19 December 2007

Consultation Paper on amendments to the Guidelines on Common Reporting (COREP)

Introduction

1. CEBS approved the Guidelines on Common Reporting (COREP) in January 2006 in order to create a harmonised reporting framework for the regulatory reporting of the capital ratio under the recast Directives 2006/48/EC and 2006/49/EC. The COREP Guidelines do not prescribe in their original version a harmonised remittance dates or reporting frequencies. Indeed, it is stated that the frequency of reporting is considered to be a matter which should be subject to some national flexibility in order to accommodate the frameworks to specific supervisory needs.

Reasoning and proposal

2. CEBS is committed to work further towards convergence of reporting frameworks in Europe. A number of actions have been defined to deliver this over time. In that context, the following proposal deals with the harmonization of the remittance date and frequency for the COREP guidelines. The proposal takes into account the comments received from industry representatives during the Open Hearing held on 26 October and the workshop on implementation of COREP held on 29 June. At these occasions, the divergence in the timing of the data collection procedures has been brought forward as a relevant issue. In particular, it was pointed out that existing differences in remittance dates and reporting frequency make the reporting cycle more complex for cross-border groups, especially when using advanced methodologies.

3. Some of the largest EU cross-border groups, which are mostly adopting IRB approaches to credit risk, have set up centralised databases to meet the reporting requirements of every EU national authority within the same reporting cycle. Among other issues, the differences in reporting procedures imply that cross-border groups are either constrained to build an internal procedure that meets the most demanding national requirements (i.e. the one asking for the information with the lowest remittance period and highest frequency) or to set up separate procedures for each national reporting cycle. The approach proposed by the industry for cross-border groups is either to have common remittance dates and reporting frequency or (as a fall-back solution) to allow the institutions to follow the rules set by the consolidating supervisor of the EU parent institution.

4. The industry more precisely raised two aspects. With reference to reporting frequency, cross-border groups suggested that quarterly reporting could be considered to be the basic frequency. Secondly, they stressed that

divergences on remittance dates cause a lot of work on coordination, in particular for groups using centralised databases. Therefore they suggested adopting a single remittance period in the EU.

5. Based on a stock taking exercise of current practices among its members, CEBS has developed a proposal to harmonise the remittance period among national authorities, as well as to prescribe a maximum reporting frequency subject to certain exceptions.

   a. Maximum reporting frequency: quarterly as of 2011 at the latest, but subject to limited exceptions;

   b. Remittance period: 35 business days for consolidated data and 15 business days for individual data, with 2011 as a final target date for application. A corridor approach would apply during the transitional period, subject to limited exceptions for EU-parent institutions.

6. CEBS is committed to conducting a proper analysis of the costs and benefits of the proposal and will engage in a dialogue with market participants on these aspects.

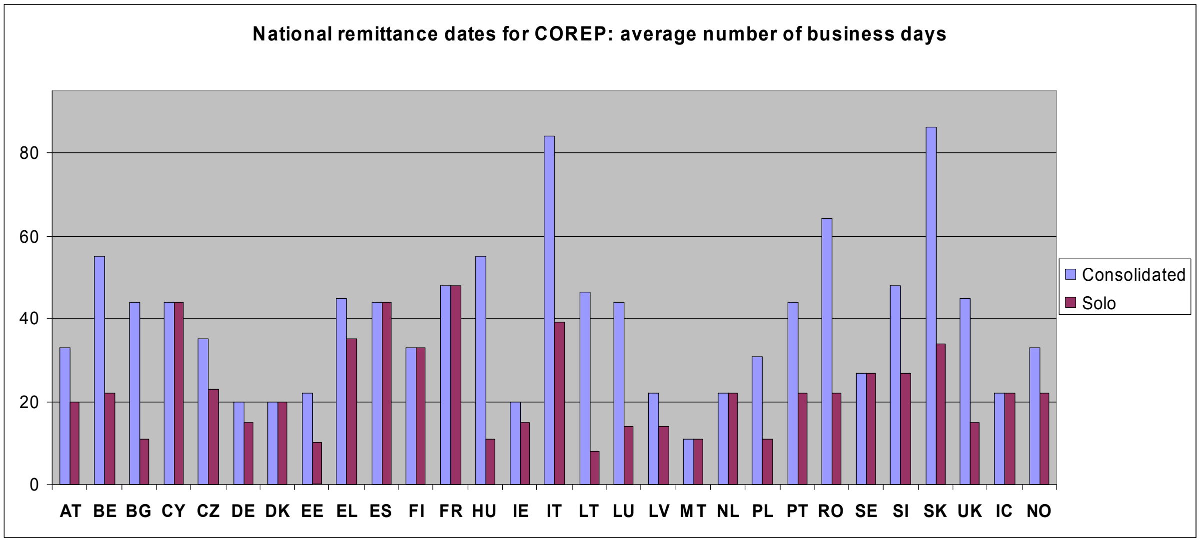
Exclusion of the Guidelines on Financial Reporting

