Consultation Paper

Draft Implementing Technical Standards amending Implementing Regulation (EU) No 680/2014 with regard to operational risk and sovereign exposures
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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 5.2.

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 07 January 2017. 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. These reporting requirements are included in Regulation (EU) No 680/2014 (Implementing Technical Standards on supervisory reporting ‘ITS on supervisory reporting’). These standards aim at collecting information on institutions’ compliance with prudential requirements as put forward by the CRR and related technical standards as well as additional financial information required by competent authorities to perform their supervisory tasks. As such the ITS on supervisory reporting needs to be updated whenever prudential or supervisory requirements change.

This consultation paper proposes an amendment of the ITS on supervisory reporting with regard to the following:

a) new requirements as regards the reporting of information on sovereign exposures; and

b) changed requirements as regards the reporting of operational risk (‘OpRisk’) information.

Information on exposures to sovereigns has played a key role in the past and is becoming even more important at a time where the regulatory treatment of these exposures is under review. However, the data on sovereign exposures currently collected in the Reporting Regulation suffers from several shortcomings which required additional ad-hoc data collections from several competent authorities. To overcome these shortcomings, additional information is proposed to be included in the Reporting Regulation.

Improvements are also necessary to the reported information on OpRisk to allow supervisors to monitor the losses due to OpRisk events and to analyze the drivers behind those events that lead to material losses. This is particularly important for significant institutions that pose a bigger risk to the financial stability of the financial system. Institutions’ costs due to operational risk events have increased significantly in the last years with substantial impact on many firms’ profitability. Figures from the EBA’s last risk assessment report\(^1\) point to a wide range of institutions substantially affected by misconduct costs which have increased substantially since the financial year 2007/2008. Hence, operational risk remains high on supervisors’ agendas and a close monitoring of institutions’ operational risk losses is required.

Implementation timeline

The envisaged date for finalisation of the draft ITS (and submission to the European Commission) is March/April 2017, with the application of the revised reporting requirements in March 2018.

\(^1\) As published by the EBA in January 2016 (http://www.eba.europa.eu/risk-analysis-and-data/risk-assessment-reports)
(reporting reference date 31/03/2018). Hence, the expected implementation period for the proposed changes is approximately 1 year.
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. The ITS on supervisory reporting form part of this single rulebook in Europe and become directly applicable in all Member States once adopted by the European Commission and published in the Official Journal of the EU.

Maintenance and update of the ITS

The ITS on supervisory reporting reflect the single rulebook at the reporting level. Hence, the ITS on supervisory reporting needs to be updated whenever the underlying requirements of the single rulebook change.

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 the reported data 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.
3.1 New requirements as regards the reporting of information on sovereign exposures

1. Data on exposures to sovereigns has played a key role in the past and is becoming even more important at a time where the regulatory treatment of these exposures is under review. However, the data currently collected on sovereign exposures in the Reporting Regulation suffers from several shortcomings.

2. First of all, the granularity of information available in the Reporting Regulation on sovereign exposures is low compared to the information available as part of ad hoc data collection run by supervisors that are based on the templates used for the stress-tests² and transparency exercises³ (for instance data collected from institutions under the aegis of the SSM as part of the Short Term Exercise). Information in particular lacks analytically valuable measures and breakdowns that are needed for an appropriate assessment of institutions’ risk profile by supervisors. Second, the different exposure classes that are used to report data on sovereigns in FINREP and COREP do not match exactly in terms of content. Third, a comprehensive view of exposures to sovereigns across the regulatory approaches is missing in COREP since some sovereign exposures may also be included in other exposure classes (e.g. regional governments reported as institutions).

3. Information on sovereign exposures has indeed been a key feature of both the supervisory assessment of banks’ vulnerabilities and of the different data releases from the EBA since 2011 and investors and analysts have repeatedly confirmed their interest in this important piece of information. Due to the above-mentioned limitations in the information available in the Reporting Regulation, in each of the above-mentioned exercises, ad-hoc information on sovereign exposures was requested to achieve a more comprehensive view of the banking system’s involvement with the public sector, increasing the burden on institutions. The EBA aims to conduct future transparency exercise with data derived entirely from regular data submissions to ensure better quality of data and to reduce the burden on banks.

4. Implementing information on sovereign exposures in the regular supervisory reporting will significantly improve the ability of supervisors and EBA to monitor exposures to sovereigns and their risks while streamlining the reporting burden of institutions. Doing so will replace the need for ad hoc data collections for purposes such as transparency exercises, enhance the analytical possibilities when assessing various options for the regulatory treatment of sovereign exposures, and ensure that investors and analysts keep on benefiting from the same level of information than they have benefitted so far.

Summary of the proposal

5. The existing reporting requirements should be supplemented with two new templates:


a. C 33.01, which provides a breakdown of sovereign exposures by residence of the obligor, accounting portfolio and regulatory treatment

b. C 33.02, which provides breakdown of sovereign exposures by residence of the obligor and accounting portfolio and maturity.

6. The reporting templates have been structured with the aim to:

a. Provide supervisors with relevant information on exposures to sovereigns that are required to perform regular risk assessments;

b. Assist in the analysis on sovereign exposures as part of stress-testing;

c. Assist in the assessment of the impact of any change to the regulatory and risk-weighting treatment of sovereign exposures.

d. Facilitate the disclosure of information on sovereign exposures as part of the Transparency Exercise, keeping consistency with current disclosures in order to allow the building of time series;

7. The templates have also been designed considering the following:

a. Minimize the burden for banks by aligning as close as possible with previous data collections (for banks participating in previous exercises) and current reporting requirements (for all banks);

b. Cover all institutions with relevant sovereign exposures striking the right balance with respect to proportionality;

c. Valid for implementation of IFRS 9;

d. Simultaneous coverage of IFRS and GAAP banks

8. The templates shall be reported with a semi-annual frequency which is the minimum frequency required to perform transparency exercises. While a quarterly frequency would facilitate a better usage of the information in the regular risk monitoring by supervisors in general and the calculation of key risk indicators in particular, applying a semi-annual frequency instead was seen as a step towards reducing the reporting burden.

