FÉDÉRATION
BANCAIRE
FRANÇAISE

2017.01.07

FBF RESPONSE TO EBA CONSULTATION PAPER ON THE REVISION OF OPERATIONAL AND SOVEREIGN PART OF THE ITS ON SUPERVISORY REPORTING (EBA/CP/2016/20)

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of credit institutions authorized as banks and doing business in France, i.e. more than 370 commercial, cooperative and mutual banks. FBF member banks have more than 37,500 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

The FBF welcomes the opportunity to comment on the EBA's Consultation on the revision of operational and sovereign parts of the ITS on supervisory reporting. While we appreciate the EBA interest to standardize data collection and to remove ad-hoc collection as for STE Exercise, we question (i) the level of granularity of data requested regarding usefulness of the information provided for EBA and/or market (ii) about the costs incurring to develop robust processes to collect and report the information and (iii) the feasibility of the implementation date proposed by EBA.

Paragraphs below detail our general comments and answer to questions raised in the Consultation Paper firstly for the sovereign exposures part and then for the operational risk part on the other hand.

I- Sovereign exposures reporting

1. Executive summary

To sum up, we recommend to make a distinction between regulatory reporting and public information disclosure that is addressed separately through Pillar 3

Moreover, (i) as we are very close to the implementation date of the new templates (March 2018), (ii) as the information required is very granular and (iii) as the new templates are mixing financial and risk information that were until now reported separately in FINREP and in COREP reportings, we advocate, in order to respect the tight timeframe to:

- Report the two new templates in FINREP and not in COREP as the information will be primarily sourced from accounting IT systems
- Remove risk information (risk approach, RWA data) that is not consistent with FINREP reporting as well as indirect exposures
- Align residual maturity buckets with those of Institution-to-Aggregate reporting (FSB Data Gaps Initiative)

- Report information by geographical zone as for STE Exercise and Transparency Exercise and not country by country in order to maintain coherence with current format and to lighten templates

Nonetheless, if EBA does not wish to alter the level of information required and wants to keep templates that combine financial and risk information, we recommend an implementation date postponed at least to 2019.

Finally, as these new templates are a European initiative, we recommend reducing the level of granularity requested in order to decrease the additional burden for European banks.

2. General comments

2.1 Regulatory reporting is not adapted to financial communication and market information

As this consultation paper is a draft to an ITS ("Implementing Technical Standards") amending Implementing Regulation (EU) No 680/2014 with regard to sovereign exposures, this consultation paper takes place in a context where EBA already launched another consultation about financial communication (Guidelines on Disclosure Requirements under Part Eight of Regulation (EU) 575/2013).

The proposals included within these draft guidelines already represent significant changes in financial communication and will require significant investments in particular in IT developments by the end of 2017. The fact that two consultation processes are running in parallel on topics linked to financial communication and market information raises concerns in terms of consistency of the information to be disclosed.

Regulatory reporting and financial communication have different objectives and are meant for different beneficiaries and use. We consider that the systematic publication of regulatory reporting (designed to fit the needs of supervisory authorities) is not adapted to the specific requirements associated to financial communication and market information. To illustrate the negative consequences of this mix, we can take the example of EBA Transparency Exercise 2016 for which sovereign template was fed until 2015 by STE ("Short Term Exercise") data and was changed by FINREP data in 2016 with a sovereign definition different from STE Exercise. Consequently, EBA published on December 2, 2016 on its Internet site, information regarding sovereign exposures as for December 31, 2015 different from the data published on Pillar 3 for the same date. Even tough, the warning was given by banks to EBA, Transparency Exercise on sovereign template was not changed, raising questions from investors and analysts despite the EBA footnote mentioning it.

As a consequence, we strongly recommend this new reporting about sovereign exposures to be restricted for supervisory authorities use only. Communication about risks towards investors and analysts should remain consistently managed through the Pillar III of the Basle Regulation.

2.2 To mix financial and risk information in regulatory reportings does not belong to common regulatory reporting practices

We support the initiative of the EBA to use the European supervisory reporting framework – COREP and FINREP – in order to remove the additional STE data collection.
Nevertheless, each COREP and FINREP reporting framework has its own objectives and characteristics:

- COREP - Common Reporting - aims to provide an overview of own funds and exposures and covers 5 components – own funds, capital adequacy ratios, credit risk, market risk and operational risk
- FINREP - Financial Reporting - intends to report accounting information based on the IFRS standards and covers balance sheet and income statement data.

Since 2006 and the implementation of these reportings, the regulation has clearly and systematically separated financial information (FINREP) and risk information (COREP). Thus, some concerns worth to be raised as proposed new templates mix the two frameworks:

- Using data based on accounting and risk notions require a unique database that is under construction.
- Additional internal controls have to be implemented in order to ensure the quality of the information disclosed.

