FEDERATION
BANCAIRE
FRANCAISE

The Deputy Director General

Thursday, April 28th 2005

FBF Response to the CEBS Consultation Paper on the New Solvency Ratio: Towards a Common Reporting Framework (CEBS CP04)

Dear Mr Roldan

The French Banking Federation (FBF) welcomes the opportunity to comment on CEBS' consultation on Common Reporting (COREP). The FBF believes that it is an important issue for Europe and supports CEBS' objective to introduce a common reporting so as to reduce the banking industry's compliance burden.

The target to have one single and simplified reporting in the EU, accepted by home and host supervisors, is supported by the FBF because a common reporting within a banking group is highly desirable and ultimately achievable against a background of increasing supervisory convergence in Europe.

However, the current draft does not meet CEBS' objective to reduce the industry's compliance burden and the FBF believes that the steps taken towards these aims should be done in a proportionate manner and on a value-added basis (implementing costs seem to outweigh potential benefits for the industry). The proposal seems more to consider all practices than best practices. It is difficult to understand and too detailed for a reporting scheme, the purpose of which is not to check each step of the calculation.

While large groups do not object to a quarterly calculation of the ratio (as many already do so), they consider it extremely burdensome and useless to produce a full quarterly COREP reporting on these calculations. We therefore advocate the CEBS to:

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- limit quarterly reporting to very large groups and for necessary reporting ,
- move to a half-yearly or annually periodicity for specific reporting.

Moreover, the FBF believes that Pillar II information ought not to be included in a common reporting. Pillar II data should be collected and evaluated in the course of on-site inspections and interviews. There is no standardisation of Pillar II requirements, which depends on each jurisdiction. This provides no basis for comparison as is possible with the current Solvency Ratio and would create an unlevel playing field with non European countries applying the Basel 2 Accord.

The FBF underlines the fact that the data required under COREP should be aligned with those of the FINREP, in order to avoid requiring banks to report the same figure twice with no justified prudential rationale.

The CEBS recommends using XML/XBRL as a common reporting language for the solvency ratio. The FBF believes that banks ought not to be required to use XML/XBRL in their internal systems. Instead, they could use this language only to report finalised data to an external party.

You will find in the appendix attached our detailed comments and proposals on the questions raised by the consultative paper.

Yours sincerely

Pierre de Lauzun

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**FBF RESPONSE TO THE CEBS' CONSULTATION:
« TOWARDS A COMMON REPORTING FRAMEWORK » (CP04)**

1. Template CA :

Lines 21 to 24	To ensure consistency with revised template CA-IAS **=> The FBF believes these lines should be deleted**
Line 26 - Other country specific original own funds	This requirement has no link with the CRD and the French Banking Commission does not intend to implement it at present. **=> The FBF believes this line should be deleted**
Line 31 - Deductions from Original Own Funds	Deduction rules ought to be reviewed in order to take into account the changes set out in the latest version of the CRD (deduction 50% in Tier 1 and 50% in Tier 2).
Line 33 - Other country specific deductions from original own funds	This requirement has no link with the CRD and the French Banking Commission does not intend to implement it at present. **=> This line should be deleted**
Lines 47 to 51 – Country specific core additional own funds	The FBF proposes to reduce this requirement to one line.
Lines 60 to 62 – Country specific Supplementary Additional Own Funds	This requirement has no link with the CRD and the French Banking Commission does not intend to implement it at present. **=> This line should be deleted**
Lines 64 to 65 – Deductions from Additional Own Funds et Other country-specific deductions to Additional Own Funds	Deduction rules ought to be reviewed in order to take into account the changes set out in the latest version of the CRD.
Line 103 – Credit revaluation reserves	This requirement has no link with the CRD and the French Banking Commission does not intend to implement it at present. **=> This line should be deleted**
Line150 – Complement to Pillar 1 overall floor CR	This requirement is supposed to be temporary (« floor » applied at the first application) **=> This line should be deleted.**
Line 152 – Pillar 2 Extra Capital Requirement (and references to this line in lines 154 and 155)	The additional layer of capital requirement imposed by the national supervisor should not be included in the formula of the solvency ratio.

