions for row 590 in template F2 could be interpreted as requiring the dividend income from subsidiaries, joint ventures and associates accounted for under the equity method under the regulatory scope of consolidation to be reported in row 590, whereas under IFRS dividends from entities accounted for under the equity method are not booked via the P&L but reduce the carrying amount of the investments.

As a consequence, an extra row was added for the reporting of dividend income from subsidiaries, associates and joint ventures outside the scope of regulatory consolidation, and the instructions were clarified so that the reporting takes place as follows:

- Subsidiaries, joint ventures and associates outside the regulatory scope of consolidation and *not accounted under the equity method*:
  - Dividend income: F2 new row 192, reconciliation with F31.02 r030.
- Subsidiaries, joint ventures and associates *accounted under the equity method*:
  - Share of profit or loss: F2 r590;
  - Dividend income: reduction in the carrying amount of these investments by counterparty of an extra cash amount recognised in F1.1, so no reporting in F2.

## 2.3 Overview of the changes brought to FINREP GAAP

As announced when launching the consultation on the changes to FINREP due to IFRS 9, the EBA considered subsequently to that consultation the changes to FINREP that were necessary for reporters using the FINREP templates and instructions in Annex IV of Commission Implementing Regulation (EU) 680/2014. These FINREP templates and instructions are those based not on IFRS as endorsed by the EU but on Generally Agreed Accounting Principles (GAAP) based on the Directive 86/635/EC, the Bank Accounting Directive (FINREP 'national GAAP based on BAD').

Indeed, the integrated nature of FINREP means that Annex III of Commission Implementing Regulation (EU) 680/2014 which includes the reporting templates for institutions using IFRS is a subset of Annex IV, which includes the reporting templates both for institutions using IFRS and institutions using national GAAP based on BAD. As for Annex V, it also includes reporting instructions for both IFRS-based and national GAAP-based templates. While such an integrated approach is necessary to keep a single set of validation rules and allows Competent Authorities from jurisdictions

in which national GAAP are fully compatible with IFRS to require the reporting of information by institutions using the IFRS-based templates, it has for consequence that an update in Annex III triggers an update in Annex IV of Commission Implementing Regulation (EU) 680/2014.

Two types of changes were implemented for the FINREP GAAP templates and their related instructions:

- **Consequential changes:** changes that are relevant for both IFRS and national GAAP reporters and are implemented to keep the integrated nature of FINREP and the information reported aligned between the two populations of reporters;
- **Broader changes:** changes to fix specific reporting issues or information gaps that have arisen with the current Annex IV of Commission Implementing Regulation (EU) 680/2014 due to some specificities in national GAAP that had been inappropriately catered for so far in that annex.

### 2.3.1 Consequential changes in FINREP GAAP templates

Templates in Annex IV and instructions that are applicable to both national GAAP reporters and IFRS reporters have been updated to align on their revised version as per the adjustments decided for FINREP IFRS 9.

In addition, templates specific to national GAAP reporters and their related instructions were updated to ensure that all submitters report consistent information irrespective of their accounting framework:

- Accumulated changes in fair value due to credit risk for trading assets in template F4.6 are no longer required this results from the implementation of the renewed concept of gross carrying amount as described in section 2.2.1;
- Information on specific and general allowance, general allowance for banking risks, accumulated negative change in fair value due to credit risk, and accumulated write-offs was moved from template F7 to templates F4.6 to F4.10;
- Template F7 was focused on past-due exposures and now covers past-due impaired and past-due unimpaired exposures. The past-due buckets were however reduced from six to three based on the structure used in template F18;
- Information on provisions per product of loan commitments and financial guarantees was added template F9;
- New rows were inserted in template F11.2 for the breakdown of hedging instruments by types of hedges. These new rows apply when national GAAP based on BAD require or allow the identification of hedge transactions along the categories listed in the template;

- A new separate template for FINREP GAAP was created for template F11.3. This new template F11.3.1 applies when national GAAP based on BAD allow the use of non-derivative instruments for hedge accounting;
- Information was added in template F12 for the separate reporting of partial and total write-offs and the instructions for write-offs against allowances were clarified.

Similarly, regulatory concepts implemented for FINREP purposes have been updated for national GAAP reporters when they were updated for IFRS reporters:

- The concept of mortgage loans was deleted throughout the templates for GAAP reporters and replaced by the category of loans collateralised by immovable property (see the description section 2.2.3);
- It was clarified that the concept of 'trading derivatives' to designate the derivatives, including those used for economic hedges, which are not used under qualifying hedging relationships, did not imply a trading intent for those instruments;
- The definition of gross carrying amount and of accumulated changes in fair value due to credit risk (with a scope limited to non-performing exposures) have been rolled out to GAAP accounting portfolios;
  - For trading exposures, the gross carrying amount is the fair-value, i.e. the carrying amount;
  - The gross carrying amount is the carrying amount before adjusting for (i.e. adding back) accumulated impairment for exposures measured at cost or at fair value through equity (when local GAAP provides for the impairment of exposures at fair value through equity);
  - For non-trading exposures mandatorily at fair value through profit and loss or for exposures at fair value through equity for which local GAAP do not provide for impairment, the gross carrying amount is the carrying amount for performing exposures, and for non-performing exposures the carrying amount plus the accumulative negative changes in fair value due to credit risk;
  - For assets measured at the lower of cost or market, the gross carrying amount is the cost for assets measured at cost at the end of the reporting period. For assets measured at market value, the gross carrying amount is the market value before considering credit risk-induced value adjustments.
- Assets measured at the lower of cost or market (LOCOM assets) are either subject to impairment or to change in fair value;
- The definition of 'accumulated impairment' was clarified for national GAAP reporters – general allowances for banking risk and general allowances for credit risk shall be taken into consideration when calculating the gross carrying amount of unimpaired assets. Accumulated impairment includes the credit risk-induced value adjustments on assets measured at

LOCOM, as well as any other value adjustment qualifying as impairment under GAAP for assets measured with other methodologies;

- A mapping of FINREP GAAP accounting portfolios was included for the definitions of non-performing exposures and forbearance.

### 2.3.2 Broader changes in FINREP GAAP templates

Broader changes aim at fixing issues with the current FINREP GAAP, in order to improve the reflectiveness of the requirements of some national GAAP in FINREP. Accordingly, some the additional information requirements may only be relevant for some national GAAP reporters.

A first group of broader changes relate to adjustments to templates.

- Rows 'total' have been added in template F4.1 and template F4.6 for held for trading assets under IFRS and trading assets under GAAP.
- Columns for the reporting of market values of derivatives were added in template F11.2, to align this template with template F10 on trading derivatives.
- The following elements will apply only when they correspond to requirements in the national accounting framework:
  - Haircuts for trading positions valued at fair value (when applicable under local GAAP) were added in a separate row in templates F1.1 and F1.2 and in the accounting and geographical declinations of this template (templates F17.1, F17.3, F20.1 and F20.2). Haircuts decrease the value of trading assets and increase the value of trading liabilities. They are currently shown as other assets and other liabilities in template F1.1 and F1.2 and therefore cannot be individually monitored;
  - Columns and rows for reporting of trading or hedging derivatives at amortised cost/LOCOM were added in template F10 and template F11, to provide a comprehensive view of derivative instruments that are on balance sheet;
  - Specific rows to identify the hedging instruments by types of hedges similar to IFRS 9 were added in template F11.2, including a separate category of hedges, 'cost-price hedges'. The breakdown by types of hedges will only apply when these types can be identified in national GAAP based on BAD;
  - Clarifications in the instructions were added regarding the reporting of templates F14 and F41.1 when GAAP based on BAD include different levels of fair value.

A second group of broader changes relates to clarifications brought up about the reporting of assets measured at the lower of cost or market (LOCOM). Current FINREP requires the reporting of all LOCOM assets in template F4.10, but this does not take into account the possible different nature of these assets in different national GAAP and reduces the information available on their credit risk, given that template F4.10 only requires the reporting of the carrying amount of assets. As a

consequence, the instructions were amended to allow for a differentiated reporting of assets measured at strict LOCOM (i.e. assets continuously valued at LOCOM) and assets measured at moderate LOCOM (i.e. assets measured at LOCOM in specific circumstances only, e.g. in case of an impairment, a prolonged decline in fair value compared to cost or change in the management intent). This change in the instructions was accompanied by the following changes in templates:

- Instruments measured at LOCOM on a non-continuous basis (moderate LOCOM) are to be reported in row 231 - 'Non-trading debt and equity instruments measured at a cost-based method' - in template F1.1 and the scope of this row was enlarged to include equity instruments in addition to debt instruments. Separate columns were inserted in template F4.9 for the reporting of the gross carrying amount, impairment status, accumulated value adjustments (separately for credit risk-induced and market risk-induced adjustments) and net carrying amount of assets measured at moderate LOCOM, independent from their actual valuation as of the valuation / reporting date.
- Instruments measured at LOCOM on a continuous basis (strict LOCOM) are to be reported in row 234 - 'Other non-trading non-derivative financial assets' - in template F1.1, with separate identification of their carrying amount, impairment status and value adjustments (separately for credit risk-induced and market risk-induced adjustments) in template F4.10.

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

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**COMMISSION IMPLEMENTING REGULATION (EU) No .../..**

**of XXX**

**COMMISSION IMPLEMENTING REGULATION (EU) No .../... amending**  
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

(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 26 June 2013 of the European Parliament and of the Council 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 101(4) and the third subparagraph of Article 394(4) thereof,

Whereas:

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<sup>1</sup>OJ L 176, 27.6.2013, p. 1.

- (1) Commission Implementing Regulation (EU) No 680/2014<sup>2</sup> specifies the modalities according to which institutions are required to report information relevant to their compliance with Regulation (EU) No 575/2013. Article 99(5) of Regulation (EU) No 575/2013 mandates the EBA to draft implementing technical standards to specify uniform formats for the reporting of financial information by institutions subject to Article 4 of Regulation (EC) No 1606/2002<sup>3</sup> and credit institutions other than those referred to in that Article that prepare their consolidated accounts in conformity with the international accounting standards adopted in accordance with the procedure laid down in Article 6(2) of that Regulation. Article 99(6) of Regulation (EU) No 575/2013 mandates the EBA to draft implementing technical standards to specify uniform formats for the reporting of financial information by institutions subject to accounting frameworks based on Directive 86/635/EEC to which the competent authorities may extend the reporting requirements.
- (2) International Accounting Standards adopted in accordance with the procedure laid down in Article 6(2) of Regulation (EC) No 1606/2002 are based on International Financial Reporting Standards (IFRS) developed by the International Accounting Standards Board (IASB).
- (3) In July 2014, the IASB released IFRS 9 Financial Instruments ('IFRS 9') as the new standard for the accounting of financial instruments, with the view to its application internationally from January 1st, 2018. IFRS 9 was adopted in the European Union on 22 November 2016 via Regulation (EU) 2016/2067 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9.
- (4) IFRS 9 fundamentally changes the accounting for financial instruments for institutions that are subject to Article 99(2) of Regulation (EU) No 575/2013.
- (5) Further, it is necessary to update the templates and instructions related to the reporting of the gross carrying amount of financial assets measured at fair value through profit and loss. This is because of the need to clarify and improve the definition for credit risk monitoring, to increase the data quality of the information reported and to reduce reporting burden.
- (6) Further, it is necessary to update the templates and instructions for institutions that are subject to accounting frameworks based on Directive 86/635/EEC to ensure that reported financial information remains relevant and aligned between all institutions and to address information gaps related to specific national accounting frameworks previously not fully reflected in the templates.
- (7) Given the intrinsic link of financial reporting with the applicable accounting standards, it is necessary that the date of application of this Regulation coincides with the date of application of the IFRS 9 accounting standard. For the same reason, it is also necessary that, for those institutions applying an accounting year that is different from the calendar year, the date of application of this Regulation coincides with the date of application of the IFRS 9 accounting standard, which is

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<sup>2</sup> 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 (OJ L 191, 28.6.2014, p. 1).

<sup>3</sup> Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards (OJ L 243, 11.9.2002, p. 1).

that date of the calendar year at which the financial year begins for those institutions.

- (8) This Regulation is based on the draft implementing technical standards submitted by the European Banking Authority (EBA) to the Commission.
- (9) The European Banking Authority has conducted open public consultations on the draft implementing technical standards on which this Regulation is based, 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 1093/2010<sup>4</sup>.
- (10) Implementing Regulation (EU) No 680/2014 should be amended accordingly,

HAS ADOPTED THIS REGULATION:

#### *Article 1*

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

- (1) Annex III to Regulation (EU) No 680/2014 is replaced by the text set out in Annex I to this Regulation.
- (2) Annex IV to Regulation (EU) No 680/2014 is replaced by the text set out in Annex II to this Regulation.
- (3) Annex V to Regulation (EU) No 680/2014 is replaced by the text set out in Annex III 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 January 2018.

For institutions subject to Article 4 of Regulation (EC) No 1606/2002, for other credit institutions applying Regulation (EC) No 1606/2002 on a consolidated basis and for credit institutions applying Regulation (EC) No 1606/2002 on a consolidated basis by virtue of Article 99(3) Regulation (EU) No 575/2013, where those institutions apply an accounting year that is different from the calendar year, Article 1(1) and Article 1(3) of this Regulation shall apply from the beginning of the accounting year commencing after 1 January 2018.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

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<sup>4</sup> 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).

