Consultation Paper

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. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in 5.3.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the ‘send your comments’ button on the consultation page by 8 March 2016. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA’s rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA’s Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EC) N° 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found under the Legal notice section of the EBA website.
2. Executive Summary

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 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 necessitates a thorough update of the financial reporting framework for IFRS reporters. While FINREP reporting remains aligned as much as possible with the relevant accounting standards, in accordance with Article 99(4) of the CRR, the ITS also needs to require the 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 a result of that, significant changes are required to the existing FINREP reporting templates and instructions for IFRS reporters (Annex III and V).

This consultation paper proposes the amendment of the ITS on supervisory reporting with regard to FINREP for IFRS reporters following the issuance of the new IFRS 9 standard.

The changes are limited to those needed for supervisory purposes as per Article 99(4) of the CRR. In addition, while changes are focused on changes coming from IFRS 9 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 with those in this consultation paper, in order to have a consolidated version of the updated draft ITS package. The relevant Annexes are the following:

- Annex III of Regulation (EU) No 680/2014 ‘Templates for reporting FINREP IFRS’ which is proposed to be replaced by Annex 1 of these draft ITS.
- Annex V of Regulation (EU) No 680/2014 ‘Instructions for reporting FINREP’ which is proposed to be replaced by Annex 2 of these draft ITS.
The endorsement process of IFRS 9 into EU law is still on-going and independent from this consultation. Annexes 1 and 2 of the draft ITS are based on IFRS 9 as published by the IASB in July 2014. The finalisation of templates, instructions, Data Point Model and validation rules will take place after the end of the consultation period and will be based on IFRS9 as endorsed in the EU.

The first reporting reference date depends on the first application date of IFRS 9 in the EU. If the endorsed version of IFRS 9 has the same application date as the IFRS 9 issued by the IASB, the first application date will be 1st January 2018, with a first reference date of 31 March 2018.
3. Background and rationale

Importance of uniform reporting requirements

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

Part of a single rulebook

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 lead 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

First reporting reference date depends on the first application date of IFRS 9 in the EU. If the endorsed version of IFRS 9 has the same application date as the IFRS 9 issued by the IASB, the first application date is expected to be 1st January 2018, with a first reference date of 31 March 2018.
Further note that this consultation paper does not suggest any change in terms of the usual reference and remittance dates as established in Articles 2 and 3 of the ITS including accounting years deviating from a calendar year. In particular, quarterly reporting will remain with a reference date on the last day of each quarter and with remittance dates on the 12 May, 11 August, 11 November and 11 February respectively.

FINREP for GAAP reporters

As per Article 99(6) of the CRR FINREP 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 hence no major impact is expected for GAAP reporters. Therefore this consultation focuses only on IFRS templates and instructions and does not propose or introduce any change in the FINREP GAAP templates at this stage. The EBA has started the work to analyse if changes to GAAP templates are necessary.

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 European Union 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. The endorsement process of IFRS 9 into EU law is still ongoing and independent from this consultation,

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 3 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.

Even if IFRS 9 is not endorsed at this point in time, changes brought to the accounting for financial instruments will have a significant impact on the formats to be used for supervisory reporting of financial information. As a result, these formats have to be updated. Therefore the EBA considers it important to consult on potential changes on FINREP reporting as early as possible to allow institutions time to prepare for the final reporting framework which will be based on the endorsed standards. To allow this consultation to take place at an early stage, FINREP reporting templates were updated on the basis of the IASB version of IFRS 9 published in July 2014. The reporting templates will however be finalised, along with the instructions, Data Point Model and validation rules, only after IFRS 9 has been endorsed and considering any possible changes between the endorsed version and the version released by the IASB.
IFRS 9 fundamentally changes the way financial instruments are accounted for and necessitates a thorough update of the financial reporting framework for IFRS reporters. While FINREP reporting remains aligned as much as possible with the relevant accounting standards the ITS also needs to 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.

3.1 Overview of IFRS 9

IFRS 9 overhauls the accounting for financial instruments with a view (i) to ensure that their classification and measurement is better aligned to the business model and their characteristics, (ii) to end the ‘too little too late’ that was perceived as having been the practice regarding loan loss recognition in the run-up to the crisis, and (iii) to bring hedge accounting closer to the risk management practices of banks (with a focus on micro-hedge accounting for the time being).

For classification and measurement of financial instruments, IFRS 9 introduces a principle-based model with classification of financial assets driven by the business model and the nature of the cash flows, rather than the previous rules-based approach of IAS 39, with the objective to simplify the accounting requirements for financial instruments. Financial assets are initially measured at fair value and allocated into one of the following accounting portfolios (which replace those in IAS 39), based on the objective of the business model within which the financial assets are held and the characteristics of their cash flows:

- Amortised cost, for financial assets whose cash flows are solely payments of principal and interests and that are held within a “hold to collect” business model
• Fair value through other comprehensive income (FVOCI), for financial assets whose cash flows are solely payments of principal and interests and that are held within a “hold to collect and sale” business model

• Fair value through profit or loss (FVTPL), for financial assets whose cash flows are not solely payments of principal and interests and held within an “other” business model – FVTPL is a residual category - and for financial assets designated at FVTPL to deal with accounting mismatches

Other changes are also introduced by IFRS 9 for instance for the accounting of embedded derivatives, the changes in the own credit risk of financial liabilities designated at fair value through profit and loss, or the possibility to designate equity instruments as measured at fair value through other comprehensive income, when otherwise would be accounted for at fair value through profit and loss. Changes to financial liabilities are kept minimal, except for the presentation of own credit risk.

