

POSITION PAPER



ESBG position paper on the EBA consultations on draft Implementing Technical Standards (CP50 and CP51)

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Introduction

ESBG, the association representing retail and savings banks within Europe considers that the draft implementing technical standards of the European banking Authority (EBA) represent a significant step forward towards better financial stability. ESBG informs the EBA that it does not answer to all the questions of the consultation but it preferred to select the most important ones for European retail and savings banks. Moreover, we have introduced some further comments that not correspond to any question posed by EBA. Nevertheless, we consider these comments are valuable for the discussion.

While it is time to go into the details of prudential and financial reporting, several issues appear especially with the consultation on Supervisory reporting requirements for institutions (CP50). Indeed the European Savings Banks Group has some concerns as to whether the principle of proportionality is really respected with the current proposal. For instance, we consider that the scope of FINREP, the deadline given to implement the ITS or the idea to extent reporting obligations to individual regionally retail banks would create an incredible administrative burden with very limited benefits.

Secondly, we have added to our response an Annex with technical comments on the FINREP templates present in Annex III, V and the options given by IFRS of the consultation. We list some mistakes, omissions and confusions. There are also some precisions that we consider necessary. With this technical Annex ESBG intends to convince the EBA that not only does its proposal goes well beyond IFRSs but also that it shows that there is still much work to be done for these templates to be workable. We consider that the proposal is at a stage where it is not developed enough to be endorsed. ESBG considers this Annex as extremely important and hope it will help the EBA to improve its templates.

Lastly, the consultation period for the paper on “ITS on reporting of Large Exposures” (CP 51) lasts for little more than a month only. This is far too short a time to allow for an adequate consultation. The consultation period should be extended to the 26th of April 2012. ESBG regrets that during the past three years, consultation processes, if any, were reduced to minimum periods, and stakeholders have been overwhelmed by demand for input from various sources. These short consultation periods give rise to substantial concern since deeper assessment and reflection would have been called for highly complex technical standards of a potentially large impact on banks and economies.



Question 1

How would you assess the cost impact of using only the CRR scope of consolidation for supervisory reporting of financial information?

Summary of ESBG's answer

The cost of using only the CRR scope of consolidation for supervisory reporting will be very important and it is impossible to provide a correct measurement of the costs as it entails important changes in terms of reporting and internal organisation. While stressing the important cost of your proposal we would like to take the opportunity to raise your awareness on the decision to go forward with the CRD/CRR scope of consolidation for FINancial REPorting (FINREP). Indeed, such a decision will be in opposition to the idea to have Implementing Technical Standards proportionate to nature, scale and complexity of institutions activities given that many small and medium sized would be obliged thereafter to provide data that in many cases do not have. This would involve high added costs for small and medium sized financial institutions

ESBG also considers that the **financial reporting requirements should be based on the consolidation scope that was defined for accounting purposes.**

In addition, while FINREP is only mandatory for group consolidation at later stage those groups of banks that are just locally active could have to file FINREP reports. **ESBG would like to argue in advance against the idea to force local banks to prepare and file FINREP reports.**

A more detailed argumentation follows hereunder.

Financial Reporting Requirements should be based on the accounting scope.

As it was set up in the CRR, reporting on a consolidated basis for supervisory purposes (COREP) and for financial information purposes (FINREP) shall follow the prudential consolidation scope. While we understand the rationale of this decision (taken in December 2009) especially the will to reconcile COREP and FINREP reports we highlight that this will, though sound, creates conflicting issues especially in terms of proportionality. In countries for which FINREP is not yet implemented, significant cost are envisaged given that the change of the scope of consolidation will require technical changes to the banking systems and reporting process at the very detailed level. Against this background it appears more reasonable to base the FINREP on a consolidations cope rather than on a prudential scope.

First of all the proposed Implementing Technical Standards **are not proportionate to the nature, scale and complexity of retail and regionally active savings banks.** The frequency (risk assessment systems, nature of information) thresholds proposed are too demanding for small and regionally banks. For the proposal to be proportionate it must be necessary to achieve the aim which is financial stability and it should be ensured that there cannot be any less onerous way of doing it. Furthermore it also must be reasonable, considering the competing interests of different groups at the stake.



The fact that savings and retail banks have a simple business model, incur less volatility in their balance sheet and have more limited means than their competitors in terms of implementing capacity should be taken into account so that the principle of proportionality become something more than a motto. Today some countries do not have FINREP reporting. Asking to have FINREP workable by the first quarter of 2013 is not a proportionate demand. As a result one year delay should be granted and we suggest extending national discretions at least to 01. January 2014.

Secondly under the current formulation of the Draft ITS there is a very limited materiality rule. Once the CRR comes into force the scope of application of the reporting rules will follow the approach included in the Article 16 CRR. Apart from the waivers for small subsidiaries envisaged in the Article 17 CRR, the supervisory provisions contain no materiality rules. As a result, all banking groups which until now had the obligation to submit an individual statement of own funds could, potentially, fall under the scope of application of the ITS. However, these banking groups clearly outnumber banks which are obliged to prepare consolidated financial statements under the current IFRS framework. Conversely, these banks would no longer have to submit individual statements but they would have to report consolidated data. In fact, the mentioned banks would have to draw up group accounts for the sole purpose of meeting European reporting requirements. In our view, this would entail a huge added cost which would not be worthwhile in a cost-benefit analysis (principle of proportionality).

Therefore, we consider that the financial reporting requirements under the provisions of the forthcoming ITS should be based on the consolidation scope as defined for accounting purposes.

Alternatively, we could also support a regulatory provision that would involve the inclusion of more generous materiality rules for the reporting of financial information (FINREP). For instance, the mentioned materiality rules could be based on size (whilst not limited to, this could include total assets, profit...) or on bank's international activity.