Done at Brussels,

*For the Commission  
The President*

*On behalf of the President*

*[Position]*

[ANNEX I]

*[Replacing Annex III of Regulation (EU) No 680/2014 - see separate document]*

[ANNEX II]

*[Replacing Annex IV of Regulation (EU) No 680/2014 - see separate document]*

[ANNEX III]

*[Replacing Annex V of Regulation (EU) No 680/2014 - see separate document]*

## 4. Accompanying documents

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### 4.1 Draft cost-benefit analysis / impact assessment

#### 4.1.1 Introduction

Article 99 of the CRR requires the EBA to develop draft implementing technical standards (ITS) to specify supervisory reporting in the area of financial information. Current reporting on financial information (FINREP) is based on international accounting standards and therefore it is reasonable to update the reporting standards whenever the underlying international accounting standards adopted in accordance with Article 6(2) of Regulation (EC) 1606/2002 are updated.

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.

This annex presents the IA with cost-benefit analysis of the provisions included in the ITS. Given the scope of the analysis, the IA is high level and qualitative in nature. Note that the EBA carried out in 2016 a more far-reaching assessment on the impact of IFRS 9 on the EU banking sector. The focus of the present impact assessment is narrower and aims to assess qualitatively the costs and benefits of the changes to the supervisory reporting framework due to the entry into force of IFRS 9.

#### 4.1.2 Problem definition

In 2014 the International Accounting Standards Board (IASB) introduced IFRS 9 Financial Instruments which supersedes IAS 39, the accounting standards for financial instruments in force in the EU since 2005 for the consolidated financial statements of listed companies. EU regulation 1606/2002 on the application of international accounting standards made IFRS a requirement for listed companies in the European Union. In other words, listed credit institutions and investment firms in the EU, once endorsed by the EU Commission, will be subject to IFRS 9.

ITS on financial reporting (FINREP) that were prepared and introduced by the EBA came into force in June 2014 (Regulation (EU) No 680/2014) and institutions have been reporting financial data on a quarterly basis since September 2014 (first reference date for submission). The set of financial data that the institutions submit under the ITS is based on IFRS. The evolution to IFRS 9 renders the ITS outdated in some important accounting aspects and if the ITS were not updated they would not accommodate the new accounting standards that are designed as a part of a response to most recent financial crisis.

The lack of update for FINREP would question its relevance for supervisory purposes, as figures reported to the supervisory authorities would not match with the basis for the computation of regulatory exposures and ratio. In addition, they would provide supervisors with a quantification of risks that is different from the one used in credit institutions.

Additionally, IFRS 9 introduces a definition of gross carrying amount. This concept was previously a pure supervisory concept used in FINREP for all exposures, including exposures measured at fair value through profit and loss. The reporting of the gross carrying amount based on the current FINREP requirements has led to issues with the quality of data received and the possibility to use them for supervisory work. This was especially the case for data on the gross carrying amount of exposures measured at fair value through profit and loss.

### 4.1.3 Objectives

The main objective of the draft ITS is to integrate the new accounting standards introduced under IFRS 9 into the EU supervisory reporting framework. This aims to keep financial information reported for supervisory purposes aligned with the international accounting standards. 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
<b>Inconsistency in supervisory reporting with accounting standards</b>	Amending the current ITS on financial reporting to account for the new international standards	Assisting institutions in fulfilling reporting requirements under Art. 99 of the CRR
<b>Lack of data in supervisory reporting as framed under IFRS 9 and asymmetric information</b>	Ensuring that competent authorities receive all required financial information needed to obtain a comprehensive view of risk profiles and systemic risk	Increasing the effectiveness of monitoring and supervising risks
<b>Increasing cost of reporting for the institutions and competent authorities</b>	Designing a clear and fit for purpose ITS that would avoid burdensome reporting requirements for financial institutions and excessive operational costs for the competent authorities	Keeping EU regulatory framework cost-effective and at an optimum level

### 4.1.4 Baseline Scenario

Credit institutions and investment firms in the EU have been reporting financial information to their respective competent authorities under the ITS on supervisory reporting framework since September 2014 (first reference date for submission).

Should the supervisory reporting framework for financial information remain in the current format and scope, i.e. it is not amended to accommodate the changes in the international accounting standards then the divergence between the supervisory reporting framework and the accounting standards will create additional, long-term costs to these institutions.

Indeed, given the mandatory implications of the both IFRS 9 and the ITS on financial reporting, a lack of alignment between the two frameworks would in practice require reporting institutions to run parallel accounting and supervisory reporting systems to fill out their financial statements on the one hand, and submit data to supervisory authorities on the other hand. This would create excessive costs due to inefficiency in the data collection and reporting. In addition there would be significant reduction in adequacy and effectiveness of financial data reported for supervisory purposes. In some cases, institutions would report to supervisory authorities data that are no longer valid from an accounting perspective and therefore that are not used as a basis – before the application of specific regulatory requirements - for the valuation of assets when determining the own fund requirements.

For instance, supervisors would receive information on the classification of financial assets according to the portfolios defined under the rule-based approach in IAS 39, i.e. the ‘held to maturity’, the ‘available for sale’ and ‘loans and receivables’ categories, while IFRS 9 removed these financial asset categories and requires the classification of financial assets between amortised cost or fair value and based on business model and nature of cash flows. Similarly, IFRS 9 replaces the incurred loss impairment model in IAS 39 with a forward-looking expected loss model. Also, IFRS 9 introduces changes in the provisioning of off-balance sheet commitments, now covered by the impairment models for some if not most of them instead of the provision requirements in IAS 37.

Should the ITS on financial reporting not be amended, institutions would continue submitting data based on the outdated categorisation of financial assets and outdated impairment model. Supervisory financial information would significantly differ from institutions’ financial statements as a result, and supervisors would not receive relevant information regarding the valuation and impairment of on-balance sheet and off-balance sheet exposures, while this information is relevant for the monitoring of institutions’ solvency, profitability and risks.

Regarding the narrower issue of the definition of gross carrying amount, should the definition not be updated in an IFRS 9 context, the relevance of data reported on gross carrying amount would gradually decrease, as the current rules for the calculation of the gross carrying amount would not reflect the new accounting requirements regarding the measurement of impairment, and the increase in the scope of exposures measured at fair value through profit and loss would render the interpretation of data received more difficult, due to an expected increase in data quality issues.

#### **4.1.5 Assessment of the technical options**

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 financial reporting not be amended, the transition cost, e.g. one-off cost will be zero for

the institutions and for the competent authorities. However, in the long-run gaps in the supervisory information available to competent authorities for assessment and submission of information that would be outdated under the new international accounting framework are expected to generate costs for the institutions and 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. For the institutions, operational cost will be higher as institutions will need to run parallel reporting systems and hence the institutions need to dedicate more resources. On the other hand, the amendment of the ITS to accommodate the new IFRS 9 will generate one-off transitional cost to the institutions and to the competent authorities. Institutions will allocate experts to familiarise themselves with the changes and to revise their internal reporting routine to accommodate the changes. Equally, competent authorities will carry out similar tasks to adopt the changes in the reporting requirements.

Following this reasoning, the EBA expects that the future cost of reporting under the current (not amended) ITS on financial reporting based on IAS 39 accounting standards to be significantly higher than that of the potential cost generated by the amendment of the current ITS on financial reporting.

As FINREP needed to be amended, the aim was to find a cost-effective reporting framework, i.e. a balanced approach between supervisors' needs from FINREP reporting data and banks' burden to provide these data. To that end, the following options were considered in the drafting of the ITS:

- Option A: Full incorporation of IFRS 9 into the EU financial reporting framework
- Option B: Customised incorporation of IFRS 9 into the EU financial reporting framework

a. **Option A: full incorporation of the international accounting standards into EU financial reporting framework**

IFRS 9 implies updates to IFRS 7, with new disclosure requirements on classification and measurement of financial instruments, impairment, hedging and risk management activities linked to financial instruments.

These new disclosure requirements aim at providing users of financial information with the ability to evaluate the significance of financial instruments for the entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed. These objectives appear broader, but not contradictory to the objective of supervisory reporting to have financial information reported to the extent this is necessary to obtain a comprehensive view on the risk profile of an institution's activities and on the systemic risk posed by institutions to the financial sector or the real economy.

Consequently, information necessary for supervisory activities can be expected to mostly be included in information that institutions are required to disclose, and the supervisory reporting framework simply need to provide a format for this information.

Full incorporation of international standards (Option A) has advantages for both the institutions and the supervisory authorities. Firstly, for the institutions the framework would enable to use the same system to produce accounting information as well as to produce information on financial statements. Therefore, the implementation of the updated FINREP framework would not incur additional cost to build and run the system since this system is needed for the disclosure of financial information.

Similarly, a very comprehensive set of information on risk profiles would be available for competent authorities. Also, a possible harmonisation in the format of disclosures may contribute to an enhancement in the functioning of market discipline, and ultimately, to improvements as regards financial stability.

Option A nevertheless imposes some costs on institutions and competent authorities alike.

Firstly, supervisory reporting of financial information takes place on a regulatory scope of consolidation, while the preparation of financial statements requires using the accounting scope of consolidation. In case these two scopes differ, institutions would incur an initial one-off cost due to the need to implement adequate procedures to reprocess information from their IFRS systems on the correct scope of consolidation. Secondly, information in FINREP is required with a different frequency than financial statements' disclosures, with all disclosures typically not provided on a quarterly basis. Implementing all IFRS 7 disclosure requirements in FINREP would require institutions to report information with an increased frequency compared to their frequency of disclosure, thereby leading to increased on-going costs compared to the current state of play where all the IFRS disclosure requirements are not implemented in FINREP.

As for competent authorities, Option A may not ensure the access to relevant information. The requirements in IFRS 7 are directed to users of financial statements, which do not have the same needs as supervisors. It follows that all information that could be reported to competent authorities under Option A may not be relevant for assessing risks of institutions, causing nevertheless costs to implement data quality checks and storage. Conversely, information needed for supervisory analysis and risk assessment may not be included in IFRS 7, or not required in a relevant fashion.

#### **b. Option B: customised incorporation of the international accounting standards into EU financial reporting framework**

Option B entails defining the information requirements based on supervisory needs, while trying to ensure where possible an alignment on the IFRS requirements. It means that where possible the reporting requirements consider IFRS 7 disclosure requirements, but that additional information requirements can be included when justified by supervisory needs, or disclosure requirements may not be included in FINREP when this inclusion would not bring information relevant for supervisory purposes.

For an example, below is the non-exhaustive list of information that are not included in FINREP, while they are required under IFRS 7:

- Although required under IFRS 7.35M, draft ITS do not require information per credit risk rating grades for different groups of financial instruments. Data on internal ratings under the IRB approach are already available in COREP and the draft ITS suggest the exclusion of the information as to avoid double reporting. Instead, information in FINREP is focused on past due status.
- The draft ITS do not require information on “the amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements” as introduced under IFRS 7.35K(a). Instead, they require information on the carrying amount and gross carrying amount, to ensure linkages with COREP regulatory reporting.
- Information on the reconciliation in the loss allowance is not required to be reported separately for assets at amortised costs and assets at fair value through other comprehensive income, unlike what is required to be disclosed in IFRS 7.35H.
- Reporting of fair value changes due to changes in own credit risk for derivatives (liability side) was deleted as it is not a disclosure requirement imposed by neither IFRS 7 nor IFRS 9.
- No information regarding the reconciliation of the nominal amount and fair value of credit derivatives used as hedging instruments is requested.
- Information required to be disclosed separately in IFRS 7 is presented in an aggregated basis when separate presentation is not relevant for supervisory purposes. For instance, dividends received on equity securities at fair value through other comprehensive income. Similarly information on the changes in fair value of portions of derivatives (time value of option, forward element of a forward contract) that are not designated as hedging instruments is reported aggregated while IFRS 7 requires the information to be broken down along different criteria. The impact on the profit or loss statement of hedges of net position is not separately reported.
- Information on the outstanding of assets reclassified between measurement categories is not reported and information on the reclassifications is limited to their impacts on the profit or loss or the statement of comprehensive income.
- The template on non-performing exposures was reduced in the level of granularity to align on the new past-due bands breakdown adopted for template 7.

On the other hand, FINREP also contains a number of reporting requirements that are not presented under IFRS 7 disclosure requirements:

- Reporting of changes to fair value due to credit risk is not applied only to assets designated at fair value, but also to all assets measured at fair value through profit and loss that are not considered as held for trading. However, the scope of assets for which

information need to be reported is limited to non-performing exposures, as opposed to all exposures in IFRS 7.

- Information on modified assets as required in IFRS 7.35J has not been substituted to information on forbearance, given the broader scope of the definition of forbearance in FINREP compared to the definition of modified in IFRS 9.
- Information on the nominal amount of hedging instruments is not broken down by maturity bands, but information on hedged items have been enhanced compared to IFRS 7 as regards the timing of hedged cash flows in cash flow hedges, as well as the gross outstanding of hedged items in hedges of net positions and macro hedges.

The preferred option was chosen to be Option B since it eliminates the international accounting requirements that are not fundamental for risk assessment and that could create additional costs to the institutions due to their frequency of reporting and since it keeps only the most relevant information for supervisory purposes.

As regards the reporting of information on gross carrying amount, the main purpose was to achieve a definition of gross carrying amount that allows identifying the difference in value of an exposure between its carrying amount and its gross carrying amount that can be attributable to credit risk. This difference in value can then be used as the denominator of coverage ratios for supervisory analyses based on coverage ratios.

