Brussels, 14th March 2024

MM

EACB comments on
EBA Draft Implementing Technical Standards
amending Commission Implementing Regulation (EU) 2021/451 on supervisory reporting referred to in Article 430 (7) CRR concerning output floor, credit risk, market risk and leverage ratio
(EBA/CP/2023/39)

General comments

The EACB welcomes the opportunity to comment on the EBA draft ITS on supervisory reporting under the upcoming CRR 3.

We support the EBA's approach to follow a two-step sequential process in amending the supervisory reporting ITS and the Pillar 3 disclosures, prioritizing those changes necessary to implement and monitor Basel III requirements in the EU.

We also appreciate the fact that the EBA has developed a comprehensive mapping tool to facilitate integration, consistency, and alignment between reporting and disclosure requirements. These sheets enable the mapping of most quantitative disclosure templates with the relevant reporting data points.

It should be clear that the efforts required from the industry will be massive over the short timeline envisaged. Banks will need to focus on the newly introduced Basel elements as they have no prior experience with many of the data points or reference data available, and they will be faced with managing a complex and ever changing framework under CRR3, as various elements will become available after various iterations. Banks will have to adapt RWA calculation engines, risk reporting systems and databases or risk and financial data infrastructure, while at the same time implementing entirely new rules for asset classes.

Finally, we urge the EBA to reconsider the obligation for banks to require the "fully loaded" risk-based capital ratio and the risk exposures amounts, taking into account not only the end of the phase-in of the output floor, but also the impact of the output floor excluding the EU transitional arrangements mechanisms. Such an approach would conflict with the political objectives endorsed by EU co-legislators, in particular with a view to ensure a smooth implementation for the sector and consider in the medium term whether certain elements of the framework need permanent adjustments.

Answers to selected questions

Q1: Are the instructions and templates clear to the respondents?

Templates and instructions are mostly clear. However, some additional specifications would be beneficial.

Since individual reporting forms contain both IRB and SA requirements, we request appropriate clarification that reporting requirements relating to internal models (e.g. output floor, TREA) are only reported by IRB institutions. Otherwise, SA institutions could end up reporting certain information twice in these reporting fields. For example, in template C 03.00 (rows 0070-0090) SA institutions would report the capital ratios twice.

EACB AISBL – Secretariat • Rue de l'Industrie 26-38 • B-1040 Brussels
Tel: (+32 2) 230 11 24 • Fax (+32 2) 230 06 49 • Enterprise 0896.081.149 • lobbying register 4172526951-19
www.eacb.coop • e-mail : secretariat@eacb.coop

Should those IRB columns not apply at all, the EBA should clarify whether SA institutions should report those columns empty or if those columns should be left out.

In case those rows or columns do not apply, clarification is needed whether they should be reported empty or reported at all.

Regarding the amendments of template C 09.02 we suggest renaming row 0011 as follows to improve the understanding of the content and avoid misunderstandings:

"*Of which: Regional governments or local authorities" to "Of which: Regional governments or local authorities* ***treated as exposures to central governments***".

Q2: Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

It seems that the transitional provisions concerning templates C 05.01. and C 05.02 would not apply any longer, this would be inconsistent with the regulation given the long timeline before the end of the transitional mechanisms – or possibly some clarifications are missing.

Regarding template C 07.00 we seek clarification for the reporting of retail exposures in combination with Article 123a CRR according to which retail exposure risk weights "assigned in accordance with Chapter 2 shall be multiplied by a factor of 1,5". This means that in case of a 75% risk weight the final risk weight would be 112,5 % for which no row is provided in template C 07.00. Given the fact that row 0280 "other risk weights" excludes retail exposures, further guidance is needed.

Q3. Do the respondents agree that the amended ITS fits the purpose of the underlying regulation?

Q4. Cost of compliance with the reporting requirements: Is or are there any element(s) of this proposal for new and amended reporting requirements that you expect to trigger a particularly high, or in your view disproportionate, effort or cost of compliance?

According to the EBA time plan, a final draft ITS will be submitted to the Commission at the end of the second quarter 2024. It is expected that institutions already comply with the new requirements on March 31, 2025 (first reference date). Ultimately, that only leaves six months for implementing new rows, new columns, new templates and partly new instructions.

