



BANKING STAKEHOLDER GROUP

Draft Implementing Technical Standards amending Commission
Implementing Regulation (EU) 680/2014 on supervisory
reporting of institutions with regard to financial reporting
(FINREP) following the changes in the International Accounting
Standards (IFRS 9)
EBA/CP/2015/23

General Comments and Replies to Questions

BY THE EBA BANKING STAKEHOLDER GROUP

London, March 8th, 2016

Foreword

The EBA Banking Stakeholder Group (BSG) welcomes the opportunity to comment on the EBA Consultation Paper 2015/23 on Draft Implementing Technical Standards amending Commission Implementing Regulation (EU) 680/2014 on supervisory reporting of institutions with regard to financial reporting (FINREP) following the changes in the International Accounting Standards (IFRS 9)

This response has been prepared on the basis of comments circulated and shared among the BSG members. It outlines some general comments by the BSG, as well as answers to the questions indicated in the Consultation Paper.

General comments

The changes incorporated in the new IFRS 9, replacing IAS 39, are in general designed to get an easier recognition and accounting treatment of financial instruments (i.e. classification of financial assets). Nevertheless, the new approach on the impairment of loans and debt securities, based on the measurement of expected losses, introduces a deep sophistication to the procedures of the financial institution as well as in the financial reporting both for general and supervisory purposes.

On the other hand, the new rules for adopting a hedging accounting could improve the use of the fair value and cash flows hedges, as long as the conditions to meet the definition of (accounting) hedging relationships have been relaxed.

The BSG agrees on the need to have with enough anticipation new templates and rules for supervisory reporting, in order to prepare the new disclosure system for when the European Union eventually endorses the IFRS 9. More of the proposals in this amending Regulation would inspire the modifications of the information and accounting systems of European banks that are already in progress.

Replies to Questions

Q1. Is there any additional change introduced by IFRS 9 Classification and measurement rules and principles that needs to be reflected in FINREP IFRS 9 templates to convey to supervisors an appropriate level of financial information on your institution?

No: we think that all the relevant changes have been introduced in the templates.

Q2. Is the FINREP representation of impairment on assets measured at fair value through other comprehensive income consistent with the way this information will be

conveyed in your financial statements? In case of inconsistency, what are the improvements needed in FINREP?

The BSG is not a financial institution. We can only assess the consistency between the mandatory disclosures in IFRS 9 and the proposed treatment in FINREP. According to this purpose, the split between the change of fair value from credit risk (charged or credited to the statement of income) and from other causes (charged or credited to OCI) is mandatory. The changes to the templates properly reflect this split and therefore we judge they are consistent.

Q3. Are instructions on the reporting of amounts partially and totally written-off clear enough? Which clarifications would you need to ensure good quality of reported data?

Although the reporting of amounts (total or partially) written-off is well defined, the criteria for derecognising (namely: when the institution has not reasonable expectations of recovering the contractual cash flows) would be too general to be applied in a consistent way for all entities. Because of this, BSG judges that there is a need for a more detailed definition of that derecognising criterion.

Q4. Do you believe some of the off-balance commitments listed in Annex I of Regulation (EU) 575/2013 will keep on being measured in accordance with IAS 37 instead of IFRS 9? In case you believe that all commitments listed in the said Annex will be applied the IFRS 9 impairment rules, please provide the rationale backing your view.

Yes. Some of the items listed in the above mentioned Annex I could be non-financial in nature and therefore the provisions with respect to those items must be measured using IAS 37 if the financial institution wants to report according IFRSs. The view of the BSG is consistent with the general philosophy of IFRSs: if the item is a financial instrument the IFRS 9 impairment rules are applicable; otherwise the financial institution shall use IAS 37 or other IFRS to report on the impairment.

Q5. Do you recognise loan commitments and guarantees at fair value or measure some financial guarantees in accordance with IFRS 4, as possible according to IFRS 9.2.3 (a) and IFRS 9.2.1 (e) in connection with IFRS 9.B.2.5? If yes, are the respective outstanding notional amounts significant when compared with the overall notional amounts of loan commitments and guarantees?

Not applicable to BSG.

Q6. Are instructions on the allocation of changes in loss allowance between different drivers clear enough? Which clarifications would you need to ensure good quality of reported data?

The drivers mentioned are the main causes that can be identified in the loss allowance for each stage of impairment. Nevertheless, we suggest avoiding any possible overlapping or double-counting between columns, in order to get an exact reconciliation between beginning and ending balances. In this regard, columns 020 and 030 have partially the same information.