For assets measured at amortised cost, IFRS 9 provides a definition of the gross carrying amount: the gross carrying amount is the amortised cost of a financial asset, before adjusting for any loss allowance. To ensure consistency between the measurement of gross carrying amount for assets at amortised cost and other assets, it was decided to adopt a definition of gross carrying amount for assets with other measurement rules that is conceptually the closest possible to the definition of gross carrying amount for assets measured at amortised costs.

For assets measured at fair value through other comprehensive income, it was decided that FINREP would clarify that the gross carrying amount of an asset measured at fair value through other comprehensive income is the carrying amount before adjusting for any loss allowance.

As for assets measured at fair value, which are not subject to impairment requirements in IFRS 9, two options were considered:

- Option C: reporting of the negative fair value changes due to credit risk for all exposures measured at fair value through profit and loss
- Option D: reporting of the negative fair value changes due to credit risk for non-performing exposures measured at fair value through profit and loss

c. **Option C: reporting of the negative fair value changes due to credit risk for all exposures measured at fair value through profit or loss**

The current FINREP requires the reporting of accumulated changes in fair value due to credit risk for exposures measured at fair value through profit or loss. This provides for a proxy for credit risk losses on those exposures, meaning the amount of credit risk losses reflected in the current valuation of exposures measured at fair value through profit or loss.

However, accumulated changes in fair value due to credit risk can be negative changes, a decrease in fair value due to an increase in credit risk of the counterparty, or positive changes, an increase in fair value due to a decrease in credit risk of the counterparty. The positive changes in fair value due to credit risk can even take the fair value above the par. When reported together with impairment figures, positive changes in fair value due to credit risk can lead to report positive aggregated figures for impairment plus fair value changes due to credit risk, and these figures are complicated to use in risk analyses.

Reporting only the accumulated negative fair value changes due to credit risk would then eliminate the noise in data due to the counterintuitive effect of accumulated positive changes in fair value due to credit risk. Similarly to what happens for reversal of impairment due to a decrease in credit risk, the positive change in fair value due to a decrease in credit risk that offset part of the previously accumulated negative changes in fair value due to credit risk shall be taken into account.

The calculation of the gross carrying amount would require the accumulated negative changes in fair value to be deducted from the carrying amount of the exposures to arrive at the gross carrying amount<sup>5</sup>.

As a consequence, the approach provides a good proxy for accumulated impairment to be used in the computation of coverage ratio. This ratio would then give an idea of the extent to which the fair value measurement of an exposure already takes the incurred losses into account.

Nevertheless, applying Option C to exposures that are held for trading may conflict with the way those exposures are managed, i.e. on a total fair value basis without separate monitoring of those changes specifically due to credit risk. Conflicts are especially possible under IFRS 9, where the allocation of exposures to measurement categories is done according to the business model for which the instrument is held.

**d. Option D: reporting of the negative fair value changes due to credit risk for non-performing exposures measured at fair value through profit or loss**

Option D would keep the same features as Option C but would focus the reporting of accumulated negative changes in fair value due to credit risk on those exposures measured at fair value for which the monitoring of the appropriate reflection of credit risk in the fair valuation matters more.

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<sup>5</sup> Accumulated negative changes in fair value due to credit risk shall be reported with a negative sign. As a consequence, deducted them from the carrying amount leads to add them back to the carrying amount (i.e. the gross carrying amount is higher than the carrying amount)

These exposures have been considered to be exposures measured at fair value through profit or loss that are non-performing. For those exposures, the gross carrying amount would be the carrying amount minus the accumulated negative changes in fair value due to credit risk.

Performing exposures have been considered of less interest as regards the monitoring of their credit risk and reflectiveness of credit risk in fair valuation. As a consequence, for those exposures the carrying amount would be the fair value.

As for exposures held for trading, they would not see their accumulated negative changes in fair value due to credit risk reported, the business model surrounding these instruments making the management on a credit risk basis unlikely.

The limitation in the scope of measurement for accumulated negative changes in fair value due to credit risk balances the increase in costs that institutions may incur due to an increase in the amount of exposures measured at fair value through profit or loss and for which credit risk measurement systems will have to be deployed. It is acknowledged that this reduction in scope may come at the expense of some supervisory information that may have found its usefulness in on-site inspection: some supervisory authorities have considered the amount of accumulated changes in fair value due to credit risk booked on performing exposures in their decision to require their reclassification as non-performing.

The EBA believes that Option D is nevertheless the Option that allows supervisors to access most useful data while limiting the costs for institutions.

## 4.2 Views of the Banking Stakeholder Group (BSG)

The Banking Stakeholder Group (BSG) observed that the new requirements in IFRS 9 were likely to simplify the classification of financial assets and improve the use of hedge accounting in the financial statements, but that on the other hand the new approach on the impairment of loans and debt securities, based on the measurement of expected losses, introduces a deep sophistication to the procedures of the financial institution as well as in the financial reporting both for general and supervisory purposes.

The BSG supported the consultation being conducted early enough in order to anticipate the changes needed to banks' reporting and accounting systems when IFRS 9 is endorsed, noting that some requirements proposed for reporting would inspire the modifications of the information and accounting systems of European banks that are already in progress.

The BSG was in general supportive of the proposals and believed the instructions were clear, but it nevertheless requested some further clarifications and amendments.

### Changes to FINREP because of IFRS 9 measurement requirements

The BSG believed that the changes introduced in FINREP to reflect the measurement requirements in IFRS 9 were comprehensive and that all the relevant changes have been introduced in the templates.

### Changes to FINREP because of IFRS 9 requirements on impairment

The BSG deemed that the proposed requirement for the reporting of impairment on assets measured at fair value through other comprehensive income and the illustrative examples provided in the consultation paper were consistent with the IFRS 9 and IFRS 7 requirements. As regards the impairment of off-balance items, consistently with IFRS 9 too, the BSG believed that there could be some items listed in Annex I of Regulation (EU) 575/2013 non-financial in nature and for which provisioning would take place in application of IAS 37 or other IFRS standards as applicable.

Regarding the reporting of information on write-offs in templates F4.3.1 and F4.4.1 however, the BSG noted that although the concepts of partial and total write-offs were well defined, a more detailed definition was needed for the derecognition criterion. Defining the criterion for derecognition as the point when the institution has not reasonable expectations of recovering the contractual cash flows is too general to be applied in a consistent way for all entities.

Similarly, for the reporting of the reconciliation of the expected loss allowances by impairment stage, the BSG agreed that template F12.1 identified the main causes for change in the allowances, and for the reporting of the transfer of assets between impairment stages, the BSG agreed that template F12.2 and its corresponding instructions were well developed. Nevertheless, it suggested avoiding in template F12.1 any possible overlapping or double-counting between columns, in order to get an exact reconciliation between beginning and ending balances. In this regard, columns 020 on impairment or reversal of impairment (net) with transfer between stages,

and column 030 Impairment or reversal of impairment (net) without transfer between stages have partially the same information.

In addition, the BSG noted that information reported on the criteria retained for impairment and the measurement process of the next 12 months and over the life expected losses of financial instrument was limited to the upper limits of 30 days past-due (to classify assets into what the BSG terms “non-performing-stage 2”) and 90 days past-due (to classify assets into what the BSG terms “impaired-stage 3”). The other criteria that could be used in internal models developed by entities are not required to be reported in the templates.

### Changes to FINREP because of IFRS 9 requirements on hedge accounting

The BSG agreed with the allocation, throughout FINREP, of hedged items and hedging adjustments by risk categories, noting that it was sufficient to reach the goals of the supervisors. Similarly, the BSG agreed with the maturity breakdown proposed in template F11.5, noting that the maturity schedule was consistent with others used in supervisory reporting.

However, as regards the content of template F11.5 and its relevance, the BSG stated that this was a difficult question for it to answer but, putting itself in the shoes of supervisors, it considered that the approach adopted in template F11.5 was sufficient.

### Other concepts changed in FINREP

The BSG agreed with limiting the reporting requirements of fair value changes due to credit risk to non-performing exposures that are designated or mandatorily measured at fair value through profit or loss, other than held for trading exposures. However, it observed that this approach was more costly than the current one.

## 4.3 Feedback on the public consultation and on the opinion of the BSG

The EBA publicly consulted on the draft proposal contained in this paper.

The consultation period lasted for three months and ended on 8 March 2016. 10 responses were received, of which 8 were published on the EBA website.

This paper 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.

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.

Changes to the draft ITS have been incorporated as a result of the responses received during the public consultation.

### Summary of key issues and the EBA's response

Respondents provided a rather positive feedback on the EBA proposal to adapt FINREP to the new IFRS 9 standard. They generally appreciated the high level of documentation accompanying the consultation and the early stage of this consultation. An early consultation enables them to prepare for and design the necessary adjustments in their systems to implement both IFRS 9 and FINREP at the same time, and benefit from synergies of these simultaneous adjustments to their systems.

Nevertheless, specific and general requests for changes and clarifications in the proposals were made, focused in particular on reporting for impairment under an expected loss model

### Alignment of supervisory reporting on accounting requirements

Some respondents observed that in some instances, FINREP went beyond the disclosure requirements set by the revised IFRS 7, the EDTF recommendations or the Basel Pillar 3 revised proposals. It is especially the case for information related to impairment and hedging, where FINREP appears more granular than IFRS, requires the reporting of quantitative information while IFRS requires the disclosure of qualitative information, or requires the reporting of information that IFRS does not require to disclose. Respondents argue that divergence between supervisory reporting and disclosure requirements are burdensome and costly and should be avoided.

The EBA has tried whenever possible to leverage on the disclosure requirements in IFRS, including the Implementation Guidance of the revised IFRS 7 which includes examples of templates for the disclosure of quantitative information, and the CRR. However, information disclosed towards users of the financial statements and Pillar 3 reports does not serve the same purpose as information reported to supervisors. In particular, supervisory reporting sometimes requires

additional granularity or additional information that is not required to be disclosed, but which is nevertheless useful for supervisory purposes. FINREP has therefore not been fully aligned on IFRS, although some simplifications have been made to take account of comments received.

### Changes, clarifications and simplifications throughout the instructions and templates

Respondents required amendments and clarifications to the templates and instructions in relation to the changes introduced by IFRS 9 regarding measurement, impairment and hedging of financial assets. Some already existing FINREP concepts unrelated to IFRS 9 also attracted some comments.

**Regarding changes linked to measurement**, respondent agreed with the identification of a new accounting portfolio for non-trading assets mandatorily at fair value through profit or loss but required clear guidance to identify trading assets, and requested adjusting the reporting requirements for fair value option (especially for equity instruments) to the changes in IFRS 9.

Trading assets are to be identified in line with IFRS 9, which provides for their definition, without the need for specific supervisory guidance. The reporting requirements on fair value option were adjusted.

**As regards changes linked to impairment**, respondents generally believed they reflected well the new accounting requirements, but criticised and required more clarification and less granularity regarding the reporting of partial and total write-offs, the reconciliation of the different expected loss allowance and gross carrying amounts by stages, and required more information to be reported on the separate allowances for assets at amortised cost and fair value through other comprehensive income, purchased credit impaired assets and other assets with a specific impairment regime under IFRS 9.

The definition of write-off was clarified to be better aligned with IFRS 9 and the reporting requirements on write-offs flows were clarified and lessened, while the distinction between accumulated partial and total write-offs was kept as it is relevant for supervisory purposes. Similarly, the granularity and complexity of the reporting requirements on the reconciliation of the different loss allowance by stages was decreased, with some merger of columns and creation of a new column on modifications, while the instructions were clarified in order to ensure that the reconciliation enables supervisors to assess separately the changes in the allowances due to changes in credit risk, changes in institutions' activities, and changes in impairment models. Additional information on reconciliation of allowance by accounting portfolio, purchased credit impaired and other assets was not judged relevant for supervisory purposes at this juncture.

**Concerning changes linked to hedge accounting**, respondents generally questioned whether those electing to keep applying the requirements in IAS 39 would be required to report the templates. While they generally supported the additional information on hedged items in fair value hedges, they required clarifications on the reporting of net hedged positions and hedge adjustments, and almost unanimously opposed the reporting proposed on hedged items in cash flow hedges. More information was requested on the impact of economic hedge on P&L.

The additional reporting requirements on hedge accounting will apply regardless of whether hedge accounting is implemented using IAS 39 or IFRS 9. Clarifications were provided on the reporting of hedged items in fair value hedges, and the granularity of the template was decreased as regards hedge adjustments. Information on hedged items in cash-flow hedges was deleted, and limited additional information on economic hedges was inserted instead.

**As for the comments on other concepts**, some respondents opposed the requirements regarding gross carrying amount and accumulated changes in fair value due to credit risk, and requested the superseding of the requirements regarding non-performing exposures and forbearance, arguing that fair value and the implementation of impairment stages make these concepts irrelevant. Clarifications were also required on the reporting of mortgage exposures and the counterparty of short positions.

In order to assess the credit risk on all exposures, irrespective of their measurement methodology or the accounting framework, the concepts of non-performing exposures and forbearance provide harmonised benchmarks on asset quality and remain necessary. And so too, for the same reasons, are the requirements regarding gross carrying amount and accumulated changes in fair value due to credit risk. The concept of mortgage was deleted from FINREP, and the requirements regarding the counterparty of short positions kept unchanged.

### Costs and implementation considerations

Respondents generally believed that implementing FINREP will not be more costly than implementing IFRS 9, except in the areas where they diverge. They requested sufficient implementation delay, clarification as regards the first implementation date for institutions whose financial year starts later than January, and practical support during the implementation period under the form of a specific Q&A tool, delayed remittance date, or a freeze period for new reporting requirements.