As these two new templates will be filled in with accounting data, we advocate to report sovereign exposures in FINREP and not in COREP reporting. This option implies the removal of risk information (risk approach, RWA data) that is not consistent with FINREP reporting as well as indirect exposures.

2.3 A cost – benefit analysis of the considered granularity should be done

We support the principle to give more information especially in a stabilized and standardized environment. However, we question the usefulness of the high level of granularity of the new templates that is required to be disclosed, notably regarding:

- “Risk Weighted Assets” (RWA) as:
    - RWAs on sovereigns are not significant compared to (i) total RWAs of French major institutions and to (ii) total sovereign exposures of French major institutions
    - RWA data on sovereigns is already available in COREP C 09.01 template “GEOGRAPHICAL BREAKDOWN OF EXPOSURES BY RESIDENCE OF THE OBLIGOR: SA EXPOSURES (CR GB 1)”
    - RWA data on sovereigns has never been given in STE exercise, Transparency Exercise and EBA Stress Test
    - RWA data on sovereigns regarding trading book under internal models does not have any obvious economic meaning considering the reporting template’s granularity split of country and maturity bucket (cf. 3. Template specific comments for more explanation)
- “Indirect exposures” as: (i) this information is not reported in FINREP – consequently, the financial investment to report this information is high compared to the value added that it brings, (ii) information have not been reported in the new Transparency Exercise.

Specifically, for template C33.02 (“General governments’ exposures by country of the counterparty and residual maturity – GOV2”), we would like to highlight that buckets of residual maturities required in this reporting are different from those required by the Institution-to-Aggregate (“I-to-A”) reporting that will be communicated by systemic banks as from June 2017 to FSB via Basel Committee. The differences are the followings:

- New template C33.02 information to be disclosed into residual maturity buckets are the following:
    - [0 - 3M [: Less than 90 days
    - [3M - 1Y [: Equal or greater than 90 days and less than 365 days
    - [1Y – 2Y [: Equal or greater than 365 days and less than 730 days
    - [2Y – 3Y [: Equal or greater than 730 days and less than 1,095 days
    - [3Y – 5Y [: Equal or greater than 1,095 days and less than 1,825 days
    - [5Y – 10Y [: Equal or greater than 1,825 days and less than 3,650 days

    - [10Y – more : Equal or greater than 3,650 days

- I-to-A information to be disclosed into residual maturity (i.e. the amount of time remaining from the report as-of date until the final contractual maturity of the instrument without regard to the instrument's repayment schedule, if any) buckets are the following:
    - Non-maturity instruments (including on demand and open positions)
    - overnight and less than 3 months
    - 3 months and less than 1 year
    - 1 year and over
    - Unknown because the reporting bank's systems cannot produce the number due to operational constraints

Consequently, in order to reduce the burden of banks and to ensure reliability and coherence with FINREP reporting, we advocate (i) to remove risk information (risk approach and RWA) and indirect exposures information (as mentioned in §2.2) and (ii) to use the same residual maturity buckets required into I-to-A reporting.

In addition, the increase of the reporting granularity should not result into a deterioration of data quality and reliability. In order to ensure consistency between financial information (FINREP) and risk information (COREP), complex reconciliation processes are operated at a macro level between the two frameworks. Nevertheless, this reconciliation process is currently not sufficient to comply with the high granularity level requested in the new templates.

Lastly, data production of sovereign exposures by country will even more place existing IT networks under stress as for major French institutions it represents additional information to provide for around 200 countries (i.e. 200 templates) in addition of the 800 templates of COREP reported in Q2 16. Instead of providing information by country, we suggest to calibrate materiality thresholds on exposures at the country level and/or to provide information by geographical zone as for STE Exercise and Transparency Exercise in order to (i) keep on benefiting EBA from the same level of information than it has benefitted so far and (ii) reduce the burden of banks.

2.4 *Risk of uneven playing field with non EU banks*

From existing FINREP data, EBA is requiring the implementation of two new templates in the COREP reporting with a very high level of granularity for all European banks. This new constraint is a European initiative that will not be shared with other non EU banks and will result into an important discrepancy of the information publicly disclosed about sovereign exposures between EU and non EU banks. In addition, it will be an additional burden for European banks taking into account the high level of granularity requested.

3. Specific comments on Template

3.1 Confirmation of accounting standards to be used

The two new templates, provided in this consultation paper are presenting for "Direct exposures" (data on columns), are mixing accounting GAAPs for portfolios as:

- Column 30, 50, 60, 80, 100, 130, 140 are IFRS accounting portfolio
- Column 40, 70, 90, 110, 120 are National GAAP accounting portfolio

Could you please confirm that sovereign exposures are to be reported in a consolidated way in IFRS GAAP when the institution uses this accounting framework.

