



**Committee of European
Banking Supervisors**

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**Consultation Paper 04 : CEBS Consultation Paper on the New Solvency Ratio:
Towards a Common Reporting Framework**

Ladies, Gentlemen

The European Association of Cooperative Banks (EACB)¹ welcomes the CEBS's initiative to consult the industry on a common reporting framework around the solvency ratio for credit institutions and investment firms under the future EU Capital Requirements Directive (CRD).

The EACB therefore takes the opportunity to comment on the suggestions made.

We are ready to continue our discussions with CEBS on these issues.

Yours sincerely

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¹ The European Association of Co-operative Banks represents over 4.500 co-operative credit institutions active in all the EU Member states and serving over 100 Million customers. Its member organisations are decentralised national networks of small-sized Co-operative banks' networks, which have a strong presence on a local or regional level. They account for a large part of the SME and private household credit market (17%) and thus play a crucial role within the Internal Market.



I. INTRODUCTION

The members of the EACB appreciate the CEBS's initiative to define a common reporting framework around the solvency ratio for credit institutions and investment firms under the future EU Capital Requirements Directive (CRD). The implementation of the CRD provides a unique opportunity to harmonise the data framework.

Industry representatives, among them the EACB, have repeatedly underlined that divergences in the field of reporting requirements lead to an increased administrative burden for banks and therefore encouraged authorities to come up with initiatives to overcome these difficulties. Accordingly, it is highly appreciated that the declared aim of the common reporting framework is to reduce the administrative burden and help to move towards a level playing field in Europe. By no means should the harmonisation lead to additional reporting requirements.

While differing reporting requirements are causing an excessive compliance hurdle for international banks, their harmonisation also implies additional cost and efforts for all banks. It should be considered that those banks, which operate on a national level only, will not be able to compensate this additional cost by the effects of harmonisation. Accordingly, the disadvantages for such banks should be limited as much as possible.

It seems highly appropriate to develop the document along three prevailing principles (flexibility, consistency and standardisation) in order to achieve the right balance. The principle of flexibility, which allows supervisors to decide on the amount of detail for the reporting and national practices, is in fact an important counterweight against the need for increased communality.

However, the members of the EACB are not fully convinced that the samples of the common reporting templates finally meet the aims set: the reporting templates are highly detailed, complex and difficult to overlook. Probably, depending on national requirements, not all supervisors will require the full amount of detail possible and use shorter templates. But banks operating internationally might be forced to implement the "full version" to meet the concern of different supervisors. For banks operating internationally the new templates might therefore create only very limited advantages, if any.

The members of the EACB take the view that there should not only be a harmonisation of the reporting formats, but definitely also a reduction of the data that need to be reported.

Furthermore, we think that within the context of harmonised templates, it would be highly desirable to give way for the principle of "home country control": Banking groups operating on a European level should be given the opportunity to do their reporting on the basis of the templates requested by their consolidating supervisor only.



II. GENERAL REMARKS

The concept of a common reporting framework should be targeted towards the aim of achieving a clear picture of the risk profile of the credit institution and the appropriateness of the level of own funds available. Furthermore the administrative burden should be reduced to a minimum.

Accordingly, the templates should clearly be limited to data, which are required to calculate the solvency ratio. The demand for additional data may imply high cost without providing for a better oversight. When defining a common reporting framework, supervisors should consider that not only the implementation of such framework, but also the ongoing computing of the relevant data and the maintenance of processes implies high cost. It should be avoided, in particular, to demand the disaggregating of data without any clear supervisory justification.

A considerable amount of data is requested, as it seems, only to allow a cross-check of other data or calculations. This seems to be the case to a high degree for the CRM tables, or the demand for the credit conversion factors on the SA-templates.

This also seems to be the case for a number of pillar II elements, which according to the templates are to be provided continuously in a standardized manner (e.g. CA templates or other information templates). The members of the EACB take the view that pillar II information should be gathered and evaluated within the context of the qualitative supervisory review process during on-site-inspections und discussions. The instrument of a standardized quantitative reporting framework seems to be highly inappropriate for the evaluation of pillar-II-elements like concentration risk or other risk. The measurement of such risk is very complicated; it cannot be assessed properly on the basis of few figures or ratios. The draft should therefore focus on pillar I information only.

Furthermore we suggest clarifying that the reporting of the capital required is to be based on the bank's calculation algorithm, as it has been approved by the supervisory authorities, and not on results of the (possibly classified) data of the templates. In particular the calculation of risk-weights under the IRB-approach on the basis of classified data (PD, EAD, LGD, M) may lead to results that differ to risk weights established on the basis of individual exposures. When compared, capital charges may differ by millions between these two approaches.

During the transition period starting with the introduction of the new rules (2007 until 2009), the maximum possible relief regarding capital charges will be limited with regard to the present solvency rules. It should be clarified how these minimum levels of capital (floors) will be considered within the reporting framework.

III. SPECIFIC REMARKS

1. Other information

With regard to the comments above, the members of the EACB do not support the templates for "other information" (OTH-templates). COREP should focus on a reporting framework on



pillar I. The OTH-templates OTH 1 IND and OTH 2SEC imply a mixing up of the reporting on large exposures with pillar-I-elements for the measurement of concentration risk, which is to supervised under pillar II. OTH 3 AFF demands an overview over the single entities within a group. The continuous reporting of such data would imply the duplication of information, which has already been delivered to other supervisory authorities already in different form. Accordingly, such reporting implies additional cost, but no added value.

In the OTH OPR template the idea of a supervision of concentration risk is transposed from credit risk to operational risk. We do not understand the use of such transposition and therefore do not see any need for such template.

2. Repetitive Reporting of Information

The members of the EACB think that the differentiation of exposure types (on-balance sheet exposures, off-balance-sheet exposures, OTC derivatives; etc.), does not provide for any additional information that would be relevant for supervisory purposes, but will certainly increase the cost of reporting. The differentiation of credit exposures into on-balance sheet exposures and off-balance-sheet exposures and by consequence, the distribution of the collateral related to one transaction to one of these components (e.g. in the SA-CRM template) is an example for this .

The same applies to the “memorandum item” on all SA and IRB templates. The indication of the amount of borrowers does not provide for any reasonable indication regarding the diversification of the portfolio, since it does not consider any correlation effects. Furthermore, the purpose of the adjustment of expected loss and value adjustments per obligor grade (IRB templates) remains unclear. An aggregated observation on the level of risk-classes and/or institutions would be sufficient. It should not be required to deliver the aforementioned information in such detail.

3. Mapping of the Classes of the Standardized Approach on the 7 IRB-classes

The members of the EACB expressed strong reservations against the suggestion to map the sixteen exposure classes of the standardized approach to the seven classes of the IRB. Such exercise would imply high implementation cost and an important additional reporting burden. Since real estate securities are treated differently under the standardized approach, the mapping can not be done by a simple aggregation of several standardized approach classes to one IRB class. In fact, the mapping would require an individual reclassification of every single loan to the IRB classes only for reporting purposes. The members of the EACB consider it inappropriate that credit institutions, which choose the far simpler standardized approach, would be obliged to execute difficult and expensive mapping processes.