In the future only internationally active groups should have to file FINREP reports and not local banks

ESBG would also like to argue in advance against the idea to force locally active banks to prepare and file FINREP reports. We are against any extension of the scope of application of FINREP requirements to include groups that draw up accounts under national accounting rules. We reiterate our position under question 19.

The rationale behind the existing FINREP provisions was to create a uniform reporting format for banks under IFRS accounting standards. Essentially, we support this approach in view of the international interdependence and the capital market orientation of banks that use IFRS. However, there are many savings and retail banks that are still using local accounting rules.

In the present proposal, the EBA goes well beyond this principle and extends the scope of application to consolidated financial statements that are being prepared under national accounting rules. In our view, such an extension is unnecessary given that the mandatory application of international reporting requirements would result in an excessive burden for groups that exclusively operates on a domestic basis. Given the absence of any international interdependencies, the risk that those domestic banking groups pose to the international banking system is clearly lower than the one associated with large banks featuring cross-border operations.



We firmly believe that only national supervisors have the in-depth knowledge needed to understand the idiosyncrasies of the national banking market and the national accounting rules. Therefore, we advocate for a solution that states that groups that are exclusively active at national level would solely fall under the reporting requirements set up in their national regulation

In this context, we suggest to clarify whether the waiver foreseen for small and exclusively nationally active banks set out in Article 5(2) ITS is also applicable to financial reporting. Pursuant to Article 95 CRR, financial institutions will have to report their own funds requirements for position risk at least every 3 months. The aforementioned reporting requirement shall also include financial information. In our opinion this means that when prudential reporting is made on a semi-annual basis, the financial information will also have to be reported on a semi-annual basis.

ESBG does not answer to questions 2 and 3. However ESBG will list **in annex** the mistakes, errors and limitations that have been found in Annex III and V of the consultation. With this technical Annex ESBG intends to convince the EBA that not only does its proposal goes well beyond IFRSs but it also shows that much work has to be done on this template to be workable.

4. Does having the same remittance period for reporting on an individual and a consolidated level allow for a more streamlined reporting process?

We consider that the reporting deadline is extremely ambitious (particularly with regards to the reporting deadline 31 December).

While reiterating that FINREP should not be mandatory at individual level, we believe that **45 days** will be necessary for financial information reporting to ensure the quality and consistency between data at consolidated and individual level... **FINREP's remittance dates should be aligned to the publication of financial reports.** Therefore, FINREP should not be provided before the date of the financial statements.

In any case we feel that the goal of providing meaningful financial information over the entire previous fiscal year within 30 days of the end of the fiscal year (which means 30 days after the 31 December of the respective year i.e. as early as 11 February) is very ambitious. We consider that any report issued on this reporting date can only have a preliminary character and may be subject to subsequent changes which could partly still be significant.

We would also be very grateful if the EBA considered extending the delay to file COREP reports to 45 days. This would make things more workable for ESBG members and is especially important for institutions that have to file group solvency reporting. In terms of process it is a prerequisite to have finished these reportings on solo-level before working on group solvency reporting. Therefore 30 days are not enough to accomplish both task. This is particularly the case because of the workload that represents FINREP and COREP reports.

ESBG does not answer to questions 5 to 7.



8. Do the proposed criteria lead to a reduced reporting burden?

ESBG considers that proportionality is of utmost importance when it comes to reporting to national supervisors. Against this background one of our proposals would concern the geographical breakdown within these reportings. Our proposal is only applicable for IRB-Institutions, as geographical breakdown is not requested to be reported by institutions that implement the standardised approach.

We propose to raise the threshold for the geographical breakdown in the "CR IRB total - geographical" breakdown from 10% to 20%. This is because a 10 % threshold does not alleviate institution's reporting burden as they will be forced to calculate the threshold on an ongoing basis for their respective supervisors just to prove that they do not exceed the 10 % threshold.

If the EBA really plans to reduce reporting burden then the threshold should be raised to 20 %. Thanks to these figures, institutions with only a small foreign portfolio could cut back on their permanent calculation.

The reporting templates would be less volatile in comparison to the 0.5% threshold that is currently proposed. This threshold states that information on the geographical distribution of exposures shall be submitted for each country with total exposures of equal or higher than 0.5% of total exposures ("domestic" + "non domestic" in all exposures classes). However this threshold suffers from a major drawback. Indeed, it could changes many times during the course of the year. The 0.5% threshold could lead to unclear results as the portfolios in the 10 largest countries may vary from exposure class to exposure class. Furthermore, this threshold could not be a good indicator of concentration of risks given that it is possible that institutions have large exposures on government bonds in one country while they lack any exposure to retail sector in the same country. At the same time, it can happen that these institutions have exposures just to the retail sector while not exposure to governments. ESBG therefore proposes an alternative reporting principle. Institutions that exceed the threshold mentioned above should report 80 % of their foreign exposure to their supervisor. This would lead to clearer results and avoid ambiguity. We regard this being acceptable from a prudential point of view.

ESBG does not answer to questions 9 to 14.

15. What would be the cost implications if information on own funds as put forward in Part 1 of Annex I (CA 1 to CA 5) were required with a monthly frequency for all institutions?

The EBA envisages that own funds might be reported on a monthly basis in the future. We firmly reject this idea.

From an operative point of view it is impossible to calculate only own funds. If own funds were to be reported on a monthly basis then capital requirements will also have to be reported with the same frequency. This is particularly true for the comparison of expected losses and value adjustments for tier 2 capital, risk weighted assets calculation, new emissions, etc. As a result, the monthly reporting frequency would oblige institutions to run two parallel calculations for different months at the same time as having 30 working days to hand in the report to EBA (e.g. reporting of 30th March has to be handed in by 11th May, own funds reporting of 30th April has to be handed in by 11th June therefore from 1st May to 11th May institutions will have to work on two reportings).