3.2 Understanding of concept

Could you please clarify what you mean exactly in the template C33.01 ("General governments exposures by country of the counterparty and regulatory approach – GOV1") by the concept of "Total carrying amount of non-derivative financial assets (net of direct short positions)" (column 020)

3.3 Comments on RWA data regarding trading book under internal models

Consultation template 33.01 for "Risk Weighted Exposure Amount" (column 320) does not have any obvious economic meaning considering the reporting template's granularity split of country and maturity bucket.

<u>VaR as example:</u>
VaR is a measure representing a possible portfolio trading loss for a given time horizon and confidence interval:

a. Attempting to produce a mini-VaR for each Sovereign/maturity bucket would be disconnected from economic reality as all correlation/portfolio diversification effects would be lost.
b. Each mini-VaR would presumably be evaluated at 99% confidence. While this might be technically feasible, the temptation would then be to sum the mini-VaR for each of the seven maturity buckets (3m, … 10y+). However, such a summing of quantiles would be mathematically incoherent.
c. VaR is driven by the 99% largest loss scenario and there would be no guarantee of economic consistency is there are a combination of long/short deltas across the tenor bucket structure. (e.g. indirect risk could have long CDS exposure for 5y and short CDS for 10y)

<u>IRC as example:</u>
IRC is a measure representing a possible credit portfolio trading loss for a given time horizon and confidence interval driven by rating migration/default events.

a. The same issues as for the VaR would be expected

b. However, if column 320 is meant to be a composite of all RWAs it now involved summing quantiles from different risk measures such as IRC and VaR (and also VaR on CVA and CCR RWA as the scope is not self-evident.)

So in total each cell would include the worst lost from either up or down moves (even on highly correlated amounts) that would sum potentially to an order of magnitude or more than the actual RWA for the portfolio.

4. Answer to questions related to the consultation

Q2: Could you please quantify the implementation costs (expressed in man days) that would arise when implementing the new reporting requirements on sovereign exposures as part the regular reporting framework? How would these implementation costs compare to a situation in which institutions were required to comply with ad-hoc data requests that are required (i) to comply with the EBA's transparency exercises and (ii) to comply with competent authorities' requests on institutions' sovereign exposures (e.g. SSM short-term exercise)? [see page 17]

As presented in this consultation, we estimate that the cost of producing these two new templates on sovereign exposures will be higher than collecting additional information through STE Exercise and Transparency Exercise on a recurrent basis and not to mention very highly costs for the implementation that should be assimilated to those of BCBS239 IT developments.

Q3: The threshold defined in Article 5 (b) 3 (a) exempts institutions that fall short of the threshold from the new requirements. Do you think that this threshold is appropriate so that (i) institutions with material sovereign exposures are required to report (and hence supervisors will have the relevant information for their assessments) while (ii) smaller and less complex institutions are more likely to be exempt from the new reporting requirements? [see page 17]

No comment

Q4: Is there a noteworthy difference in terms of costs between point (b) which requires a full country breakdown and point (c) which limits the breakdown to a total and domestic country? If there is a noteworthy difference, please try to quantify the cost difference and put it into context with the overall implementation costs that you expect with the new reporting requirements on sovereign exposures. [see page 17]

The difference is noteworthy regarding costs and operational impacts on IT systems as mentioned in our comments presented above

Q5: Are the reporting templates related to sovereign exposures (C 33.01 and C 33.02) as set out in Annex I and related instructions in Annex II sufficiently clear? In case of uncertainties on what needs to be reported, please provide clear references to the respective columns/rows of a given template as well as specific examples that highlight the need for further clarifications. [see page 18]

Could you please confirm that sovereign exposures are to be reported at the consolidated level in IFRS GAAP when applicable.

II- Operational risk reporting

Q1: Could you please quantify both the implementation costs and recurring production costs (expressed in man days) that would arise when implementing the changed reporting requirements on OpRisk as part the regular reporting framework? How would these recurring production costs compare to a situation in which institutions were required to comply with ad-hoc data requests that are required to comply with current competent authorities' requests on institutions' OpRisk losses (e.g. SSM short-term exercise)? [see page 16]

The time estimation to implement the changed reporting requirements on OpRisk depends on data model of each entity. This could lead to a workload from 60 man/days to over 200 man/days.