9. The inclusion of the new templates in the EBA reporting framework would replace data collections on sovereign exposures that are currently being performed by several competent authorities and would lead to a harmonization of collected information.

Additional features of the proposal

Scope: definition of ‘Sovereign’ exposures

10. The definition of ‘Sovereign’ exposures sets the scope of the reported information. All exposures to ‘General governments’ as defined in paragraph 35 (b) of Annex V of Regulation 680/2014, are
to be reported in the new templates. This definition includes central governments, state or regional governments, and local governments, including administrative bodies and non-commercial undertakings, but excluding public companies and private companies held by these administrations that have a commercial activity (which shall be reported under “non-financial corporations”); social security funds; and international organisations, such as the European Community, the International Monetary Fund and the Bank for International Settlements;

11. As regards the prudential treatment of Sovereign exposures, there is no direct mapping to one specific exposure class. Sovereign exposures can be found in several exposure classes (as defined in the CRR).

12. The definition of ‘General governments’ was preferred over the definition used in the past Stress-test and Transparency Exercises disclosures, which included “exposures to central, regional and local governments on immediate borrower basis. Sovereign exposures in that context exclude exposures to central banks, exposures to other counterparts with full or partial government guarantees, financial and non-financial government owned companies, and supra-national organisations”. Future transparency exercises will also use the concept of ‘General governments’ as defined in Annex V of Regulation 680/2014. In addition, this allows for a better mapping with the accounting portfolios, as proposed in the template.

Proportionality

13. The new reporting requirements take account of the mostly domestic nature of sovereign exposures in small banks. In case of mostly domestic sovereign exposures, the reporting of a geographical breakdown could indeed appear superfluous. At the same time, supervisors’ assessment of institutions’ risk profile and the past stress-tests and transparency exercises have revealed cases of institutions with sizeable exposures to their domestic sovereign, which is a valuable piece of information.

14. Therefore to limit the reporting burden while keeping collected data relevant, a combination of thresholds is proposed to be set:

   a. Institutions that have sovereign exposures of at least 1% of total “debts securities and loans receivables” are requested to report the information as specified in templates C 33.01 and C 33.02.

   b. Institutions that meet the criterion in (a) and that hold non-domestic sovereign exposures of 10% or more compared to total sovereign exposures shall report a full country breakdown.

   c. Institutions that meet the criterion in (a) and that do not hold non-domestic sovereign exposures of 10% or more compared to total sovereign exposures shall report the information included in the two new templates for exposures aggregated at (i) total level and (ii) domestic level.
3.2 Changed requirements as regards the reporting of operational risk information

15. Institutions’ costs due to operational risk events have increased significantly in the last years with substantial impact on many firms’ profitability. Figures from the EBA’s last risk assessment report\(^4\) point to a wide range of institutions substantially affected by misconduct costs. The share of institutions indicating that they have paid out more than EUR 1 billion in compensation, litigation and similar payments since the financial year 2007/2008 has increased to 32%. In the ongoing financial year, nearly 20% of responding banks have paid out more than EUR 500 million in compensation, litigation and similar payments. Hence, operational risk remains high on supervisors’ agendas and a close monitoring of institutions operational risk losses is required.

16. However, information currently included in the Reporting Regulation as regards operational risk losses does not allow for a complete assessment and monitoring of operational risk. This is particularly important for institutions that pose a bigger risk to the financial stability of the financial system. Hence, some changes to the operational risk reporting requirements are deemed necessary.

Summary of the proposal

17. The following changes should be made to the current OpRisk Details reporting:

a) Redefine scope of institutions subject to obligation to report OpRisk loss data;

b) Separate loss impacts in current reporting period relating to events from previous reporting periods; and

c) Collect detailed information on the largest losses from the last year:

Redefine scope of institutions subject to obligation to report OpRisk loss data

18. Currently, some institutions applying TSA and institutions applying BIA to calculate their OpRisk capital requirements are exempt from reporting the full sheet C 17.00 on OpRisk loss data according to EBA ITS on supervisory reporting Article 5 (b) (2). This includes also some institutions which are deemed significant by their respective competent authority. However, without basic information on OpRisk losses, the supervisory assessment of OpRisk is heavily constrained. Notably, the EBA SREP GL requires competent authorities to consider the level of and change in OpRisk losses over the past years for their assessment independent of the approach. Therefore, these exceptions should be limited.

Separate loss impacts in current reporting period relating to events from previous reporting periods

19. Currently, it is not possible to distinguish between loss impacts from current events and those relating to older events. This has caused several issues with the reported data. These issues would be solved by adding separate rows capturing loss impacts in the current reporting period relating

to events from previous reporting periods and adding separate rows capturing insurance recoveries while not including these impacts in the remaining rows.

20. This would provide a number of benefits, such as (i) reducing the risk to underestimate the current level of losses of an institution, (ii) solving inconsistencies, (iii) revealing potential under-provisioning for OpRisk events and (iv) allowing to clearly distinguish between gross loss amounts and loss amounts net of direct and insurance recoveries.