Q7. How will you identify the different drivers for change in loss allowance for open retail portfolios?

Not applicable to BSG.

Q8. Are the instructions and template on the reporting of transfers of financial assets between Stages sufficiently clear? If not, what changes could be made to the template or the instructions to ease the reporting by institutions and improve the supervisors' understanding of the application of the significant increase in credit risk threshold over time?

We believe that the instructions and the corresponding template are well developed in order to see the transfers between impairment Stages.

Q9. Do respondents agree with the approach suggested in the example above on “the reporting of impairment on assets measured at fair value through other comprehensive income (FVOCI)” to present impairment of debt instruments measured at FVOCI on a net basis?

The solution adopted is in line with the provisions of IFRS 9 and therefore our view is favourable.

Q10. What further improvements are needed in FINREP IFRS 9 templates in order to convey supervisors with appropriate and comprehensive information regarding the level of impairment and its developments in your institution?

The supervisor needs to consider the impairment policy and the measurement process followed to set the expected losses (both in the next 12 months and over the life of the instruments), except if the financial institution follows the rule of the 30 days to classify into “non-performing-stage 2” and 90 days to classify into “impaired-stage 3” items.

The 30 and 90 days rule is considered as the maximum terms to reclassify, but the entities could develop internal models that use other criteria. These criteria are not disclosed in the templates.

Q11. What further improvements are needed in FINREP IFRS 9 templates in order to convey supervisors with appropriate and comprehensive information regarding the level of hedging activities and its impact on the financial position and profit or loss of your institution? Q12. Do you agree with the allocation of hedged items and hedging adjustments by derivative risk categories in templates F11.4 and F11.5 or could a more relevant split be implemented?

The allocation of hedged items and hedging adjustments by risk categories is sufficient to reach the goals of the supervisors.

Q13. Is the maturity schedule provided in template F11.5 adequate to allow the proper identification of structural hedging transactions?

The maturity schedule is consistent with others used in supervisory disclosures. So, we agree with it.

Q14. Would a reporting of the expected reclassification timing of the cash flow hedge and hedge of a net foreign investment reserves by types of risk, or a reporting of the timing of the nominal amount of the hedging instrument be preferable to a maturity breakdown of the hedged cash flows as currently proposed in template F11.5 in order to show the possible impact of the cash flow hedge on the future performance of your institution?

For the BSG this is a difficult question, because we take the position of the supervisor. We consider the approach adopted in the template is sufficient.

Q15. How do the requirement to report changes of fair value due to credit risk match with your approaches for valuation in the financial statements, disclosures in the notes to the financial statements and risk management practices?

Not applicable to BSG.

Q16. If you disagree that reporting accumulated negative changes in fair value due to credit risk on non-performing exposures achieves a credit risk metric approximating impairment for exposures measured at fair value, which other metric would you propose to be used?

We agree with this position.

Q17. Compared to the current reporting requirement of the fair value changes due to credit risk on all exposures at fair value through profit and loss except held for trading, would monitoring accumulated negative changes on non-performing exposures only entail significant increase or decrease in the cost of monitoring and reporting those fair value changes due to credit risk?

The current reporting requirement is less costly than the proposed one.

Q18. At which level (portfolio, instrument by instrument) do you compute and track fair value changes due to credit risk? Do you implement any aggregation/offsetting between gains and losses in fair value due to credit risk when estimating them?

Not applicable to BSG.

Q19. Do respondents have any comments on the structure and content of the proposed templates and in particular the amendments proposed to Annex III of Regulation (EU) No 680/2014? Where there are disagreements to not amending or further amending a particular cell or template, please provide substantiated reasons.

We agree in general with the proposed templates.

Q20. Do respondents find the proposed instructions clear? Are there specific parts where definitions or instructions should be clarified?

The instructions seem to be clear.

Q21. What are the aspects, if any, of the revised FINREP proposal that trigger additional costs beyond the costs incurred to implement IFRS 9 and the revised IFRS 7, and the unavoidable costs from the difference in scope between FINREP and the financial statements?

The new IFRS 9 makes some accounting treatments (i.e. classification or hedging) easier but makes some others (i.e. impairment measures and reporting) more difficult and expensive. The proposed changes are aligned with those changes and in our view do not mean more costs than the expected due to the accounting change thereof.

Submitted on behalf of the Banking Stakeholder Group

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