The early consultation and finalisation of this draft proposal should allow institutions one-year implementation time. At the level of each institution, the implementation date of FINREP IFRS 9 will coincide with the implementation date of IFRS 9. When IFRS 9 is implemented for the first time later than in January 2018, the first reference date for FINREP IFRS 9 will be the first reference following the implementation date of IFRS 9. None of the suggestions for support during the implementation period was seen as practicable from a supervisory point of view.



## Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
<b>General comments</b>			
FINREP and IFRS 9	<p>Respondents in general appreciated the consultation at an early stage and the documentation provided to explain the choices in modifying the templates, as it allows conducting work for implementing IFRS 9 in the financial statements and financial reporting in parallel, which ultimately improve the general comprehensibility and the comparability of reported information with financial statements. These respondents observed that some of the requirements in FINREP may have implications for the accounting systems. One respondent noted that the absence of validation rules in the consultation package made its review of the proposals difficult.</p> <p>At the same time, many respondents criticised the fact that some aspects of the proposals exceed or are not consistent with the IFRS 7 disclosure requirements or the disclosure recommendations from the EDTF, creating additional costs for institutions. This is the case in particular regarding when templates have an increased granularity compared to the disclosure requirements or have been inserted in lieu of qualitative requirements in IFRS 7.</p>	<p>Consulting without the finalised version of the validation rules was necessary to allow early consultation with the industry.</p> <p>Disclosures and supervisory reporting serve different purposes and FINREP is intended for the latter. Therefore, while the EBA has endeavoured to align FINREP with IFRS 9 and IFRS 7, some deviations are unavoidable. Reporting needs to include quantitative elements that are useful to supervisors in their monitoring of institutions, even though these elements are not required to be disclosed in the financial statements or are only required under narrative form.</p> <p>The specific sections of the feedback table address the comments made on specific templates.</p>	<p>No full alignment between FINREP and IFRS 9 and IFRS 7, but some adjustments have been implemented to address specific comments on some templates.</p>
First date of application and transition to FINREP IFRS 9	<p>Respondents generally required sufficient implementation time for the new FINREP, as well as various support measures to smoothen the implementation of IFRS 9 and FINREP, such as a dedicated Q&amp;A tool, a freeze period of one year prior to 1 January 2018 where no changes to the ITS on supervisory reporting would be introduced or</p>	<p>The early consultation has enabled to finalise the proposal in time for an endorsement by the EU Commission leaving a one-year implementation time for institutions. A delay in the first remittance date, which would deprive supervisors from financial information during Q1 2018, need not be considered at this stage. Equally, there is no</p>	<p>Clarifications have been inserted in the ITS regarding:</p> <ul style="list-style-type: none"> <li>- the opening balance to report as at 01/01/2018</li> </ul>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>delaying the remittance date for the first quarter 2018 to the second quarter</p> <p>One respondent required clarification regarding the opening balance that had to be reported in some FINREP templates (in particular template F12.1) on the first reporting date, and a clear statement that it referred to the IFRS 9 figures at transition.</p> <p>One respondent required an alignment of the first date of application of FINREP IFRS 9 on the first application date of IFRS 9, to avoid having to report FINREP under IFRS 9 while this standard is not yet applied. Indeed, IFRS 9 applies for annual periods “beginning on or after 1 January 2018” (IFRS 9.7.1.1) which for example for preparers with annual periods ending 30 September would mean application of IFRS 9 from 1 October 2018.</p>	<p>reason to avoid any new reporting release in 2017. Any question on the templates could be addressed via the regular Q&amp;A tool after endorsement of the proposal.</p> <p>FINREP does not aim at reporting of transitional adjustments, i.e. reporting of the changes in exposure and impairment amounts due to the switch from IAS 39 to IFRS 9. The opening balance to report in template F12.1 will be the balance as at 01/01/2018 under IFRS 9.</p> <p>FINREP IFRS 9 is intended to be applied consistently with the version of IFRS 9 endorsed by the Commission. Assuming paragraph 7.1.1 is endorsed as such, the first date of reference of FINREP will be aligned on the first date of application of IFRS 9. The first reference date will always be the first date following the start of the accounting year (31/03/2018 when the year starts on 01/01/2018, 31/12/2018 when the year starts on 01/10/2018). It means that institutions with a deviating financial year will use FINREP v2.6 in 2018 until it is required to apply IFRS 9.</p>	<ul style="list-style-type: none"> <li>- the first application of FINREP for the first reference date following the beginning of the first financial year where IFRS 9 shall apply</li> </ul>
Clarifications for labels and references	Respondents suggested amending some labels and references to ensure consistency throughout the templates and with IFRS 9	Suggestions were taken into account	Amendments of labels and references
<b>Responses to questions in Consultation Paper EBA/CP/2015/23</b>			
<p><b>Question 1.</b> Adjustments of FINREP in relation to the new measurement requirements in IFRS 9</p>	<p>Respondents made the following technical comments regarding the changes introduced to FINREP to comply with the new measurement requirements under IFRS 9:</p> <p><b>The use of fair value option</b> Several respondents suggested to delete “equity instruments” from all the templates breaking down</p>	<p><b>The use of fair value option</b> Fair value option cannot indeed be applied to equity instruments, even though fair value through profit or loss remains the by-default measurement category for non-trading equity instruments that are not designated at fair value through OCI in application of IFRS 9.4.1.4 and 5.7.5. As for designation on a group basis, IFRS 9 B4.1.33</p>	<p>Deletion of the “equity instruments” category for the accounting portfolio “Financial assets designated at fair value through profit or loss” in all templates in Annex III</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>accounting portfolios by types of instruments (for instance F1.1, F14, F15, F17.01 and F20.01), arguing that there cannot be equity instrument under fair value option anymore. Similarly, column 020 in template F41.2 should be greyed as fair value option cannot be applied anymore for the measurement of a group of financial assets.</p> <p><b><u>The separate portfolio for non-trading financial assets mandatorily at fair value through profit or loss</u></b></p> <p>A couple of respondents expressly agreed that even though this portfolio is not required to be identified under IFRS, such identification presented added value to track trading exposures within IFRS. However they noted that a clear border between trading book and banking book would be needed.</p>	<p>provides only for the case of a group of financial liabilities or a group of financial liabilities and financial assets that are managed on a fair value basis. Group of solely financial assets managed on a fair value basis will always be measured at fair value through profit or loss.</p> <p>However, insurance subsidiaries that may still be using IAS 39 while their parent bank has transitioned to IFRS 9 may keep on designated equity instruments at fair value option. Similarly, for national GAAP based on BAD which include such accounting portfolio, the possibility to designate equity instruments has not been superseded.</p> <p>The deletion of reference to equity instruments under fair value option in Annex III except in template F17.1 for the balance sheet under the accounting scope of consolidation, and not in Annex IV. Information on group of assets will be deleted from template F41.2.</p> <p><b><u>The separate portfolio for non-trading financial assets mandatorily at fair value through profit or loss</u></b></p> <p>FINREP refers to the accounting trading book as defined in IFRS 9 Appendix A, especially BA.6, and not to the regulatory trading book as defined in Regulation (EU) 575/2013. In case an asset fails the SPPI test and is held within a trading business model, it is a trading asset only if it meets the conditions in IFRS 9 Appendix A.</p>	<p>except template F17.01. No change in Annex IV. Grey-shading of column 020 in template F42.2 (both Annexes) for assets</p>
<p><b>Question 2.</b> Reporting of impairment on assets measured at fair value through other comprehensive income</p>	<p>Regarding the presentation in FINREP of impairment on financial assets measured at fair value through other comprehensive income, respondents generally agreed that information required for impairment on assets measured at FVOCI is generally consistent with IFRS 9.</p>	<p><b><u>Instruments with low credit risk in template F4.3.1 and F4.4.1</u></b></p> <p>The column was kept as it allows to monitor the use of the exemptions (an overuse of them would undermine the new impairment framework), but its content was</p>	<p>Definition of “instruments with low credit risk” inserted in paragraph 75</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
(FVOCI)	<p>However, some clarifications are requested. In some cases these requests for clarification also apply to template F4.4.1, on impairment for assets measured at amortised cost.</p> <p><b><u>Instruments with low credit risk in template F4.3.1 and F4.4.1</u></b></p> <p>Some respondents required clarification on column 020 “of which: instruments with low credit risk”. They were unsure whether it referred to the low credit risk assumption (IFRS 9.5.5.10) and whether it should include assets within Stage 1 that are considered as low credit risk, or the assets for which ‘low credit risk’ exemption was applied. Arguing that IFRS 7 does not require similar disclosure, they advocated the deletion of the column, noting it implies additional costs.</p> <p><b><u>Purchased credit impaired assets and assets under simplified approach in templates F4.3.1 and F4.4.1</u></b></p> <p>Two respondents would prefer reporting the amount of purchased credit-impaired assets in separate columns, rather than in a row. This row (row 190 in template F4.3.1 and row 150 in template F4.4.1) makes purchased credit-impaired as a sub-category of each impairment stage, while IFRS 9.5.5.13 rather makes them a separate category of assets. Two other respondents would add other columns on the development in credit loss allowances for those assets, as required by IFRS 7.35H(c).</p>	<p>clarified in the instructions (Annex V, Part 2, paragraph 75): this column shall include instruments that are determined to have low credit risk at the reporting date, and for which in accordance with IFRS 9.5.5.10 it is assumed that the credit risk has not increased significantly since initial recognition.</p> <p><b><u>Purchased credit impaired assets and assets under simplified approach in templates F4.3.1 and F4.4.1</u></b></p> <p>Reporting information by columns means providing a breakdown of purchased credit-impaired assets and assets under the simplified approach for impairment by types of instruments and counterparties. A single row for purchased credit-impaired assets at this juncture allows for the necessary information to be reported in order for supervisors to monitor the evolution of the level and creditworthiness of purchased credit impaired assets.</p>	
<b>Question 3.</b> Reporting of partial and total write-offs	Regarding the reporting of information on write-offs, Most respondents questioned the usefulness having information reported separately for partial and total accumulated write-offs as well as the inclusion of	Information on write-off flows is currently a feature of FINREP. The columns related to accumulated total and partial write-off in F4.3.1 and F4.4.1 report different information. Accumulated partial write-offs can be added	Paragraphs 72 to 74 were clarified to refer explicitly to amounts subject to enforcement activities, to