We also consider that the idea to report own funds on a monthly basis is in contradiction to the principle of proportionality.

ESBG does not respond to questions 16 to 18.



19. What is your general assessment of applying reporting standards regarding financial information on an individual level?

As highlighted under question 1 we strictly reject any extension of the reporting requirements for financial information at individual level.

First and foremost, it would not make any sense to subject banks which are exclusively active at national level (such as savings banks) to the extremely labour-intensive international reporting standard. In our view, the corresponding reporting requirements for financial information should be developed by national supervisory authorities.

Currently, there are several supervisory reporting schemes on-going in different European countries as is the case in Germany. Banks in many countries already produce a detailed monthly individual report. However, it is not reconcilable with FINREP requirements. There is no sense on developing further individual financial information requirements when the on-going process is not yet totally applied.

Furthermore, there is no harmonization of accounting standards. Therefore, there is no need for the EBA to require reporting of financial information at an individual level. The introduction of FINREP at this level would lead to double reporting standards in countries where IFRS is not allowed at solo level, or where institutions are allowed to use IFRS in financial statements but are not exempted from filling local GAAP accounts for tax or prudential purposes.

ESBG does not respond to questions 20 to 23

23. How would you assess the cost implications of the following two options?

(1) Implement the ITS as of the first possible reference date (31/03/2013).

Meeting the proposed implementation date of 31/03/2013 is impossible due to several reasons. First of all in most countries the COREP format implementation is still developing and FINREP is not at all implemented e.g. in UK or Germany. Therefore, the costs arising from an eventual obligation of applying the ITS in this timeframe would be huge.

If the supervisor aims at obtaining an appropriate data quality, a 9 month implementation deadline is not enough in terms of the required reporting arrangements and IT resources. We consider it unrealistic to use those countries where the former CEBS maximum standard has been fully implemented as a reference. Instead, the lowest European-wide implementation status should be used as a general benchmark. We consider that the date proposed is unrealistic given that financial institutions will be obliged to make a complete change of their system to fulfil the new requirements. Furthermore due to the large amount of requirements that need to be implemented the cost of implementation, in particular the cost related to IT systems, will be especially high. The new ITS reporting scheme will oblige banks to adapt to a completely different system in a very short timeframe which would indeed entail a further cost to add. Moreover, the new reporting system will entail to connect risk and accounting databases and the build up of the reconciliation processes. Some banks have reported that the amount of data reported in FINREP is expected to increase four-fold when compared to the current reporting requirement of the national supervisory authority.



Additionally, we consider that EBA should postpone the deadline until the final text of CRR is endorsed. The change in the reporting system envisaged would alone entail a large added cost due to the large amount of data required (given the non availability of any data at present) and the full change in IT systems. Therefore, we consider that EBA should be flexible on the timeframe in order to lower the cost burden for financial institutions.

Finally, we understand that this consultation should be seen in the context of other ITS that EBA is developing such as leverage ratio, liquidity reporting, large exposures reporting, that will impact banks' resources and their capabilities to process and implement these new standards.

(2) Delay the implementation of the ITS by 6 months (first reporting based on data as of 30/09/2013) and implement national interim solutions for reporting as of 31/03/2013

The proposed delay will not be enough. The first implementation date should be aligned with annual reporting therefore the implementation should be delayed until January 2014. Starting in the middle of the year 2013 does not help because P&L data are prepared on year-to-date basis. This means that the systems have to be ready at the beginning of 2013 anyway.

24. What would be the minimum implementation period to adjust IT and reporting systems to meet the new ITS reporting requirements? Please elaborate on the challenges which could arise.

First of all, due to the wide variety of information that has been requested, regarding the IT migration there is a need for clarification of preliminary questions concerning the interpretation of the requirements and the required data for populating these reporting templates. The latter partly requires data extraction from different systems. This also means that the necessary interfaces will have to be created, followed by the subsequent synchronisation within the reporting software. In some parts, it will be necessary to implement complex data queries. In many instances, in order to meet these requirements, it will be necessary to build new data pools from scratch. This is due to the fact that - given the complexity of the reporting task - manual population will no longer be an option. Given the above, some of our members have estimated that they would need at least 20 months for implementing the requirements concerning the prudential reporting (COREP) and the financial reporting (FINREP) requirements. Furthermore, there are now many data requirements which cannot be worked out in an additive manner, like the number of counterparties and obligors. For this purpose, the template form supplied by subsidiaries is no longer sufficient. We regard as out of place the large amount of data required under the ITS draft that do not match CRR data requirements.

Secondly, the absence in most of cases of an automatic interlinking between risk and accounting databases is an additional problem due to the current mix of financial data and risk elements. The information from risk systems needs to be used in FINREP and vice versa. Therefore, banks would have to create automatic interlinking systems and collect additional information that is not currently available. This will probably be more difficult to fulfil with the proposed deadlines for implementation.



Indeed while we understand that the EBA is willing to reconcile financial and risk figures we would like to recall the difficulties that the Expert Advisory panel (EAP) of the IASB faced with this issue while it was working on changing the principles of impairment from an incurred loss model to a more proactive model. Its members who include the Basel Committee on Banking Supervision and International Organization of Securities Commissions concluded that rather than merging accounting and risk reporting sourcing separately the information in accounting systems and the information in risk systems was the better approach¹.

There are also certain reservations over EBA's proposal concerning a national interim solution. Any potential independent national action will only be of limited benefit for cross-border active banks as it would lead to divergent temporary requirements for foreign subsidiaries. However, due to the fact that the CRR has to reflect new rules in reporting we also see a need for adjustments with regards to prudential reporting as of 01 January 2013. Yet, the latter does not apply to the financial reporting requirements.

