

13 January 2006

FEEDBACK TO THE CONSULTATION ON A COMMON FRAMEWORK FOR REPORTING OF THE NEW SOLVENCY RATIO (CP04)

1. In January 2005, CEBS published a consultation paper proposing a framework for common reporting of the solvency ratio (COREP). The consultation period ended on 30 April 2005. Twenty three comments were received, all but one of which were published on CEBS' website (one respondent asked that its comments be treated confidentially). Following the consultation, CEBS engaged in an extensive dialogue with European industry associations and technical experts convened by CEBS' Consultative Panel.
2. This paper presents a summary of the major points arising from the consultation and the changes made to address them. The attached feedback table provides a detailed description of the comments and CEBS' response to them. Some of the technical comments are not included in the feedback table, since they were already incorporated in the templates, or are no longer relevant.

General Comments

3. The industry generally supported CEBS' aim to develop a common reporting framework for the solvency ratio, and shared the objective of reducing the compliance burden for cross-border financial groups subject to the Capital Requirements Directive (CRD.) However, the respondents felt that the reporting framework presented in the consultation paper was too detailed and extensive.
4. Most of the respondents stressed one or more of the following themes:
 - Common reporting should be harmonised around the minimum requirements needed to arrive at a meaningful solvency ratio.
 - COREP proposals should be aligned with other current initiatives, such as FINREP, in order to avoid requiring institutions to report the same figure twice with no prudential rationale.
 - The level of detail and the scope of the information required in CP04 could increase reporting burdens on institutions.
 - The framework should focus on the essential components required to inform supervisors of a given institution's solvency ratio: that is, on Pillar 1 information. The templates on Pillar 2 contained in CP04 should be dropped from the framework.
 - The principle of *flexibility* conflicts with the objectives of *consistency* and *standardisation*.

5. Some financial groups expressed concern that their IT systems may be unable to deliver some of the required data, especially data relating to credit risk mitigation (CRM) techniques and credit conversion factors (CCFs) in the templates on Credit Risk. They requested that authorities allow at least twelve months for full implementation of the reporting requirements following the release of final guidelines.
6. Several respondents stressed the need to allow financial groups to use a single reporting standard for the entire group, which would permit the consolidating supervisor to establish a common framework and structure for the group's capital reporting. This would imply that the supervisors of group entities located in host Member States would be required to apply mutual recognition to the reports submitted by the financial group. Other respondents found that proposal unacceptable, because it would create level-playing field problems: institutions competing in local markets would be subject to different – and, for some details, incompatible – reporting requirements.
7. The respondents supported CEBS' recommendation to use XML/XBRL (eXtensible Markup Language/eXtensible Business Reporting Language) as a common reporting language for the solvency ratio, but not without qualifications. The respondents felt that the use of XML/XBRL should be voluntary, and that it should be used only to report finalised data to an external party.
8. Some respondents mentioned the need for regular and unified support for the implementation of the common reporting framework, for instance by establishing a 'help desk' operated by the supervisors of cross-border groups to assist them in establishing reporting processes that comply with the common framework. CEBS was also asked to produce a limited amount of additional guidance to accompany its proposals for common reporting, as it was not considered clear how or under what circumstances the various templates proposed are to be used. This is especially important for institutions engaged in complex and/or cross-border business.

Technical comments

9. The banking industry provided fairly detailed proposals for reducing the burden of COREP. Proposals ranged from reducing the frequency of the reporting (although CP04 did not propose a frequency), to eliminating specific templates. Many comments provided detailed remarks on templates, requested explanation lines or columns, or proposed deleting parts of the relevant templates.

Summary of CEBS' response

10. In response to the feedback from the industry, CEBS streamlined and restructured the framework, reducing the number of reporting cells from 70,000 to the current maximum of 18,000 cells. The current proposal introduces two layers of data.