	=> Any reference to Pillar 2 extra capital requirement should be deleted in the formulae set out in lines 154 and 155.
Lines 156 to 171 – Internal capital	Pillar 2 information should not be part of the reporting: neither the Pillar 2 extra capital requirement imposed by the national supervisor nor the Pillar 2 internal capital assessed by the credit institution. **=> These lines should be deleted**

2. Template SA

Exposure types	Reduce to one template for the total
Exposure classes	Reduce to the 6 « first level » exposure classes : - Central Governments and Central Banks, - Institutions, - Corporate, - Retail, - Equity, - Other Non Credit Obligation Assets
Column 12 (IAS related adjustments to the exposure value)	It is impossible to reconcile line by line accounting data with a breakdown by risk categories. **=> This column should be deleted**
Column 13 (number of obligors)	This requirement raises technical difficulties, as some counterparts can be reported in several templates, which can induce a significant bias. It is impossible to fill in the column for the retail portfolio. Moreover, this datum cannot reliably explain the diversification of a portfolio, given that the ration does not take into account the correlation effects. **=> This column should be deleted**

3. Template IRB

Exposure types	Reduce to one template for the total
Exposure classes	Reduce to the 6 « first level » exposure classes : - Central Governments and Central Banks, - Institutions, - Corporate, - Retail, - Equity, - Other Non Credit Obligation Assets
Columns 2-3 and 4	We would like to fill in alternatively columns 2-3 or column 4 according to the type of exposure class. To impose both has no sense, for only one is used for a given portfolio: - PDs in certain portfolios such as

	retail result from the aggregation of different internal ratings with different internal PDs (the range is more relevant) - PDs in other portfolios correspond to one single PD grade (and therefore the average is more relevant).
Column 5 (notional amount before netting)	Credit institutions do not see the relevance of this column, as this amount is not representative of actual risk. **=> This column should be deleted**
Column 9 (exposure weighted average maturity value)	**=> This column should be deleted**
Column 15 (IAS related adjustments to the exposure value),	**=> This column should be deleted**
Column 16 (number of obligors)	Same comment as on template SA **=> This column should be deleted**

4. Template IRB SLOTT

Column 7 (IAS related adjustments to the exposure value),	**=> This column should be deleted**
Column 8 (number of obligors)	Same comment as on template SA **=> This column should be deleted**

5. Templates reporting CRM : SA CRM, FIRB CRM, AIRB CRM and CRM I/O

General comments on CRM templates:

- While the required level of details can be understandable within the scope of a limited and exploratory approach such as a QIS, it is not justified in the recurring CoRep reporting.

- Moreover, the implementation and management of a system that provides in a centralised way the detailed information required in these templates would induce a significant cost for the credit institutions, of which the supervisors should be aware when doing their cost-benefit analysis on these templates.

- The required details are burdensome for SA and FIRB approaches because they rely on the principle that "the covered portion of the exposure will be reallocated from the original obligor to the exposure class and risk weight or PD of the mitigant provider" (COREP Explanatory notes). This reporting principle is not applied in the risk management of the credit institutions. As far as AIRB approach is concerned, these details are contrary to the provisions set out in the CRD, in particular, Annex VII, Part 2, §21: "unfunded credit protection may be recognised by adjusting PD or LGD estimates". This provision makes it impossible to reallocate the covered portion of the exposure from the original obligor to the exposure class and risk weight or PD of the mitigant provider.

  A related subject concerns the adequacy of the recommended XBRL technology with the volume of required information: while XBRL is a flexible technology, it is principally adapted to small volumes of information. This technical aspect should be taken into account.

SA CRM template

Exposure classes	Reduce to the 6 « first level » exposure classes : - Central Governments and Central Banks, - Institutions, - Corporate, - Retail, - Equity, - Other Non Credit Obligation Assets
Columns 1-3	Already required in template SA **=> These columns should be deleted**
Columns 9-13 (Outflows) and 14-18 (Inflows)	• Credit institutions do not reallocate the covered portion of the exposure from the original obligor to the exposure class and risk weight or PD of the mitigant provider: they develop typologies according to their customers' portfolio. • This requirement imposes a certain organization of the methods and exposure classes. **=> These columns should be deleted**
Columns 20-25	The significant volume of information to provide is to be put in balance with the limited relevance of these data (difficulties are faced in centralising the data) **=> These columns should be deleted**
FIRB CRM template	
Exposure classes	Reduce to the 6 « first level » exposure classes : - Central Governments and Central Banks, - Institutions, - Corporate, - Retail, - Equity, - Other Non Credit Obligation Assets
Columns 6-10 (Outflows) and 11-15 (Inflows)	Same comment as on template SA CRM **=> These columns should be deleted**
Columns 21-32	The significant volume of information to provide is to be put in balance with the limited relevance of these data (difficulties are faced in centralising the data). **=> These columns should be deleted**
Columns 33-34 (Information about the distribution of LGD* estimates)	There are technical difficulties in implementing distribution functions in the IT systems.
AIRB CRM template	
Exposure classes	Reduce to the 6 « first level » exposure classes : - Central Governments and Central Banks, - Institutions, - Corporate, - Retail, - Equity, - Other Non Credit Obligation Assets
Columns 6-10 (Outflows) and 11-15 (Inflows)	Same comment as on template SA CRM **=> These columns should be deleted**
Columns 21-31	The significant volume of information to