21. The proposal results in a few changes to template C 17.01 (a revised version of which is included in Annex 1):

a) Clarify that the number of events and the gross loss amount as reported rows X1X and X2X considers only values relating to OpRisk events “accounted for the first time” within the reporting period;

b) Include new rows X3X and X4X to collect (positive or negative) loss adjustments “accounted for the first time” within the reporting period but relating to OpRisk events “accounted for the first time” in previous reporting periods

c) Include new rows 941 to 944 to collect the breakdown of loss adjustments by size of the loss (not by size of the adjustment). Values can be positive or negative as they show the adjustment, not the overall loss amount. If a loss moved to a different size class, the negative (previous) amount should be reported in the size class before the adjustment and the positive (new) amount in the size class after the adjustment.

d) Clarify that rows X10 to X40 do not include any recoveries

e) Clarify that the maximum single loss and the sum of the five largest losses do not include any recoveries

f) Differentiate between direct recoveries (rows X70) and recoveries from insurance and other risk transfer mechanisms (rows X80) and collect this information independent from when the original event occurred.

g) Clarify that boundary credit related OpRisk events should not be reported in the template, provided that the institution is required to continue to treat them as credit risk for the purposes of calculating own funds requirements

22. Applying the above changes will increase the number of data points to be reported from (up to) 482 to (up to) 674 but will bring the following benefits:

a) A clear allocation of impacts to root events could be established and the development of losses from previous years could be monitored.

b) Reduce the risk to underestimate the current level of losses of an institution: In case an institution has both lots of current losses and a large provision write-back relating to past events, the amounts would offset each other when calculating the total loss amount which would be
relatively small. Notably, the provision write-back would not be captured in the rows for “Recovery” as there is no inflow from a first or third party.

c) Reveal potential under-provisioning for OpRisk events if there are large impacts in the current reporting period relating to events first accounted for in previous reporting periods.

d) Allow to clearly distinguish between gross loss amounts, loss amounts net of direct recoveries and insurance recoveries without mixing direct and insurance recoveries which have to be treated differently (CRR Art. 323, BCBS 196 Para 24, Draft RTS on AMA Art. 27 (b))

Collect detailed information on the largest losses from the last year

23. Currently, only aggregated information on OpRisk losses is collected. However, this does not allow a clear understanding of the actual causes of events. More detailed information is required especially on the nature of the largest loss incidents to allow supervisors to capture the risk drivers. Previous high-severity events are an important factor for the analysis on current risk drivers according to Art. 242 and 243 of EBA/GL/2014/13.

24. As such important information should be collected in a consistent way, the introduction of a new template is proposed. To reduce the reporting burden on smaller institutions, thresholds could be set.

25. A new template C 17.02 is included in Annex 1 which aims at collecting detailed information on the largest OpRisk loss incidents in the last year.

26. To reduce the reporting burden, the criteria set for the OpRisk loss reporting apply also for the new templates. Also, only the largest incidents for each event type and the five largest incidents of the institution should be reported if the gross loss amount is ≥100,000€. Further incidents should be reported if the gross loss amount is ≥10,000,000€. In any case, not more than the largest incidents for each event type and ten additional incidents (17 in total) should be reported.

Proportionality

27. In order to reduce the reporting burden for smaller and less complex institutions, the information on OpRisk losses should only be required to be reported by institutions which are considered to be significant. Significant institutions are defined in Paragraph (2) of Article 5 (b) of the revised Reporting Regulation (see section 4 below) and will have to report OpRisk loss data irrespective of the prudential approach used to calculate OpRisk capital requirements while smaller institutions would still not be required to report any OpRisk loss data.
4. Implementing standards

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.

THE EUROPEAN COMMISSION,

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 in particular the fourth subparagraph of Article 99(5) thereof;

Whereas:

(1) Commission Implementing Regulation (EU) No 680/2014 specifies the modalities according to which institutions are required to report information relevant to their compliance with Regulation (EU) No 575/2013. Given that the regulatory framework established by Regulation (EU) No 575/2013 is gradually being supplemented and amended in its non-essential elements by the adoption of regulatory technical standards, then Implementing Regulation (EU) No 680/2014 needs to be updated accordingly to reflect those rules.

(2) Amendments to Implementing Regulation (EU) 680/2014 are also required to reflect competent authorities’ ability to effectively monitor and assess the institutions’ risk profile and to obtain a view on the risks posed to the financial sector, which requires changes to the reporting requirements in the areas of operational risk, credit risk and with regard to institutions’ exposures towards sovereigns.

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

(4) The European Banking Authority has conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010.

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

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HAS ADOPTED THIS REGULATION:

Article 1

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

(1) Paragraph (2) of Article 5 (b) is replaced by the following:

“(2) the information on material losses regarding operational risk in the following manner:

(a) institutions which calculate own funds requirements relating to operational risk according to Chapter 4 of Title III of Part 3 of Regulation (EU) No 575/2013 shall report this information as specified in template 17.01 and 17.02 of Annex I, according to the instructions in Part II point 4.2 of Annex II;

(b) institutions which calculate the own funds requirements relating to operational risk according to Chapter 2 or 3 of Title III of Part 3 of Regulation (EU) No 575/2013 and that meet at least one of the following criteria shall report this information as specified in templates 17.01 and 17.02 of Annex I, according to the instructions in point 4.2 of Part II of Annex II:

(i) the ratio of the individual balance sheet total to the sum of individual balance sheet totals of all institutions within the same Member State is equal to or above 1 %, where balance sheet total figures being based on year-end figures for the year before the year preceding the reporting reference date;
(ii) the total value of the institution’s assets exceeds € 30 billion;
(iii) the total value of the institution’s assets exceeds both € 5 billion and 20% of the GDP of the country where it is established;
(iv) the institution is one of the three largest institutions established in a particular country measured by the total value of its assets.

