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To the Committee of European Banking Supervisors

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

CEBS published on 26th January 2005 a Consultation Paper on common reporting (CoRep).

The Finnish Bankers' Association is a member of the European Banking Federation (FBE). While supporting the views put forward in the FBE's comment paper sent to the CEBS, the Finnish Bankers' Association respectfully submits the following comments.

1. General remarks

General objectives of the proposal

Finnish Bankers' Association welcomes CEBS' commitment to create a harmonised reporting framework within the European Market. This would reduce the compliance costs particularly for international banking groups and remove a potential obstacle to further financial market integration.

We think that the proposal is a step in the right direction, but, from our point of view, a number of general and detailed concerns would arise within the issues addressed below in this statement.

Scope of the common reporting framework

The Finnish Bankers' Association is of the opinion that the proposed common reporting framework is drafted in a too detailed and extensiveness manner. For example, a great number of various reports (167 different reports once all combinations have been taken into account) alone would in practise lead to an outcome, where national supervisors would be hard pressed to fully utilize all information in said reporting.

From a practical point of view, a large international banking group with entities in several countries would have to produce thousands of pages of text to meet the requirements. The extensiveness of reporting gives an impression that the proposed reports represent a sum total of every possible combination of requirement, with little or no linkage to the actual intended usage. This would significantly increase the reporting burden in a number of European countries with no prudential justification.



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Therefore, we strongly encourage CEBS to review the volume of reporting by concentrating on the essential components of the required information. The common essential requirements should be fully harmonised at the lowest level of reporting with the content and volume of reports limited to the strictest minimum necessary.

In addition, we believe that CEBS should focus on what the industry deems to be the essential components required to inform supervisors of a given institution's solvency ratio. If any additional information would be required, it should have sound prudential justification.

Focus only on Pillar I information

We believe that the scope of the common reporting framework should be strictly limited to Pillar I requirements. The standardised quantitative solvency reporting (such as concentration risk and other risks) provides no basis for comparison as they are difficult to measure and cannot be adequately captured with only a few figures or ratios.

The Pillar II information should therefore be collected and evaluated in the course of on-site inspections and interviews.

Level of application

We believe that reporting framework at the consolidated level should be a leading principle, as it would give supervisors a clear understanding of a whole group's risk profile. The regular reporting of each template on a solo or sub-consolidated basis would therefore only duplicate the provision of information which has already been reported to the national supervisory authorities in another form. This imposes an additional burden on the banks without offering any added value.

In any case, the reporting requirements should not go further than the level of application of the capital requirement rules. Therefore, if the Member State has implemented the solo waiver (Articles 69 and 70) in the Capital Requirements Directive, the waiver should also apply to the reporting requirements.

We find it important that banking groups be permitted to use a single reporting standard (i.e. that required by the home state) for the whole group. This would imply that the supervisors of the banking group in the host state should be required to apply mutual recognition to the reports submitted by the banking group. Likewise, we believe that this form of mutual recognition ought to be extended to enable the home supervisor to set out a common framework and structure of a banking group's capital reporting.

Timetable and transitional rules

We request that CEBS clarifies the timetable for the new reporting framework. As the timetable for implementing the CRD would last until 1.1.2008 (bank option), this date should be the earliest possible date for the implementation of CoRep. We also draw attention to the fact, that certain Member States require at least twelve months for full



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implementation of the reporting requirements following the release of the finalised version of CEBS' proposals.

Link to FinRep framework

The Finnish Bankers Association is of the opinion, that in future work CEBS should try to align the data reporting format between CoRep and FinRep as far as possible. This would serve to underline one of the key stated objectives of the exercise which is to standardise and reduce the reporting burden for Europe's banking industry.

Additional guidance

The Finnish Bankers' Association believes that CEBS ought to produce some additional limited guidance to accompany its proposals for common reporting as it is now not completely clear how or under what circumstances the various templates proposed are to be used.

2. Detailed remarks

Common detailed remarks for all reporting templates

We find the great number of templates overly burdensome. As regards the CRM templates, for example, they are no longer reporting templates but have become calculating templates instead. As the CRM-details are composed within the internal models (approved by the regulator) we do not support such an approach and therefore propose the deletion where necessary of parts of the relevant templates.

We note that an institution may not know exactly its number of obligors. In addition, the purpose of this information remains unclear to us. If it would be included to identify the concentration risk, the number of obligors is not enough to meet this objective. For this reason, we are not in favor of listing the number of borrowers in the SA and IRB templates.

We find the details about inflows and outflows overly burdensome. If no added value for the supervisor's can clearly be established, we propose them to be removed.

It is not clear where the "collective provisions" under the IAS 39 have to be reported in the worksheet, where reference to the value adjustments and provisions exists.

Template CA

Concerning the "collective provisions" (lines 94-107), see above comment.

We understand that the different OPR-methods in lines 145-148 only need to be performed when and only when, the entity makes use of them.

The lines ought to be removed from the worksheet, as Pillar II is and should remain a process that banks and their supervisor(s) discuss on a bilateral basis.



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Template CA IAS

As CEBS's work on prudential filters for the purposes of regulatory reporting requirements would be useful, the proposed template should be aligned with these CEBS rules. For example, the template requests valuation effects from the fair value option which do not relate to own credit risk and are thus not a matter for the CEBS prudential filters. We do not, therefore, consider it appropriate to include this information in the columns of the template. We also feel that both the basic structure of the rows and individual items need clarification. It is not clear, for example, how the item "eligible reserves" is defined in this template and what elements it contains.

The proposal to calculate gains and losses separately (gross) is not in line with ED 7, 21 (a) which asks for a disclosure on a net basis.

Template SA

In order to optimise the CRM-techniques we are of the opinion that it is better to calculate the exposure beforehand and add the CRM-impact only at a second stage. For this reason we are of the opinion that column 9 'exposure value' should not be deducted from the 'fully adjusted exposure value or E*'. The formula proposed seems to exclude CRM on off-balance sheet items. We propose column 4 to follow after columns 5 till 9.

We believe that columns 12 and 13 are not useful and therefore propose to eliminate these columns.

Template IRB

We consider that information in columns 8 and 9 does not belong under Pillar I and so should thus be excluded from the template.

Template IRB CRM

We believe that the distribution of LGD estimates in columns 33 and 34 will not serve any useful purpose since we are dealing here exclusively with LGDs prescribed by supervisors.

Template AIRB CRM

The item "credit risk mitigants affecting LGD* estimates" (columns 20-31) will in our mind, deliver no additional risk relevant information beyond the actual LGD estimate. We assume this information is being requested with the aim of investigating the plausibility of the LGD estimates. Their accuracy should be verified in the approval process, however, and not in the context of standardised reporting.

Template CRM I-O

We propose to delete this table as it does not add any significant value in determining the risk for a given exposure.



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Template OPR Loss

We note that the definition of the business lines is not in line with the current business lines of the institutions. This creates a serious mapping problem. We would like to see that the each institution can use its own internal business lines.

Template OTH 1 IND

As this template relates to Pillar 2, we propose to delete this template.

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