	provide is to be put in balance with the limited relevance of these data (difficulties are faced in centralising the data). **=> These columns should be deleted**
Columns 32-33 (INFORMATION ABOUT THE DISTRIBUTION OF LGD* ESTIMATES)	There are technical difficulties in implementing distribution functions in the IT systems.
CRM I/O template	
The FBF wishes to **delete the template:** - See comments on other CRM templates. - In particular, it is technically impossible for « retail » and « equity » portfolios (especially « inflows »)	

6. Templates reporting securitisation : SA SEC 1, SA SEC 2, IRB SEC 1, IRB SEC 2 and OTH 5 SEC

SA SEC1 : Columns 8-12 **SA SEC 2 :** Columns 11-15 **IRB SEC 1 :** Columns 6-10 **IRB SEC 2 :** Columns 9-13	These columns should be replaced by the CCF 0%, 20%, (plus 50% for the standardised approach), which cover the minimum granularity set out in the draft CRD.
IRB SEC 1 and 2 : Columns 28-29 (IAA)	These Columns should not be shaded for unrated exposures (both for investors and originators): Banks should be able to use IAA, even when the exposure is temporarily drawn.
IRB SEC 1 and 2: Notes (h) and (k) respectively (« for interest rate and currency swaps they should provide the exposure value »).	Derivatives do not come under securitisation reporting, but under market risk reporting. **=> These footnotes should be deleted from this template.**
OTH 5 SEC : Column 20	Same comment. **=> This column should be deleted**

7. Templates reporting « Equity » : IRB EQU 1, IRB EQU 2 and IRB EQU 3

IRB EQU1 Column 14 (Value adjustments and provisions) Column 15 (IAS related adjustments to the exposure value)	**=> This column should be deleted** **=> This column should be deleted (although this approach will not be implemented in France)**
IRB EQU2 Column 6 (Value adjustments and provisions) Column 7 (IAS related adjustments to the exposure value)	**=> This column should be deleted** **=> This column should be deleted**
IRB EQU3 Column 2 (Of which: Affected by the minimum PD/LGD limit) Column 6 (Value adjustments and provisions) Column 7 (IAS related adjustments to the exposure value)	**=> This column should be deleted** **=> This column should be deleted** **=> This column should be deleted** In accordance with article 23 of Annexe VII,

	Part 1 and articles 22 to 25 of Annexe VII, Part 2, it seems to us that template EQU 3 is incomplete: lines should be added in order to mention minimum floors to PD/LGD. It is worth noting that these floors are different from the RW under the Standardised Approach (IRB EQU 2).

8. Templates reporting market risk : MKR-IM, MKR-IM Daily, MKR SA TDI, MKR SA EQU, MKR SA FX, MKR SA COM and TB SA SETT

No specific comment.

9. Templates reporting operational risk : OPR, OPR LOSS and OTH 4 OPR

OPR	1. This template should be disclosed on an annual basis (December, 31st) **2.** Why requiring 7 semesters whereas the « relevant indicator » is calculated on 6 semesters? **We therefore think that one semester should be deleted and that 3 years should be required instead of 6 semesters.** **3.** The transition to IAS will distort the average of the semesters on the datum « Gross Income ». **This datum will not be relevant as long as the impact of the transition is not over.** 4. Gross incomes should not include intra-group incomes. 5. «AMA memorandum items» : We do not understand the difference between the data « of which: due to expected loss » and « expected loss captured in business practice excluded from capital requirements ». **We believe that only one of these requirements should be kept.** 6. «AMA memorandum items» : « AMA due to allocation mechanism »: How is this datum defined? Why requiring an allocation for a reporting at group level? **We understand that this requirement does not concern groups that are supervised on a consolidated basis. We would like**