For impairment of financial assets, IFRS 9 introduces a single impairment model for assets in the amortised cost and fair value through other comprehensive income portfolios, which relies on expected losses and forward looking information, as opposed to the distinct models for Loans and receivables and Available for sale portfolios in IAS 39 which rely on the concept of incurred losses. It means that under IAS 39 recognising impairment losses requires the occurrence of a loss event with impact estimated future cash flows of the financial asset, while IFRS 9 requires to recognise impairment losses at all times, even before those losses have actually been incurred.

Expected losses recognised under IFRS 9 are required to be updated at each reporting date to reflect changes in the credit risk of financial instruments. Financial assets are classified into different stages based on their credit risk, which are associated with different methodologies for estimating impairment.

Lifetime expected credit losses (losses resulting from default events over the life of the instrument) are to be recognised for financial instruments if there has been a significant increase in credit risk since initial recognition and the resulting credit quality is not considered to be low credit risk, (Stages 2 and 3); while 12-month expected credit losses (losses resulting from default events within the next
12 months) are to be recognised for all other financial instruments (Stage 1). The accounting for interest income also depends on the stage in which an asset is included.

Regarding hedge accounting, the objective to align accounting more closely on risk management has led to relax some of the rule-based areas of IAS 39, with a focus on whether a risk component can be identified and measured rather than the types of items, an assessment of hedge effectiveness based on the objectives of the hedging, rather than meeting the previous hedge effective test threshold of 80% - 125%, the possibility to hedge group of items including a net position, and increased possibilities to hedge credit risk using credit-default swaps.

The different types of hedging relationships under IAS 39 – fair value hedge, cash-flow hedge, hedge of a net investment in a foreign operation – endure under IFRS 9, as do their accounting rules, safe for incremental changes due to the new measurement rules of financial instruments. In addition, hedge accounting remains an accounting policy choice, which an institution can use or not. As part of this choice it can also choose to keep using the requirements in IAS 39, especially for hedges of open portfolios of financial instruments (macrohedge).
All the changes brought by IFRS 9 will have some impact on the type and granularity of information reported by institutions via FINREP, and the next sections detail the changes that have been brought to FINREP to adjust it to IFRS 9.

3.2 Scope of the changes brought to FINREP templates

Changes to IFRS templates have been proposed to 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, the definition of gross carrying amount was further refined to take account of its introduction in IFRS 9 while it had previously been a purely supervisory concept, and the fact that reporting of fair value changes due to credit risk suffered from severe data quality issues. In addition, the current rules for computing and reporting the gross carrying amount have led to instances where the gross carrying amount of financial assets at fair value through profit and loss is less than their carrying amount, which has led to inconsistency between the FINREP gross exposure value and the gross exposure value for these exposures reported in the solvency reporting templates (COREP). The need to enhance the use of data on gross exposures for supervisory analysis has led to the revision of the templates where this information is reported, in conjunction with the change in the definition of gross carrying amount.

The final version of the templates is subject to the endorsed version of IFRS 9. Early consultation, even though IFRS 9 has not yet been endorsed, nevertheless allows institutions to take reporting into consideration in their planning of the changes from IAS 39 to IFRS 9.

3.3 Overview of changes in FINREP due to the new classification and measurement rules and related questions

3.3.1 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 does not exist in IFRS 9 any more
- 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 a vis the asset) and of the characteristics of the cash flows, with fair value through profit and loss 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, that correspond to a particular business model within the category of assets measured at fair value through profit and loss. This specificity is enshrined in the continuous definition of Held for Trading assets and liabilities in IFRS 9 (Appendix A). In addition, the accounting portfolio Held for Trading can serve as a bridge with the regulatory trading book, at a time where the border between the banking and trading book is under review. However, separately identifying Held for Trading assets leads to the creation of a further subportfolio within assets measured at fair value through profit 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 the 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 to take account of the measurement of changes in fair value of equities in other comprehensive income, their reclassification within equity and not in P&L, and changes in own credit risk in other comprehensive income (template F1.3 and template F3)

- 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 not allowed for hybrid assets anymore

- Deletion of the amount contractually required to be repaid at maturity for liabilities designated at fair value through profit and loss and focus of the information on fair value changes due to credit risk on non-derivative liabilities (template F8)

### 3.3.2 Questions regarding changes due to IFRS 9 Classification and measurement

**Explanatory text for consultation purposes**

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

3.4.1 Main changes due to IFRS 9 Impairment

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

- Each template break assets down between the different stages, and their associated allowance where relevant (template F4.3.1 and template F4.4.1).