The entry and exit criteria of Article 4 shall apply.

(c) Institutions which calculate the own funds requirements relating to operational risk according to Chapter 3 of Title III of Part Three of Regulation (EU) No 575/2013 and for which none of the conditions (i) to (iv) of lit. (b) is met, shall report the information mentioned in points (i) and (ii) below in accordance with the instructions in point 4.2 of Part II of Annex II:

(i) The information as specified for column 080 of template 17.01 of Annex I for the following rows:

- number of events (row 910);
- gross loss amount (row 920);
- number of events subject to loss adjustments (row 930);
- Loss adjustments relating to previous reporting periods (row 940);
- maximum single loss (row 950);
- sum of the five largest losses (row 960);
- total direct loss recovery (except insurance and other risk transfer mechanisms) (row 970)
- total recoveries from insurance and other risk transfer mechanisms (row 980)

(ii) The information as specified in template 17.02 of Annex I

The institutions mentioned in the first sentence may report the complete set of information as specified in templates 17.01 and 17.02 of Annex I, according to the instructions in point 4.2 of Part II of Annex II.

(d) institutions which calculate the own funds requirements relating to operational risk according to Chapter 2 of Title III of Part Three of Regulation (EU) No 575/2013 and for which none of the criteria set out in points (i) to (iv) of lit. (b) are met, may report the information referred to in templates 17.01 and 17.02 of Annex I, according to the instructions in point 4.2 of Part II of Annex II.”

Explanatory text for consultation purposes

The EBA aims to define reporting requirements which are proportionate to the nature, scale and complexity of institutions activities. As such, the changed requirements on OpRisk target information that is relevant for the assessment of institutions which are deemed significant and more risky and aim to produce relief for smaller and less complex institutions from undue reporting burden.

In this context, it is important for the EBA to understand the implementation costs that the changed requirements on OpRisk are likely to have.

Question 1

Could you please quantify both the implementation costs and recurring production costs (expressed in man days) that would arise when implementing the changed reporting requirements on OpRisk as part the regular reporting framework? How would these recurring production costs compare to a situation in which institutions were required to comply with ad-hoc data requests that are required to comply with current competent authorities’ requests on institutions’ OpRisk losses (e.g. SSM short-term exercise)?

(2) The following Article 5 (b) (3) is added:

“(3) the information on sovereign exposures in the following manner:

(a) institutions shall report the information specified in templates C 33.01 and C 33.02 according to the instructions in Part II point 6 of Annex II where the carrying amount of financial assets from the counterparty sector General governments, reported in template 4 of Annex III, is equal or higher than 1 % of the sum of total carrying amount for Debt securities and Loans and receivables, as reported in the same template;
(b) institutions that meet the criterion referred to in point (a) and where the value reported for domestic exposures of non-derivative financial assets as defined in row 10, column 10 of template 33.01 is less than 90% of the value reported for domestic and non-domestic exposures for the same data point, shall report the information specified in templates C 33.01 and C 33.02 according to the instructions in Part II point 6 of Annex II but with a full country breakdown;
(c) institutions that meet the criterion referred to in point (a) but do not meet the criterion referred in point (b), shall report the information specified in templates C 33.01 and C 33.02 according to the instructions in Part II point 6 of Annex II but with exposures aggregated at (i) a total level and (ii) a domestic level.”

**Explanatory text for consultation purposes**

The EBA aims to define reporting requirements which are proportionate to the nature, scale and complexity of institutions activities. As such, the new requirements on sovereign exposures target information that is relevant and aim to exempt institutions with immaterial exposures to sovereigns (hence the 1% threshold in point (a) above.

In this context, it is important for the EBA to understand the implementation costs that the new requirements on sovereign exposures are likely to have.

**Question 2**

Could you please quantify both the implementation costs and recurring production costs (expressed in man days) that would arise when implementing the new reporting requirements on sovereign exposures as part the regular reporting framework? How would these recurring production costs compare to a situation in which institutions were required to comply with ad-hoc data requests that are required (i) to comply with the EBA’s transparency exercises and (ii) to comply with competent authorities’ requests on institutions’ sovereign exposures (e.g. SSM short-term exercise)?

**Question 3**

The threshold defined in Article 5 (b) 3 (a) exempts institutions that fall short of the threshold from the new requirements. Do you think that this threshold is appropriate so that (i) institutions with material sovereign exposures are required to report (and hence supervisors will have the relevant information for their assessments) while (ii) smaller and less complex institutions are more likely to be exempt from the new reporting requirements?

Article 5 (b) 3 (b) and (c) define whether or not a full country breakdown of the sovereign exposures is required. It is important for the EBA to understand the real differences in terms of costs between the points (b) and (c) above. In other words, the EBA would like to understand how much more costly it is to report the full country-breakdown compared to reporting only at a total and domestic level.

**Question 4**
Is there a noteworthy difference in terms of costs between the point (b) which requires a full country breakdown and point (c) which limits the breakdown to a total and domestic country? If there is a noteworthy difference, please try to quantify the cost difference and put it into context with the overall implementation costs that you expect with the new reporting requirements on sovereign exposures.

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

(4) Annex II to Regulation (EU) No 680/2014 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*.

