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Our response to the European Banking Association on its consultation, Draft Implementing Technical Standards on Supervisory reporting requirements for institutions (CP 50)

Introduction

The Building Societies Association represents mutual lenders and deposit takers in the UK including all 47 UK building societies. Mutual lenders and deposit takers have total assets of over £375 billion and, together with their subsidiaries, hold residential mortgages of over £235 billion, 19% of the total outstanding in the UK. They hold more than £250 billion of retail deposits, accounting for 22% of all such deposits in the UK. Mutual deposit takers account for 34% of cash ISA balances. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.

We have made only high level comments. A more detailed response has been submitted by the British Bankers' Association that was prepared by a group that included one of our largest members. We support that response.

Executive summary

An overwhelming concern with the draft ITS is the timing. Radically new reporting requirements, as COREP and FINREP templates are, require systems alterations and testing, both of which usually take a minimum of 12 months. Our larger members tend to be the only ones which have started work; they are concerned that they are having to work with draft versions of the templates. Smaller members do not have the resources to review drafts and will have to rely on software providers. These will be under pressure themselves and may not be able to provide an adequate service in the necessary time. All our members are vulnerable to the costs of iterative projects should the drafts be changed.

Our members are concerned with the level of development and understanding required to comply with the new templates, particularly as they will not be finalised until later in 2012. Even if our members have only to report part of the total information, they still have to review all the templates and data items to ensure nothing is missed.

We therefore suggest a delayed or phased implementation. That way, the EBA has a better chance of receiving meaningful data.

Another major concern is proportionality. The aim of harmonised reporting is to check the adequacy of solvency ratios in credit institutions and investment firms. The European Banking Authority says[1] that harmonised reporting is driven by increased cross-border activity in Europe and integration in financial markets. If that is the case, why are domestic institutions affected by it? Surely such reporting is applicable only to those institutions which operate outside of their home country? The EBA goes on to say that the changes will bring a reduced reporting burden on cross-border institutions with centralised risk management systems. That it might do, but purely domestic institutions such as mutuals do not have such a reporting burden to reduce in the first place.

We therefore question why European domestic institutions need to be affected by the proposals. They have different characteristics according to the business environment, culture and law within which they operate. Not only are they hard to compare, any resulting data runs the risk of being meaningless. And finally, is the EBA really going to compare a local English building society with, for example, a regional German Sparkasse?

[1] http://www.fsa.gov.uk/pubs/international/corep_minutes1_slides.pdf

Detailed response

CHAPTER 1

Subject matter, scope and definitions

1. *How would you assess the cost impact of using only CRR scope of consolidation for supervisory reporting of financial information?*

Our members are best placed to answer this.

2. *Please specify cost implications if parts 1 and 2 of Annex III and of Annex IV of this regulation would be required, in addition to the CRR scope of consolidation, with the accounting scope of consolidation?*

Our members are best placed to answer this.

CHAPTER 2

Reporting reference and remittance dates

3. *Financial information will also be used on a cross-border and on European level, requiring adjustments to enable comparability. How would you assess the impact if the last sentence of point 2 of Article 3 referred to the calendar year instead of the accounting year?*

Several of our members do not have the calendar year as an accounting reference date. Therefore to change to calendar year from accounting year as suggested for the last sentence of point 2 of Article 3 would present significant difficulties and be intensely resource consuming. Previous years' accounts would, for example, need to be recalculated. For our larger members, there is a possibility that these recalculations could upset the markets if this information is made public.

If the accounting year end is not changed, certain institutions could find themselves reporting on eight different dates (the four calendar quarters and four accounting quarters). Again, this increased reporting burden could upset markets if the information presented to the EBA is made public.

That institutions would be required to change something as fundamental as their ARD with no tangible benefit for themselves (or their members), solely for the purpose of international reporting comparison, is a hard position to defend. (They would have to put such a move to ordinary members for resolution in any case). We think the EBA should be able to find a way to work round differing ARDs. We therefore suggest keeping to the accounting year.