- IFRS 9 also contains some exemptions or rebuttable presumptions regarding the identification of a significant increase in credit risk or default probability on assets with low credit risk, more than 30 days past-due and more than 90 days past-due. Templates F4.3.1, F4.4.1 and F7 convey information on the classification and impairment status of exposures, and on the incidence of the exemptions and rebuttable presumptions on this classification and the level of impairment.

- Assets subject to specific impairment rules are separately identified when needed for supervisory purposes: trade receivables, contract assets and lease receivables are included in the scope of the impairment templates (as part of loans and advances measured at amortised cost) without specific identification in order to have a comprehensive view on impairment on all types of assets, while credit-impaired financial assets are deemed of importance for supervisory purposes and are specifically identified in template F4.3.1 and template F4.4.1.

- Information on write-offs: information on write-offs is necessary to have comparable coverage ratios between institutions, regardless of the different rules that apply to them in accordance with the regulatory and accounting frameworks as concerns the timing and extent of write-off of assets, and to assess the incidence of variety of rules and practices on the speed of the removal of assets from the balance sheets. Information on partial and total write-offs has been included in template F4.3.1, template F4.4.1 and template F12.

The following modifications have more especially been introduced in template F12.1 and template F12.2:

- The breakdown of changes in the impairment allowance covers in a single template financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income without separate identification – unlike off-balance sheet items which are identified separately. The template aims at allowing a monitoring, by stage of impairment, of drivers for changes in the impairment amounts, with differentiation between moves due to credit risk changes and moves due to other reasons, such as updates of models or changes in the portfolios composition.
• Gains and losses incurred when modifying an asset under the form of an increase or a decrease of its credit risk are now a separate category of gain and loss in IFRS 9. These gains and losses have been included within the amount of gains and losses due to credit risk, but are separately identified in the reconciliation of the impairment allowance amount.

• 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-assessed and collectively-assessed financial assets.

• 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, while template F12.1 provides the net incidence (increases minus decreases) of the transfers between stages on the amount of impairment allowance.

As regards information on interest income for impaired assets, it has been replaced by information on interest income for assets in impairment Stage 3, 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. This information is now required as part of template F16.1 on interest income and expenses, instead of template F16.7, which has been re-focused on impairment on non-financial assets.

### 3.4.2 Consideration of off-balance sheet items

Regarding especially off-balance sheet items, loan commitments and financial guarantees given are subject to the same impairment rules as the on-balance sheet assets, including when they are not otherwise within the scope of IFRS 9 – similarly to IAS 39, only loan commitments to provide a loan at below market rate, loan commitments designated at fair value through profit and loss, and loan commitments that meet the definition of derivatives are within the scope of IFRS 9 for both classification and measurement as well as impairment as applicable. Therefore, loan commitments that are outside the scope of IFRS 9 are recognised in application of IAS 37 but follow the impairment rules of IFRS 9.

However, FINREP information on commitments in template F9 is based on commitments listed in Annex I of the CRR and covers both revocable and irrevocable commitments. The EBA is of the view that some of the commitments listed in this Annex may not comply with the definition of a loan commitment in IFRS 9, either because commitments in Annex I CRR have a broader scope than

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1 A loan commitment is defined as a firm commitment to provide credit under specified terms and conditions meaning a contract where there is a present contractual obligation to extend credit (IFRS 9.BCZ2.2, BC5.125 and BC 5.243). A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates (IFRS 9 Appendix A).
commitments related to lending activities, or because they are revocable commitments, which are likely not captured by IFRS 9\(^2\). As a consequence, these commitments will be outside the scope of the IFRS 9 impairment rules, and will therefore keep on being valued in accordance with the IAS 37 requirements on provisions.

As for financial guarantees, IFRS 9 still allows to account for them using IFRS 9 (for those financial guarantees that are not insurance contracts or that are insurance contracts but for which the institution has elected to use IFRS 9) or IFRS 4 (for those financial guarantees that are insurance contracts). When institutions apply IFRS 9 to account for financial guarantees, some financial guarantee contracts can be valued at fair value through profit and loss.

Template 9 intends to provide comprehensive information on off-balance sheet items (loan commitments, financial guarantees and other commitments) that give rise to provisions on the liabilities side. It provides information on the nominal amount of those commitments, as well as the amount of associated provisions\(^3\) if any. Therefore, loan commitments, financial guarantees and other commitments listed in Annex I CRR and in the FINREP instructions are allocated in the different columns of the template depending on their accounting treatment. Depending on the accounting category they fall into, off-balance sheet items have the changes in their provisions broken down in different templates:

- Loan commitments in the scope of IFRS 9 in accordance with IFRS 9.2.1.(g) when they give rise to provisions on the liabilities side: changes in their provisions are broken down in template F12.
- Loans commitments to which IAS 37 applies for recognition and IFRS 9 applies for impairment and derecognition: changes in their provisions are broken down in template F12.
- Other commitments and revocable lending commitments under IAS 37: changes in their provisions are broken down in template F43.
- Financial guarantees measured under IFRS 9: changes in their provisions are broken down in template F12.
- Financial guarantees measured under IFRS 4: changes in their provisions are broken down in template F43.