Hence, we argue in favour of the following proposal: The entire ITS will take effect as of 01 January 2014. As of 01 January 2013, national interim solutions should be defined solely for the purpose of the prudential report requirements (COREP). The latter, however, ought to be based on the status quo and should only accommodate changes that have become necessary due to the CRR (e.g. presentation of own funds). Hence, any changes that do not result from the CRR (for instance in the field of securitisation) should therefore obtain a binding nature only as of 01 January 2014. Any change that is not included in the final version of the CRR, and any other redundant or irrelevant table that does not fulfill any reporting requirement of CRR, should be removed. As mentioned before, FINREP should be as well implemented from 01 January 2014 on.

ESBG does not respond to questions 25 to 43

¹ The summary of the report of the EAP is available here: <http://www.ifrs.org/NR/rdonlyres/9322EF19-35A3-40F0-A1B7-9B853E9515E9/0/FI0910b15obs.pdf>. The critical paragraphs to look at are the following:

"15. We learnt that in practice, the ECF approach would give rise to operational difficulties because financial institutions and others typically store comprehensive contractual and accounting data (in particular effective interest rate data) and EL data information in separate systems ('accounting' and 'risk' systems). These operational difficulties were a major concern raised by members of the EAP.

16. We learnt that the ECF approach (as an approximation) could be simplified by 'decoupling' – separately sourcing the information in accounting systems (interest revenue as determined today under IAS 39 Financial Instruments: Recognition and Measurement that excludes EL estimates) and the information in risk systems. Such an approach would adjust the interest revenue calculated in the accounting system using an allocation profile for expected credit losses derived from EL data in the risk system."



44. Does the IAS 7 definition of cash equivalents follow the practice used when publishing financial statements? How would this definition interact with definitions of IAS 39 for assets in held for trading portfolio?

The question does not address the real issue which is the relevance of a “cash equivalent” line for banks. In our view introducing cash equivalents as a line item is not a good idea. Cash equivalents as defined in “IAS 7 Statement of Cash Flows” are not relevant for the banking industry and do not even reflect liquidity management practices. We appreciate that EBA recognises the fact that cash flow statement does not bring any information value and does not require this statement in FINREP. Therefore, there is no reason to use any category typical of this statement that is not an IAS 39 category either.

As regards the interaction between cash equivalents and trading assets the relationship is very loose if any. Trading assets may have different holding period which does not coincide with the three month limit set by IAS 7 for cash equivalents. Some of the trading assets may even be held until maturity. Moreover IAS 7 definition of cash equivalents says that they are subject to an insignificant risk of changes in value. Trading assets are, on the contrary, held with an intention of profit taking from short term price fluctuations.

Therefore, we propose to completely abandon the notion of cash equivalents in FINREP as it can be in opposition to distinction of financial assets into IAS 39 categories.

We mention the irrelevance of using the notion of cash and cash equivalents above. Moreover the structure of the Table 3.1 is unclear as we highlight in the Annex of our position paper. We also take the opportunity to reiterate our argumentation in the same Annex.

45. How do you assess the impact of reporting interest income and interest expense from financial instruments held for trading and carried at fair value through profit and loss always under interest income and interest expense?

The question has an assumption and we disagree with it. It overlooks that in some cases IFRSs gives the option to applying different accounting policies. However FINREP does not respect this choice. We insist that IFRSs do not specify whether the interest component should be presented separately or not. This topic will be further developed in our Annex (*Dirty/clean price reporting for gains/loses on financial instruments at FV through P&L*)

ESBG does not respond to other questions but wants to **provide some comments on article 10 of the consultation.**



ESBG comments on article 10: Format and frequency of reporting on losses stemming from lending collateralised by immovable property according to Article 96 CRR

ESBG understands that reporting of losses stemming from lending collateralised by immovable property shall be done with a quarterly frequency according to Annex VI and Annex VII.

Following the same approach as that on the reporting on own funds requirements, EBA suggests that losses stemming from lending collateralised by immovable property should be reported with a quarterly frequency (“hard-test”). At present, the hard-test has to be met on an annual basis. We fail to understand the reason for a quarterly frequency as an annual report is definitely sufficient because loss rates will not significantly change on a quarterly basis. The increased frequency induces only small supervisory benefits at the price of sharply rising costs for institutions.

Consultation period for CP 51 “ITS on reporting of Large Exposures”

The consultation period for the aforementioned paper lasts for little more than a month only. This is far too short to allow for an adequate consultation. The consultation period should be extended to the 26th of April.



POSITION PAPER



ANNEX

ESBG's technical comments on ANNEXES III, V and comments concerning the options given by IFRS of CP50

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1. Introduction to the Annex

The world has experienced a dramatic financial crisis and there is a clear need to improve financial stability. Amongst others this necessary improvement can be achieved if reporting for supervisory authorities appropriately reproduces the economic reality and takes into account the specificities of the business model of savings and retail banks. In addition, the crisis has demonstrated that savings and retail banks' business model - which consists in originating loans, holding these loans on their balance sheets and funding them with stable resources such as demand deposits - proved to be extremely resilient during the crisis as opposed to the originate-and-distribute business model.

Against this background we have considered it necessary to include into our response this technical Annex to help the EBA improve its template. We list some mistakes, omissions and confusions. There are also some precisions that we consider necessary. With this technical Annex ESBG intends to convince the EBA that not only does its proposal goes well beyond IFRSs but also that it shows that there is still much work to be done for this template to be workable. We consider that the proposal is at a stage where it is not developed enough to be endorsed.

2. Comments on the Annex III (table part)

- *References in the tables* to IFRS and to Annex V (ITS) have to be reviewed because in many cases they are wrong. Some but by far not all cases are mentioned in the comments below.

At the same time, as discussed in detail below, the terminology in FINREP shall be made consistent with the version of IFRS that it uses as a basis (sometimes non-endorsed standards are used as a reference – e.g. IFRS 13, sometimes not – IAS 19 before 2011 revision and some references are not updated to recent changes in standards – reference to equity). The same is valid when reference is made either to non-controlling interest or to minority interest.