According to the EBA report on the study of cost of compliance (2021), under recommendation 3 it is stated that EBA shall provide "*materials and documents for implementation 12 months before the date of application (first reference date) of that release*" which refers to the final draft ITS. Following the recommendation would be of the utmost importance, particularly given the sweeping nature of the changes in question. We understand the specific context in which the mandates have to be delivered, however we would like to highlight the enormous challenge that the implementation of the new framework represents.

Furthermore, under para. 52 the draft ITS states that "*further proportionality will be included in the next phase, where discussions will be held to decide on which templates are being used the least by competent authorities and if they can be removed or simplified.*" As we understand, institutions would have to implement the proposed, consulted amendments over a very compressed timeline, only to de-implement some parts due to the results of discussions to be held afterwards. This process is not efficient and would lead to an unnecessary increase in costs, contradicting the findings of the EBA study on cost of compliance.

In principle, it should be noted that the new transitional mechanisms and the new exposure classes increase the complexity of COREP reporting. This will also be reflected in the technical implementation in terms of the timeframe and costs for the institutions. In addition, unnecessary costs will be incurred for CRSA institutions in particular, as the new and revised reporting templates contain numerous IRB-related reporting cells that do not need to be filled in, but obviously need to be reported.

Output floor

Q5. Separate template C10.00 – IRB exposures subject to the output floor:

Do you identify any issues regarding the introduction of this template? Would it be more useful to report the information in C 08.01 to directly compare between capital requirements determined by the IRB approach and the SA?

Q6. Reporting of transitional provisions for the output floor (Article 465 of Regulation (EU) No 575/2013)

Is the design for the reporting of transitional provisions for the output floor clear enough? If you identify any issues, please specify the related templates and instructions.

The importance of transitional arrangements

We encourage the EBA to reconsider the obligation for banks to calculate the "fully loaded" risk-based capital ratio and the risk exposures amounts, taking into account not only the end of the phase-in, but also the impact of the output floor excluding the EU transitional arrangements mechanisms.

We strongly believe that EBA approach conflicts with the political objectives endorsed by EU co-legislators, in particular with a view to ensure a smooth implementation for the sector and consider in the medium term whether certain elements of the framework need permanent adjustments.

The transitional measures establish mandates for EBA reports that will allow the co-legislators to decide in due time on possible extensions and on the final rules. This means that, the information reported would give a picture at a moment when there is no certainty about the final terms after the end of the transition mechanisms. If all or part of the transitional provisions were to be extended or even made structural, the efforts for reporting the information "as if" in absence of the mechanisms would be entirely questionable.

The relevance of the transitional provisions of Article 465 of CRR3 stands in the need to reflect certain specificities of the European banking model and credit markets, reflecting the willingness of the co-legislators to preserve the competitiveness of EU banks. In particular, the various mechanisms touch upon the following:

- Residential real estate: to ensure that the impacts of the output floor on low-risk residential mortgage lending by institutions using IRB approaches are distributed over a sufficiently long period (2032) to avoid disruptions to credit caused by abrupt massive increases in own funds requirements. During the term of the arrangement, when calculating the output floor, IRB institutions should be able to apply a lower risk weight to the portion of their residential mortgage exposures that is considered to be secured by residential property under the revised SA-CR.
- Unrated corporates: during the transitional period until 2032, institutions using IRB approaches should be able to apply a dedicated treatment when calculating their output floor for investment grade exposures to unrated corporates. Indeed, most EU corporates, to date, do not seek external credit ratings, in particular due to cost reasons. To avoid disruptive effects on bank lending to unrated corporates and to provide sufficient time to implement public or private initiatives to increase coverage of external credit

ratings, the legislators have decided that it is necessary to allow for a transitional period to support the extension in the rating coverage.

- Specialised lending exposures: the EU legislators noted that, due to the lack of external rating coverage of specialised lending exposures in the Union, the treatment of unrated specialised lending exposures under Basel III standards may dissuade credit institutions from financing certain projects or lead them to take on more risk in exposures otherwise treated similarly but with higher intrinsic risk profiles.
- Unconditionally cancellable commitments ('UCC'): the Basel III standards introduce a credit conversion factor of 10% for unconditionally cancellable commitments ('UCC') in the SA-CR. The co-legislators, already in the CRR3 recitals, alert that this is likely to result in a significant impact on obligors that rely on the flexible nature of the UCC to finance their activities when they face seasonal fluctuations in their businesses or when managing unexpected short-term changes in their working capital needs. The legislators have deemed appropriate to provide a transitional period during which institutions will continue to apply a lower credit conversion factor to their UCC and to assess whether a potential gradual increase in the applicable credit conversion factors is warranted, thus allowing institutions to adjust their operational practices and products without hindering the availability of credit to institutions' obligors.
- Securitization: setting the P factor at 1 instead of the agreed 0.5% for a period until 2032 will be very penalizing. Indeed, this deadline was precisely set so as to allow waiting for the implementation of the reform in progress that may lead to another calibration.
- SA-CCR: The calibration issue of the alpha factor highlighted by the industry and recognised also in the US, led the co-legislators to set alpha at 1 till 31 December 2029 with the possibility for the EC to issue a legislative proposal that may lead to another calibration.