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\(^2\) IFRS 9 BC5.243 states that “Without a present contractual obligation to extend credit, an entity may withdraw its loan commitment before it extends credit. Consequently, the IASB concluded that a liability does not exist for loan commitments or financial guarantee contracts when there is no present contractual obligation to extend credit.”, casting doubt on whether revocable loan commitments are in the scope of IFRS 9. In addition, revocable loan commitments may not meet the definition of a binding agreement under IFRS 9.

\(^3\) IFRS 9 applies the same impairment requirements on loan commitments than on on-balance sheet assets and therefore provides for the recognition of loss allowance on loan commitments and financial guarantees to which the impairment requirements apply (IFRS 9.5.5.1). However, since the concept of allowance refers to a reduction of an asset and that the impairment of loan commitments and financial assets gives rise to liabilities (IFRS 9.4.2.1), FINREP keeps naming this impairment “provisions”. 
The chart below illustrates the different accounting rules that now apply to off-balance sheet items listed in Annex I of the CRR and influence the templates in which their reporting shall take place.

Compared to the current template F9, the revised template F9 does not include loan commitments measured at fair value through profit or loss. The reason is that while the current template 9 provides information on the nominal amount of commitments only, the revised template also
provides information on the provisions associated with the commitments. For analytical purposes, it was believed more appropriate to focus the template on those commitments that may result in liabilities.

Having similar granularity in template F9 like in templates F4.3.1 and F4.4.1 for on-balance sheet assets allows having a comprehensive view on the instruments and their impairment/provision in each Stage, in order to derive total impairment on the total exposure value. However, focusing the reporting on those commitments that may result in liabilities means that there is no comprehensive reporting of all loan commitments given and may result in mismatches between template F9 on the one hand and templates F18 and F20.5 on the other hand, which include information on non-performing loan commitments measured under the fair value option.

Lastly, loan commitments and financial guarantees given that are considered as derivatives are not reported in the revised or current template F9, but may be reported in template F8 when their valuation brings them on the liabilities side of the reporting institutions and in template F4 when it brings them on the asset side.

### 3.4.3 Examples of use of FINREP templates on impairment

There are three areas in impairment for which the revision of FINREP introduces elements that may especially be of complex use for institutions:

- The reporting of impairment on financial assets measured at fair value through other comprehensive income (template F1.3 and template F3)
- The reporting of changes in the different stages of the loss allowance (template F12.1)
- The reporting of transfers of financial assets between different impairment stages (template F12.2)

**The reporting of impairment on assets measured at fair value through other comprehensive income (FVOCI)**

IFRS 9 requires that the loss allowance for debt instruments (loans and debt securities) measured at FVOCI is recognised in other comprehensive income and should not reduce the carrying amount of the financial assets in the statement of financial position (IFRS 9.5.5.2). The impairment gain or loss (the adjustment of the loss allowance due to the variation of the expected credit losses) is recognised in P&L and is not included within the gains and losses on the debt instruments recognised in other comprehensive income (IFRS 9.5.5.8 and .5.7.10). The loss allowance is not presented separately in the statement of financial position as a reduction in the carrying amount of the financial asset, but the loss allowance should be disclosed in the notes to the financial statements (modified IFRS 7.16A).

IFRS 9 IE78 to IE81 show an example for the recognition and booking of impairments on an FVOCI debt instrument impacting the P&L as an impairment loss, with an amount booked in the other comprehensive income (OCI) equal to the total fair value change of the FVOCI instrument offset by
the change in the accumulated impairment that was recognised in P&L. No impairment is booked at initial recognition in this example.

IFRS 9 IE82 to IE102 show an example for the recognition and booking of impairments on an FVOCI debt instrument impacting the P&L as an impairment loss, with an amount booked in the OCI equal to the total fair value change of the FVOCI instrument offset by the change in the accumulated impairment that was recognised in P&L. In contrast to the former example, impairment is also booked at initial recognition.