It shall apply from 1 March 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**

**ANNEX II**

**Explanatory text for consultation purposes**

**Question 5**

Are the reporting templates related to sovereign exposures (C 33.01 and C 33.02) as set out in Annex I and related instructions in Annex II sufficiently clear? In case of uncertainties on what needs to be reported, please provide clear references to the respective columns/rows of a given template as well as specific examples that highlight the need for further clarifications.
Question 6

Are the reporting templates related to OpRisk losses (C 17.01 and C 17.02) as set out in Annex I and the related instructions in Annex II sufficiently clear? In case of uncertainties on what needs to be reported, please provide clear references to the respective columns/rows of a given template as well as specific examples that highlight the need for further clarifications.
5. **Accompanying documents**

5.1 **Draft cost-benefit analysis / impact assessment**

Article 99 of the CRR mandates the EBA to collect supervisory data under harmonised reporting framework to obtain a comprehensive view of risk profile of institutions’ activities and risk profiles in relation to the financial sector and the real economy. The mandate allows the EBA to amend and update the reporting standards to align with the prudential supervisory objectives of the CRR.

Article 16 of the EBA Regulation (EU) No 1093/2010 provides the EBA with the responsibility to establish consistent, efficient and effective supervisory practices, within the European System of Financial Supervisors (ESFS), and to ensure the common, uniform and consistent application of Union law, issue guidelines and recommendations addressed to competent authorities or financial institutions.

As per Article 15(1) second subparagraph of the EBA Regulation (Regulation (EU) No 1093/2010, any draft technical standards developed by the EBA will have to be accompanied by a separate note on Impact Assessment (IA) which analyses the potential related costs and benefits. The present IA aims to provide the reader with an overview of the technical options as regards the update of the ITS on COREP and assess their potential incremental impact for both supervisors and institutions.

5.1.1 **A. Problem identification**

The current framework of supervisory reporting is out-dated and lacks several set of information that the competent authorities need to carry out effective prudential supervision and to accurately capture the risk profiles of the institutions. The scope is related to the data on sovereign exposures and the operational risk.

Current reporting templates do not cover information on the breakdown of sovereign exposures by residence of the obligor alongside with the regulatory treatment of these exposures and their maturity. Such information is fundamental in the assessment of risk profiles of the institutions. The evidence shows that for risk analysis purposes (e.g. transparency exercise, stress test) the competent authorities recently carried out ad-hoc data collection exercises to fill the information gaps in the reporting templates. Therefore, the current framework does not provide supervisors with most relevant information on sovereign exposures that are required to perform regular risk assessments.

Secondly, the design of the COREP in relation to information on sovereign exposures is not consistent and in line with the information on sovereign exposures in FINREP. This does not allow the supervisors to merge the two standards and exploit them simultaneously.
And finally, the current framework is missing a comprehensive view of sovereign exposures across the regulatory approaches, e.g. regional governments reposted as institutions.

Furthermore, in terms of operational risk, the current framework does not provide the supervisors with the most relevant information and data to accurately assess the risk profiles of the institutions. For example, the current framework applies an exemption for all institutions that use BIA and some institutions that use TSA. However, the evidence shows that some of these institutions are significant and competent authorities rely on further data collection to capture risk profiles of these institutions. Similarly, the current information provided in COREP does not allow the differentiation between loss impacts from current events and those relating to older events.

As previously mentioned, in order to mitigate the above-mentioned information and data issues the competent authorities carry out ad-hoc data collection exercises. This approach causes administrative burden both for the supervisors and the institutions, and also creates uneven level playing field in supervisory reporting across institutions and jurisdictions.

5.1.2 B. Objectives

The main objective of the current draft ITS is to provide the competent authorities with necessary information and tools to carry out accurate and effective risk assessments. Precisely, the draft ITS amend the current regulatory framework so that the risk assessments account for the counterparty and maturity of the sovereigns exposures on one hand and more specific and extended information for the calculation of operational risk on the other hand.

The amendment and update of the ITS is then expected to reduce the administrative burden that occur from the data collection exercises carried out by the competent authorities on an ad-hoc basis and to harmonise supervisory reporting across jurisdictions.

The following lists the general and the specific objectives of the draft ITS.

The general objectives of these ITS are to:

- Assist institutions in fulfilling their reporting requirements under Article 99 of the CRR,
- Reduce asymmetries of supervisory information between authorities and institutions,
- Increase the effectiveness of the monitoring and risk assessment,
- Ensure data availability and comparability across EU jurisdictions and hence facilitate a proper functioning of cross-border supervision.
The specific objectives of these ITS are to:

- Make the adequate amendments to the current ITS on supervisory reporting on COREP to properly account for the sovereign exposures and operational risk,
- Ensure that competent authorities receive all required supervisory information needed to obtain a comprehensive view of institutions’ risk profiles and systemic risks posed by institutions,
- Design a clear and fit to purpose ITS that would avoid burdensome reporting for financial institutions and excessive operational costs for supervisors.

5.1.3 C. Options considered

This section presents the major discussion points taken place during the drafting of the current ITS.

In developing the current proposal for new requirements as regards the reporting of information on sovereign exposures the following options considered.

a. The content of the ITS as regards sovereign exposures

Option 1a: Status quo

Option 1b: Introduction of new elements in the ITS

b. Proportionality: application of a threshold for sovereign exposures

Option 2a: Threshold based on the share of non-domestic over total sovereign exposures

Option 2b: Threshold based on the share of sovereign exposures over total banking and trading book exposures

In developing the current proposal for changed requirements as regards the reporting of information on operational risk, the following options were considered.

c. The content of the ITS as regards operational risk

Option 3a: Status quo

Option 3b: Introduction of new details as regards material losses

d. Proportionality: application of a threshold for OpRisk loss details

Option 4a: Status quo

Option 4b: Introduction of significance criteria
5.1.4 D. The assessment of the options

This section assesses the impact of the proposal by identifying the expected cost arising from the implementation of the new requirements in comparison with the benefits to be obtained for the options considered.

a. The content of the ITS as regards sovereign exposures

Option 1a: Status quo

Under Option 1a, the problems identified under the current framework are expected to remain. The option fails to meet the fundamental requirements of the mandate of the CRR under Article 99 therefore the EBA eliminates this option.