- *Comment on frequency of the tables.* Requiring all the FINREP tables on quarterly frequency is against principles of interim reporting under IFRS. According to IAS 34 financial statements may be presented in a condensed format and mandatory part of the disclosures in the notes is very limited compared to the annual set of disclosures. Interim disclosures are driven by the principle that users of the financial statements have can use the information from annual statements. Therefore, in addition to the limited set of mandatory interim disclosures, further disclosures are provided only if there has been a significant change compared to the information presented on annual basis.

Therefore as regards reporting frequency and the data FINREP goes far beyond the IFRS requirements. We suggest that the EBA does not extend the required information beyond the IFRS requirements but distinguishes between the set of tables containing core information required quarterly and set of table with non-core information required annually.



- *Validation rules are not part of the tables.* As a result it is often difficult to understand the structure of the tables. Especially it is not clear what the lines like “Total” relate to. We recommend to add the check sums and aggregated lines where missing.
- The structure of the tables is not uniform as regards the lines for totals and the detailed lines which contribute to the totals. Sometimes the totals are below the detailed lines, sometimes above.

- *Table 1.1 Assets*

Introducing the cash equivalents as a line item of the balance sheet is not a good idea. Cash equivalents as defined in IAS 7 Statement of Cash Flows are an artificial category for the banking business. Such cash equivalents do not even reflect liquidity management practices by banks. We appreciate that EBA recognises the fact that cash flow statement does not bring any information value and does not require this statement in FINREP. Therefore, there is no reason to use any category typical of this statement that is not an IAS 39 category either.

As regards the interaction between cash equivalents and trading assets asked in the question 44 the relationship is very loose if any. Trading assets may have different holding period which does not coincide with the three month limit set by IAS 7 for cash equivalents. Some of the trading assets may even be held till maturity. Moreover IAS 7 definition of cash equivalents says that they are subject to an insignificant risk of changes in value. Trading assets are, on the contrary, held with an intention of profit taking from short term price fluctuations.

Therefore, we propose to completely abandon the notion of cash equivalents in FINREP as it can be in opposition to distinction of financial assets into IAS 39 categories.

- *Table 1.3 Equity*

IFRS does not distinguish between paid up and unpaid capital. Therefore, the items 030 “unpaid capital which has been called up” needs to be clearly explained.

The part “other equity” in the lines 050 – 080 should be explained in a better way in the part 2, paragraph 14 (Annex V).

Do the contractual obligations that will or may result in the delivery of own equity instruments belong to the line 060 “other capital instruments” or to the line 080 “other”?

We assume that the term “equity component of financial instruments” used in the explanatory text is equivalent to the line 070 “equity component of compound financial instruments” used in the table. But then the terms should be uniform.

Furthermore, it should be made clear to what item equity entries arising from equity-settled share-based payments belong.

Can any other items belong to “other equity”?

The items 210 – 250 under heading “Revaluation reserves” are untypical of standard IFRS financial statements. The references point to IFRS 1.30, 31, D5-D8. Revaluations under these paragraphs are done through retained earnings and the values are usually only disclosed in the notes. Following such detailed information applicable only to first-time adopters directly on the face of the balance sheet leads to a significant expansion of the line items in the equity and is very untypical. If in spite of these facts



EBA decides to keep such information these items should be included under the general heading retained earnings.

The item 330 “Reserves or accumulated losses of investments in subsidiaries, joint ventures and associates” is not clear and reference to IAS 28.11 does not provide much help. Reserves or accumulated losses for investments accounted for by equity method are not recognised in the equity of the investor but adjust the carrying amount of the asset. Therefore if EBA wants to keep this item it should provide a clear explanation.

- *Table 2 – Income statement*

Item 540 in the Income statement has a wrong name and should refer to impairment of *non-financial* assets.

- *Tables 3.x – Breakdown of financial assets by instrument and by asset class*

Sector classification in different tables is not uniform for loans and advances.

As regards debt securities the sector breakdown is uniform but the “corporates” sector has references to ITS 1.21 in the Tables 3.5 and 3.8 and ITS 1.22 in the Tables 3.1, 3.2 and 3.4. This would result in a different composition of corporates.

The numbering of the tables is strange because Tables 3.3, 3.6 and 3.7 are missing.

- *Table 3.1 – Breakdown of financial assets by instrument and by asset class: demand deposits and cash equivalents*

We mention the irrelevance of using the notion of cash and cash equivalents above. Moreover the structure of the Table 3.1 is unclear.

- It is not clear what particular lines mean – which are related to the central bank and which not
- Are the lines “debt securities” 010 and 050 and “loans and advances” 020 and 100 anyhow related?
- Is the line 150 total of 040, 050 and 100?
- As regards relationship with the Table 1.1 can all the lines of the Table 3.1 (except for 030 and 150) be found in the accounting portfolios or in the line 040 of the Table 1.1?
- Is the line 030 (Table 1.1) = 030 (Table 3.1) and line 040 (Table 1.1) = 150 (Table 3.1)?

- *Tables 3.2, 3.4, 3.5*

Breakdown of financial assets by instruments and by asset class: - financial assets held for trading, -designated at fair value through profit or loss, -available-for-sale

Each table has its part for equity instruments which contain lines starting with “of which”

It means that the sum of the lines for sectors 030 (credit institutions), 040 (other financial corporations), 050 (non-financial corporations) is not necessarily the amount in the line 010. Was this really the intention of EBA? Because the content of these items should sum up to the total amount of



equity instruments held. There can hardly be counterparties to equity instruments coming from central bank, government or household sectors.

As regards the line 020 “of which at cost” here the “of which” information is substantiated. But it is questionable whether equity instruments measured at cost can be found in the portfolios for financial assets held for trading (Table 3.2) and FVO assets (Table 3.4).