		to have this point clarified in the template. In practice, the breakdown by « AMA before insurance and expected loss », « expected loss » and « capital alleviation from insurance » has no sense for a reporting of an entity that is consolidated within the group.
OPR LOSS	1.	This template should be disclosed on an annual basis (December, 31st)
	2.	This reporting requires statistics on amounts and number of operational risk losses by regulatory business lines. These requirements raise practicability concerns. The proposed breakdown by business lines is not in line with the practice in banks: the breakdown, for each individual loss by Basel theoretic business line is both burdensome and incomprehensible for the persons in charge of declaring the incidents, and thereby very inaccurate. This breakdown brings no added-value for banks. **We would like to provide a reporting in accordance with our internal organization, and not according to a standardization imposed by supervisors, which would necessarily be artificial and induce additional developments that would outweigh the expected benefits as regards analysis of operational risks.** A mapping could be provided to connect the bank's internal categories with the business lines standardised by the Basel Committee.
	3.	If an incident has an impact on more than one business line, it is possible de breakdown the loss in order to allocate it to several business lines. It is not possible to such breakdown for the number of incidents. Do we have to report one incident per business line?
	4.	Furthermore, we would like to report only losses that are validated because they have been either recorded or validated during the year, according to the bank's organization.

	5. The threshold applied in data collection (Column N° 10) may depend on the type of event or of activity. They can differ from one entity to another. **We believe it would be reasonable to use a single threshold within the group.** 6. What is the definition of a « Gross loss »: Estimated original amount ? Amount before recovery? including accounting provisions ? **This point ought to be clarified.**
OTH 4 OPR	1. This template should be disclosed on an annual basis (December, 31st) ; 2. We do not understand the purpose and the use of this template, which: - Is confused, - Raises many questions - Is burdensome without any use for banks. **We therefore propose to delete this template.** 3. Producing this reporting for each entity of a group would imply the centralisation of a potential number of detailed individual incidents, which is prohibitive (it could represent hundreds or thousands of incidents for a group). According to us, this reporting of major event losses should be limited at the group level, and should not be required at a sub-level. 4. We believe that operational risk incidents of a group should treated less be through statistical studies than through a case by case monitoring, which corresponds to a risk management approach. It seems reasonable to us that banks should provide a simplified reporting on their major losses, the details being provided to the supervisor in the course of on-site inspections. **We therefore would like the template OTH 4 OPR to be deleted and replaced with an annual reporting of the 10 major losses of the group,** with the following elements:

	• The estimated loss amount on December, 31st, before taking into account the effects of insurance • The location of the incident (in the organization of the group and geographic) • The date at which the incident was detected • The internal reference of the incident • The (optional) breakdown by types of event. Significant loss events are complex by nature and do not easily map with the classifications proposed by the texts, which do not make a clear distinction between causes, events and effects. • A (optional) description in few words, which often can explain the incident better than the proposed classification.

10. Other templates: OTH 1 IND, OTH 2 SECT and OTH 3 AFF

OTH 1 IND	- Is redundant with the reporting on gross exposures, which it will eventually replace. Only one of these templates should be provided. - Threshold should be defined in relation with the size of the credit institution
Column 12 : exposures of the trading book	This variable explicitly refers to the calculation of market risk in Directive 93/6 : it is impossible to give the information by counterpart. **=> This column should be deleted**
Columns 16-26	The breakdown of CRM by major risk is not available, because it is not internally used in the credit institutions. **=> These columns should be deleted**
Columns 27-28-29	See comments on templates SA and IRB **=> These columns should be deleted**
OTH 2 SEC	- We do not wish to have a standardised definition of sectors, which would lead to impose an artificial breakdown that would not be relevant as regards the sectorial monitoring and the organisations of the credit institutions. Moreover, it would multiply the sectorial reportings (Pillar 3, annual report) that would be done according different classifications. This incurs an unnecessary cost.
Column 12 : exposures of the trading book	This variable explicitly refers to the

	calculation of market risk in Directive 93/6 : it is impossible to give the information by counterpart. **=> This column should be deleted**
Columns 16-26	The breakdown of CRM by major risk is not available, because it is not internally used in the credit institutions. **=> These columns should be deleted**
Columns 27-28-29	See comments on templates SA and IRB **=> These columns should be deleted**
OTH 3 AFF	This template raises several technical problems (collecting information from foreign subsidiaries, volume of information, inconsistencies) : - It is possible to provide capital requirements and capital in local standards by entity (articulation with IAS prudential filters?). But it would be inconsistent to report at the same time contributions to consolidated risks and individual regulatory capital. - The template raises problems on reporting requirements for market risk, operational risk and equity (in particular, VaR cannot be broken down by entity) - A half-yearly (or even annual) periodicity would be adequate. **=> The FBF proposes to replace this template with the individual reporting of subsidiaries that are supervised on an individual basis.**