

**Comments to the Consultation Paper „Common framework for reporting of the solvency ratio by credit institutions“ (CP04) published in January 2005
(Czech Banking Association, Prague)**

Introduction

The Czech Banking Association welcomes the opportunity to take part in the formal consultation of the „**Common framework for reporting of the solvency ratio by credit institutions**“ (CP04) paper that was published in January 2005. We appreciate the efforts of CEBS towards a common reporting framework in Europe and expect that the harmonisation will contribute inter alia to a reduction of the reporting burden on banks.

The Czech Banking Association invited all its member banks to actively participate in the consultation. The summary of comments presented below is a result of series of meetings with experts from banks, each meeting being focused on a specific set of templates. The Czech National Bank was supporting the meetings through its own experts' participation. In preparing the comments, we used our best efforts to take into account the explanatory notes to the templates published by CEBS with a certain delay in April 2005.

Organisation of the Comments

An effort was made to organise the comments in such a manner that they follow the organisation of the sets of templates in CP04. In each set of templates or each individual template, the comments are divided into two categories - general and specific. In some sets or templates, there are only general or only specific comments. In some sets or templates, the consultation resulted in a formulation of questions towards CEBS.

General Comments

Some banks expressed the view that the common reporting framework is too extensive and that it requires such a level of detail that may not be necessary, while the local regulator may, for fulfilling its supervisory targets, choose a higher level of aggregation than regulators of foreign parent banks. Further, it was not always clear to banks whether a report should be applied on a group as a whole or whether one set of templates should be applied on a bank (a parent company) and second set of templates should be applied on a group; we suggest to provide each template with this type of information explicitly. Some comments indicated an inconsistency with relevant provisions of the Capital Requirements Directive („CRD“) or with consultation papers that had been published earlier. Finally, the banks and the Czech National Bank expressed their concern over ensuring a unified and consistent on-going methodical support (a “help desk”) by relevant supervisors on a cross-border basis (both during the implementation phase of the common reporting framework and in the post-implementation phase).

Summary Templates

CA

General comment to rows 1 - 107:

There are obsolete items in the template, which cannot be found in the International Financial Reporting Standards (IFRS) (for example, „*general provisions*“) or items that for other reasons are perceived as irrelevant for the Czech Republic.

Specific comments to rows 1 - 107:

- Row 32: It refers to a goodwill resulting from acquisition. While the Legal reference & Comment indicates that intangible assets “*may include* goodwill“, we would suggest the intangible assets “*include* goodwill” or, alternatively, that goodwill be reported in a separate row.
- Rows 38 - 40 are unclear. Please indicate unambiguously, whether they are applicable to banks using IFRS or not.
- Row 85 is unclear. We recommend inserting a reference to Directive 93/6 Article 13 para. 2 in the Legal reference & Comment

General comment to rows 152 - 171 (Pillar 2):

The structure of risks (rows 159 - 171) is inconsistent with relevant definitions in CRD as well as with CP03 published by CEBS in May 2004. Taking in account that the purpose of Pillar 2 should consist in individual view on a bank, a common reporting of individual risks is questionable. For this reason, the detailed reporting in rows 159 - 171 is considered as meaningless. In addition, number of risks defined in this manner are interrelated (reputation/strategic risks being an example) and a bank will assess them as a whole. In case a strong requirement for decomposition should persist, we consider the risk structure consisting of “Pillar 1” and the “Other” as a maximum decomposition acceptable.

Specific comment to rows 152 - 171:

The meaning of row 157 versus 158 is unclear and hence their difference on row 156 is unclear.

CA IAS

General comment:

We understand that the purpose of the template is to provide the regulator with very detailed description of impacts of the assessment rules in accordance with IFRS on banks' regulatory capital. The template should contain data, which the regulator is not currently receiving (a new requirement in comparison with the current reporting requirements on banks). The banks do not regard the data availability for filling in the template as a problem. As regards the scope of the data to be reported, it is suggested to delete some rows of the template (see below).

Specific comments:

- Should the CA IAS template fully cover the CEBS recommendations, it would be desirable to incorporate an additional column "Other". For example, the CEBS recommendation also applies to an equity component of compound financial instruments (see point 4 of the Recommendation). In case a Member State applies the recommendation in this area, then it would be necessary to correct the item „Reserves“ in the CA template. In such case, it would be necessary to reflect the correction in the CA IAS template, as it would also be a „prudential filter“. The currently existing columns do not allow for reporting such a case.
- The logic behind the rows of the template is understood by us as follows:
 - Row 1.3 corresponds to the sum of rows 1.1 and 1.2;
 - Row 2.3 corresponds to the sum of rows 2.1 and 2.2;
 - Row 3.3 corresponds to the sum of rows 3.1 and 3.2; and
 - Row 4 corresponds to the sum of rows 4.1, 4.2 and 4.3

The Czech National Bank confirmed a similar understanding of the logic behind the rows.

- In the CA IAS rows, a link „IAS-Type accounting effects“ or „IAS-Type effects“ is used. A unification of the link is recommended.
- We suggest to delete rows 1A.1, 1A.2, 1A.3, 1B.1, 1B.2, 1B.3, 4A.1 and 4B.1
- In case a bank follows the IFRS, it may include the “Intangible assets revaluation reserve” in the own funds. Therefore, for the sake of completeness, it would be desirable to incorporate an additional column „Intangible Assets“.