Based on the requirements in IFRS 9 and the above-mentioned implementation examples, it was chosen to present impairment of debt instruments measured at FVOCI on a net basis in FINREP, meaning that the information on the fair value changes in other comprehensive income will be reported net of impairment and that the impairment loss itself will be reported in the P&L only:

- information on accumulated gains and losses on debt instruments booked in FVOCI (template F1.3 row 161 “Fair value changes of debt instruments measured at fair value through other comprehensive income”) will not include any amount related to impairment of debt instruments

- information on the changes in fair value recognised in other comprehensive income will be reported net of impairment (template F3 row 251 “Valuation gains or (-) losses taken to equity”) while impairment loss will be reported in the P&L only (template F2 row 481 “(Debt instruments at fair value through other comprehensive income)”)  

- information on accumulated impairment on debt instruments measured at FVOCI is only available in template F4.3.1

The approach is illustrated in the extracts of templates below:

- Debt securities are purchased on 15 December 2014 for 1000

- On 31 December 2014, first reporting period after the purchase, these debt securities have experienced a decrease in fair value of 50, out of which 30 is considered to be the 12-month Expected Loss. An amount of 30 is therefore debited in the P&L, while an amount of 20 is debited in the other comprehensive income and accumulated other comprehensive income. On the balance sheet side, the debt securities are credited for the overall amount of 50, corresponding to the sum of the fair value change net of impairment (20) and of the impairment loss (30)

- On 15 January 2015, the securities are sold. The negative accumulated fair value adjustment of 20 is transferred to the P&L; therefore the loss on the disposal of the debt securities is 20
Reconciliation of the changes in the accumulated loss allowance

The changes in the accumulated loss allowance are cumulative from the beginning of the financial year to the end of the financial year.

- On 1 January 2018, the cumulative loss allowance shows a balance of 5000 in Stage 1, 2000 in Stage 2 and 1000 in Stage 3

- In Q1, the quality of assets of the institution worsens without however triggering changes in impairment Stage for these assets: impairment within Stage 1 increases by 200, impairment within Stage 2 increases by 400 and impairment within Stage 3 increases by 600

- In Q1 Stage 1 assets are totally written-off for 500 – the 12-months EL on these assets was 50

- In Q2 the institution has originated 10 000 new loans which have been assessed as Stage 1 on the end-Q2 reporting date for a 12-month EL of 1000

- In Q2 10 000 Stage 1 assets are modified and consequently reclassified as Stage 2 assets for a loss allowance of 1800, due to a significant increase in their credit risk since their modification. In addition, 20 000 Stage 2 assets are modified and reclassified into Stage 3 for
an amount of loss allowance of 800. Modification has not led to the derecognition of the existing exposure.

- In Q2 the institution buys a portfolio of 5000 credit-impaired financial assets that, between the date of its acquisition and the end of Q2 period, recorded an increase in its lifetime expected losses of 1000

- In Q3 the institution sells a portfolio of credit-impaired assets with an associated cumulative loss allowance of 1000

- In Q3 the institution implements new impairment models that are more conservative for Stage 2 and Stage 3, resulting in an increase in the loss allowance by 200 for each Stage, but less conservative for Stage 1, resulting in a decrease of the loss allowance by 100

- In Q3 the institution writes-off Stage 2 assets for an amount of 2000 that were only covered by allowance for an amount of 1000, and an amount of Stage 3 assets for an amount of 1000, entirely covered by allowance

At the end of Q3, the end of period amount of the loss allowance is the following:

- Cumulative changes in Stage 1 allowance: +200 (increase in credit risk without change in Stage) – 50 (write-off via use of the allowance) – 450 (write-off recognised directly in P&L) + 1000 (origination) – 1800 (reclassification of modified assets to Stage 2 due to an increase in credit risk) – 100 (new impairment model).

- Cumulative changes in Stage 2 allowance: +400 (increase in credit risk without change in Stage) + 1800 (reclassification of Stage 1 modified assets to Stage 2 due to an increase in credit risk) – 800 (reclassification of modified assets to Stage 3 due to an increase in credit risk) + 200 (new impairment model) – 1000 (use of allowance in Stage 2 due to write-off) – 1000 (write-off with direct impact on P&L).

- Cumulative changes in Stage 3 allowance: + 600 (increase in credit risk without change in Stage) + 800 (reclassification of Stage 2 modified assets to Stage 3 due to an increase in credit risk) + 1000 (increase in allowance for acquired Stage 3 assets) – 1000 (decrease of allowance related to sold exposures) + 200 (new impairment model) – 1000 (use of Stage 3 allowance due to write-off).

The signs in the table below illustrate the changes in the loss allowance or profit or loss: a positive sign means an increase and a negative sign a decrease. Notwithstanding this example, reporting will have to follow the FINREP sign convention.
<table>
<thead>
<tr>
<th>Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)</th>
<th>Allowances for debt instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)</th>
<th>Allowances for credit-impaired debt instruments (Stage 3)</th>
<th>Opening balance</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Amount of loss in the allowance account</td>
<td>Amount of loss in the allowance account</td>
<td>Amount of loss in the allowance account</td>
<td>Write-off through disposal and impairment (amt)</td>
<td>Change due to change in recognition in the allowance account</td>
</tr>
<tr>
<td>5.00</td>
<td>-1.00</td>
<td>20.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>5.00</td>
<td>-1.00</td>
<td>20.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>5.00</td>
<td>-1.00</td>
<td>20.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>5.00</td>
<td>-1.00</td>
<td>20.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>5.00</td>
<td>-1.00</td>
<td>20.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>5.00</td>
<td>-1.00</td>
<td>20.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>5.00</td>
<td>-1.00</td>
<td>20.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>5.00</td>
<td>-1.00</td>
<td>20.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>5.00</td>
<td>-1.00</td>
<td>20.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
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<td>20.00</td>
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<td>0.00</td>
</tr>
<tr>
<td>5.00</td>
<td>-1.00</td>
<td>20.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>5.00</td>
<td>-1.00</td>
<td>20.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>5.00</td>
<td>-1.00</td>
<td>20.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
<tr>
<td>5.00</td>
<td>-1.00</td>
<td>20.00</td>
<td>1.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>
Transfer of assets between impairment Stages