11. CEBS has made a special effort to ensure that COREP framework is as consistent as possible with the standardised framework for financial reporting (FINREP). Although broad consistency has been achieved, complete uniformity between the two frameworks is not possible, since COREP is based on the CRD and FINREP is based on IAS/IFRS standards.
12. The reporting templates in CP04 focussed primarily on regulatory capital and the Basel II Pillar I capital requirements for credit risk, operational risk, and market risk, but also included some references to Pillar 2 requirements. Most of these references have been dropped in response to the consultation.
13. CEBS recommends that national authorities allow a degree of flexibility in their roll-out plans in order to give financial groups enough time to update and fine-tune their reporting systems. This is intended to address the concerns raised by some financial groups that they may be unable to fill out the CRM and CCF templates immediately for every subsidiary. National authorities should discuss with financial groups what would be a reasonable transition period for updating their IS/IT systems.
14. The reporting framework is expected to reduce the compliance burden on financial institutions that operate in more than one country in the EU. Cross-border EU financial groups will no longer be required to submit their supervisory reporting according to different national formats that use different reporting taxonomies. Financial groups headquartered in jurisdictions that require a significantly lower level of granularity in regular reporting will not be expected to develop systems to comply with the entire COREP framework. Subsidiaries of such groups located in other Member States may, however, be asked to develop a more granular version of the framework.
15. While national supervisory authorities are free to decide on the technical implementation of the framework, CEBS considers that XBRL can be a helpful tool in constructing a harmonised European reporting system. CEBS will therefore develop an XBRL platform and make it available free of charge to national authorities and supervised institutions.
16. CEBS will monitor the implementation of the framework by its members, and will address COREP implementation issues as they arise by hosting a list of frequently asked questions and answers on its website. CEBS will ensure the maintenance of the framework and will continue its efforts to achieve greater commonality in reporting frameworks over the long term.

FEEDBACK TO THE CONSULTATION ON CP04

CP04	Comment	Analysis	CEBS Proposal
<p>Harmonisation</p>	<ul style="list-style-type: none"> • Although the process towards harmonisation of European reporting is, in principle, seen as a quite positive development, concerns do exist with regard to the present draft and the additional expenses anticipated for setting-up and maintaining the relevant administration. In any case, some cost-benefit analysis would be helpful. In general, the industry believes that common reporting should be harmonised around the minimum requirements necessary to arrive at a meaningful solvency ratio. • In principle, a common reporting framework has the potential to reduce administrative burden for cross border banks and the new solvency regime is a unique opportunity to reach this objective. The framework as set out in the consultation paper however is too far-reaching and needs to be revised in a number of ways. Also, more work can be done to define what data goes into the different rows and columns in the different templates. • Further, it is a high priority that smaller banks are not unduly burdened by implementation cost due to the proposed reporting regime. A cost benefit analysis of the effect on smaller banks might be helpful. 	<p>In response to the feedback from industry, CEBS streamlined and restructured the framework, reducing the number of reporting cells from 70,000 to the current maximum of 18,000 cells.</p>	<p>The key features of this new reporting mechanism are homogeneity and flexibility. At the centre of the common framework is a core report that will be used almost uniformly throughout the EU.</p> <p>As not all the templates apply to any one bank (for example, an institution would never have to fill out both the Standardised approach and the IRB approach templates for the same exposures), the maximum number of cells that a bank could possibly be asked to report is 18,000. In practice, the actual number of cells to report will generally be lower.</p> <p>Small banks and institutions using standardised approaches will have even fewer cells to report.</p>
<p>Reporting requirements</p>	<ul style="list-style-type: none"> • Measures taken by CEBS to facilitate the convergence of supervisory practice in the EU are supported, thereby paving the way for increasing integration of Europe's markets in the future. However, any steps taken towards these aims should be done so in a 	<p>The framework consists of two sets or layers of data. The first layer represents the core of the framework.</p>	<p>This framework is designed in order to ensure harmonisation while providing flexibility to accommodate different supervisory practices. It does not constitute a mandatory minimum</p>