SA

Specific comments:

- Please explain the term “*value adjustments and provisions*“ in column 2
- Please explain the principle of handling clients that may be assigned to more than one risk weight - link to column 13
- Please indicate for which risk weights the rows may be broken down into “*past due items*“
- Should comparable exposures be suggested for SA and IRB enabling aggregation of the date for a bank and for a group supervised on a consolidated basis, then the relevant provisions of the CRD are not fully met
- Please explain the term “*IAS related adjustments to the exposure value*“ in column 12

IRB Approach

IRB

Specific comment:

Please explain the contents of the row „Secured by real estate with specific risk weighting“ and indicate whether the item relates to the Foundation IRB method only.

IRB EQU 2

General comments:

- Please explain whether the template will be used for reporting for a bank or for a whole financial group
- Please make clear the interrelationship between templates IRB EQU2 and OTH3AFF

FIRB CRM

Specific comment:

Please explain in column 33, 34 (“*Information about the distribution of LGD* estimates*”): What is meant by LGD* estimate (x-th percentile and y-th percentile) in the Foundation method? Is it relevant for FIRB, where a regulatory LGD is applicable? Note: This question was added in connection with the comment on AIRB CRM – see below.

AIRB CRM

Specific comment:

Please explain in column 32, 33 (“*Information about the distribution of LGD* estimates*”): What is meant by LGD* in the Advanced method where LGD* is not mentioned?

CRM Transfer Table

General comments:

Inflows – Outflows: It is not clear whether transfers within the same asset classes with various or identical risk weights should also be covered in the templates, despite a mention in CP04 that the redistribution effects within the same asset class in question should be included. Please explain the requirements on the reporting of Inflows – Outflows within the same asset classes with various or identical risk weights. For the time being, the Czech National Bank does not envisage monitoring of I-O; however, the approach of the regulators of foreign parent companies is not currently known.

Exposure classes: For necessary aggregation of results following an application of various methods and for possible transfers of secured exposures not only between asset classes under the same method, but also between methods (SA versus IRB), the templates are unified and the asset classes are identical for SA and IRB. It means, for example, that MDB and PSE will not be reported separately but in relevant aggregated asset classes by the approach chosen and by relevant national discretions.

Market Risk Templates

MKR-IM

Specific comments:

- We recommend reporting of the aggregated VaR only, i.e. deleting the rows covering individual risk types. Reason: There are the details here, which are not required under CRD. There is no unambiguous method of breaking down, if any, of the aggregated calculation of VaR into individual components.
- The explanatory notes refer to paragraphs which are relevant for Standardised method.

MKR-IM Daily

General comment:

We are of the opinion that reporting VaR on a daily basis is unnecessary. It is unclear whether business or calendar days are meant here. The banks are able to report the data but the purpose is unclear.

Specific comments:

- The meaning of “Internal VaR” is unclear, a definition is lacking - according to banks, columns 11 a 12 are unnecessary.
- Columns 13 a 14 should be merged, as a bank is not obliged to conduct a double back-testing. The information on a back-testing type is defined in basic information (column 4)

MKR-FX

Specific comments:

- It is unclear whether assets and liabilities in foreign currency which are not revaluated in the profit and loss, are included in the calculation
- „*Total positions in non-reporting currencies*“: It is unclear whether it is a summary row of subsequent rows?
- „*Other non-delta risks for currency options*“: Please clarify a meaning of the row.
- A list of currencies or a source is missing in respect of the currencies that are included in the „*ERM2 currencies*“:

Operational Risk Templates

OPR

General comment:

Please clarify whether a bank reports data for the method which it is using only.

Specific comment:

Please clarify the terms „*last semester*“ and „*last year*“.

OPR LOSS

General comments:

- Please indicate whether the report is applicable also on banks using ASA, STA a BIA? We recommend the report to be applicable to AMA banks only.
- Please indicate which data should be taken for the report, whether the data collected by a bank or the data that are made a part of a capital requirement

Specific comment:

- Please explain the procedure in case the “*threshold*” is defined by operational risk type rather than by business lines.

Other Supervisory Information

OTH 1IND

General comments:

- Please clarify whether the template refers to the banking book only or also to the trading book.
- Please clarify whether the aggregate is for a specific client or for a specific individual exposure.

Specific comment:

- Please clarify a link to „*Major Counterparties*“. In the explanatory notes, there are alternatives described: it is not indicated whether the approach to „*major exposures*“ will be unified or whether it will be subject to a national discretion, and whether it will be defined as a fixed number of exposures or whether it will be linked to capital or balance sheet sum.

OTH 3 AFF

General comment:

We suggest the template be simplified to a maximum possible or totally eliminated in connection with the duty of exchanging the information in question between national supervisors. The simplification can be reached within national discretions.

OTH 4 OPR

General comment:

We are of the opinion that the report is superfluous as it is outside the scope of the relevant CRD provisions on AMA.

Specific comments:

- Please specify the term „*unrealized loss*“
- Please indicate who will define the term „*major*“ (i.e. bank, supervisor, ...)
- Please indicate in respect of insurance, how to proceed in case the event in question is an insurance event, while, however, the insurance payment (indemnification) has not been made yet.