Q6: Are the reporting templates related to OpRisk losses (C 17.01 and C 17.02) as set out in Annex I and the related instructions in Annex II sufficiently clear? In case of uncertainties on what needs to be reported, please provide clear references to the respective columns/rows of a given template as well as specific examples that highlight the need for further clarifications. [see page 19]

<u>Consultation Paper Page 10: Art 18</u>

We would like to have more indications and precise criteria to include institutions and their subsidiaries to reporting the full sheet C.17 on Oprisk Loss data. And if all the entities of a Bank Group would be concerned by an ITS (included STA or BIA entities).

Annex II Page 2 art 129

Template C17.01, line X50: Could you confirm if we shall apply the same rule as the one concerning the line X60 (cf. page 2, Art 129) : Reported maximum single loss for the first time within the reporting period (i) or the largest positive adjustment for events reported for the first time within a previous reporting period (ii) if (ii) > (i)

Annex II Page 2 art 130 and 131

We would like to make a negative sign for these lines to be consistent with others lines (template C17.01, line X70 and X80)

Annex II Page 2 art 134

Presently, the use of the « Corporate items » row is limited to establishments using the AMA methodology (as article 322 refers to article 312-2, dedicated to AMA). In the consultation paper, the wording is unchanged (point 134 in the consultation paper being equivalent to point 130 of the current appendix 2). However, for COREP consolidation purposes, and as the AMA methodology is to be discarded soon, this row should be made available for all (and not restricted to AMA establishment).

Annex II Page 7 art 138

Should we only provide the losses for the period or should we include the largest positive loss adjustment reported for the first time within a previous reporting period?

Annex II Page _8 § 4.2.3.2 : ID event :
Would it be possible for each institution to keep its specific IDs for easier checking ?

Annex II Page _8 § 4.2.3.2 : Description (Column 200) :
The internal process of validation of the qualitative data is very burden and complex. It's very difficult to meet this need for 17 lines without burdening the process. We propose to make a comment only for the 5 largest losses

Reporting period.

For an OPR DETAILS on 31/12/2016, is the reporting period of the OPR DETAILS of 30/06/2016 (reporting period: 01/01/2016 au 30/06/2016) considered as « a previous reporting period »?

Other comments.

Linked roots events: Do we have to use the same approach used in the Short term exercise?

For some institutions, it will be difficult to separate recoveries from insurance and other recoveries

Q7: Are the rules for the assignment of loss adjustments to ranges as defined for rows 940 to 944 sufficiently clear? In case of uncertainties, please provide suggestions to improve the clarity and/or effectiveness of the reporting instructions for loss adjustments. [see Annex II, page 7]

Annex II Page 5 – "Rows 930-934" : c) and d)

Number of loss event: We would like to know if a single adjustment will be double counted, once in the range before adjustment and once in the range after adjustment. This will complicate controls and verification of such rules.

Annex II Page 5 – "Rows 940-944"

"(i.e report the original loss amount with a negative sign in row 940)". Please provide more indications to precise if we are talking about the amount of the adjustment or the amount of the original loss.

We would like to clarify the situation when an adjustment causes the loss adjusted to fall into a new range (comment (c)). We believe that the best option is to impact the new range for the entire loss adjustment (eg loss in N-1 = € 19,000 to be carried over to line 921, loss adjustment in N = + 4000 € to be carried over totally on line 922). It would be too complex in information system if we exclude the original loss amount in the previous range and assigning the loss adjusted in the new range. It's not consistent with line 931-934 because if we would apply this rule (c) we report 2 event (one on previous range and another one on new range)

Annex II Page 6 –"Rows940-944"

c) It would be easier to implement and control if a single adjustment is reported in only one bucket and not two

These rules could lead to a negative amount in a cross cell business Line/ risk category

e) " the negative net amount of the loss adjustment shall still be included in row 940". Please clarify how the net amount should be calculated (net of recoveries, of insurance, both of them?)

Q8: Are the new rules for the determination of the number of loss events subject to loss adjustments for certain ranges of gross loss amounts as defined for rows 931 – 934 and the rules for the assignment of loss adjustments to ranges as defined for rows 940 to 944 appropriate in terms of cost/benefit? Please try to quantify the cost impact and put it into context with the overall implementation costs that you expect with the changed reporting requirements on OpRisk. [see Annex II, page 7]

No comment

Q9: Which option as regards the threshold for OpRisk loss events is the least complex or least costly in terms of implementation? [see Annex II, page 8]

Annex II Page 7, art 138.139 and Consultation Paper Page 12: art 26

We need more clarification on the threshold of identification and reporting of the largest incidents.

This new template is similar to template 05 from STE (with the difference that in STE we also report the largest incidents by sub-categories). Thus, this means reporting twice the same list of largest incidents.

Will the STE reporting be maintained, or will this new template C17.02 be partially replacing it?