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>information on the total and partial write-offs flows in template F12.1, noting that it is unlikely firms will retain records distinguishing between partial and full write off, and that similar disclosure was initially proposed by the IASB before industry feedback leads to the current less prescriptive requirements. As a result the FINREP proposal on write-offs goes beyond the requirements of IFRS 9/IFRS 7.</p> <p><b>Definition of write-offs</b> One respondent required a more detailed definition of write-off, specifying the criteria for derecognition to ensure the comparability of reported data, while other respondents observed that IFRS 7 required the disclosure of information on written-off amount while they are still subject to enforcement activities, while FINREP appeared to require the reporting of accumulated written-off amount that are not subject to enforcement activities anymore. They believed that this extension of the scope of reporting would be costly without resulting in relevant information for supervisory purposes.</p> <p><b>Types of write-offs to be reported</b> Some respondents asked whether the accumulated amounts written-off to be reported in templates F4.3.1 and F4.4.1 included write-offs made against related loss allowances, since the flow for these write-offs is reported separately in template F12.1.</p> <p><b>Amounts to be reported for write-offs</b> Some respondents required clarification regarding whether the amounts to be reported for column 090 in</p>	<p>back to the Stage 3 impairment to compute a total amount of accumulated value adjustments, while accumulated total write-offs allow to track the derecognition of exposures due to irrecoverability. Information on accumulated partial and total write-offs was therefore kept separate. As for information on write-off flows, it is included in the reconciliation of the accumulated impairment by Stages in IFRS 7.IG20.</p> <p><b>Definition of write-offs</b> FINREP requires reporting written-off amounts “<i>until the total extinguishment of all the reporting institution’s rights by expiry of the statute-of-limitations period, forgiveness or other causes, or until recovery</i>”. In this context, forgiveness refers to a creditor abandoning its rights to a claim and consequently renouncing to enforcement activities. There is therefore no contradiction between the FINREP definition and the IFRS definition of write-offs. The definition in FINREP has been clarified to explicitly refer to the incidence of enforcement activities on the reporting of written-off amounts. More clarifications on the definition of write-off cannot be provided without infringing on accounting or other requirements in the different jurisdictions.</p> <p><b>Types of write-offs to be reported</b> Accumulated write-offs include both amounts that have been written-off through the use of the allowance and direct write-offs. The instructions were clarified in this direction. In addition, the EBA also clarified the reporting of write-off flows versus the changes in expected losses allowance due to modifications and repayments of</p>	<p>the two types of write-offs (direct write-offs and write-offs through use of the impairment allowance), and to the amounts to be reported.</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>templates F4.3.1. and F4.4.1 “Accumulated gross carrying of debt instruments totally written-off” should be the amounts totally written-off during the reporting year, all the written-off amounts to date, and whether the historical value of the written-off amounts or their value at the reporting date shall be used. One respondent further asked how in template F12.1 the flow of written-off amount shall be determined (i.e. whether the written-off amount shall be the gross carrying amount or the net amount after impairment).</p>	<p>instalment loans (see Question 6).</p> <p><b>Amounts to be reported for write-offs</b> The written-off amounts shall include all write-offs to date (subject to the limitation on reporting when the creditor's rights are extinguished), and the amounts reported shall be the amounts as at the reporting date. In template F12.1, direct write-offs flows in column 100 are reported without considering impairment, since write-offs through the use of allowance are reported separately in column 040. The instructions were clarified on these two issues.</p>	
<p><b>Question 4.</b> Measurement of commitments under IAS 37 and IFRS 9</p>	<p>Respondents generally believed that some of the off-balance commitments listed in Annex I of Regulation (EU) n. 575/2013 will keep on being measured in accordance with IAS 37. This would in particular be the case for off-balance commitments that are non-financial in nature, while all financial commitments would be measured under IFRS 9. To that extent one respondent recommended the deletion of the columns for the reporting of information on commitments within the scope of IAS 37 and IFRS 4.</p> <p>One respondent pointed out that the accounting of off-balance sheet credit commitments that are revocable (i.e .retail credit cards with a revocable commitment and unconfirmed credit lines) under IFRS 9 or IAS 37 was unclear. They could be measured under IAS 37 in case there is no present obligation to extend credit (i.e. they are cancellable), but at the same time IFRS 9 includes specific requirements on the measurement of expected</p>	<p>The scope of template F9.1.1 is the commitments listed in Annex I CRR. These commitments can be financial or non-financial in nature, and FINREP requires their reporting irrespective of whether they are revocable or irrevocable, even though they may not be recognised in the financial statements. Responses actually evidence different possibilities for measuring these different types of commitments. The EBA decided to keep the possibility to report both commitments measured under IFRS 9 and commitments measured under IAS 37 in template F9.1.1</p> <p>Template F9.1.1 intends to give a comprehensive view on the off-balance sheet commitments of an institution. When the impairment of an off-balance sheet commitment component of a financial asset is recognised together with the loss allowance for the financial asset, only the nominal amount of that commitment shall be reported in template F9.1.1. Therefore, only off-balance sheet impairment that is estimated separately from on-</p>	<p>Insertion of new paragraph 108 to deal with the reporting of impairment and nominal amount of financial assets with an on-balance sheet and an off-balance sheet component</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>losses on those commitments (IFRS 9.5.5.20 and .B5.5.39). Lastly, one respondent observed that commitments not recognised in the financial statements would neither be measured under IFRS 9, nor under IAS 37.</p> <p>One respondent commented that a reconciliation of off-balance sheet items and their associated provisions by stages in template F9.1.1 could not work as impairment on off-balance sheet items may not be required to be disclosed separately.</p>	<p>balance impairment will be reported separately. Consistently with IFRS 7.B8E, a provision amount (i.e. impairment amount for the off-balance sheet component) shall only be reported to the extent the combined expected credit losses for the off-balance sheet and the on-balance component of the financial asset exceed its carrying amount. The instructions for template F9.1.1 were clarified accordingly.</p>	
<p><b>Question 5.</b> Designation of loan commitments at fair value through profit or loss (FVTPL)</p>	<p>Many respondents stated they did not recognize or were not aware of any loan commitments and guarantees to be measured at fair value or under IFRS 4. One respondent suggested however adding a column for those financial guarantees which are valued at FVTPL in order to report all the loan commitments and guarantees exposures.</p>	<p>The scope of template F9.1 under FINREPV2.5 (established under an IAS 39 environment) includes loan commitments that are designated at fair value through profit or loss in application of IAS 39.4(a). To keep consistency in the scope of information between the different version of FINREP, the EBA introduced two columns for reporting the nominal amount of the commitments designated at fair value through profit or loss and the amount of accumulated change in fair value due to credit risk for those commitments identified as non-performing in application of the FINREP definition.</p> <p>However, to take into consideration that the amount of commitments designated at fair value through profit or loss may be limited, the EBA decided not to require the breakdown of these commitments and their possible changes in fair value due to credit risk by types of counterparties. Similarly, most of those commitments being expected to be liabilities, they are not included in the scope of templates F18 and F19 (the only information on commitments designated at fair value through profit or loss that would be non-performing will be reported in</p>	<p>Insertion of columns 120 and 130 in template F9.1.1</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		template F9.1.1).	
<p><b>Question 6.</b> Reconciliation of changes in loss allowances</p>	<p>Respondents commented and requested clarifications on many aspects of template F12.1.</p> <p>The following general comments were received:</p> <p><b><u>Types of data to be reported</u></b> Two respondents asked for confirmation that, despite its quarterly frequency template F12.1 required the reporting of year-to-date information, and not quarter to quarter data.</p> <p><b><u>Granularity and consistency with IFRS 9 and IFRS 7</u></b> Some respondents favoured aligning FINREP on the disclosure requirements in IFRS 7.35H-I and IFRS 7.IG20 to lessen the cost of the reconciliation of accounting and FINREP data, noting that IFRS 7 had a more detailed breakdown of the changes in allowance, with separate identification of the transfers between stages, and separate identification of additions and reversals to impairment.</p> <p>Some respondents however also pointed out that the high granularity of the breakdown by drivers of change, with possible overlapping between the different drivers, made the template burdensome to report and prone to double counting, which should be avoided. One respondent suggested merging the columns 030 on net changes in impairment without transfer between stages, 040 on net changes in impairment due to update in the estimation methodology and 080 on other adjustments as well as the columns 110 and 120 on the separate flows of partial and</p>	<p>Analysis of general comments:</p> <p><b><u>Types of data to be reported</u></b> Commission Implementing Regulation (EU) 680/2014 has not been changed in this aspect, and template F12.1 requires the reporting of cumulative data from the first day of the financial year.</p> <p><b><u>Granularity and consistency with IFRS 9 and IFRS 7</u></b> Template F12.1 is consistent with IFRS 7.35H-I and IFRS 7.IG20, albeit with a lesser degree of granularity in some cases (for instance the transfers between stages) and in other instances requiring additional information deemed to be useful for supervisory purposes, such as write-offs. The granularity of the column breakdown aims at differentiating the changes in the allowances between those changes that are due to variations in credit risk, variations in lending activities (since any new loan will now lead to a change in the impairment allowance) and model changes (since internal models are now expected to play a more important part in the calculation of impairment).</p> <p>Clarification and simplifications were introduced for the reporting of the changes in allowance due to the transfer between stages (merger of columns 020 and 030 on respectively increase in expected losses with and without changes from Stage) and write-offs (columns 110 and 120 on respectively partial and total write-offs). The order of columns was also reviewed, so that changes due to variation in lending activities (recognition of new assets and derecognition of loans) comes before the changes</p>	<p>Re-ordering of columns in the CP template F12.01, with columns 050 and 060 are included in first position in the breakdown</p> <p>Merger of columns to simplify reporting:</p> <ul style="list-style-type: none"> <li>- 020 + 030 impairment with/without transfers between stages</li> <li>- 110+120 partial + full write offs</li> </ul> <p>Clarifications in labels and instructions for the different columns, in particular:</p> <ul style="list-style-type: none"> <li>- the value of allowance to be reported for changes due to evolutions of credit risk</li> <li>- the reporting of the impact of accrued interests and the passing of time on the amount of</li> </ul>



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	<p>total write-offs.</p> <p>A couple of respondents would prefer that the sequencing of the columns reflects the order where the calculation of the changes in allowances is made.</p> <p>A couple of respondents observed that the instructions were not clear and detailed enough to split allowance movements among the columns, in particular among columns 020-040 on changes in allowances due to changes of stages, without changing stage and because of change in the estimation methodology.</p> <p>The following comments were made in relation to specific columns and rows:</p> <p><b><u>Column 020 Changes in impairment due to transfer between stages</u></b></p> <p>One respondent requested clarifications on the amount of changes in allowance to be considered in case of transfers between stages: the amount at the start of the reporting period or at the end of the reporting period and whether the amount reported should be before or after the incidence of model changes. One respondent noted that columns 020 and 030 on changes in impairment without transfer between stages have partially the same information and suggested merging them.</p> <p><b><u>Column 040 Changes due to update in the institution's methodology for estimation</u></b></p> <p>Some respondents requested clarification regarding:</p> <ul style="list-style-type: none"> <li>- the scale of model changes to be reported,</li> </ul>	<p>due to variation in credit risk.</p> <p>While the merger of columns brought in some simplifications, the content of the instructions was further clarified wherever needed.</p> <p><b><u>Column 020 Changes in impairment due to transfer between stages</u></b></p> <p>Merging column 020 (changes in impairment due to transfer between stages) and column 030 (changes in impairment without transfer between stages, i.e. changes <i>within</i> stages) into a new column 040 for changes in impairment due to changes in credit risk simplifies the reporting for changes in impairment. The amount to be reported in the new column for changes due to credit risk is the amount at the end of the reporting period is the amount of allowance at the end of the reporting period. The amount of allowance transferred is the amount of allowance at the reporting date that results purely from the increase in credit risk, not considering the impact of model changes (which are to be reported separately).</p> <p><b><u>Column 040 Changes due to update in the institution's methodology for estimation</u></b></p> <p>Column 040 was renumbered column 070. The purpose of this column is precisely to help supervisors understand the changes in expected losses that are not due to changes in asset quality but to changes in the modelling methodology and the implementation of new models, thereby allowing monitoring how much changes come from modelling choices of the institution, rather than from asset quality issues. IFRS 7.IG20 separately identifies in the reconciliation of allowance the "Changes in</p>	<p>allowance</p> <ul style="list-style-type: none"> <li>- reporting of the impact of changes in estimates versus changes in the methodology for the estimation of expected losses</li> <li>- the reporting of loans repaid by instalment</li> <li>- the reporting of modifications</li> <li>- the reporting of off-balance sheet allowances becoming on-balance sheet allowances</li> <li>- the reporting of the impact of changes balances for retail portfolios</li> </ul>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<ul style="list-style-type: none"> <li>- whether changes in methodology only refer to the adoption of new models and/or enhancements to the current models</li> <li>- whether the impact of the update/review of risk parameters, changes in the other model inputs (such as changes in forward looking economic data) should be reported as changes in methodology</li> <li>- whether the changes in standards should be classified as change of methodology.</li> <li>- Where – in column 020 or 040 – should the effect on the allowance of a change in methodology that results in a transfer between stages be reported</li> </ul> <p>One respondent noticed that this column would require isolating only the effect in changes in estimation parameters on the amount of allowances, whereas changes in expected losses arise both from changes in credit risk parameters and changes in methodologies. As such, it may not be possible to distinguish between these two components at an individual transaction level and determine the amount of allowance that has changed because only credit risk parameter have changed and the amount of change because the methodology has changed.</p> <p>Without clarifications, two respondents emphasised this column would be burdensome to implement and asked for its deletion, and two respondents noted that identifying the impact of changes due to model updates could take longer so the requirement to report them should be delayed by one to six months.</p> <p><b><u>Column 050 changes due to origination and acquisition of exposures</u></b></p>	<p>models/risk parameters".</p> <p>The instructions have been clarified to better define the scope of what should be reported in column 070. Changes in methodology encompass the adoption of a new model, the updates of existing models, and the impact of new standards on models. While the impact on allowances due to an asset changing impairment stage as a result of model updates, the updates or review of risk parameters as well as changes in forward-looking economic data are to be considered as changes in estimates and their impact is to be reported in column 040 on the changes due to credit risk. The two types of changes are therefore not merged, unlike under IFRS 7.</p> <p><b><u>Column 050 changes due to origination and acquisition of exposures</u></b></p> <p>Column 050 has been moved and is now column 020. The impact on the loss allowance of the acquisition or the origination of a new financial asset will be reported in column 020 only for the reporting period in which the origination/acquisition takes place (for example if the origination/acquisition takes place the 31 January 201X, the first quarter of the financial year-Q1 is the reporting period). The changes in allowances taking place in the subsequent reporting period after the first one following the recognition are reported in other columns, as appropriate. Since the figures reported in template F12.1 are cumulative from the beginning of the financial year, an increase in impairment due to the origination/acquisition of a loan that took place in Q1 will continue being reported in column 020 in the subsequent</p>	



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	<p>The instructions provide for the reporting in this column of the amount of allowances for newly acquired or originated assets during the “<i>first reporting period following the origination or acquisition date</i>”. One respondent asked for clarification as regards this period, noting that considering the cumulative nature of the amounts reported in template F12.1, it could refer to periods beginning on 1 January and ending after the origination or acquisition date, to periods beginning on 1 January after the origination or acquisition date or to periods beginning after the first reporting date following the origination or acquisition.</p> <p><b><u>Column 060 changes due to repayments and disposals</u></b> Two respondents asked for confirmation that column 060 includes only the final contractual repayment collected upon asset’s final maturity and not the recurring contractual repayments.</p> <p><b><u>Column 080 impact of foreign exchange moves</u></b> Two respondents asked if changes in loss allowances due to foreign-exchange differences shall be reported in column 080 “Other adjustments”.</p> <p><b><u>Column 100 recoveries from amounts previously written-off and columns 110 and 120 amounts totally and partially written-off</u></b> One respondent noticed that the separate reporting of recoveries of previous write-offs (column 100) as well as breakdown into partial (column 110) and total (column 120) write-offs require a high level of data granularity which will require time and effort.</p>	<p>quarters (Q2; Q3; Q4).</p> <p><b><u>Column 060 changes due to repayments and disposals</u></b> Instructions were updated to clarify that, for loans repaid by instalments, only the impact of allowances of the last instalment leading to the complete derecognition of the loan should be reported in column 060. The impact of the other regular instalments shall be reported in column 040 on the changes due to credit risk.</p> <p><b><u>Column 080 impact of foreign exchange moves</u></b> The changes in loss allowances due to foreign-exchange differences should be reported in column 080 “Other adjustments” when it is the practice to do so in the financial statements, so that there can be a reconciliation between templates F12 and F2.</p> <p><b><u>Column 100 recoveries from amounts previously written-off and columns 110 and 120 amounts totally and partially written-off</u></b> The recovery of previous amounts written-off has been a feature in the previous versions of FINREP, and therefore it was decided to keep this requirement in FINREP IFRS 9. Columns 110 and 120 were merged to simplify the reporting of template F12.1.</p> <p><b><u>Changes due to modifications of assets</u></b> Changes due to modification of assets were not separately identified and had to be reported in column 020 and 030 on the changes in the expected losses due to credit risk, with and without, as applicable, changes in impairment stages (column now renumbered as 040).</p>	



