

Committee of European Banking Supervisors

Date: 22.04.2005
Our ref.: 2004/00607
FJA/TH
Your ref.: CEBS CP04

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

Dear Sir or Madam,

The Norwegian Financial Services Association (FNH) welcomes the opportunity to comment on CEBS' consultation paper CP04 on the Common Reporting of the Solvency Ratio by Credit Institutions (CoRep). The FNH represents the interests of commercial banks, financial services institutions and insurance companies operating in Norway.

1. General comments

The FNH is at the outset supportive of a common solvency reporting framework for credit institutions in Europe. We expect that such a framework should be beneficial both for supervisors and the industry. In this regard we place weight on an expectation that the CoRep should contribute to promoting convergence in the implementation of the new solvency requirement among member states and other EEA-states. We place weight also on an expectation that CoRep will deliver a reduced reporting burden for European credit institutions, particularly for those institutions operating in more than one jurisdiction. A common solvency reporting framework should also contribute to more efficient use of supervisory resources and easier supervisory co-operation across borders. The work on CoRep and on Common Financial Reporting (FinRep) should furthermore contribute to providing investors in the European market with information on credit institutions that is more suitable for direct comparison across borders.

In order for these expectations to be met CEBS must weigh the interests of the industry and those of supervisors in an appropriate way, thus in such a way that the requirements become proportionate to the objectives of the framework. Our general impression of the consultation paper is that the interests of the supervisors have been emphasised too much at the expense of the interests of the industry. Both the scope and the level of details in the proposed reporting are illustrative of this fact.

Scope of the CoRep

The FNH is of the opinion that the scope of the common reporting framework should be strictly limited to the minimum requirements in Pillar 1 of the new solvency requirements. It should not include reporting on issues related to the Supervisory Review Process (Pillar 2). There are several reasons for limiting the CoRep strictly to Pillar 1.

Firstly, for cost reasons, the common reporting should be limited to areas where regular reporting is absolutely necessary for the supervisors to carry out their obligations. Thus, institutions should not on a regular basis be required to report on information supervisors may find nice to have access to, but which is not strictly necessary. We cannot see that the data in the proposed five templates for "other information" in the CoRep represents such *strictly necessary information*.

Secondly, *common reporting is only appropriate for measurement of compliance with harmonised requirements, i.e. areas where supervisors have agreed common methods for measurement and evaluation. This is currently only the case for Pillar 1 requirements. If authorities at a later stage agree on standards for common measurement and evaluation of risk factors under Pillar 2, then we will be open to discuss how relevant information on such risk factors can be included in the CoRep.*

We would also like to stress that the evaluation of the risk factors under Pillar 2, such as concentration risk (related to single names or industries), should be made on the basis of a thorough evaluation of the credit institution's portfolio and its own assessment process. If data on such Pillar 2 related information is included in the common reporting framework, we fear that this may lead supervisors to focus excessively on this information and thus undermine the objective of Pillar 2 of the new solvency regime.

Level of harmonisation

One of the key principles that has been followed in the design of the CoRep is flexibility for the individual supervisor to choose the level of aggregation and level of detail in the solvency reporting. No attempt seems to have been made to arrive at an agreed common minimum level of information that can be seen as appropriate by all supervisors. Instead the CoRep seems to include almost all the information different supervisors wish to have reported. We fear that the said flexibility will have the effect that more detailed solvency reporting requirements will be applied across Europe than would be the case without a common solvency reporting framework. The large number of credit institutions without subsidiaries in other member countries, may therefore not benefit from this framework at all, while the benefit for institutions with cross border activity may be very limited.

The FNH understands that there exists different traditions with respect to solvency reporting in Europe, and that the solvency requirements based on the new Basel Capital Accord alone will not remove these cultural differences between supervisors. It is however important for the sake of the Internal Market, that CEBS makes use of the opportunity the

introduction of new solvency regime gives, to reduce the differences between the supervisory cultures as much as possible.

Proposals

The FNH propose that CEBS adopt a goal of a harmonised minimum reporting framework, which is based on “best practice” among European supervisors, as the long term goal for the CoRep. CEBS should as a first step towards this goal devote resources to arrive at a first common reporting framework, which is significantly reduced compared to that of the consultation paper.

The proposed framework includes five templates on “other information” not related to the credit institutions fulfilment of the minimum requirements in pillar 1: Template on major counterparty exposures, template on sectoral exposures, template on affiliates, template on major operational risk gross losses, and template on originated securitisation programs. We propose that these templates are removed from the CoRep. Those supervisory authorities that do not agree with this may nevertheless include such information in their local reporting requirements, cf. paragraph 17 in the consultation paper - category “C” or “D” data.

The FNH also asks CEBS to only include data deemed necessary by all supervisors (i.e. category “A”. data) in the taxonomy of the CoRep. Thus data required by one or more supervisors, but not all, should be excluded from the CoRep (i.e. category “B” data). National supervisors may nevertheless include such data in their local taxonomy, which may be developed under the same standard as the CoRep, cf. category “C” data.

2. Other issues

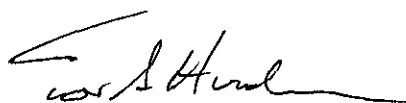
Common reporting format

The FNH supports the use of a common reporting format and welcomes CEBS intention to provide coding for a data model based on eXtensible Mark-up Language (XML) / eXtensible Business Reporting Language (XBRL). It is however important that banks are not forced to make use XLM/XBRL in their internal systems.

More detailed comments

The FNH is a member of the European Banking Federation (EBF). The EBF has conducted a detailed and thorough evaluation of the proposed CoRep. We wish therefore to refer to EBF’s position paper for more detailed comments.

Yours faithfully,



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Deputy director