Transfer between Stages refer to situations where a financial asset that is still recognised at the end of the reporting period is not included in the same impairment Stage in the end of a reporting period (final Stage) as the Stage it was included in at the beginning of the reporting period (initial Stage). Only transfers between the initial Stage to the final Stage shall be reported, not the intra-period transfers. Therefore, in case a financial asset was included in Stage 1 on 01/01, moves to Stage 2 on 15/02, and then moves to Stage 3 on 31/03, only a transfer between Stage 1 and 3 shall be reported. Similarly, if an asset starts in Stage 1, moves to Stage 2, then returns to Stage 1 before the period end, then no transfer shall be reported.

As with the changes in the accumulated loss allowance, data on transfers reported shall be cumulative from the beginning of the financial year to the end of the financial year. As a consequence, the final and initial Stages have to be appreciated by reference to 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 financial year. For instance, if a financial asset is included in Stage 1 as at 01/01 and is reclassified as Stage 2 on 15/06 and then as Stage 3 on 15//10 a transfer between Stage 1 and Stage 2 will be reported on 30/06, but the transfer reported on 31/12 will be a transfer between Stage 1 and Stage 3 (and not a transfer between Stage 2 and Stage 3).

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.

Taking the figures from the previous example, the cumulative gross carrying amount of reclassified assets in the different stages as at the reporting date is as follows in Q3:

<table>
<thead>
<tr>
<th></th>
<th>Transfers between Stage 1 and Stage 2</th>
<th>Transfers between Stage 2 and Stage 3</th>
<th>Transfers between Stage 1 and Stage 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Stage 2 from Stage 1</td>
<td>10,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>To Stage 1 from Stage 2</td>
<td>0</td>
<td>20,000</td>
<td>0</td>
</tr>
<tr>
<td>To Stage 3 from Stage 2</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>To Stage 2 from Stage 3</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>To Stage 3 from Stage 1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>140 Total on-balance sheet assets</td>
<td>20,000</td>
<td>0</td>
</tr>
</tbody>
</table>

This template does not require signs to be associated to the reported figures. “10 000” shall be read both as a deduction to Stage 1 financial assets and an addition to Stage 2 financial assets.
3.4.4 Question regarding changes due to IFRS 9 Impairment

Explanatory text for consultation purposes

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

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

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

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

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

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

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

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

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

3.5 Overview of the changes due to the new hedge accounting rules and related questions

3.5.1 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 a 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 of hedging derivatives]” 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 use of hedge accounting to portray hedge transactions. To that end, an increase in information on the impact of hedge accounting on the financial position and financial results of institutions appears necessary, commensurate 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 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 on hedged item in fair value hedges and the impact of fair value hedges in the reporting period in review is inserted.

For cash flow hedges and hedges of a net investment in a foreign operation, the new template does not require information on hedged items as some of the hedged items in such hedges may not be recorded on the balance sheet, but on hedge cash flows and their expected timing. Indeed, for such hedges the incidence on the financial position or performance of the institution will only be felt when the hedged cash flows or the disposal or partial disposal of a foreign operation will affect profit and loss (via reclassification in profit or loss of the effective part of the hedge recognised in other comprehensive income).

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 different 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).
3.5.2 Question regarding changes due to IFRS 9 Hedge accounting

Explanatory text for consultation purposes

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

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

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

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

3.6 Gross carrying amount

3.6.1 The gross carrying amount of financial assets in FINREP IFRS 9

When applying the concept of gross carrying amount to financial instruments measured at fair value through profit and 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.

Currently, for financial assets measured at fair value through profit and loss, FINREP requires to recognise both accumulated gains and accumulated losses in fair value due to credit risk on these instruments. The gross carrying amount is then computed by deducting from the carrying amount the net of the gains and losses.

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, computing the carrying amount by deducting the accumulated net gains in fair value due to credit risk causes the gross carrying amount to be less than the carrying amount.

Other portfolios have not faced the same difficulties, and the carrying amount of assets at amortised cost or AFS assets cannot be higher than their gross carrying amount. This is due to the impossibility for impairment to bring the carrying amount above the par (unlike for fair-valued assets through profit or loss, where gains due to credit risk can bring the carrying amount of an asset above its par).
This difference between the gross carrying amount of assets at amortised cost or fair value through other comprehensive income on the one hand and assets measured at fair value through profit and loss on the other hand has the following consequences on supervisory analysis:

- The ‘gross carrying amount’ of assets at fair value through profit and loss is not aligned with the one of assets at amortised cost or at fair value through other comprehensive income because of the lack of cap on net gains due to credit risk.