7. The proposal set out below does not include at this point of time the Guidelines on Financial Reporting (FINREP) in the efforts to harmonise the remittance period and reporting frequency. CEBS acknowledges the need to investigate further the best way forward for convergence on remittance dates and reporting frequencies in FINREP, having in mind their connections with other externally determined reporting requirements (e.g. public financial statements or statistical data collection). In this context, CEBS is interested in gathering additional feedback on the views of respondents about the Guidelines on Financial Reporting, since FINREP data are used as primary inputs for the calculation of own funds and of exposures under the Standardised Approach.

- **Do respondents consider that a future proposal on FINREP can follow the same approach as for COREP? If not, please indicate the reasons and explain alternative solutions.**

Current situation and options analysed for remittance periods

8. CEBS conducted a stock-take exercise among its members to determine the current practices in data collection procedures. The survey shows that there are divergences among national reporting procedures. As an example, the following chart includes the average remittance periods for consolidated and solo data applied by national authorities for the Guidelines on Common Reporting. The differences between national remittance dates derive from a number of aspects such as, for example, the linkages with the financial reporting subject to external review.



9. In order to solve the problems created by the divergences on remittance dates, CEBS carried out an analysis of a number of options:

   a. Minimum remittance date: this option would imply that supervisory authorities could not require reporting institutions to report before a certain number of business days after the reporting date, but the remittance period could be set above that level by each national authority.

   b. Remittance date determined by the college of supervisors: under this option, the reporting institutions belonging to the same group would report to all EU authorities on the same day, which may differ from institutions belonging to other groups.

   c. Corridor approach: this alternative provides that the remittance dates for reporting institutions will be determined between a maximum and a minimum remittance period. Two different options were studied, in which the final remittance date would be determined either by each college of supervisors or by each national authority.

   d. Common remittance date: all reporting institutions will be subject to one remittance date.

10. The option of aiming for a ***minimum remittance date*** was intended to create a minimum level playing field for institutions to be determined on the basis of the minimum timing needed to produce the reports. However, a number of disadvantages appeared:

    a. It would only promote convergence of supervisory practices for those national authorities with shorter remittance periods, without determining the best supervisory practice in this area.

    b. It may not solve the problems for cross-border groups, since the differences may only be partially mitigated (since national authorities would remain free to establish longer remittance periods).

11. The second option analysed was the proposal suggested by certain cross-border groups included in the Operational Network Platform to set ***a remittance period to be set by the college of supervisors***. This solution would be based on the provisions included in article 129.1 of recast Directive 2006/48/EC, which imposes a coordination role on the consolidating supervisor. This option would imply a common remittance date set by each college, allowing each cross-border group to have a single deadline for regulatory reporting, but it has some drawbacks:

    a. It would not create a level playing field in the European Union, since each college of supervisors would determine their own remittance period.

    b. It would create a high administrative burden on national authorities, especially if the domestic market shares of subsidiaries of EU-parent institutions is significant (implying that the remittance periods would differ significantly within the same jurisdiction)