	<p>proportionate manner and on a 'value-added basis.' In other words, the costs of implementing measures deemed necessary to harmonise reporting practices should not outweigh the potential benefits for Europe's banking industry.</p> <ul style="list-style-type: none"> • Therefore, CEBS is urged to focus on what the industry deems to be the essential components required to inform supervisors of a given institution's solvency ratio. Banks only need, and therefore should only be required, to report data relating to risk exposures, weighted assets and banks own funds to arrive at a meaningful solvency ratio. CEBS is encouraged to restrict the components of common reporting to these three areas. • The banking industry strongly prefers common requirements to be fully harmonised at the lowest level of reporting with the content and volume of reports restricted to the lowest minimum necessary. Anything other than full harmonisation at a lowest level would result in a significantly increased reporting burden in a number of jurisdictions in Europe with no prudential justification. 	<p>The second layer provides the detailed information underlying the numerator and denominator of the capital ratio.</p>	<p>reporting requirement – supervisors may always ask for less – sometimes a bit more - but it will give institutions a good idea of what supervisors throughout the EU expect them to be able to report.</p> <p>The core layer represents the most essential information for supervisors; CEBS expects that there will be almost full convergence on these data elements.</p> <p>The detailed layer provides additional information that will be useful in interpreting the core data; CEBS expects substantial, but not full convergence on these elements.</p> <p>Together the two layers will provide a comprehensive view of the computation of the solvency ratio and afford a more in-depth assessment of it.</p> <p>A small number of supervisors will use a third set of templates that were broadly presented in CP04. These additional templates do not provide details that bear directly on elements of the solvency ratio, but rather provide information that a number of countries consider essential for their overall supervisory responsibilities. These templates, although not part of</p>
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			the final COREP package will remain available at national discretion and will be included in the XBRL taxonomy to be released by CEBS.
National discretions	<ul style="list-style-type: none"> The amount of information required under the common framework is far too extensive and should focus exclusively on information deemed necessary by all supervisors. If national differences in reporting requirements are needed they should be clearly motivated by the supervisor as having a supervisory purpose. Flexibility, as one of the basic principles of COREP, could lead to a high administrative burden for banks, while the overall aim is to strive for harmonization. National supervisors are urged to be clear as soon as possible in their choice of the national discretions. If there will be consistency in frequency of reporting and reporting data in the member states, it is suggested to report on a quarterly basis, which is in line with the current reporting cycles in most European banks. 	<p>The common reporting framework applies to credit institutions and investment firms. Each CEBS member will endeavour to implement COREP as fully as possible according to its prudential needs.</p> <p>However, each country will retain some national flexibility on implementation issues.</p>	<p>In response to the feedback from industry, CEBS streamlined and restructured the framework, reducing the number of reporting cells from 70,000 to the current 18,000 cells.</p> <p>The implementation of COREP will be posted on CEBS website as soon as final decisions have been made by the national authorities.</p>
Scope	<ul style="list-style-type: none"> The scope of COREP should be limited to Pillar 1 capital requirements for solvency reporting. Pillar 2 is and should remain a process that banks and their supervisor(s) discuss on a bilateral basis. 	The reporting templates contained in CP04 focused primarily on regulatory capital and the Basel II Pillar I capital requirements for credit risk, operational risk, and market risk.	Pillar 2 non-core information is only required for a few items in CA template.
Timetable	<ul style="list-style-type: none"> CEBS is requested to clarify the timetable it envisages for the implementation of COREP. Some jurisdictions require at least twelve months for full implementation of the 	Publication date is January 2006.	CEBS recommends that national authorities allow a degree of flexibility in their roll-out plans in order to give