• *Table 3.8 – Breakdown of financial assets by instrument and by asset class: Loans and receivables and held-to-maturity investments*

In the line 160 references to IFRS 7.8 (c) is missing.

• *Amount of (cumulative) changes in the fair values attributable to changes in the credit risk*

Table 3.2, 3.4, 5, 17.5, 21.2, 29.2

This information is required by IFRS 7.9,10 only for

- assets designated at FV through P&L which would otherwise meet the definition of *loans and receivables*
- liabilities designated at FV through P&L

These IFRS 7 requirements are not respected in any of the tables.

- Table 3.2, column 020 requires this information for trading assets
- Table 3.4, column 020 requires this information for fair value option assets and does not limit it only those meeting the definition of loans and receivables
- Table 5, column 060 requires this information for derivative financial liabilities. As regards non-derivatives liabilities it should be made clear that the column 060 relates only to fair value option liabilities in the column 020 (and not to financial liabilities held for trading and measured at amortised cost).

Moreover, information in the column 070 is the same as required in the table 17.5 in the lines 040, 050 and 060.

- Table 17.5, column 040 requires this information for all FVO assets and liabilities. As regards assets it has to be limited only to those which would otherwise meet the definition of loans and receivables.

Moreover, this table requires credit risk information for equity instruments which do not bear any credit risk under IFRS 7 principles

- Table 21.2, column 060 requires this information for all FVO assets and does not limit it only to loans and receivables



- Table 29.2, column 030 requires this information for all FVO assets and liabilities. As regards assets it has to be limited only to those which would otherwise meet the definition of loans and receivables.

- *Table 3.5 Breakdown of financial assets by instrument and by asset class: financial assets designated at fair value through profit or loss*

The name of the column 040 „Accumulated impairment [Allowance]” should avoid using the term “allowance”. Allowance generally refers to indirect recognition of impairment through allowance accounts. However for equity instruments in AFS portfolio only direct recognition of impairment is allowed. IAS 39 allows using allowance account only for financial assets measured at amortised cost, i.e. debt instruments.

- *Table 4.1 Financial assets subject to impairment that are past due or impaired*

The column 100 "Collective allowance for incurred but not reported losses" is not applicable for equity instruments. Equity instruments in AFS portfolio (including those measured at cost) are subject only to individual assessment for impairment. Collective assessment of impairment is allowed only for financial assets measured at amortised cost.

The column 140 “Collateral and other credit enhancements received as security for the related impaired and past due assets” requires quantitative information on collateral which is not supported by IFRS. The requirement to disclose FV of collateral which refers to IFRS 7.37(c) was deleted as part of Annual Improvements effective January 2011. If such IFRS non-compliant information is to be required, which we oppose, it needs to be not specified what value of collateral should be disclosed – should that be the nominal value, fair value or the discounted estimated cash flow used for impairment calculation purposes or a value used for prudential reporting?

The term “write off” in the column 150 is used both for impairment losses recognised through allowance account and those recognised directly as also explained in the Annex V, part 3, paragraph 12. We should avoid using this term in such a broad sense. In the practice write-off is used when, due to loan irrecoverability, the respective loan amount is removed from the balance sheet and allowance account is used at the same time. Instead a term “impairment” or “impairment loss” might be used.

- *Table 4.2 Financial assets non-subject to impairment that are past due*

The title is confusing and misleading. From the Annex V, part 3, paragraph 13 it can be derived that the table should relate to debt instruments at fair value through profit or loss. In such case the table is IFRS non-compliant because no past due analysis is required for financial assets at fair value through P&L by IFRS 7. Moreover the term “defaulted” is a Basel category and is not used in connection with credit risk disclosures for financial assets under IFRS 7.



Therefore we propose to omit this table. If EBA decides to keep such non IFRS-compliant information at least the title of the table should be made clear.

- *Table 6.1 Off-balance sheet items subject to credit risk: loan commitments, financial guarantees and other commitments given*

The lines 020, 100, 180 use a non-IFRS category “of which doubtful”. Therefore the information should not be required.

- *Table 6.2 Loan commitments, financial guarantees and other commitments received*

In IFRS no quantitative information whatsoever is required for commitments and financial guarantees received. The reference to paragraph IFRS 7.36 (b) gives a clue that the intention of EBA here is to collect information on collateral for credit risk exposures. In such a case two issues arise:

- loan commitments received can hardly be considered as a collateral for credit risk exposures
- IFRS 7.36 (b) requires just a description of collateral held; there is no requirement for quantitative data.

Therefore this table should be omitted from FINREP.

- *Table 7 Derivatives: held for trading*

The information in the lines 200, 220, 240 “of which: economic hedges” is not IFRS conform because IAS 39 does not know any category of economic hedges.

- *Table 9 Breakdown of loans and advances by product*

Loans and advances are not an IAS 39 measurement category (accounting portfolios for FINREP purposes). In the balance sheet the presentation is based on accounting portfolios, i.e. loans and advances are broken down into five line items as they can be found in any portfolio. The table 9 introduces further breakdown which has moreover two further dimensions – products and sectors (counterparties) required in a squared structure. Such detailed information is not supported by any IFRS principles for disclosures in the area of financial instruments. Moreover information on loans and advances according to sectors is already available in the Tables 3.x.

- *Table 10.1 Geographical breakdowns of financial exposures subject to credit risk by residence of the counterparty*

Information in this table is not supported by IFRS 7. Moreover there is no explanation of the table and the requirements of the columns 030 “Observed new defaults for the period”, 040 “Accumulated credit risk adjustments”, 050 “Accumulated write-offs”, 060 “Credit risk adjustments/write-offs for observed new defaults” are unclear. Based on the non-IFRS character and obscurity of the information we ask that the table is omitted from the FINREP. There is no reasonable way of commenting it and it should not be approved without exposing it for a proper commenting.