- The ‘gross carrying amount’ of assets at fair value through profit and loss is not be aligned with the ‘Original exposure’ used in COREP for the calculation of capital required for credit risk (for assets designated at fair value through profit and loss, which are within the credit risk framework), as the Original exposure in COREP is not adjusted for ‘Accumulated gains in fair value due to credit risk’ nor ‘Accumulated losses in fair value due to credit risk’ but is based on the fair value/carrying amount.

Data reported to the EBA on the changes in fair value due to credit risk have been of insufficient quality and a Q&A (Q&A 2015_2034) has provided a short term solution by clarifying the reporting of such item of information, but IFRS 9 turns the category of fair value through profit and loss into a residual category. So, whenever the conditions for measurement at amortised cost or FVOCI are not met, assets shall be classified in the category of fair value through profit or loss. This can lead to increase in the scope of assets for which fair value changes due to credit risk shall be reported and therefore makes the need for a long term solution more pressing.

The purpose of reporting fair value changes due to credit risk is to allow monitoring of credit risk on exposures that are measured at fair value, similarly as to monitoring of credit risk on exposures subject to impairment. The proposal to solve the issue of the reporting of gross carrying amount therefore looks for designing a proxy to impairment on those exposures. The ultimate objective is to enable a monitoring of the credit quality of all exposures that are not held for trading. This is consistent with the exclusion of exposures that are held for trading from the definition of non-performing exposures. For exposures held for trading gross carrying amount equals fair value and separate reporting requirement for fair value changes due to credit risk has been deleted from FINREP.

In that perspective, it has been decided to require the reporting of changes in fair value due to credit risk for non-performing exposures only. The gross carrying amount on those exposures will then be computed by adding back to the carrying amount the accumulative negative changes in fair value due to credit risk. As for held for trading exposures their gross carrying amount will be equal to their fair value.

The approach chosen for the computation of the gross carrying amount for assets measured at fair value through profit and loss is illustrated in the graph below:


5 Or deducting them from the carrying amount, in case the accumulative negative changes in fair value due to credit risk are reported with a negative sign in FINREP in accordance with the FINREP sign convention
As an example, if in Q1 the accumulated losses are -100 and in Q2 the gain for the period is +20, the amount of accumulated losses to consider in the calculation of the gross carrying amount for an exposure at fair value through profit and loss that is not held for trading is -80. Accumulated positive fair value changes due to credit risk shall not be considered.

The EBA believes that its proposal brings 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. The EBA is however aware that the tracking of changes in fair value due to credit risk only may be difficult. In addition, the EBA is aware that, if its proposal limits the burden for institutions as it decreases the scope of fair valued exposures for which calculation of gross carrying amount needs to be performed, the approach will lead to less fair value adjustments due to credit risk than actually recognised under IFRS 7.9 which is applied on both performing and non-performing financial assets designated at fair value through profit and loss.

To enhance the use of the geographical and sector breakdowns, it was decided to identify separately within the appropriate templates exposures that are subject to impairment and exposures subject to fair value adjustments due to credit risk. To simplify this identification, held for trading exposures have been scoped out from templates F5, F6 and F20.7.

### 3.6.2 Questions regarding the gross carrying amount of financial assets

**Explanatory text for consultation purposes**

**Q15.** How do the requirement to report changes of fair value due to credit risk match with your approaches for valuation in the financial statements, disclosures in the notes to the financial statements and risk management practices?
Q16. If you disagree that reporting accumulated negative changes in fair value due to credit risk on non-performing exposures achieves a credit risk metric approximating impairment for exposures measured at fair value, which other metric would you propose to be used?

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

Q18. At which level (portfolio, instrument by instrument) do you compute and track fair value changes due to credit risk? Do you implement any aggregation/offsetting between gains and losses in fair value due to credit risk when estimating them?
4. 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)

In between the text of the draft ITS that follows, further explanations on specific aspects of the proposed text are occasionally provided, which either offer examples or provide the rationale behind a provision, or set out specific questions for the consultation process. Where this is the case, this explanatory text appears in a framed text box.

COMMISSION IMPLEMENTING REGULATION (EU) No …/.

of XXX


(Text with EEA relevance)

THE EUROPEAN COMMISSION,

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

Having regard to Regulation (EU) No 575/2013 of 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) thereof,

Whereas:

(1) Commission Implementing Regulation (EU) No 680/2014\(^7\) 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\(^8\) and 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.

(2) International accounting standards adopted in accordance with the procedure laid down in Article 6(2) of that Regulation take into consideration 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 1\(^{st}\), 2018. IFRS 9 was adopted in the European Union on …. via Decision …. [Decision endorsing international accounting standards in the EU] in accordance with the procedure laid down in Article 6(2) of Regulation (EC) 1606/2002.