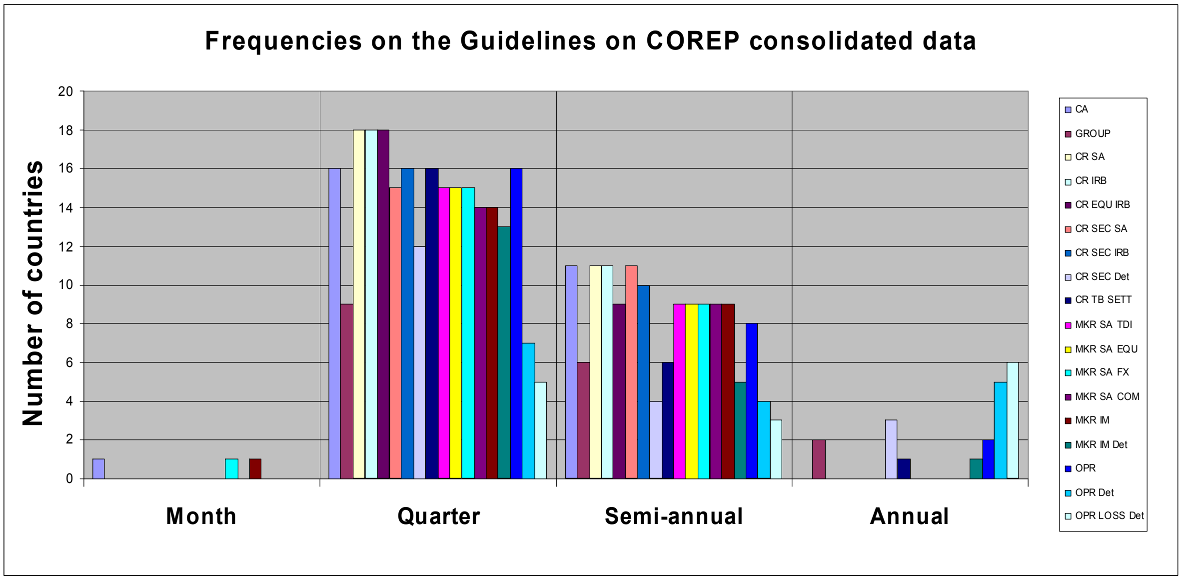
    The option of ***a corridor approach in which the remittance period is determined by each college of supervisors*** is a modified version of the previous proposal. The corridor creates a maximum and minimum remittance period within which the remittance period for each group could be set by its college of supervisors. The advantages and disadvantages would be similar, but would be partly mitigated depending on the width of the corridor.

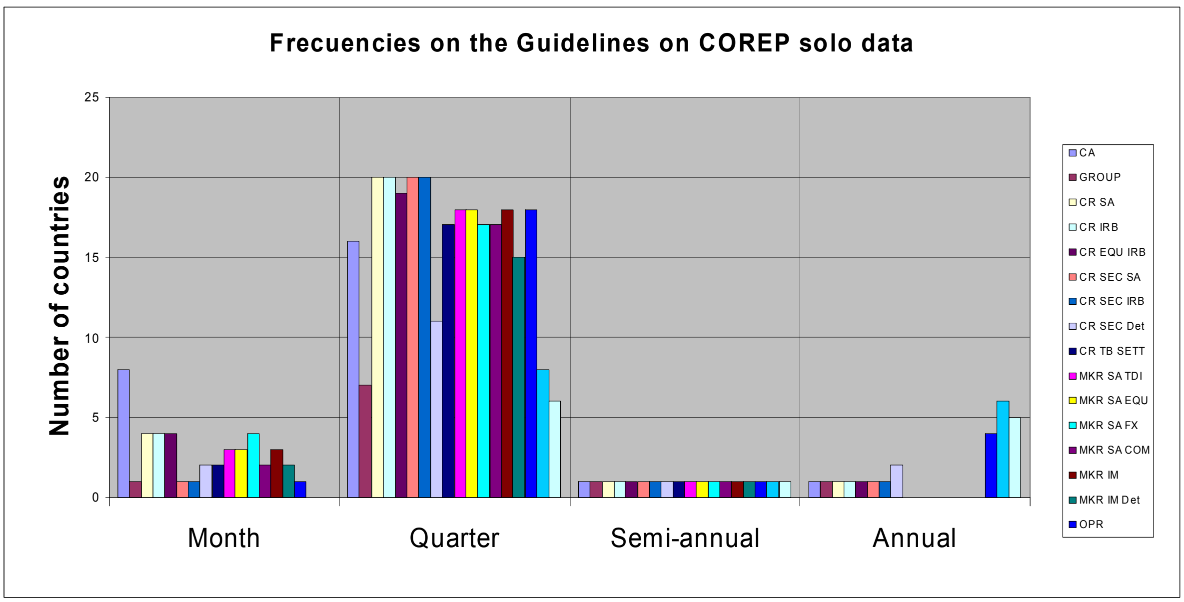
12. The third option alternatively envisages ***a corridor approach in which the remittance period is determined by each national authority***. It promotes a higher level of convergence by all national authorities, since it creates a maximum and minimum remittance periods within which national authorities shall align, creating a level playing field to a certain degree. However, it may not solve the problems highlighted by cross-border groups, since, although smaller, the differences in remittance periods would remain between national authorities.