Option 1b: Introduction of new elements in the ITS

The new elements are related to the granularity of data on sovereign exposures. The combination of country-level data reported in FINREP template F 20.4 “Geographical breakdown of assets by residence of the counterparty” for the “General Governments” category with FINREP templates F 04.01 to F 04.04 and F 04.06 to F 04.10 “Breakdown of financial assets by instrument and by counterparty sector” for the different accounting portfolios for the same category is the most similar existing information. However, the analysis of these templates shows significant loopholes that hinder its analytical value, in particular:

- Absence of residual maturity breakdown
- Impossibility of computation of net exposure (net of short positions)
- Lack of breakdown by accounting portfolios at a country level
- Lack of reporting of indirect positions

In addition, the performing of ad-hoc collections like those carried out by the EBA and also by some competent authorities (e.g. SSM’s Short Term Exercise) lacks the benefits of a sound mechanical process, including a data quality checking infrastructure.

The evidences outlined above suggest the necessity of adopting the new template C.32.02, which provides a breakdown of sovereign exposures by residence of the obligor and accounting portfolio and maturity similar to the one currently collected and used, with minimum comparative burden for the banks. This is the due to the adoption of an information structure similar to current collections and a closer reliance on existing reporting concepts (i.e., “general governments” definition and IFRS9 accounting portfolios).

As regards of the introduction of C.32.01, which provides a similar breakdown of sovereign exposures by residence of the obligor, accounting portfolio and regulatory treatment (instead of residual maturity) the reason lies on the identified needs for a comprehensive view of exposures
to sovereigns across the regulatory approaches, which is missing in COREP. This is of particular importance for a more comprehensive view of the banking system’s involvement with the public sector. Such information will be essential at a time where the regulatory treatment of sovereign exposures is under discussion but also in defining additional key risk indicators to be used and shared among competent authorities as benchmark indicators in risk assessments.

Against this backdrop it is noteworthy mentioning that the breakdowns by regulatory classes for the identification of the sovereign segment of a broader exposure classes (e.g., the segment of the PSE exposure class which is treated as sovereign) is currently implemented the reporting framework: template C.43.00 "Alternative breakdown of leverage ratio exposure measure components”. Thus the cost of implementing these requirements is expected to be limited.

Overall the impact for banks is expected to be low also based on the maximum alignment with definitions and concepts already present in current requirements. In addition the fact that 123 consolidated entities have already participated in any of the stress test or transparency exercises conducted by the EBA and around 170 institutions regularly take part in SSM Short Term Exercise will reduce the costs for many institutions. Once information will be available via regular data submissions, the respective data collections will no longer be necessary.

The maintenance of the semi-annual frequency, opposed to quarterly as required for other requirements, along a with an additional consideration in terms of proportionality, as detailed in next section, have been introduced to alleviate unduly burdens from institutions.

b. Proportionality: application of a threshold for sovereign exposures

The following thresholds have been considered with the aim of ensuring the adequate proportionality and limiting the burden for institutions with negligible sovereign exposures. The design of such thresholds has been investigated based on both previous collections and past reporting information.

Option 2a: Threshold based on the share of non-domestic over total sovereign exposures

Aiming at achieving an appropriate level of proportionality a threshold based on the share of non-domestic over total sovereign exposures was explored. In order to be consistent with existing limits defined in Article 5 (4) of the ITS with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013, with reference to the limits for reporting non-domestic exposures the potential impact of the application a 10% threshold was analysed.

There was a concern regarding the reporting of granular information by small banks, taking into account that small banks have their exposures mostly towards their domestic sovereigns. In case of mostly domestic sovereign exposures, the reporting of a geographical breakdown could indeed appear superfluous. On the other hand, there was the risk that those institutions could still hold sizeable exposures to their domestic sovereign that would be exempted from reporting, thus preventing supervisors from carrying out a proper assessment from both a micro and macro-prudential perspective.
Based on data collected by the EBA covering the period December 2010 – December 2015 it was revealed that the pure application of the 10% threshold on non-domestic exposures to determine the obligation of reporting of any country data would hide significant information, thus not allowing to perform an appropriate assessment of sovereign risk of banks.

Figure 1 and Table 1 show that an average of 23.5% of institutions, ranging from 14.9% to 32.3% across different reference dates, would be exempt from reporting any country-level data. Likewise an average of EUR 260 billion (based on the different reporting samples) would be left out of the supervisory scrutiny. This amount reached its maximum height in December 2014 with an amount above EUR 348 billion. In relative terms to total volume, the trend moves around an average of 10.7%, ranging from 5.5% and 15.7%.