In addition, **the accuracy of the data will be very challenging from an operational perspective in 2025** given the very short deadline for banks.

Q7. Group solvency template C06.02: Do you identify any issues with the new column 0075 introduced in the group solvency template C06.02 to report the floor adjustment of group entities subject to own funds requirements?

Q8. Do you have any other comment on the changes to reporting related to the output floor?

Credit risk SA

Q9. New subset of exposure classes for exposures "secured by mortgages on immovable property and ADC exposures".

Do you identify any issues related to the introduction of this new subset? Is this proposal clear enough? If you identify any issues, please suggest how to clarify the reporting.

It is unclear why the new subset of exposure classes exceeds the CRR requirements for exposure classes. We require further information on the rationale of such choice and urge the EBA not to go beyond the stipulations of the level 1 text.

Q10. Do you have any comment on the other changes included in the C 07.00 template? Other changes include a separate exposure class for "Corporates – Specialised lending, an "of which" row for exposures to central banks, revised memorandum item rows to align with the breakdown for exposures secured by immovable property, a new column "other" for transitional CCFs for UCC, and a last column to report the impact of transitional provisions on CCFs for UCC.

Q11. CIUs under the SA approach – Please also refer to question 16 on the reporting of CIU positions and underlying exposures under the IRB:

Do institutions have information readily at their disposal on underlying exposures of CIUs in order to be reported as it is proposed to be done in C 08.01? Would this add substantial reporting costs?

Credit risk IRB

Q12. Large corporates: The additional breakdown on Large corporates was deemed vital in order to guide the correct application of the new rules for such exposures and to cover the information needs on the exposures to SMEs and Large Corporates. However, it implies overlap with the other Corporate exposure classes. Therefore, two options are put forward for respondents to this consultation:

Option 1: Current proposal in templates and instructions, with a decision tree

Option 2: To have "Large Corporates" and "SMEs" as of which items, to avoid overlap

Which option would be preferable taking into account the ready available data and reporting costs? Which one would be more advantageous for data analysis?

Q13. IRB retail: Is the breakdown of exposure class 'Retail' clear and unambiguous?

Would an "of which" approach analogous to option 2 described in question 12 but referring to "Secured by immovable property" instead of "Large Corporates" be advantageous for data analysis and preferable taking into account the ready available data and reporting costs?

Q14. Further question on the corporates breakdown in C 09.02

In template C09.02 exposures to corporates are reported according to the exposure classes of Art. 147 (2) c) CRR3 and according to the information needs on the exposures to SMEs and Large Corporates. The breakdown by exposure classes according to Art. 147 (2) c) CRR3 are proposed to be reported as 'of which'-positions of the Total corporates reported in row 0030.

Would it be less costly to report the whole breakdown of exposure classes of Art. 147 (2) c) CRR3, i.e. including 'Corporates-other' instead of reporting 'of which' items for Specialised Lending exposures and purchased receivables?

Q15. CIUs according to Art. 147 (2) e1) CRR3:

Question 15.1: Is it clear how positions of exposure class CIU (Art. 147 (2) e1) CRR3 are to be reflected in the CR-IRB templates (C 08.01 to C 08.07)?

Question 15.2: Regarding CIU positions whose underlying are securitisations or equity exposures, would it be clearer and easier to report these underlying exposures under the securitisation and equity templates (C 13.01 and C 10.01, respectively)? Inversely, should they be reported under the credit risk templates?

Question 15.3: If you identify any issues, please suggest how to clarify their treatment in the templates and/or instructions.

Question 15.4: Do institutions have information readily at their disposal on underlying exposures of CIUs in order to be reported as it is proposed to be done in C 08.01? Would this add substantial reporting costs? If so, how are those underlying exposures currently reported?