13. Finally, the option for ***a common remittance date*** was considered to be the most convenient option, since it would set a level playing field for reporting institutions, as well as providing cross-border groups with the same remittance period for their internal regulatory reporting process within the EU. Additionally, it would ensure that all reporting institutions prepare their regulatory reports within the same timescale, alleviating the potential burden for national authorities. However, it was also recognised that this solution may create an additional reporting burden for institutions currently operating in jurisdictions with longer remittance periods. Therefore, the proposal included in this note adds certain features of the corridor approach to facilitate its implementation.

Analysis of the solutions for reporting frequencies

14. CEBS also gathered information from national authorities on the current practices on reporting frequency. The following charts show the results for COREP consolidated and solo information:





15. An analysis of the answers reveals that most national authorities are asking for quarterly or semi-annual reporting frequencies for COREP templates, although there are a number of exceptions for solo data, concentrated mainly in the summarised information of the capital ratio (CA template).

16. The solution proposed in this paper is to establish a **maximum reporting frequency**. This maximum frequency will be subject to exceptions, which are either based on the type of institution or on the use of the information. CEBS acknowledges that in some jurisdictions it is considered useful to collect rather frequently certain summary information on the capital ratio.

Parameters

17. Following the results of the survey and the input received from industry representatives in the Workshop held in June and the Open Hearing held in

October, CEBS perceived that the following parameters should be taken into account when formulating a proposal to harmonise remittance periods and reporting frequency:

a. *Cross-border institutions vs. domestic entities*: CEBS realised that the problems arising from divergence in reporting procedures primarily impact on cross-border groups (i.e. those entities that need to report COREP data in at least two different EU jurisdictions).

b. *Groups using Internal Rating-Based Models vs. Standardised Approaches*: a basic feature to bear in mind is the type of methodology used by the reporting institution to calculate its capital requirements. The underlying reasoning is that institutions using advanced methodologies base their regulatory reporting on their risk management systems, whereas groups using standardised approaches need as input information from the accounting systems. In this context, the external reviews, the complexity of the calculations and the internal control requirements impact differently on the reporting cycles of the two types of institutions.

There is an additional aspect that should be taken into account - the relationship between quality of the data and timeliness. CEBS considers that its proposal provides an adequate balance between these factors, taking into account of the current practices of national authorities. However, CEBS will be interested in receiving further input on this aspect.

Finally, CEBS also considers that the application of this proposal may be filtered through a proportionate application (e.g. requiring small institutions to report less frequently). In this context, CEBS is aiming to receive further input on potential alternatives to incorporate the proportionality principle in this analysis.

- **Do respondents consider that the current proposal creates an adequate balance between timeliness and quality of data? Please elaborate the reasons for your answer.**

- **Do respondents consider that CEBS should introduce the application of the proportionality principle in the proposal? Please elaborate the reasons for your answer.**

Characteristics of the proposal

18. With regard to scope, CEBS presents a proposal that aims to strike a balance between all the aspects mentioned above. In this context CEBS considers that the proposal should be applied to all reporting institutions. The input received from industry representatives suggests that these changes would be more useful for cross-border institutions applying advanced methodologies for the group and the individual entities, given their reliance on risk management information and the centralised data warehouses. However, other reporting institutions using advanced methodologies would also benefit to some extent in theory. The proposal distinguishes between solo and consolidated reports. CEBS considers that

the proposal reflects the current reporting practices in the different jurisdictions, as represented in the above charts, although it also recognises that several cross-border institutions would prefer to unify for both solo and consolidated reporting. In many countries, national authorities are not allowed to make a distinction between those institutions that are part of a cross-border group and those that are not.