Figure 1 Domestic gross sovereign exposure of banks with less than 10% towards non-domestic countries (Dec 2010 – Dec 2015)

Table 1 Domestic gross sovereign exposure for banks with less than 10% towards non-domestic countries (Dec 2010 – Dec 2015)

<table>
<thead>
<tr>
<th>Date</th>
<th>201012</th>
<th>201112</th>
<th>201206</th>
<th>201212</th>
<th>201306</th>
<th>201312</th>
<th>201412</th>
<th>201506</th>
<th>201512</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR Mln</td>
<td>358,957</td>
<td>199,669</td>
<td>278,909</td>
<td>156,774</td>
<td>152,116</td>
<td>285,465</td>
<td>348,677</td>
<td>332,968</td>
<td>228,861</td>
<td>260,266</td>
</tr>
<tr>
<td>Total</td>
<td>2,306,752</td>
<td>1,694,276</td>
<td>1,779,469</td>
<td>2,724,959</td>
<td>2,752,208</td>
<td>2,593,802</td>
<td>3,055,019</td>
<td>3,096,897</td>
<td>2,644,153</td>
<td>2,516,393</td>
</tr>
<tr>
<td>% EUR Mln</td>
<td>15.6%</td>
<td>11.8%</td>
<td>15.7%</td>
<td>5.8%</td>
<td>5.5%</td>
<td>11.0%</td>
<td>11.4%</td>
<td>10.8%</td>
<td>8.7%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Banks</td>
<td>13</td>
<td>18</td>
<td>16</td>
<td>11</td>
<td>10</td>
<td>28</td>
<td>28</td>
<td>26</td>
<td>7</td>
<td>17.4</td>
</tr>
<tr>
<td>% Banks</td>
<td>21.0%</td>
<td>28.6%</td>
<td>27.1%</td>
<td>17.5%</td>
<td>15.9%</td>
<td>32.2%</td>
<td>28.3%</td>
<td>26.3%</td>
<td>14.9%</td>
<td>23.5%</td>
</tr>
<tr>
<td>Total Banks</td>
<td>62</td>
<td>63</td>
<td>63</td>
<td>63</td>
<td>63</td>
<td>87</td>
<td>99</td>
<td>99</td>
<td>47</td>
<td>73.3</td>
</tr>
</tbody>
</table>
Option 2b: Threshold based on the share of sovereign exposures over total exposures for Debt securities and Loans and receivables

As a second option, the possibility of including a different threshold based on the relative importance of sovereign exposures in comparison with overall exposures of the institution to any type of counterparty was also examined. The rationale of this new limit is to ensure that banks with negligible exposures are not unduly burdened with the complexity of these new requirements. However it should be constraint to very limited cases since an extensive coverage from a macro-prudential perspective must also be considered.

To assess this, data from FINREP reporting covering the maximum period available (September 2014 – June 2016) were analysed. In particular, information contained in the quarterly reported templates F 04.01 to F 04.04 and F 04.06 to F 04.10 “Breakdown of financial assets by instrument and by counterparty sector” was used. The aim was to identify the bank by bank share of gross carrying amount for “central governments” for all accounting portfolios with respect to total gross carrying amount for Debt securities and Loans and receivables. It was also considered to assess this relative importance of sovereign exposures using simply “total assets” but this one was preferred for the sake of accuracy and to avoid potential interferences introduced by other elements outside the trading and banking book (e.g. intangible assets).

Table 2 displays an analysis on the volumes and the number of banks below the selected thresholds for the different reference dates and average values.

Table 2 Share of “General Governments” to total gross carrying amount (Sep 2014 – Jun 2016)
According to the results, two main alternatives were identified based on the maximum tolerance in terms of banks or volumes: 1% and 5% thresholds (see Figure 2).

Figure 2 Share of “General Governments” to total gross carrying amount at 1% and 5% thresholds (Sep 2014 – Jun 2016)
The selection of 1% as threshold below which institutions would be exempted from the new reporting requirements would allow a close to full coverage of volumes (99.99%) still allowing a significant number of institutions (2.07%) out of the reporting sample. It is noteworthy explaining at this stage the limitations of the sample, which covers largest 160 consolidated groups, while thresholds are to be computed to the full reporting sample at a consolidated level (around 4,000 institutions) which will then apply for the reporting of consolidated and solo data.

On the other hand the selection of a higher threshold, i.e. 5%, would still allow the coverage of a fairly high share of overall volume (98.4%) but exempting a much larger share of banks (11.7%).

Based on the analysis it was concluded that the selection of a higher threshold, although the loss of volume would be acceptable, poses a risk due excessive number of institutions that would be exempted, limiting the reaction from supervisors if this risk evolves rapidly. Thus a more conservative approach seems appropriate.

c. The content of the ITS as regards operational risk

Option 3a: Status quo

Under Option 3a, the problems identified under the current framework are expected to remain. More specifically, supervisors will still not be able to understand the drivers behind OpRisk events and material losses.

Option 3b: Introduction of new details as regards material losses

More detailed information on the nature of the largest loss incidents would allow supervisors to analyse risk drivers in accordance with provisions set out in the EBA Guidelines on SREP methodologies (Art. 242 and 243 of EBA/GL/2014/13). Harmonised data on loss incidents will
likely lead to greater convergence of supervisory practices in this area and would replace current data collections undertaken in this area. To reduce the reporting burden, the criteria set for the OpRisk loss reporting apply also for the new template. Also, only the largest incidents for each event type and the five largest incidents of the institution should be reported if the gross loss amount is ≥100,000€. Further incidents should be reported if the gross loss amount is ≥10,000,000€. In any case, not more than the largest incidents for each event type and ten additional incidents (17 in total) should be reported.

d. Proportionality: application of a threshold for OpRisk loss details

**Option 4a: Status quo**

Under this option, some institutions which are deemed significant by their respective competent authorities are exempt from reporting OpRisk loss data. However, without basic information on OpRisk losses, the supervisory assessment of OpRisk is heavily constrained. Hence, several competent authorities established additional data collections as regards OpRisk losses for firms that are currently exempt from such reporting under the Reporting Regulation. The problems identified under the current framework are expected to remain as are additional but not harmonized data collections.