(4) IFRS 9 fundamentally changes the accounting for financial instruments for institutions that are subject to Article 4 of Regulation (EC) No 1606/2002 and institutions other than those referred to in that Article that prepare their consolidated accounts in conformity with Decision …. [Decision endorsing international accounting standards in the EU].

(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 reduce reporting burden.

(6) This Regulation is based on the draft implementing technical standards submitted by the European Banking Authority to the Commission.

(7) 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 1093/2010⁹.

(8) Commission Implementing Regulation (EU) No 680/2014 should be amended accordingly,

HAS ADOPTED THIS REGULATION:

Article 1

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

1. Annex III is replaced by the text set out in Annex I to this Regulation.

2. Annex V is replaced by the text set out in Annex II 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.

The Regulation shall apply from 1 January 2018.

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

Done at Brussels,

For the Commission
The President

On behalf of the President
[Position]

[ANNEX I]

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Explanatory text for consultation purposes

Q19. Do respondents have any comments on the structure and content of the proposed templates and in particular the amendments proposed to Annex III of Regulation (EU) No 680/2014? Where there are disagreements to not amending or further amending a particular cell or template, please provide substantiated reasons.

[ANNEX II]

Explanatory text for consultation purposes

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

5.1 Annex 1 and 2 – tracked

Accompanying this consultation paper are the following documents:

- For the purposes of this consultation only, a tracked change version of Annex 1 of the Regulation proposed in the draft ITS in which on a best efforts basis the changes in comparison to Annex III of Regulation (EU) No 680/2014 are highlighted, which it is set to replace. Cells that have been added are highlighted in green, cells that have undergone a labelling and/or content change are highlighted in orange, and cells that have been deleted are highlighted in red, and cells that have remained unchanged or have only been subjected to minor changes are kept white.

- For the purposes of this consultation only, a tracked change version of Annex 2 of the Regulation proposed in the draft ITS, which highlights the changes in comparison to Annex V of Regulation (EU) No 680/2014. The document therewith compares the instruction document proposed in this consultation paper with the version published in the Official Journal on 9 July 2015.

5.2 Draft cost-benefit analysis / impact assessment

5.2.1 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 described in the present Consultation Paper. Given the scope of the analysis, the IA is high level and qualitative in nature. Note that following the decision by the Board of Supervisors (BoS) in June 2015 meeting, the EBA will carry out in 2016 a more far-reaching assessment on the impact of IFRS 9 on EU banking sector once reliable data will become available. 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.
5.2.2 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 November 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.

5.2.3 Objectives

The main objective of the draft ITS are 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:

<table>
<thead>
<tr>
<th>Problems to be addressed</th>
<th>Specific Objectives</th>
<th>General Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inconsistency in supervisory reporting with accounting standards</td>
<td>Amending the current ITS on financial reporting to account for the new international standards</td>
<td>Assisting institutions in fulfilling reporting requirements under Art. 99 of the CRR</td>
</tr>
</tbody>
</table>
Lack of data in supervisory reporting as framed under IFRS 9 and asymmetric information

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

Increasing cost of reporting for the institutions and competent authorities

Designing a clear and fit for purpose ITS that would avoid burdensome reporting requirements for financial institutions and excessive operational costs for the competent authorities

Keeping EU regulatory framework cost-effective and at an optimum level

5.2.4 Baseline Scenario

Credit institutions and investment firms in the EU have been reporting financial information to their respective competent authorities under ITS on supervisory reporting framework since November 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 issue.

5.2.5 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 is currently 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 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, 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 availability in COREP and draft ITS suggest the exclusion of the information as to avoid double reporting. Instead, information in FINREP is focused on past due status.

- Draft ITS does 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, it requires 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 need to be reported regarding the reconciliation of the nominal amount and fair value of credit derivatives used as hedging instruments.
• 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 or 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) are reported together while IFRS 7 requires the information to be broken down along different criteria, and the impact on the profit and loss statement of hedges of net position is not separately reported from the impact.

• 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 and loss or the statement of comprehensive income.

• The template on non-performing exposures was reduced in their level of granularity to align on the new past-due bands breakdown adopted for Table 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 and 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 and 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 and 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\textsuperscript{10}.

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, ie 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 and 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.

These exposures have been considered to be exposures measured at fair value through profit and 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 and 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

\textsuperscript{10} 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 (ie the gross carrying amount is higher than the carrying amount)
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.

Explanatory text for consultation purposes

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

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

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

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

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

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

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

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

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

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

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

Q11. What further improvements are needed in FINREP IFRS 9 templates in order them to convey supervisors with appropriate and comprehensive information regarding the level of hedging activities and its impact on the financial position and profit or loss of your institution?
Q12. Do you agree with the allocation of hedged items and hedging adjustments by derivative risk categories in templates F11.4 and F11.5 or could a more relevant split be implemented?

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

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

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

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

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

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

Q19. Do respondents have any comments on the structure and content of the proposed templates and in particular the amendments proposed to Annex III of Regulation (EU) No 680/2014? Where there are disagreements to not amending or further amending a particular cell or template, please provide substantiated reasons.

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

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