Position paper in response to CEBS consultation document on Common Reporting

April 2005

- **Introduction**

In order to develop the position of the Italian banking system on the CEBS consultation document on Common Reporting (CoRep), ABI collected the different points of view of its member banks and the various proposals they had to make on the questions that that document left open.

Based on the comments received and the activity of a special interbank working group, ABI prepared the attached position paper, which has been transmitted to the CEBS and to the national supervisory authorities.

- **Purposes and frequency of reporting**

The templates envisaged by CoRep can be used during the ***parallel running*** period at the discretion of national supervisory authorities. Accordingly, we hope that the supervisory authorities' decision on this matter will be made known as soon as possible.

In the case that the templates are also used to gather information for the ***definitive calibration of the requirements***, we ask that the closest possible attention be paid to determining a sufficient set of data which, although collected by agencies from different countries, are perfectly comparable. On the issue of revision of the templates to ensure uniform compilation, see the section on "examples in support of compilation" below.

We ask for confirmation that the standard ***frequency*** for reporting will be quarterly, and in addition we would be grateful for some indication concerning any differences in the level of detail required by the authorities in different quarters.

In addition, there needs to be a clear indication of the ***first date*** on which banks will be asked to validate the templates.

- **Perimeter of information requested in the templates and feasibility of procuring it**

The information to be provided in compiling the templates, in our view, should however ***focus chiefly on the data relating to the requirements under Pillar I***, so that all reference to data relating to Pillar II should be removed from the templates. The reason is that the results under Pillar II should emerge from a process of interaction between the reporting bank and the supervisory authorities. This process should help to bring out the specificities of the individual bank (as in the use of internal risk evaluation models and different organizational arrangements), which are unlikely to lend themselves to standardization in a harmonized reporting framework.

The templates are highly detailed, reflecting the differentiation of regulatory needs between countries. As we know, there is a trade-off between detail and adequate comparability of data, especially when the data come from different countries. We accordingly ask the CEBS to weigh the possibility of reducing the level of detail (seeking a minimum level of harmonization) in order to attain greater ***homogeneousness*** of the data collected.

The main consideration is that the templates contain a great wealth of data that are often stored in departmental databases. For most banks at least, these data will be channeled into a single link.

In order to respond to these information requirements, the banks will have to institute procedures that ensure the ***certainty*** (reliability), ***comparability and auditability of the data, as well as prompt reporting***. Specific investment will therefore have to be made in the construction of an interfunctional data link (retail and small business credit, corporate lending, specialized lending, securitization, operational and market risk, etc.). The cost of this investment is substantial in terms of both money and human resources.

- **Examples in support of compilation**

The Italian banking system appreciates the CEBS "Explanatory note" with its clarifications on some aspects of CoRep. Nevertheless, we would suggest a revision following the conclusion of the current consultation, in order to respond to the requests for clarification that will come from the various parties involved.

On the style of the document, we recommend including a large number of examples. Better than the text, examples can facilitate the compilation of the templates and above all they reduce the risk of differing interpretations by different intermediaries. Such differences would jeopardize the very purpose of the templates themselves.
Specifically, referring to the Appendix on some questions concerning specific templates, we think there should be further clarification on certain broad topics such as the ***reconciliation with reports effected on the basis of the IAS***, the relationship ***between consolidated and solo reporting***, the ***treatment of some collateral***.

More in detail, while some indications ***have already emerged*** in meetings with national regulators, we suggest the inclusion of paragraphs designed to definitively clear up, with examples, the following points:

- Specify the reference value as regards the amount of risk assets that is ***used in calculations*** (***face value or IAS accounting value***). As an example, we think there should be clarification of the treatment of loans covered by hedges. More generally, it is not clear whether and how the new classifications of financial instruments envisaged by IAS will affect the supervisory division between banking and trading book (for example, it is not clear how AFS should be classed).

- ***Relationship*** between ***solo reports and consolidated reports***: what approach to use (uniformity with or independence from those of the consolidated report), independent or homogenized name lists, calculating processes at group level (e.g., threshold for classification as retail customer at solo or consolidated level).

- Procedures for treatment of ***multiple guarantees***, especially in the case of overcollateralization. Some of the procedures suggested would appear to presume the exclusion of some types of collateral that exceed the amount disbursed to the client. This would appear to make treatment based on the total recoverable value (the generalization of the treatment proposed for financial collateral) impracticable, even in the AIRB approach.