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	<p><b><u>Changes due to modifications of assets</u></b>                      Two respondents noted that the reference to IFRS 7.351 could make it relevant to have a separate reporting for the incidence of modifications on the allowances, and asked for the following clarifications regarding the reporting of the incidence of modifications:</p> <ul style="list-style-type: none"> <li>- Whether the incidence of a modifications triggering de-recognition of the modified asset shall be reported in column 060 changes due to repayment and disposals or rather in column 070 write-off through decrease in allowance account”</li> <li>- Whether the effects of any reassessment of impairment based on the modified terms and conditions should be reported in columns 020 or 030, together with non-modification-driven changes with or without transfer between stages,</li> </ul> <p><b><u>Impact of interest income on impaired assets on the expected losses allowance</u></b>                      Two respondents asked for clarifications regarding the reporting of the impact on interest income on the expected losses allowance. They assumed that for stage 3 assets and purchased or originated credit impaired assets, the increase in loss allowance reflecting the difference between contractual interest paid and the effective interest recognised on the net carrying amount should be reported in column 080 “Other adjustments”, while, for stage 1 and 2, the discounting effect included in the loss allowance change should be reported as an integral part of the movements reported in column 020 and 030, on changes in impairment due to increase in credit risk, with</p>	<p>Following the comments received the EBA decided to include a separate column to report the impact of modifications without derecognition on the allowance amounts (new column 050), consistently with the requirements in IFRS 7.351(b), and to provide clearer instructions on the reporting for different types of modifications. In particular:</p> <ul style="list-style-type: none"> <li>- Modifications without derecognition: the impact on the allowance will be reported in the new column 050</li> <li>- Modifications with partial or total derecognition via write-offs: the impact on the allowance will be reported in column 080 for the share related to the written-off amount, and in the other columns, as appropriate, for the other drivers of impact</li> <li>- Modification with total or partial derecognition without write-off and recognition of a new modified asset: the impact on the allowances is to be reported in columns 020 and 030 for the derecognition and recognition share, and in the other columns as appropriate for the other drivers</li> </ul> <p><b><u>Impact of interest income on impaired assets on the expected losses allowance</u></b>                      The EBA prefers a unified reporting on the incidence of interest and discounting on the amount of expected credit losses in “Changes due to change in credit risk” (column 040).</p> <p><b><u>Incidence from the change from off-balance sheet to balance sheet status</u></b>                      The instructions were clarified so that the loss allowance</p>	



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	<p>and without change in the impairment stage.</p> <p><b><u>Incidence from the change from off-balance sheet to balance sheet status</u></b> Two respondents asked for clarification on the reporting of changes in the allowances that may be triggered by existing off-balance sheet exposures becoming on-balance during the reporting period (i.e. fresh drawings from an existing committed facility).</p> <p><b><u>Rows 160, 170, 310, 320, 510, 520 separate reporting of individual and collective allowances</u></b> One respondent pointed out that it could not be possible to report gross movements between stages if transfers between stages are tracked on collective basis or collective allowances are included. Under IFRS 9 the forward-looking nature of provisioning meant that a specific asset could have a loss allowance that comprises both individual and collective assessments.</p> <p>Three respondents asked for clarifications on whether the individual versus collective assessment of allowances referred to the assessments of the significant increase in credit risk or to the measurement of the expected credit losses, and for detailed instructions on the trigger to distinguish between “individual” or “collectively” assessed allowances and on how to deal with cases where allowances could switch from the individual to collective statuses and vice versa.</p> <p>In addition two respondents noted that the distinction between these types of allowance was not required under</p>	<p>relating to the off-balance sheet exposure should be transferred to the on-balance sheet exposure, using the columns "Decreases due to derecognition" for the off-balance sheet provision, and "Increases due to origination and acquisition" for the new booking of allowance.</p> <p><b><u>Rows 160, 170, 310, 320, 510, 520 separate reporting of individual and collective allowances</u></b> IFRS 9 leaves open the possibility of having an individual or collective assessment of impairment for each Stage (see for instance IFRS 9.B5.5.1) and IFRS 7.IG20 presents a reconciliation of the loss allowance as well as gross carrying amount with separate identification of lifetime allowance that are individually assessed and collectively assessed. The instructions were clarified and refer to the individual and collective measurement of expected losses (i.e. the method by which they are measured, are necessarily the method by which they are assessed – there could be, as in the current FINREP some individual allowances that are collectively assessed). The distinction made in FINREP F12.1 between individually and collectively measured allowances does not intend to reflect the distinction between specific and collective credit risk adjustments in the CRR, which is shown in COREP templates C09.01 and C09.02. Indeed, how to consider each IFRS 9 impairment stage with regards to the distinction between general and specific provisions is still on-going at the international level.</p>	



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	IFRS 7 and that the Basel definition of default defines a defaulted exposure as an exposure with individual impairment, implying that Stage 1 and Stage 2 allowance are collective only.		
<p><b>Question 7.</b> Reconciliation of changes in allowances for open retail portfolios</p>	<p>Respondent generally either did not indicate particular concerns as regards reporting of reconciliation for open retail portfolios, and that they will established methodologies in compliance with IFRS 9. One respondent however noticed that it will be difficult to identify new lending and repayments for revolving facilities</p>	<p>The instructions were clarified so that changes in expected loss for revolving portfolios will all be reported in column 040 Changes due to change in credit risk (net), except for the changes due to model change and write-offs, which will be reported in the dedicated columns 070 and 080.</p> <p>A definition of revolving exposures, the same as in the CRR, was inserted.</p>	<p>Clarification in the instructions and inclusion of a definition of revolving exposures (paragraph 162)</p>
<p><b>Question 8.</b> Transfer of gross carrying amount by stage</p>	<p>A couple of respondents argued that the reconciliation of the gross carrying amount required in template F12.2 creates an unjustified burden, since IFRS 7 only requires qualitative information on this issue, and that if the requirement were based on IFRS 7.35H-I not all systems may anyway be able to provide quantitative information.</p> <p>Other technical comments were received regarding:</p> <ul style="list-style-type: none"> <li>- the coverage of off-balance sheet exposures by the template whereas IFRS 7.35I only relates to on-balance sheet exposures</li> <li>- the need to separately identify assets under the simplified impairment approach</li> </ul> <p>Some respondents also requested clarification on the prohibition of reporting intermediate transfers between impairment stages occurring during the reporting period, and in particular how to report financial assets that were originated or acquired during the period and re-assigned</p>	<p>The objective of reporting is providing better information to supervisors according to the needs they have defined. Information believed not relevant by accounting standards setters can be judged relevant by supervisors.</p> <p>The scope of the template was kept consistent with template F12.1 and therefore it covers off-balance sheet exposures, with the same clarifications as regards the reporting of changes of stages for assets with an on-balance and off-balance sheet impairment components as in templates F9.1.1 and F12.1, but does not separately identify assets under the simplified impairment approach.</p> <p>As stated in the CP on page 22, template F12.2 only reports the changes in stages between the initial stage in which an asset is included at the beginning of a financial year and the final stage in which it is included at the end of the reporting period. The intermediate transfers during the reporting period (from the beginning of the financial</p>	<p>Clarifications in instructions regarding the reporting of assets with an on-balance sheet and off-balance sheet components, and of exposures with partial write-offs.</p>



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	<p>to a different stage subsequent to their initial recognition.</p> <p>Two respondents asked clarifications on how to apply the statement on page 22 of the Consultation paper (<i>“the amount reported as transferred shall be the gross carrying amount included in the final Stage as at the reporting date, and not the gross carrying amount included in the initial Stage as at the transfer date”</i>) to assets that suffered partial write-offs during the reporting period.</p>	<p>year to the reporting period) shall not be reported.</p> <p>In case of financial assets originated or acquired during a reporting period (for example in Q2), the initial stage is the one assigned in the reporting period in which financial assets are originated or acquired (Q2) and the final stage is the one assigned in the subsequent reporting periods (Q3, Q4). At each reporting reference date, the asset will be reported as having changed from its initial stage at the end of Q2 to the new stage in which it is included at the end of the reporting period (if the asset is in Stage 1 in Q2, then in Stage 3 in Q3 but in Stage 2 in Q4, it will be reported for the reporting reference date 31/12 as having transferred from Stage 1 to stage 2).</p> <p>The instructions will clarify that gross carrying amount at the reporting date of transferred assets that suffered write-offs shall be reported, although the partial write-offs are not included in the gross carrying amount transferred. The purpose of the template is to provide supervisors with a view of the assets as reported by the institutions that have been transferred during the period. Reporting the value of the assets at the date transfer could mean reporting assets that have been written-off partially or totally since the transfer date. Reporting the amount of assets transferred between stages at the reporting date therefore neuters the impact of write-off that could have taken place since the transfer.</p>	
<p><b>Question 9.</b> Example of reporting for the impairment of an asset measured at fair value through other</p>	<p>Many respondents agreed with the approach suggested in the example.</p> <p>Two respondents believed the example on p18-19 of the consultation paper was incorrect due to (i) FINREP</p>	<p>By analogy and to ensure consistency with the definition of gross carrying amount for financial assets at amortised costs in IFRS 9 Appendix A, the gross carrying amount of exposures at fair value through other comprehensive income is defined as the fair value before the</p>	<p>No change</p>



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comprehensive income (FVOCI)	instructions on how to calculate the gross carrying amount which contradict IFRS requirement, (ii) a mistake in the rationale (a 12-month expected credit loss should be recognised but is not considered as a component of the fair value changes unless there is a credit event), and (iii) the example should include an impairment loss in P&L and a corresponding gain (the reversal to fair value) in OCI, similar to the example in IFRS 9 IE88.	<p>accumulated amount of impairment. How the definition of gross carrying amount in FINREP would induce errors in the reporting of impairment is unclear.</p> <p>The example is consistent with the example provided by IFRS 9 IE78-IE81, where the 12-month expected loss is part of the fair value change affecting the carrying amount of the asset and recognised separately in profit and loss without this recognition being conditioned to a credit event (the entirety of the fair value change is due to changes in market interest rates).</p>	
<b>Question 10.</b> Other improvements needed for the reporting of impairment	<p>Respondents outlined some improvements needed for the reporting of impairment.</p> <p>Some respondents argued for removing template F7, since the past-due breakdown of assets has been superseded by the breakdown of assets by stages that they consider based on past-due status. If it were to be maintained, the past-due breakdown should be aligned with IFRS 9 buckets and changed to <math>\leq 30</math> days / <math>&gt; 30</math> days &lt; 90 days / <math>\geq 90</math> days. The same should apply to template F18. One respondent asked for clarifications regarding the allocation methodology by past-due band and whether all exposures to a single debtor shall be considered as past-due and allocated in the same past-due band.</p> <p>One respondent suggested deleting row 280 in template F16.1 related to “interest income on credit-impaired financial assets”, due to the corresponding requirement having been deleted in IFRS 7.</p>	<p>The current past-due breakdown for each stage has been adjusted to align on the operational simplifications introduced by IFRS 9 and allow monitoring to what extent the rebuttable presumptions of the 30 and 90 days are relied on in impairment calculations and therefore the forward-looking nature of that impairment. Using past-due status, which is an ex-post indicator of credit risk, as the sole basis of the allocation by Stages runs contrary to the principles underpinning an expected loss model. In addition the breakdown by past-due band is necessary to assess the quality of assets within a given stage, and to allow reconciliation between assets in different stages and the concept of non-performing exposures. The instructions will clarify that exposures shall be allocated based on their individual past-due status and considering the oldest past-due band based on the past-due characteristics of each individual instrument.</p> <p>The granularity of the past-due breakdown has been decreased to align on the breakdown that is used in IFRS</p>	Clarifications in instructions regarding the allocation of exposures to the past-due status