	<p>reporting requirements following the release of the finalized version of CEBS' proposals.</p> <ul style="list-style-type: none"> Some banking groups have expressed concern that their IT-systems may be unable to deliver all of the required data, especially on the CRMT and CCF variables in the templates on Credit Risk. 	<p>Implementation depends on national discretion before end of 2007.</p>	<p>these banking groups enough time to update and fine-tune their reporting systems.</p> <p>National authorities should discuss with banking groups what would be a reasonable transition period for updating IS/IT systems.</p>
Alignment with Finrep	<ul style="list-style-type: none"> CEBS is encouraged to consider both the COREP and FINREP proposals in tandem and to align the two in order to avoid requiring banks to report the same figure twice with no justifiable prudential rationale. 	<p>CEBS has made particular efforts to ensure that COREP framework is as consistent as possible with the standardised framework for financial reporting (FINREP).</p> <p>Special emphasis has been placed on uniformity between the calculation of accounting equity and regulatory capital, and on consistent definitions and references.</p>	<p>Although some uniformity has been achieved, complete standardisation between the two frameworks is not possible, since COREP is based on CRD and FINREP is based on IAS/IFRS standards.</p>
Home-Host	<ul style="list-style-type: none"> Banking groups should be permitted to use a single reporting standard (i.e. that required by the home state) for the whole group. The home supervisor should be permitted to set out a common framework and structure of a banking group's capital reporting. This would imply that the supervisors of the banking group in the host state would be required to apply mutual recognition to the reports submitted by the banking group. On the other hand, the proposal suggesting reporting required by the home state for the 	<p>The reporting framework should reduce the compliance burden on banking organisations that operate in more than one country in the EU.</p> <p>Cross-border EU banking groups will no longer be required to submit their supervisory reporting</p>	<p>Banking groups headquartered in jurisdictions that require a significantly lower level of granularity in regular reporting will not be expected to develop systems to comply with the entire COREP framework.</p> <p>Subsidiaries of such groups located in other Member States may, however, be asked to develop a more granular version of the framework.</p>

	<p>whole group is unacceptable by others, because if put into practice, they would be left with different frameworks proposed by various consolidating regulators of groups having subsidiaries, in some details incomparable. It is proposed that local reporting should remain in hands of local regulator as long as it is responsible for supervision of local banking industry.</p>	<p>according to different national formats that use different reporting taxonomies.</p>	
IT implications	<ul style="list-style-type: none"> • CEBS' recommendation to use XML / XBRL (eXtensible Markup Language / eXtensible Business Reporting Language) as a common reporting language for the solvency ratio is supported. • However, a banks' use of XML / XBRL ought to be on a voluntary basis and used only to report finalised data to an external party. Banks ought not to be required to use XML / XBRL in their internal systems. 	<p>While national supervisory authorities are free to decide on the techniques to be used to implement the framework, CEBS considers that XBRL can be a helpful tool in constructing a harmonised European reporting system.</p>	<p>CEBS will therefore develop an XBRL platform and make it available free of charge to national authorities and supervised institutions.</p>
Level of detail	<ul style="list-style-type: none"> • Exposure classes in the reporting templates for the Standardised Approach do not correspond to the requirements in the proposed Capital Requirements Directive. Instead, the exposure classes required in those templates correspond to what is required for the IRB Approach. Therefore, none of the sub-classes coincide with the exposure classes required for the Standardised Approach. Moreover, the different sub-classes are difficult to interpret without guidance, for example the breakdown of "Central Governments and Central Banks" sub-class does not map neatly onto "Regional governments and local authorities" and "Other central government and central banks" exposure classes. 	<p>Some banking groups have expressed concern that their IT-systems may be unable to deliver all of the required data, especially on the CRMT and CCF variables in the templates on Credit Risk.</p>	<p>The Credit Risk Template provides detailed information on the distribution of the exposure values according to the different risk weights or by exposure types, therefore providing the necessary information for assessing the capital requirement for credit risk according to the standardised approach. This information may be requested for the total exposure classes or individually for each of the exposure classes as defined for the standardised or for the internal rating based approaches.</p>

<p>Guidance</p>	<ul style="list-style-type: none"> • The concern over ensuring a unified and consistent on-going methodical support (a “help desk”) was expressed by relevant supervisors on a cross-border basis during the implementation phase of the common reporting framework. • CEBS ought to produce some additional limited guidance to accompany its proposals for common reporting as it is not clear how or under what circumstances the various templates proposed are to be used. This is especially important for banks engaged in complex and/or cross-border business. 	<p>CEBS will monitor the implementation of the framework by its members, and will host a list of frequently asked questions and answers on its website that addresses COREP implementation issues as they arise. Maintenance will be ensured by a CEBS sub-group.</p>	<p>CEBS will continue to strive for further convergence in supervisory reporting and aims to achieve, in the longer term, as far as possible a more homogenous application of the common reporting framework.</p> <p>COREP should thus be considered as a first, but crucial step in this direction.</p>
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