- **The usefulness of data observations also for management and benchmarking**

Everyone agrees that as far as possible analyses for operations purposes should be made using the same database as that used for reporting. This would avoid the long-standing problem of "***reconciliation***" of official data (those transmitted to the supervisory authorities) with internal reporting data.

It is therefore necessary to make sure that the information indispensable for operational, management purposes is included or at least readily deducible from the data required for reporting; or alternatively, for different types of data, that from the detailed operating data it is possible to satisfy the regulators' information requirements.

On this question too we ask for confirmation that ***any future needs*** to align CoRep with operating needs can be seen to in the CEBS forum.

We hope that in future banks can also receive, at least at domestic level, some ***feedback*** useful for benchmarking purposes.

- **Supervisory reporting, CoRep and XBRL**

We would like to see the highest possible degree of ***uniformity*** of content and of form in the CoRep templates and those to be completed for national supervisory reporting, in that the CoRep reports should be derived "automatically" from the national supervisory reports, once an appropriate integration of the dataset for supervisory reporting has been made.

Let us note, however, that the use of XBRL as the common reporting language should be made compulsory, if at all, only for the transmission of the final data. That is, banks should not be compelled to use XML/XBRL in their internal systems.

- **Confidentiality of Common Reporting data**

Given that national regulators have access to all the types of data that the banks possess, we would ask for greater certainty on the way the CoRep data will be used at European level.

We ask confirmation that the data made available to CEBS by the national central banks will be in anonymous form, aggregated possibly by country or peer group or at the level of the individual group.

Finally, we hope that the data will remain within the CEBS or be used at most in Community fora and only for questions relating to capital requirements.

- **Appendix: Specific references to the templates**

SA Templates

The classes of exposures in the Standard Approach templates do not correspond to the requirements laid down in the Capital Requirements Directive (CRD) but are linked to those under the IRB Approach. This divergence could entail additional costs for banks using the Standard Approach. We propose to use the 16 exposure classes envisaged for the Standard method, possibly leaving it up to CEBS to re-map the data into the 7 classes envisaged for the IRB method.

IRB Template

In the first column, "obligor grade", we ask for confirmation that each bank can use its own classification, and thus can assign internally determined PDs to each rating class considered.

OPR Template

- The definition of gross income is referred to part 2, paras. 4 and 5 of Directive 2000/12, which is not divided into parts and does not have para. numbers.
- Clarify the concept "relevant indicator" and comparability with gross income.
- Hadn't it been decided to abolish the need to average over 6 years?
- Clarify the procedures for calculating half-yearly gross income (e.g., for the same perimeter).
- Total banking activities subject to AMA: Is the value of gross income for the six months (-7), for example, the value of gross income of the perimeter currently subject to AMA but recalculated with the values of 7 half-years ago? Or is it the value of gross income 7 half-years ago for the perimeter which calculated AMA at that time?
- A clear definition of Expected Loss is necessary. Specifically, does EL mean the statistical concept of Expected Value of the loss distribution?
- There should be more detailed explanations of the value of "AMA due to an allocation mechanism".

Template OPR LOSS

- Do only AMA banks have to fill out the OPR LOSS table?
- There is no definition of Gross Loss. (Do we take it this means banks will use their internal definition of loss, including in the template everything used internally for LDA purposes? Or does gross loss comprise only effective losses, or does it also include specific allocations, boundaries with the market, and other estimated losses? Are boundary losses with credit included?)
- The time frame: Does "last year" refer to the last 12 months or to the period from January to the reference month?

- Threshold: A system-level threshold should be set in order to get comparable data.

OTH 4 OPR Template

- Do only AMA banks have to fill out the OTH 4 OPR table?
- A clear, unequivocal definition of "major loss" is needed.
- Entity code: Is this the internal code by which the BU/Company is recognized in data collection systems or is it a code supplied by the supervisory authority or equivalent (e.g., for Italy, the ABI code number)?
- A definition of "gross loss unrealized" is be needed.
- A clear definition of "status: ended or opened" is needed. (For instance, if I am waiting to receive an insurance compensation but I know that the event will no longer generate effects, is the record closed or open?)
- Further explanation on the column "relationship with risks" is needed. That market boundaries are comprised in the definition of loss and must be included in the op risk data base is now clear enough. Interpreting the column "captured in credit risk" one would think that the data on boundaries with credit must all be included in the op risk database. Also, are there special reasons why losses are described as "CAPTURED in credit risk" instead of "RELATED to market risk"?
- Clarify the concept of "recognition" (date of accounting entry?).