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		<p>9, and the same has been done for the performing past-due category in template F18. In addition, the breakdown by past-due bands enables to combine information on asset quality between IFRS and GAAP reporters, regardless of the incurred or expected loss impairment model is used.</p> <p>The information on “interest income on credit-impaired financial assets” of the template F16.1. is useful for supervisory purposes. The requirement for banks to account interest income on impaired assets under IAS 39 has been replaced by the requirement to account for interest income on credit-impaired assets using the amortised cost of those assets (IFRS 9.BC5.77 and .BC5.79).</p>	
<p><b>Question 11.</b> Improvements needed for the reporting of hedge accounting under IFRS 9</p>	<p>Respondents in general did not contest that IFRS 9 may lead to more use of hedge accounting, though a number of them informed that they intended, as permitted under IFRS 9.7.2.21, to keep on using the hedge accounting requirements in IAS 39 or at least the IAS 39 carve-out as regards macro hedge and requested clarifications regarding whether the new templates would apply to them. They suggested to be exempted from reporting as long as they apply the IAS 39 requirements.</p> <p>One respondent required more information to be reported on the impact of economic hedge on interest income and expense, with separate identification of this impact by accounting portfolio.</p> <p>One respondent required clarifications on:</p> <ul style="list-style-type: none"> <li>- how to report a hedging instrument when it is used</li> </ul>	<p>Paragraph 101, which has been renumbered into paragraph 127, clarifies that the templates apply also when the reporting institution still uses IAS 39. The new paragraph now provides an explicit mapping of the IAS 39 and IFRS 9 accounting portfolios to be used in templates F11.3 and F11.4.</p> <p>An additional row was added in template F16.1 to report the interest income and expense on derivatives used as economic hedges instruments.</p> <p>The case where a hedging instrument is used to hedge more than one type of risk is already dealt with in paragraph 115, which has been re-numbered paragraph 130 under FINREP IFRS 9: <i>"When a derivative is influenced by more than one type of underlying risk, the instrument shall be allocated to the most sensitive type of</i></p>	<p>Inclusion of a mapping between IFRS 9 and IAS 39 accounting portfolios for templates F11.3 and F11.4</p> <p>Clarification that the carrying amount of a hedging derivative shall be reported for its entirety.</p> <p>Inclusion of a new paragraph 136 on the definition of organized market</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>to hedge two separate risks</p> <ul style="list-style-type: none"> <li>- whether items that are now allowed not to be designated as hedging instruments and excluded from the valuation of the hedging instrument (such as foreign currency basis spread) should be reported within the carrying amount of hedging instruments.</li> </ul> <p>Two respondents required a clarification of the definition of organised markets to be used in template F11.1</p>	<p><i>risk</i>". These rules still apply under FINREP IFRS 9.</p> <p>In case some components of a derivative's fair value are not designated as a hedge instrument, the entire carrying amount of the derivative has nevertheless to be reported in template F11.1. However, the changes in value of this derivative are to be reported in different templates (F16.6 for the changes in fair value of the component of the derivative instruments that have been designated as hedging instruments, and the other templates, in particular F1.3 and F3 for the other components).</p> <p>Q&amp;A 2013_560 clarified the definition of organised markets, in particular vis a vis OTC markets where clearing through a central counterparty is mandatory. The instructions were therefore clarified to refer to organised markets within the meaning of Article 4(92) CRR.</p>	
<p><b>Question 12.</b> Allocation of hedging instruments and hedged items by derivative risk categories</p>	<p>Many respondents agreed with a breakdown of hedged items and hedging derivatives by risk type. Two respondents however pointed out that the breakdown leads to issues when a hedging instrument covers more than one risk. One respondent suggested modifying the breakdown by type of risk hedged for a breakdown based on the type of instrument hedged with the identification of what risks are hedged.</p> <p>Respondents required clarifications on several aspects of template F11.4:</p> <ul style="list-style-type: none"> <li>- whether items hedged as a net nil position (i.e. group of items where the assets and liabilities fully offset the risk that is managed on a group basis) should be reported in template F11.4</li> </ul>	<p>See above the assessment for Question 11 for the reporting of instruments hedging more than one type of risks.</p> <p>The structure of template F11.4 was reviewed and its content clarified:</p> <ul style="list-style-type: none"> <li>- For each type of hedges, the carrying amount as in the financial statements shall be reported</li> <li>- The hedge adjustments relate to the both micro-hedges of a single position and micro-hedges of a net position. Information on value adjustments for portfolio fair value hedges will be included if needed once the macro-hedging rules finalised.</li> <li>- The granularity of information required on hedge adjustments was decreased, and only the total</li> </ul>	<p>Changes in template F11.4</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<ul style="list-style-type: none"> <li>- whether the fair value adjustments on hedged items in a hedge of net position in accordance with IFRS 9.6.6.5 shall be included in the carrying amount to be reported in column 040 for gross assets and liabilities included in a hedge of a net position. Not including hedge adjustments in the carrying amount would be inconsistent with IFRS 7.24B(a), but consistent with the treatment for macro-hedges, for which the fair value adjustments of the hedged items are not included in their carrying amount but reported separately in templates F1.1 and F1.2</li> <li>- whether information to be reported in column 030 remaining adjustments for discontinued hedges included the remaining adjustments for discontinued portfolio fair value hedges</li> </ul>	<p>amount is now required to be reported</p> <ul style="list-style-type: none"> <li>- The hedge adjustments exclude the impact of translation gains and losses, which have to be accounted for separately in accordance with IAS 21</li> </ul> <p>When the hedge of items as nil net position takes place in accordance with IFRS 9.6.6.1, the hedging instruments are to be reported in templates F11.1 or F11.3 and the hedged items have to be reported in F11.4 column 040, which was re-numbered column 010 following the simplification of the template. The instructions already clarify that hedged items have to be reported before netting). When the net nil position is a result of an economic hedge, the hedging derivatives are reported in template F10, and the non-derivative hedging instruments as well as the hedged items are to be reported in templates F4.1, F4.2.1 and F4.2.2 as appropriate.</p>	
<p><b>Question 13 and Question 14.</b> Template F11.5 and possible alternatives</p>	<p>One respondent explicitly agreed with template F11.5. Other respondents, while noting that the maturity schedule breakdown in template F11.5 was adequate and consistent with the others schedules used in supervisory reporting, objected to the reporting of template F11.5 for the following reasons:</p> <ul style="list-style-type: none"> <li>- Misalignment with IFRS 7.23A-B, which deal with a breakdown of the nominal amount of hedging instruments</li> <li>- The prediction of expected cash flows on disposal of foreign subsidiaries for hedges of a net investment in a foreign operation is uneasy</li> <li>- Information already required in Pillar 3</li> <li>- Lack of relevance of reported information</li> </ul>	<p>Template F11.05 was deleted</p>	<p>Template deleted</p>



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	<p>Respondents also requested clarifications whether information to be reported regards hedged items, as the label of the template suggests, or hedging instruments, as the references to IFRS 7 indicate, as well as clarifications regarding the reporting of hedged cash flows in a portfolio hedge of interest rate risk</p> <p>One respondent believed that the expected reclassification timing of the OCI reserves or a maturity breakdown of the hedged cash flows would be more relevant information to report, and other respondents would prefer a reporting of the nominal amount of hedging instruments or would like to stick to the IFRS 9 requirements, noting that information by maturity should be requested as part of information on liquidity risk.</p>		
<p><b>Question 15.</b> Reporting changes in fair value due to credit risk for assets at fair value through profit or loss (FVTPL) other than held for trading and current practices</p> <p>and</p> <p><b>Question 16.</b> Alternative credit risk metric for exposures at FVTPL</p>	<p>One respondent agreed with the reporting of changes in fair value due to credit risk.</p> <p>Two respondents supported the deletion of the requirement to report changes in fair value due to credit risk, noted that it had not no methodology to measure changes in fair value due to credit risk for assets not held for trading in FVTPL category. To that end, they supported the removal of the reporting requirement for exposures held for trading, but consider that keeping the requirement for other exposures measured at FVTPL is a second-best optimum, arguing that what matters for these assets is the exit price, and not the changes of a component of fair value.</p>	<p>Reporting fair value changes due to credit risk enables a monitoring of the credit quality of all exposures – except those held for trading – in a similar and comparable to monitoring of credit risk on exposures subject to impairment. Fair value changes due to credit risk serve as a proxy for impairment on those exposures. For this reason a (separate) reporting of fair value changes due to credit risk is considered necessary and the EBA confirms information on changes in fair value due to credit risk shall be reported for all assets at FVTPL other than those held for trading.</p> <p>The lack of any methodology for tracking these fair value changes does not seem compliant with IFRS 7.9, which requires the tracking of these changes for exposures</p>	<p>Update in the label of the columns</p>



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	<p>These respondents also argued about the complexity of retrieving such information, which is only required in the financial statements for exposures designated at FVTPL and not for all exposures at FVTPL. One respondent informed it was unclear about the feasibility to provide the requested information.</p> <p>One respondent requested an alignment of the label of columns with the limited scope of reporting (changes in fair value due to credit risk for non-performing exposures only, and not for all exposures), and to clarify the scope of exposures to be reported in template F20.4 .</p>	<p>designated at FVTPL.</p> <p>The labels of columns have been changed in all relevant templates to refer expressly to non-performing exposures.</p> <p>Template F20.4 covers held for trading exposures but the changes in fair value due to credit risk are only to be reported for non-performing exposures measured at fair value through profit or loss, either under a designated or a mandatory way, which are not held for trading.</p>	
<p><b>Question 17.</b> Costs of reporting changes in fair value due to credit risk compared to current FINREP requirements</p>	<p>Some respondents argued that the newly suggested approach would be more costly than the current one, or that it would be less costly than the current FINREP requirements.</p> <p>Others argued that the newly suggested approach would entail neither a significant increase nor a decrease in the cost of monitoring and reporting those fair value changes due to credit risk. This would in particular be due to most exposures mandatorily at FVTPL under IFRS 9 being level 3 assets under IFRS 13, and therefore for which monitoring the fair value changes due to all significant drivers (including credit risk of the counterparty) would anyhow be necessary to comply with the disclosure requirements in IFRS 13 regarding the sensitivity of valuation to changes in its inputs.</p>	<p>It appears that the cost of monitoring the changes in fair value due to credit risk for non-performing exposures could actually depend on the level of fair value measurement in which these exposures are included under IFRS 13.</p>	<p>No change</p>
<p><b>Question 18.</b> Level of tracking and calculation of fair value changes due to credit risk</p>	<p>Two respondents informed that their internal methodologies required fair value measurement to be performed at the instrument level, including for instruments netted in accordance with IAS 32. They used</p>	<p>Q&amp;A 2013_321 states that institutions shall compute “Accumulated changes in fair value due to credit risk” in their financial reporting using the same methodology as for their financial statements. It further states that the</p>	<p>Clarification on the level of measurement of changes in fair value due to credit risk</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>aggregated measurement only in some cases of fair-valuation for disclosure purposes of instruments at amortised cost.</p> <p>Two other respondents informed that the level of computation and tracking of fair value and its changes depends on the type of financial instruments as well as on the significance of the exposure. Tracking and measurement can take place on an individual basis or on a product portfolio basis.</p> <p>One respondent required further guidance on the level of computation of fair value, beyond Q&amp;A 2013_321.</p>	<p>EBA will not issue any methodological clarification and recalls the two possibilities that are listed in IFRS 7.9(c) for the computing of fair value changes due to credit risk on exposures designated at fair value through profit or loss.</p> <p>The EBA however decided to clarify in paragraph 69 that for the purpose of supervisory reporting, accumulated negative fair value changes due to changes in credit risk should be measured on an instrument by instrument basis.</p>	
<p><b>Question 19.</b> Other comments on the templates</p>	<p>One respondent stated that he agreed in general with the proposed templates.</p> <p>Other respondents requested some further clarifications:</p> <ul style="list-style-type: none"> <li>- where to report (in templates F3 or F46) realised capital gains or losses on equity instruments measured at FVTOCI</li> <li>- whether accumulated changes in fair value of a financial liability at FVPL that is attributable to changes in the credit risk of that liability and reported in row 360 in template F1.3 should include both accumulated gains and loss related to own credit risk in P&amp;L and OCI, and not only the part in OCI</li> <li>- the reporting of negative interest income is inconsistent with the stipulations in Q&amp;A 2015_1940</li> <li>- whether hedging derivatives shall also be reported in templates F20.4 and F20.6</li> </ul>	<p>In accordance with IFRS 9.B5.7.1, upon derecognition the accumulated changes in fair value for equity instruments reported within accumulated other comprehensive income are reclassified in other components of equity (i.e. retained earnings) without impact on the profit and loss. Changes in equity due to this reclassification are reported in row 160 and column 060 in template F46, though this impact is not separately identified.</p> <p>In row 360 in template F1.3, only fair value changes due to changes in own credit risk shall be reported - no changes which are recognised in the P&amp;L are reported in template F1.3. However, both changes in own credit risk considered in P&amp;L and considered in OCI shall be reported in template F8.</p> <p>The rules for reporting of negative interest income introduced via Q&amp;A 2015_1940 are consistent with the new requirements for template F16.1 in paragraph 189,</p>	<p>Clarification of the scope of template F20.04 and F20.6 as regards hedging derivatives</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>One respondent required the deletion of template F6 Geographical breakdowns using NACE codes, arguing codes were not used in risk management.</p>	<p>but template F16.1 now allows the reporting of negative interests on assets for all types of assets.</p> <p>The instructions have clarified that hedging derivatives shall be reported in templates F20.4 and F20.6.</p> <p>The reporting of exposures by NACE codes, which have been a feature from FINREP, may not necessarily match with the specificities of risk management in each individual institution. Yet, supervisors need standardised information on exposures by sectors and geographies, which justifies the imposition on the industry of a common standard for reporting those breakdowns.</p>	
<p><b>Question 20.</b> Other comments on the instructions</p>	<p><b><u>Interaction of IFRS 9 with the concept of NPE</u></b></p> <p>A couple of respondents advocated removing the definitions of non-performing exposures and forbearance from FINREP, arguing of the difficulty to reconcile them with the different impairment stages and of the need to better align with the new risk management practices they will lead to. The differences in approach imply the costly maintenance of dual systems for accounting and classification, reconciliation procedures, allocation of allowances calculated by stages.</p> <p>Some respondents required amending the templates or instructions to:</p> <ul style="list-style-type: none"> <li>- exclude exposures mandatorily and designated at fair value through profit or loss because of their measurement method</li> <li>- discontinue the separate identification of held for sale exposures since it is not required by IFRS 7</li> </ul>	<p><b><u>Interaction of IFRS 9 with the concept of NPE</u></b></p> <p>The concepts of NPE and forbearance are regulatory concepts and are not substitutable entirely by accounting concepts. They are intended to be used as benchmarks for asset quality assessment between banks subject to different accounting standards and are even more necessary now that impairment regimes will diverge between national GAAP and IFRS. As such, they will not be phased-out with the introduction of IFRS 9 and there is no compelling rationale for excluding credit exposures based on their measurement methodology (while the management goal makes it reasonable to exclude trading book exposures and derivatives). Some clarifications were however brought regarding the mapping of different accounting portfolios to these categories.</p> <p>The inclusion of information on exposures held for sale in templates F18 and F19 stems from clarifications required in Q&amp;A 2014_1106, as well as from the need of monitoring the NPE disposal processes in institutions. This</p>	<p>Clarification of the mapping of IFRS and GAAP accounting portfolios with the concepts of non-performing exposures and forbearance</p> <p>Deletion of the category of mortgage loans</p> <p>Restriction of the scope of application of template F13.01</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>Respondents had the following requests for clarification:</p> <ul style="list-style-type: none"> <li>- whether columns 170 and 180 in template F19 Collateral received and financial guarantees received include all forbore exposures or only non-performing forbore exposures</li> <li>- where to report exposures more than 90 days past-due but performing for reason of materiality</li> <li>- whether the granting of forbearance measures to non-material exposures more than 90 days past-due leads to their reporting in template F19</li> </ul> <p><b><u>Mortgage loans</u></b></p> <p>Two respondents commented on the category of mortgage loans.</p> <ul style="list-style-type: none"> <li>- One asked whether loans for house or real estate purchase guaranteed by guarantee companies should be reported in row 090 in template F5 "of which: mortgage loans [Loan collateralized by immovable property]"</li> <li>- One remarked that the labels in different group of templates were slightly different</li> </ul> <p><b><u>Counterparties of short positions</u></b></p> <p>One respondent argued that the counterparty for the short positions should be the issuer of the financial assets included in those short positions, instead of the counterparty in the repurchase agreement that is covering the short position. Considering the issuer of the shorter security as the counterparty makes more sense because the fair value risk for these positions is the one related with the issuer of the financial instruments, the</p>	<p>is in line with the requirements in IFRS 5 on separate disclosure of held for sale assets.</p> <p>The content of the definitions was left unchanged although some clarifications were introduced, for instance as concerns the mapping of accounting portfolios or between the different impairment stages.</p> <p>The instructions were clarified on the following aspects:</p> <ul style="list-style-type: none"> <li>- collateral and financial guarantees received in template F19 include only those which have been received for financial assets which are under forbearance measures, regardless of whether they are performing forbore or non-performing forbore</li> <li>- non-material exposures more than 90 days past-due shall be reported within performing exposures in "Past due &gt; 30 days &lt;= 90 days".</li> <li>- Forbore exposures are identified regardless of materiality considerations</li> </ul> <p>In addition, information on NPE were slightly enhanced to allow better monitoring of non-performing exposures: An additional maturity bucket was inserted in template F18 for NPE past-due for more than 5 years, and the opening and closing amount of expected loss allowances are now required to be reported for NPE within impairment Stage 2 in template F12.1</p> <p><b><u>Mortgage loans</u></b></p> <p>The EBA reviewed the definition in the current FIRNEP and labels across templates for mortgage loans and decided to introduce broader clarifications. Mortgage loans currently refer to loans secured by immovable</p>	