- **The proposal on common remittance dates will be applied to all reporting institutions, but making a distinction between solo and consolidated reports. Do respondents agree with this decision? If not, please elaborate your answer (e.g. circumstances in which this distinction is not valid).**

19. For remittance dates, CEBS proposes a transitional period during which cross-border institutions and national authorities may adapt their reporting procedures to the final target date (35 business days for consolidated data and 15 business days for solo data) to be used at the end of the process, given the impact that this measure can have in the short term. This target date shall be considered as a maximum for credit institutions and investment firms, since they are allowed to send their regulatory reports earlier to their supervisory authority if feasible. From 2009 until 2011, a corridor of days will be allowed (35/65 business days for consolidated data and 15/45 business days for solo data), but the corridor will be narrowed yearly to facilitate the transition, as well as to allow institutions to recognise the most suitable time to make the eventual investments needed to meet the common reporting date on 2011. The detailed proposal is as follows:

	Consolidated data		Solo data	
	Minimum remittance date	Maximum remittance date	Minimum remittance date	Maximum remittance date
2009	35	65	15	45
2010	35	50	15	30
2011	35		15	

- **Do respondents consider the proposal as feasible? If not, please indicate the reasons, the costs associated with the changes and the minimum time that would be needed to produce the data. Please distinguish between solo and consolidated reports.**

20. CEBS recognises that the proposal implies a significant change in the current practices for data collection in a number of jurisdictions. The concrete proposal is based on the outcome of CEBS' information gathering, which indicates a certain tendency in the direction of 30-40 business days for consolidated information and 15-20 business days for solo reports. Furthermore, some national authorities will have access to the regulatory reports quicker, improving off-site supervisory practices, although some national authorities will have longer remittance periods than currently. On the other hand, the proposal also provides a common solution for the reporting institutions for the organisation of their internal regulatory reporting procedures.

21. CEBS considers that the corridor proposed covers most of the current practices in the different countries in the first year. However, it recognises that certain countries have current remittance periods outside the proposed corridor, which may increase the burden on certain parts of the industry. Therefore, and given the preference that the cross-border industry has given to the rules of the parent company, national authorities can allow their EU-parent reporting institutions to follow different remittance periods during the transitional period.

- **The proposal includes a transitional arrangement for EU-parent institutions. Do you agree with this proposal? If not, please indicate the reasons and suggest alternative proposals.**

22. On the other hand, CEBS is also proposing to set the quarterly information as a maximum reporting frequency for solo and consolidated report, although a number of exceptions are foreseen. These exceptions are the following:

    a. Investment firms other than those referred in articles 5 to 8 of Directive 2006/49/EC: a minimum reporting frequency is established for these institutions in article 39 of this Directive.

    b. Summarized information of the capital ratio (CA template) on a solo basis: national authorities may require this report on a monthly basis as far as they were collecting this template by 31st December 2007.

- **Do respondents agree with the harmonisation of maximum reporting frequency, subject to the exception stated? If not, please indicate the reasons and suggest alternative proposals.**

Invitation to comment

23. CEBS considers that this proposal will have a major impact in the reporting procedures of the credit institutions and investment firms. Therefore, it categorises this amendment as material, and it will follow the standard consultation procedure included in the CEBS Public Statement of Consultation Practices.

24. The amended Explanatory Notes to the Guidelines on Common Reporting includes the proposal developed in this Consultation Paper. CEBS does not

propose any amendment to the COREP templates in this Consultation Paper.

25. CEBS welcomes comments on the appropriateness and the feasibility of the proposal included in this Consultation Paper. Respondents are kindly requested to indicate clearly the paragraphs to which their comments are referred. The reasoning behind the comments is also welcome.

Comments should be made in English and should be submitted by 19 April 2008 to CP04rev@c-ebs.org. Unless respondents request otherwise, comments received will be published on the CEBS website.