**Option 4b: Introduction of significance criteria**

Under this option, all institutions that are deemed significant are required to report OpRisk loss information to their respective competent authority irrespective of the regulatory approach they use to calculate their OpRisk capital requirements. As such, also institutions that are deemed significant and that apply TSA or BIA to calculate their OpRisk capital requirements will have to report these details. This will provide competent authorities with the required information to effectively perform their duty of supervision as required also by the EBA SREP Guidelines.

Additional data collections on OpRisk losses that are currently being required by competent authorities to fulfill their supervisory duties will disappear and be replaced with harmonized reporting requirements. This is expected to have positive impacts on institutions that are currently being required to report additional OpRisk information to several competent authorities with a different level of details and different specifications. Also, supervisory practices as regards the assessment of OpRisk are expected to converge and improve once harmonized data in this area is available.

### 5.1.5 E. Preferred options

a. The content of the ITS as regards sovereign

Following the above-mentioned arguments, **Option 1b** is the preferred option.

b. Proportionality: application of a threshold
After the assessment of both types of thresholds, including the potential different values to be set, and based on the arguments detailed above, it was concluded to take the following decisions to ensure an adequate proportionality:

a. The necessity to include a combination of thresholds on the share of non-domestic exposures and a threshold on share of total sovereign exposures.

b. The impossibility of exclude the reporting of relevant domestic exposures.

c. The need to establish a low limit for exempting institutions from being subject to the new requirements.

The set of thresholds would work as follows:

a. Institutions that have sovereign exposures of at least 1% of total banking and trading book exposures are requested to report the information as specified in templates C 33.01 and C 33.02.

b. Institutions that meet the criterion in (a) and that hold non-domestic sovereign exposures of 10% or more compared to total sovereign exposures shall report a full country breakdown.

c. Institutions that meet the criterion in (a) and that do not hold non-domestic sovereign exposures of 10% or more compared to total sovereign exposures shall report the information included in the two new templates for exposures aggregated at (i) total level and (ii) domestic level.

The proposed thresholds are expected to limit the reporting burden while keeping collected data relevant preventing disproportionate costs to less significant institutions.

c. The content of the ITS as regards operational risk

Option 3b is the preferred option as this will provide competent authorities with the required information to effectively perform OpRisk assessments as required also by the EBA SREP Guidelines.

Thresholds ensure that only relevant losses are required to be reported.

d. Proportionality: application of a threshold for OpRisk loss details

Option 4b is the preferred option since it ensures that all institutions that are deemed significant are required to report OpRisk loss information to their respective competent authority irrespective of the regulatory approach they use to calculate their OpRisk capital requirements. This will provide competent authorities with the required information to effectively perform their duty of supervision as required also by the EBA SREP Guidelines.
5.2 Overview of questions for consultation

**Sovereign exposures**

Q2: Could you please quantify the implementation costs (expressed in man days) that would arise when implementing the new reporting requirements on sovereign exposures as part the regular reporting framework? How would these implementation costs compare to a situation in which institutions were required to comply with ad-hoc data requests that are required (i) to comply with the EBA’s transparency exercises and (ii) to comply with competent authorities’ requests on institutions’ sovereign exposures (e.g. SSM short-term exercise)? [see page 17]

Q3: The threshold defined in Article 5 (b) 3 (a) exempts institutions that fall short of the threshold from the new requirements. Do you think that this threshold is appropriate so that (i) institutions with material sovereign exposures are required to report (and hence supervisors will have the relevant information for their assessments) while (ii) smaller and less complex institutions are more likely to be exempt from the new reporting requirements? [see page 17]

Q4: Is there a noteworthy difference in terms of costs between point (b) which requires a full country breakdown and point (c) which limits the breakdown to a total and domestic country? If there is a noteworthy difference, please try to quantify the cost difference and put it into context with the overall implementation costs that you expect with the new reporting requirements on sovereign exposures. [see page 17]

Q5: Are the reporting templates related to sovereign exposures (C 33.01 and C 33.02) as set out in Annex I and related instructions in Annex II sufficiently clear? In case of uncertainties on what needs to be reported, please provide clear references to the respective columns/rows of a given template as well as specific examples that highlight the need for further clarifications. [see page 18]

**Operational risk**

Q1: Could you please quantify both the implementation costs and recurring production costs (expressed in man days) that would arise when implementing the changed reporting requirements on OpRisk as part the regular reporting framework? How would these recurring production costs compare to a situation in which institutions were required to comply with ad-hoc data requests that are required to comply with current competent authorities’ requests on institutions’ OpRisk losses (e.g. SSM short-term exercise)? [see page 16]

Q6: Are the reporting templates related to OpRisk losses (C 17.01 and C 17.02) as set out in Annex I and the related instructions in Annex II sufficiently clear? In case of uncertainties on what needs to be reported, please provide clear references to the respective columns/rows of a given template as well as specific examples that highlight the need for further clarifications. [see page 19]
Q7: Are the rules for the assignment of loss adjustments to ranges as defined for rows 940 to 944 sufficiently clear? In case of uncertainties, please provide suggestions to improve the clarity and/or effectiveness of the reporting instructions for loss adjustments. [see Annex II, page 7]

Q8: Are the new rules for the determination of the number of loss events subject to loss adjustments for certain ranges of gross loss amounts as defined for rows 931 – 934 and the rules for the assignment of loss adjustments to ranges as defined for rows 940 to 944 appropriate in terms of cost/benefit? Please try to quantify the cost impact and put it into context with the overall implementation costs that you expect with the changed reporting requirements on OpRisk. [see Annex II, page 7]

Q9: Which option as regards the threshold for OpRisk loss events is the least complex or least costly in terms of implementation? [see Annex II, page 8]