

4 May 2005 (trz05-521)

To: Mr J.M. Roldan, CEBS  
Mr S. Fisher, FBE  
From: Ms Y.M.Vader, Netherlands Bankers Association (NVB)

Concerns: **Official – updated response proposed COREP framework**

### **Summary**

The NVB welcomes a European Common Reporting Framework (COREP). The main benefit of such a framework for solvency reporting is a reduction in the compliance costs of banks. However, the NVB believes that:

- the scope of COREP should be limited to Pillar 1 capital requirements;
- the COREP proposal must be aligned with the common Financial Reporting (FinRep);
- it should be clear how CEBS will include the national discretions;
- there should be more clarity regarding (specific items in) the formats; and
- the terminology used in the COREP framework should be aligned with the terminology used in the Capital Requirements Directive (CRD).

### **1. Scope**

The NVB believes that the scope of COREP should be limited to Pillar 1 capital requirements for solvency reporting. It is the conviction of the NVB that Pillar 2 is and should remain a process that banks and their supervisor(s) discuss on a bilateral basis. The Dutch banks have advocated for a long time that they do not prefer a “Tick the box Approach”, as proposed in the CA worksheet of the COREP framework. Under such an approach, the internal capital adequacy assessment for each type of risk needs to be specified. Such an approach is not in conformity with actual bank practice.

Therefore, the Pillar 2 capital requirements should not be included in the reporting package. As a result, the NVB proposes to remove the whole set of OTH 1, 2, 3, 4 and 5 worksheets, as well as rows 152 – 171 in the CA worksheet, in order to keep COREP focused solely on Pillar 1 capital requirements.

### **2. Alignment with Finrep**

The NVB encourages CEBS 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.

The NVB encourages CEBS vision on the required agreement between FinRep and COREP reporting in the form of an formal agreement requirement and/or form. This on the basic notion that all Pillar 1 related risks in the FinRep report should also be covered in the COREP report.

### **3. National Discretions**

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. We urge national supervisors to be clear as soon as possible in their choice of the national discretions. More specifically, at the moment it is not clear:

- if there will be consistency in frequency of reporting and reporting data in the member states. The NVB suggests to report on a quarterly basis, which is in line with the current reporting cycles in most European banks;
- if the definitions, for example that of Own Funds, will converge in the member states. The NVB believes that no flexibility should be allowed in the definitions;
- how CEBS will include “national discretions”, i.e. the interpretation of certain articles in the Capital Requirements Directive (CRD) by local supervisors, in the reporting package.

The NVB asks for more clarification on these items.

#### *4. General comments on Formats*

- The proposed reporting package did not contain formulas and references, which made it impossible to test the effect of data inputs on capital requirements. We suggest to report the amounts in millions. It should be clear how many digits behind the comma need to be reported;
- Using COREP for reporting on stand-alone EU-based subsidiaries would require that information on intra-group exposures is needed; this is currently not included in the reporting pack.

#### *5. Specific comments on Formats*

##### *Worksheet “CA”*

- Rows 94-107: It is not clear where the “collective provisions” under IAS 39 have to be reported in this worksheet, keeping in mind that these provisions are not the “general provisions” that are mentioned in this worksheet. The NVB is of the opinion that this is also an issue that should be taken into account during the FinRep-COREP alignment effort by CEBS; and
- Rows 152 – 171: As mentioned in paragraph 1, these rows should be removed from this Worksheet, as Pillar 2 is and should remain a process that banks and their supervisor(s) discuss on a bilateral basis.

##### *Worksheet “SA SEC 1” and “SA SEC 2”*

##### *Worksheet “IRB”*

- Column 1: we would prefer a more elaborate definition of “original credit & counterparty risk exposure pre credit conversion factor” on top of the reference made in the worksheet to Article 74 of the CRD; and
- It is not clear in which worksheet and in which column the residual value of an operational lease transaction should be captured;

- Column 16: the NVB does not see the need to report the number of obligors per obligor grade, as this increases the administrative burden, while it does not provide more insight into the Pillar 1 minimum capital requirements. This reporting requirement is more Pillar 2 related, which the NVB thinks should not be incorporated in the COREP framework.

#### *Worksheet Equity PD/LGD Approach*

Exposure weighted average LGD for the PD/LGD approach is mostly 90% with few deviations. The NVB does not see the need to report this item.