Question 15.5: Would it add substantial reporting burden for institutions if these exposures would be reported under a separate template where both the CIU positions and the underlying exposures would be reported under the corresponding exposure class? Would this approach be clearer?

Q16. In template C 08.01 a breakdown on mortgages is added for covering supervisory information needs on residential and commercial real estate as well as IPRE and ADC exposures. In this context, a breakdown for non-IPRE exposures into “secured” and “unsecured” (risk weighted as not secured by immovable property) is introduced referring to Articles 125 (1) respectively 126 (1) CRR3 in order to further align reporting for SA and IRB exposures.

Do institutions – in particular the ones applying own LGD estimates – have information readily at their disposal for providing this further split into “secured” and “unsecured”. Would this add substantial reporting costs?

IP Losses

Q17. revised instructions for template C 15.00:

The instructions have been updated to align with the legal references with the new articles introduced in Regulation (EU) No 575/2013 for exposures secured by immovable property and the revised [Article 430a] on specific reporting obligations. The instructions have been clarified on certain aspects. The template has been amended to remove the two columns referring to the mortgage lending value. Are the revised instructions clear enough? If you identify any issues, please suggest how to clarify the reporting.

CVA

Q18. Revised template C 25.00

Templates C 25.00 (CVA) and C 02.00 (own funds requirements) and have been amended to align with the new 3 approaches set out in the in Regulation (EU) No 575/2013 (standardised, basic, simplified) and to align with the Basel disclosure requirements. In addition the template C 25.00 is designed to capture:

• The mandatory reporting of own funds requirements calculations for excluded transactions, the reporting;

• The discretion to calculate own funds requirements also for excluded transactions, where institution uses eligible hedges;

• The reporting of own funds requirements stemming from derivative positions of CIUs.

• The derogation to calculate the CVA charge as an amount equal to 50% of the CCR charge is shown as an additional approach for the purpose of reporting only and is reflected as such in the C 02.00 template;

• A breakdown by counterparty types for the number of counterparties for transactions subject to the SA-CVA approach is aligned with disclosure requirements for CVA in Regulation (EU) No 575/2013.

• The breakdown of own funds requirements by approach and by sub-risk classes is aligned with the disclosure requirements in in Regulation (EU) No 575/2013.

• The systematic and idiosyncratic components of CVA risk for the reduced basic approach.

Are the reporting template C 25.00 and related instructions clear enough? If you identify any issues, please suggest how to clarify the reporting.

Market Risk

Q19. Simplified standardized approach, market risk overview in C 02.00 and offsetting group concept in the group solvency templates

a) Did you identify any issues regarding the representation of the (policy) framework regarding the simplified standardized approach, the overall RWEA for market risk and the offsetting group concept in the templates C 02.00, C 06.02 and C 18.00 to C 23.00? Are further amendments necessary to align the reporting with the CRR3?

b) Are the amended templates and instructions clear?

Regarding the overall RWEA for market risk, in template C 02.00, the EBA should ensure that there is no restricting rule on the total RWA for market risk (line 0520) and on each reporting line (it should be possible to fill lines 0530 and 0581 or lines 0530 and 0585 together), as the combined use of the three methods is allowed by article 325(4) at consolidated level.

Also for the simplified standardized approach, templates C 18.00 to C 23.00, recycled to report the new SSA, should be renamed accordingly to prevent any confusion with the reporting under A-SA or current SA.

The boundary between trading book and banking book

Q20. Boundary template

a) Did you identify any issues regarding the representation of the (policy) framework for the boundary in templates C 90.05 and C 90.06?

b) Are the scope of application of the requirement to report the different templates, the scope of positions/instruments/profits and losses etc. included in the scope of every template, the template itself and the instructions clear? If not, please explain the issues needing clarification, and make a suggestion on how to address them.

Leverage ratio

Q21. Do you agree with the changes to the Leverage ratio reporting as implementing the new CRR3 provisions? Do you see any further amendments needed?

Given the data provided by the own funds reporting templates are already sufficient and taking into account the results of the EBA Cost of compliance study, as well as the general need to uphold proportionality considerations in reporting requirements, we strongly suggest to delete the templates C 40.00 and C 43.00.

Contact:

For further information or questions on this paper, please contact:

- Mr. Volker Heegemann, Head of Department (v.heegemann@eacb.coop)
- Mr. Marco Mancino, Deputy head of Department, Banking Regulation (m.mancino@eacb.coop)