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>systems of institutions cannot always link the counterparty of the repos and associated short position, and this approach is consistent with other reporting requirements.</p>	<p>property collateral (residential/commercial) as defined in both cases in the CRR, independently of their loan/collateral ratio (current paragraphs 41 and 81 in FINREP v2.5). Accordingly, loans guaranteed by insurance companies do not qualify as mortgages and will not be reported as such in template F5, and they will be reported as loans secured by financial guarantees in template F13.</p> <p>However, the EBA concurs that the references to mortgages and the scope of reporting of information on mortgages was inconsistent between templates (for instance between templates F5, F13.01 and F18 – the templates do not always cover the same accounting portfolios). In addition it is unclear whether “mortgages” are to be interpreted as a specific sub-category of loans secured by immovable property collateral when they are specially referred in templates, compared to templates that only require information on loans secured by immovable property collateral. This is especially the case as the definition of mortgage differs from the definition of those loans as coined COREP. In addition, comprehensive information on lending for house purchase, regardless of the security of such lending, matters. Therefore, the following changes were introduced:</p> <ul style="list-style-type: none"> <li>- The category of mortgage loans was deleted across FINREP (especially in templates F5 and F13.1) and replaced by the category of loans collateralised by immovable property to harmonise labels and definitions across templates</li> <li>- Held for trading and trading exposures were excluded from template F13.1 to match with the</li> </ul>	



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		<p>scope of template F5 and to allow calculation of coverage of loans collateralised by immovable property</p> <ul style="list-style-type: none"> <li>- A new row for lending for house purchase was inserted in template F13.1 to identify Loans for house purchase across the different collateral/guarantees available and allow calculation of coverage of guarantees for loans for house purchase.</li> </ul> <p><b>Counterparties of short positions</b></p> <p>The current reporting requirements in FINREP follow an accounting approach, according to which the counterparty of a short position is the party towards which a liability to return the borrowed asset is booked when a security is short-sold (IAS 39.37(b) and IFRS 9.3.2.23). Reporting the counterparty as the issuer of the short-sold security is a risk management view, which contradicts IFRS. The EBA therefore maintains the counterparty of short positions as being the counterparty towards which IFRS requires booking a liability (i.e. the party from which the short-sold security was borrowed).</p> <p>Nevertheless, some changes have been implemented for the counterparty of trade receivables and financial guarantees.</p>	
<p><b>Question 21.</b> Cost of the proposals</p>	<p>One respondent observed that, FINREP aligning on IFRS 9 which makes some accounting treatments (i.e. classification or hedging) easier but makes some others (i.e. impairment measures and reporting) more difficult and expensive, the new reporting requirements should</p>	<p>Where possible the EBA has considered aligning the reporting templates on the disclosure requirements, including the implementation guidance in the revised IFRS 7. As a result of the consultation, simplifications have been introduced, especially in the reporting of the</p>	<p>Adjustments to templates on impairment and hedging</p>



Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>not be more costly than expected costs for the accounting changes.</p> <p>Some respondents however highlighted some areas of divergence between IFRS 7 and 9 Basel’s guidance and EDTF and FINREP, which will create costs for institutions:</p> <ul style="list-style-type: none"> <li>- Granularity levels (all IFRS disclosures are split in FINREP by counterparty sector and geographical location), which requires system adjustments and additional reconciliations</li> <li>- Need to set up processes to capture this information and controls to ensure accuracy and consistency will be required along with IT changes</li> <li>- Hedge accounting requirements which are not linked to IFRS 9 and whose costs outweigh the benefits</li> </ul>	<p>reconciliation of allowance and the reporting on hedging instruments and hedged items. However the difference in purpose between supervisory reporting and disclosures precludes a full alignment.</p>	

## 4.4 Decentralised consultation on FINREP based on Directive 86/635/EEC

The EBA conducted a decentralised public consultation, taking place through National Competent Authorities, on update proposals for reporting financial information using GAAP based on BAD across EU jurisdictions. National GAAP practices are closely linked to individual EU jurisdictions and the decentralised format of the consultation has enabled the EBA to benefit from the expertise of the authorities competent for each jurisdiction or Member State on issues that may be specific to the individual jurisdictions across the EU.

The consultation lasted for three weeks and ended on 15 April 2016. Feedback was provided directly by institutions to their National Competent Authorities. Four National Competent Authorities, out of five jurisdictions in which GAAP based on BAD are in use, received feedback from their banking industry.

### Comments on the proposals and EBA response

In general, feedback received indicated support for the proposed changes and focused on the need to clarify or better address the treatment of some specific technical issues in some GAAP.

#### Gross carrying amount

The feedback indicated that the industry was unsure about whether the concept of gross carrying amount would be applied to national GAAP reporters, and if so, how.

The EBA clarified that the concept of gross carrying amount applied to all FINREP reporters, with national GAAP reporters being applied the same definition as IFRS reporters. In particular, trading assets are excluded from the scope of the definition of gross carrying amount, and fair value adjustments due to credit risk are only taken into consideration for non-performing non-trading exposures either mandatorily at fair value through profit or loss or at fair value through equity.

#### Accumulated negative changes in fair value due to credit risk

Feedback indicated a need to clarify the meaning of the concept of accumulated negative changes in fair value due to credit risk. The industry interpreted “accumulated negative changes” as being the sum of all positive and negative changes in fair value which, once summed, give a negative result.

Clarifications on the calculation of accumulated negative changes in fair value due to credit risk were inserted. Accumulated negative changes are indeed the negative outcome of the summation of all the positive and negative changes in fair value due to credit risk that have taken place since the initial recognition of an instrument.

## Haircuts for trading exposures on the balance sheet

The specific row for haircuts on trading positions was originally included in template F10, to be applied for trading derivatives and included in their carrying amount (i.e. the carrying amount was intended to be fair value before haircut minus haircut on the asset side, and plus haircut on the liabilities side). However, feedback indicated that haircuts on the exposure value were taken on the entire amount of the trading portfolio, not just the trading derivatives, and could not be allocated separately by categories of instruments.

A separate row was included at the bottom of template F1.1 for the haircut on trading assets at fair value. Therefore, trading assets and trading liabilities reported in the different templates are before the application of haircuts. This makes the fair value for trading assets and liabilities reported by institutions in jurisdictions whose GAAP require haircuts comparable to the fair value reported by institutions using IFRS. In addition, this approach limits the increase in reporting requirements and preserves the simplicity of validation rules (reporting the haircuts directly within the trading accounting portfolios would have required including a separate row in all templates featuring this portfolio and would have triggered important changes to validation rules).

## Impairment of equity instruments

Feedback received indicated that not all GAAP require equity securities to be impaired. However, equity securities are required to be impaired in some GAAP, especially when they are measured under LOCOM.

The rows for the reporting of unimpaired and impaired equity instruments, as well as the cumulative amount of value adjustments when they are measured under LOCOM, were kept open in templates F4.8, F4.9, F4.10 and F12.0.

## Impairment of assets measured under LOCOM

Feedback received indicated that if the industry supported considering all assets under LOCOM as assets subject to impairment, there were concerns as regards the consideration of all value adjustments on assets measured at LOCOM as impairment. If all value adjustments on LOCOM assets were considered as impairment, a high share of LOCOM assets being reported as non-performing because of value adjustments that can be due to changes in market risk. It appears that general allowance for credit risk affecting the carrying amount will only occur in some jurisdiction on assets at moderate LOCOM (i.e. reported in template F4.9) and therefore could be deleted from template F4.10 (where assets under strict LOCOM) are reported. Other than that feedbacks suggested to adopt the same column structure for templates F4.9 and F4.10.

A distinction was made for LOCOM assets between value adjustments that are credit risk-induced and value adjustments that are market risk induced. Only value adjustments that are credit risk-induced are to be considered as impairment and added back when calculating the gross carrying amount of LOCOM assets, but both types of value adjustments need to be reported separately. Therefore all LOCOM assets are considered for FINREP purposes to be assets subject to impairment or subject to fair value adjustments. The possibility to report general allowance for

credit risk (and for banking risk) affecting the carrying amount was kept open for all assets measured under LOCOM, in order to accommodate for different accounting requirements. The same structure is therefore in place for templates F4.9 and F4.10.

### General allowance for banking risk affecting the carrying amount

Feedback received asked for clarifications on the concept of general allowance for banking risk affecting the carrying amount.

In accordance with Article 37(2) and 38 BAD, the fund for general banking risk can be shown as a liability item or as an adjustment to the carrying amount of assets. Only the amount affected the carrying amount of assets shall be reported as a general allowance for banking risk in FINREP.

### Reporting of hedge accounting

The proposals included a requirement to report derivatives by types of hedges and risks in template F11.1 when GAAP were IFRS-like and in template F11.2 (unchanged) in other cases. Feedback received indicated that some GAAP recognise the concepts of fair value hedge, cash flow hedges, hedges of net investments, portfolio hedges and cost price hedges. For other GAAP, identification of these categories of hedges is possible but more challenging.

It was decided to include specific rows in template F11.2 for the different types of hedges under national GAAP. These rows should however only be reported if the allocation of hedges by types of hedges is relevant under national GAAP.

### Reporting of economic hedges

Feedback received indicated that the requirement to report all economic hedges as trading derivatives in template F10 may lead to misunderstanding, as economic hedges are not part of the trading book. It was suggested to rename template F10 “Non-hedging derivatives”.

Clarifications were inserted that the qualification of trading derivatives in template F10 is independent from the measurement of these assets at fair value through profit or loss, and regardless of whether these derivatives are actually included in an accounting trading portfolio.

### Hedge accounting using non-derivative hedge instruments

Feedback received revealed that some GAAP prohibited the use of non-derivative instruments for hedging purposes, while other GAAP allowed it.

Template F11.3.1 was kept, but the instructions were clarified in order its reporting to take place only when the use of non-derivative instruments for hedging purposes is allowed in GAAP based on BAD.

### Dividend income

Feedback received requested a clarification in the instructions about where to report dividend income from related parties. If they were to be reported within other dividend income received

(row 160 in template F2), instructions and validation rules should identify them clearly as a subset of the entire amount of dividends received.