- *Table 10.3 Geographical breakdown of debt securities held from general governments by residence of the counterparty and by residual maturity*

Signs for maturities are written in an opposite way for the bottom value of the ranges (except for line 010).

- *Table 11.1 Impairment on financial and non-financial assets*

The columns 010 “Additions”, 020 “Reversals” and 030 “Total” should be under the heading “current period”. The column 040 “Accumulated impairment” should not use this heading.

- *Table 11.2 Movements in allowances for credit losses and impairment of equity*

The word “instruments” should be added at the end in the name of the table.

- *Table 12 Financial assets pledged as collateral: derecognition and financial liabilities associated with transferred assets*

The information on assets derecognised for capital purposes in the column 110 is not IFRS compliant. We admit that it may be important for regulator but we propose other way of collecting it, i.e. outside FINREP.

- *Table 13 fair value hierarchy: financial instruments at fair value*

The disclosures of gains and losses dramatically increase the requirements of IFRS 7 or IFRS 13 in this area. Both IFRS 7 and 13 require disclosure of

- gains and losses for the period and
- unrealised gain and losses for the period
only for Level 3 instruments.

As a result the Table 13 requires following non-IFRS compliant information:

- accumulated unrealised gains and losses for level 1, 2 and 3 FV measurements (columns 060, 070, 080)
- unrealised gains and losses for the period for Level 2 instruments (column 050).

As a result, the only IFRS compliant column (except for the three columns for standard FV hierarchy) is the unrealised gains and losses for the period for Level 3 instruments (040).

- *Table 17.1 Interest income and expenses by instrument, asset class and counterparty*

In the Income statement interest income and expenses are broken down according to accounting portfolios. Table 17.1 is not anyhow linked to this income statement split as it requires information according to products of financial assets as well as sectors. As a result interest income and expenses are required in three dimensions. These are incomprehensible details to be obtained from accounting systems, especially in the area of income and expenses.



- *Separate presentation of gains and losses*

Table 17.2, 17.5, 17.6, 28.3, 29.1, 29.2, 29.3

Such split is generally not required by IFRS which are based on net presentation and disclosures of gains or losses.

When a bank accounts for the gains and losses from revaluation of financial instruments continuously it may use the system of postings from which such separate information about gains and losses cannot be tracked. This would be the case when

- for the same financial asset it posts for example gain 100 (when fair value went up by 100) for one month on one account and loss 20 for another month (when fair value decreased by 20) on another account. There are two separate accounts for gains and losses but they show the month-to-month +100 and -20 and not year-to-date information +80. Moreover in practice individual assets do not have their own accounts for gains and losses and therefore such year-to-date information cannot be obtained simply by merging the gain and loss account; or
- one account both for gains and losses is used which shows the year-to-date gain or loss on individual asset level. But again postings on it merge many financial assets of the same or similar kind (like described above) and gain and loss balances are offset in this way.

To track such information the bank would have to handle each financial asset separately or would have to change the system of month-to-month (or day-to-date) postings of gains and losses. It might require significant system changes for the banks. Moreover banks which do not have this information do not even use it for internal purposes. Internal reporting based on net presentation of gains/losses is sufficient for them. Only information about financial instruments which are of particular interest for them is then searched individually.

Moreover the Table 28.3 requires presentation of gross (before taxes) and net gains and losses. Distinguishing of gains and losses on gross and net basis is not required by any standard.

- *Table 17.3 Gains and losses on financial assets and liabilities held for trading by instrument,*

Table 17.4 Gains and losses on financial assets and liabilities held for trading by risk

We are against introducing two dimensions in reporting the breakdown of gains and losses from trading instruments. EBA should only keep the breakdown by risk which is in the current FINREP (Table 17.4).

- *Table 18 Fee and commission income and expenses by activity*

The detailed breakdown of fee and commission income and expenses goes far beyond IFRS 7 requirements in this area. IFRS 7.20 (c) requires to disclose only two amount in connection with fees. We admit that such IFRS 7 information is not typical of banking business. EBA should find a compromise between the high level IFRS disclosures and too detailed EBA requirements.



- *Table 19 Statement of comprehensive income*

Official statements for IFRS reporting issued by authorities should avoid using outdated terminology. We refer to the term “valuation (translation) gains or (-) losses taken to *equity*” used in the lines 120, 160, 200, 250 and 290. All valuation gains and losses go through equity when booked either through P&L (as P&L is part of equity) or OCI. In this statement of course the term “... gains or (-) losses taken to *other comprehensive income*” has to be used. This should be observed also in the explanatory text of the FINREP (see e.g. Part 3, paragraph 3 using the term “loss through equity”).

It is unclear what the line items 140 ,180, 230, 270 and 310 “other reclassification” used for each reclassifiable OCI item means. Reclassifications in this respect are defined in IAS 1 and refer to transfers from OCI into P&L. But this is covered in the line item “transferred to profit or loss”. The only clue is the reference to the Example 12 of IFRS 5 in the part for non-current assets and disposal groups held for sale (in the line 310). Were these items meant for transfers of OCI items into the assets held for sale part? If yes, are so many items really necessary for such rare cases? It is difficult to imagine any other transfers here as OCI items cannot have movements other than gains/losses and reclassifications.

- *Table 20.1 Statement of changes in equity*

Applicability of the particular cells in the statement should be reviewed. For example

- can dividends (line 110) be paid out from capital (column 010), share premium (column 020) or other equity (column 030)? If capital/ share premium is distributed this should be reported as a reduction of capital for which the cells are available;
- can transfers among components of equity (line 160), equity increase (decrease) resulting from business combinations (line 170), other increases (decreases) in equity (line 190) be relevant for accumulated other comprehensive income (column 040)?
- accumulated other comprehensive income in minority interests (column 090) is for sure not relevant in the area of issuance of ordinary and preference shares and other equity instruments (lines 050, 060, 070), reclassifications between equity and liability (lines 140 and 150).