#### *Worksheets “IRB SEC 1” and “IRB SEC 2”*

- IRB SEC 1: Where do swaps/repos go in this structure? If they are supposed to be included in the originator's section, then the reporting functionality would need to be able to find the rating. Depending on the exposure type, this could be at the counterparty or at the exposure level.
- IRB SEC 1+2: Value adjustments are applied to risk-weighted assets, so that risk-weighted assets after adjustments are not just the 'Before-minus' value, but adjustments enter multiplied by 12.5 into the calculation. This goes against the logical and usual order: gross exposure-CRM=net exposure, times risk-weight=RWA, times 8%=capital requirement.
- IRB SEC 1 Column 2, note h: The requirement to show retained/purchased exposures does not apply to off b/s items or to early amortisation;
- IRB SEC 1 Column 26-27: The look-through approach is only relevant for Standardised;
- IRB SEC 1 Column 26-29: Expecting values for the 'Originator: total exposures' line, seems to imply that this line is a summary of both the underlying and the off b/s totals. If not, this line should be greyed out, similarly to columns 6-12.
- IRB SEC 2 Column 1: How would we put in the 'securitised assets' in the horizontal categories supplied?
- IRB 2 Column 4+5: Unfunded CRM do not change exposure. Col. 5 looks as if exposure after CRM should include unfunded protection. Should these not be taken via non-exposure factors instead?

#### *Worksheet “SA CRM”*

- Redistribution the net exposure after netting agreements: Outflows and Inflows (Columns 10 -18): Reporting these Outflows and Inflows on a monthly or quarterly basis significantly increases the reporting burden of the Dutch banks, while providing limited insight into the composition of the SA minimum capital requirements. Therefore, the NVB proposes to report these Inflows and Outflows on a less frequent basis.
- Columns 22 -25: Reporting the volatility and maturity adjustments on financial collateral on a monthly or quarterly basis significantly increases the reporting burden of banks, while providing limited additional insight. Therefore, the NVB proposes to remove these memorandum items from the COREP framework.

*Worksheet “FIRB CRM”*

- Redistribution of the exposure after netting: Outflows and Inflows (col 6 -15): Reporting these Outflows and Inflows on a monthly or quarterly basis significantly increases the reporting burden of the the Dutch banks, while providing limited insight into the composition of the Foundation IRB minimum capital requirements. Therefore, the NVB proposes to report these Inflows and Outflows on a less frequent basis.
- Columns 23 – 26: Reporting the volatility and maturity adjustments on financial collateral on a monthly or quarterly basis significantly increases the reporting burden of banks, while providing limited additional insight. Therefore, the NVB proposes to remove these memorandum items from the COREP framework.
- Column 33 and 34: it is not clear which percentiles for LGD must be used when detailing the distribution of LGD within the corresponding asset classes. We ask for more clarification.

*Worksheet “AIRB CRM”*

- Redistribution of the exposure after netting Outflows and Inflows (Columns 6 – 15): Reporting these Outflows and Inflows on a monthly or quarterly basis significantly increases the reporting burden of the Dutch banks, while providing limited insight into the composition of the Advanced IRB minimum capital requirements. Therefore, the NVB proposes to report these Inflows and Outflows on a less frequent basis.

*Worksheet “CRM I - O”*

Reporting these Outflows and Inflows on a monthly or quarterly basis significantly increases the reporting burden of the Dutch banks, while providing limited additional insight. Therefore, the NVB proposes to report these Inflows and Outflows on a less frequent basis.

*Worksheets “MKR-IM” and “MKR-IM Daily”*

- It is not clear whether banks must also produce a back test report for equity positions in the *banking* book or whether this requirement is solely intended for equity positions in the *trading* book. If the former is required, some banks will not have sufficient data to do this, as a monthly Value-at-Risk (VaR) for equity in the banking book is calculated and daily Profit & Loss information for these positions are not available (yet);
- Annex 3 of the CP04 document mentions a "MR Surcharge" in the Internal Models Overview. We assume that this is the surcharge for *specific* risk, but we would like to have this confirmed; and
- The same Annex 3 mentions a column "Universal list". The banks currently do not have sufficient data to report daily information on *book level*. They are, however, able to report this information on business line/product line level.

*Worksheets “OTH 1 IND”, “OTH 2 SECT”, “OTH 3 AFF”, “OTH 4 OPR” and “OTH SEC”* As mentioned in paragraph 1, these Worksheets should be removed from the COREP framework, as Pillar 2 is and should remain a process that banks and their supervisor(s) discuss on a bilateral basis.

**6. Terminology**

The terminology used in the COREP framework should be aligned with the terminology used in the Capital Requirements Directive. More specifically:

- Private individuals not treated in retail will be grouped under corporates in the COREP framework; this may lead to significant data pollution in this category
- It is not clear why the distinction between banks operating as “originators” and “investors” is re-introduced in the templates, where it was dropped in the final CRD text of June 2004.
- X-percentile / y-percentile;
- Exposure weighted average maturity