

**ABI COMMENTS ON EUROPEAN
BANKING AUTHORITY
“CONSULTATION ON ITS
AMENDING IMPLEMENTING
REGULATION (EU) NO
680/2014 WITH REGARD TO
OPERATIONAL RISK AND
SOVEREIGN EXPOSURES (EBA-
CP-2016-20)”**

January 2017

Foreword

ABI welcomes the opportunity to comment on European Banking Authority consultative document on "Implementing Technical Standards amending Regulation (EU) NO 680/2014 with regard to operational risk and sovereign exposures".

This Position Paper deals only the proposed solution for Operational Risk reporting and is based on comments received from our members.

Specific comments

Find below the amendments proposed and the concerning specific comments.

ANNEX II
REPORTING ON OWN FUNDS AND OWN FUNDS REQUIREMENTS

4.2. Operational Risk: Detailed information on losses in the last year (OPR DETAILS)

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940 - 944	<p>Loss adjustments relating to previous reporting periods</p> <p>Provided that the institution has assigned all its losses either to a business line listed in Article 317 (4) table 2 of CRR or the business line "Corporate items" as referred to in Article 322 (3) point b) of CRR, the amount reported in row 970 is the simple aggregation of the loss adjustments relating to previous reporting periods.</p> <p>If, due to a negative loss adjustment, the adjusted loss amount of a single event falls below the internal data collection threshold of the institution, the institution shall exclude the original loss amount from the amounts reported in row 940 (i.e. report the original loss amount with a negative sign in row 940).</p> <p>With regard to the assignment of loss adjustments to ranges of gross loss amounts (rows 941 – 944), the following shall apply</p> <p>(a) In any case, the applicable range is identified based on the overall loss amount related to an operational risk event and not by the amount of a loss adjustment.</p> <p>(b) If both the loss amount before the adjustment (original loss amount) and the adjusted loss amount belong to the same range, i.e. the loss adjustment does not entail a change in the range, the amount of the loss adjustment – positive or negative – shall be reported in the row dedicated to this range.</p> <p>(c) If the loss adjustment entails a change in the range, institutions shall reclassify the loss by excluding the original loss amount from the range applicable before the adjustment (report the amount with a negative sign in the respective row) and assigning the adjusted loss amount to the range applicable after the adjustment (report the amount with a positive sign).</p> <p>(d) If, due to a negative loss adjustment, the adjusted loss amount of an event falls below the internal data collection threshold of the institution, the institution shall exclude the original loss amount from the range applicable before the adjustment (report the amount with a negative sign in the respective row), but not include the adjusted amount in another range.</p> <p>(e) The same approach as presented in (d) shall be applied. If the loss amount falls below 10,000 € due to a negative loss adjustment. In that case however, as long as the adjusted loss amount still exceeds the internal data collection threshold of the institution, the (negative) net amount of the loss adjustment shall still be included in row 940.</p>
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Commentato [CC1]: This instruction should be deleted. It is counterintuitive that a bank has a negative loss adjustment to a previously recorded loss that is larger than the loss itself. Moreover the original loss amount does not include, by definition, 'Loss adjustments' of previous reporting periods, since it exclusively refers to losses first accounted in the current reporting period (see Para 126).

Commentato [CC2]: Instructions (c) is confusing and potentially burdensome

Content: the reclassification of losses requested to the banks introduces in each report a stock view (i.e. past) together with the usual, flow view (i.e. current). The consequence is that it will be impossible to know, in any reporting year, the amount of losses that affect each range. With an example, the bank could have 10 € Mln of positive loss adjustment for an event (i.e. increase of provisions), which is reported in the range > € 1 mln as a new flow. However the total amount reported in that range could be 0 because in the same range the bank excludes stock of € 10 mln of losses accounted in previous years. Therefore the information by ranges per year is unreliable.

At the same time it is not possible to get an across-years view of op risk losses in each range, since we do not know how back in the time we should go to restore the full loss history. In practice, to be effective as an across-years view, a new starting point for the op risk reports is needed with respect to what reported so far.

Impact: this Option has a relevant implementation burden for the banks, which for each loss adjustments need to retrieve and reclassify the previously reported losses in the current report.

Commentato [CC3]: See first comment above

POSITION PAPER

The same issues should be addressed by amending the instructions relating to the number of loss events subject to loss adjustments, as follows:

930 - 934	<p>Number of loss events subject to loss adjustments</p> <p>The number of loss events subject to loss adjustments shall represent the number of loss events related to previous reporting periods for which loss adjustments were made in the current reporting period. If more than one loss adjustment was made for an event within the reporting period, the sum of those loss adjustments shall be counted as one adjustment in the period.</p> <p>With regard to the determination of the number of loss events subject to loss adjustments for certain ranges of gross loss amounts (rows 931 – 934), the following shall apply:</p> <ul style="list-style-type: none">(a) In any case, the applicable range is identified based on the overall loss amount related to an operational risk event and not by the amount of the loss adjustment.(b) If both the loss amount before the adjustment (original loss amount) and the adjusted loss amount of an event belong to the same range, i.e. the loss adjustment does not entail a change in the range, institutions shall report this as one event in the row dedicated to this range.(c) If the loss adjustment entails a change in the range, institutions shall report this as one event in the row dedicated to the range applicable before the adjustment and as one event in the row dedicated to the range applicable after the adjustment.(d) If, due to a negative loss adjustment, the adjusted loss amount of an event falls below <u>10,000 €</u> the internal data collection threshold of the institution, <u>as long as the adjusted loss amount still exceeds the internal data collection threshold of the institution,</u> the institution shall report this as one event in the row 930, dedicated to the range applicable before the adjustment.(e) The same approach as presented in (d) shall be applied if the loss amount falls below 10,000 € due to a negative loss adjustment. <p>Based on the rules for the determination of the number of loss events subject to loss adjustments per range, the total number of loss events subject to loss adjustments (row 930) may be lower than the sum of the numbers of loss events subject to loss adjustments per range (rows 931 – 934).</p>
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