- *Table 21.2 Financial assets designated at fair value through profit or loss: mitigation of credit risk with credit derivatives*

Information in this table is required by IFRS 7.9 only for financial assets designated at FV through P&L which would otherwise meet the definition of loans and receivables. This should be specified.

- *Table 23.1 Fair value hierarchy: financial instruments at amortised cost*

This information is required by IFRS 13 on annual basis as IAS 34 was not amended in this respect. Providing good quality disclosures in a standard *quarterly* FINREP reporting frequency would be extremely burdensome and moreover non-IFRS compliant.

- *Table 24 Off-balance sheet activities: asset management, custody and other services*



IFRS do not require any disclosures about off-balance sheet activities and this information is just not available in the banks.

- *Table 25.2 Tangible and intangible assets: assets subject to operating lease*

Why the part for intangible assets is labelled as “Other intangible assets” when the other parts of the table cover only tangible assets?

- *Table 27.1 and 27.2 for Defined benefit plans*

The tables reflect old IAS 19 effective until the end of 2012. IAS 19 (revised 2011) changed some principles of recognition of defined benefit plans and assets. The most significant change is that there are no unrecognised items and therefore items unrecognised actuarial gains/losses, unrecognised past service costs are no longer relevant in the new environment.

3. Comments on the Annex V (explanatory part)

- Description of some tables (Tables 10, 11, 15, 19) is missing which results in a fact that content of these tables might be unclear.

- In the Part 1, paragraph 19 it is specified that “other financial liabilities” contain also loan commitments and financial guarantees. However, for loan commitments and financial guarantees there is a separate line item in the provision part (provisions are part of their measurement under IAS 39.47).

Moreover, it is not specified where financial liabilities which arise from transfer of financial assets should be reported. Generally, they have a specific measurement basis (even though liabilities arising from repo transactions are measured in fact at amortised cost). Therefore, they cannot be assigned to the accounting portfolios held for trading, fair value option or at amortised cost presented in the balance sheet. Should they be reported in other liabilities in spite of the fact that they are financial liabilities?

- In the Part 3, paragraph 27 – what would be the notional amount for example for digital options which do not have any underlying amount just a specified payment?
- In the Part 3, paragraph 41, in the example references to the tables are wrong.

4. Comments concerning the options given by IFRS

In some cases IFRS gives an option of applying different accounting policies. However FINREP does not respect this choice when determining specific policy to be applied. We would like to highlight following areas.

- *Dirty/clean price reporting for gains/ losses on financial instruments at FV through P&L*

In the Part 2, paragraph 19 interest income and expenses from financial instruments measured at FV through P&L are required to be presented separately in the income statement. IFRS do not specify whether the interest component should be presented separately or not. IFRS 7.B5(e) requires to disclose the accounting policy applied by the entity in this respect. Information on interest income / expenses is not even required by IFRS 7 for disclosure purposes (IFRS 7.20(b) asks to disclose total interest income and expense only for financial assets which are not at FV through P&L). Therefore



banks are not obliged to follow such information for any purpose and presentation based on such information is not IFRS conform. For banks which do not apply separate presentation of interest in the net interest income this requirement may be a significant operating burden.

There is some more confusion in the explanatory text, when the sentence in the Annex V, part 3, paragraph 50

“For financial assets and financial liabilities held for trading or carried at fair value through profit or loss, interest income and expenses are collected only if accounted for separately.”

gives an opposite message. It is in line with IFRS, however in contradiction to the above mentioned IFRS non-compliant requirement. Therefore we ask to keep the principle in this sentence.

In the Annex V, part 2, paragraph 22 says that the amounts related to *derivatives* classified as held for trading which are hedging instruments from an economic but not accounting point of view *may be* reported as interest income and expenses. We understand this that it is up to the bank to decide if interest element of such derivatives is presented in

- the interest result or
- in the gains/losses on financial assets held for trading.

This would be in line with the option given for financial instruments at FV through P&L to present the interest income/expenses separately or together with the gains / losses from measurement (as written in the previous point). We are just confused that the option is kept for derivative instruments but not for non-derivative instrument at FV through P&L.

• *Interest costs/ expected return on post-employment benefits*

In the Part 2, paragraphs 23 and 24 say that interest income/expenses from other assets/liabilities may include interest costs and expected return on plan assets (expected return not any longer relevant under IAS 19 revised 2011 as the category *net interest* was introduced) related to post-employment benefits in interest income and expenses.

IAS 19 does not specify where net interest should be presented. Does this “may include” mean that

- if a bank decided to present interests costs within interest result then it is included in this item (this would confirm the freedom of presentation and we would agree with this alternative); or
- does it mean that the net interest is provided here as an example of one of the items which always belong to interest income/expenses from other assets/liabilities (this would be against the optional presentation in the interest result and not IFRS compliant which we do not support)?

• *Presentation of tax effects of OCI items (Table 19)*



IAS 1.91 gives an option to present the items of other comprehensive income either

- net of tax or
- before tax effects showing one amount of the income tax effect

However Table 19 prescribes the latter form of presentation. To keep the option it should be written in the explanatory part that the items 090 and 330 should be filled in only if entity presents the OCI items gross of tax. When presentation of OCI items net of tax was chosen then these items would be irrelevant and should be left empty.



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ESBG – The European Voice of Savings and Retail Banking

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising of approximately one-third of the retail banking market in Europe, with total assets of over €7,470 billion, non-bank deposits of €3,400 billion and non-bank loans of €4,000 billion (31 December 2010). It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

ESBG members are typically savings and retail banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their region. ESBG member banks have reinvested responsibly in their region for many decades and are a distinct benchmark for corporate social responsibility activities throughout Europe and the world.



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