4. *Does having the same remittance period for reporting on an individual and a consolidated level allow for a more streamlined reporting process?*

The same remittance period is preferred, provided that the remittance period is adequate for sufficient data validation and quality checking. But to provide consolidated information, individual reports need to be compiled first.

5. *How would you assess the impact if remittance dates were different on an individual level from those on a consolidated level?*

Please see answer to question above.

6. *When would be the earliest point in time to submit audited figures?*

For members with a 31 December year end, it is worth noting that their audited figures will, in general, only be signed off towards the end of February each year. Therefore, the earliest they could submit audited figures for returns would be the middle of March.

But as we say earlier, some of our members do not have a 31 December year end – as is the case for our largest member – and will therefore not be able to submit year-end data, only calendar quarters and the full-year submission as at 31 December. However, that will not be their actual full year end position, it will only be a year to the 31 December. This means that the EBA and FSA will be unable to reconcile reported figures to published accounts.

7. *Do you see any conflicts regarding remittance deadlines between prudential and other reporting (e.g. reporting for statistical or other purposes)?*

The UK regulator, the Financial Services Authority, requires returns to be calculated using the accounting reference date. Our understanding is that those not affected by COREP and FINREP – of which there are several, some sector-specific – will continue to be based on the ARD at least for the time being. Banks and building societies are also required to submit returns to the Bank of England, some of which for certain institutions are on a monthly basis. Such a plethora of different reporting and submission periods means institutions' resources will be directed into producing returns in the different formats and timescales. It also has the undesirable side effect of firms not having the sort of information available at the right time for decision-making in their business. This could hit smaller institutions, such as local and regional building societies, disproportionately hard as they lack the resources to hire extra staff dedicated to the production and submission of regulatory returns.

In addition, it is unclear how COREP and FINREP reports will fit in to the other requests for information, both national and from the EBA. Any *ad hoc* data requests will increase the reporting burden for firms.

Some of the templates, for example, group solvency, seem to have been designed for national regulatory purposes and are therefore not comparable with other firms' returns. In this case, we strongly recommend that the information captured in this template is subject to national regulators' individual solutions that take into account complexities of reporting in each jurisdiction.

We note that the year-ends are not 31 December for all firms so are interested to know how the EBA intends to capture year end information for these institutions? If the EBA is able to demonstrate it can capture this information, why do the returns for banks and building societies have to be submitted on a calendar year basis?

CHAPTER 3

Format and frequency of reporting on own funds requirements

8. *Do the proposed criteria lead to a reduced reporting burden?*

Given the final versions of the templates and validations are not yet available, it is hard to comment authoritatively. Judging by the near final versions published in this consultation, the amount of information required, especially for smaller, domestic institutions is a disproportionate increase to current reporting requirements and we urge the EBA to consider the need for for small firms to complete all the detailed capital requirements templates.

Again, we would support a phased or delayed implementation to allow building societies sufficient time to analyse final data requirements and build and test systems to support the new reporting requirements to a sufficient level of data quality.

9. *What proportion of your total foreign exposures would be covered when applying the proposed thresholds? Please also specify the number of countries that would be covered with the proposed threshold as well as the total number of countries per exposure class.*

The majority of building societies' exposures are domestic, so this template and the calculation that will need to be undertaken each quarter represents an increase to the reporting burden. In addition, different countries may be captured for different exposure classes. [We suggest that this template be removed and/or re-designed, It is currently unclear and seems to partly map to FINREP categories, which are not the same as COREP exposure classes].

10. *What would be the cost implications if the second threshold of Article 5 (1) (c) (ii) were deleted?*

Our members are best placed to answer this.

11. *Is the calculation of the threshold sufficiently clear?*

It is currently unclear what the second threshold is as the detailed guidance references the top 10 countries above 0.5%, whereas this references any country equal to or higher than 0.5%. Clarification of the threshold would be helpful.

12. *Do the provisions of Article 5 (2) lead to a reduced reporting burden for small domestic institutions?*

Reducing frequency to six-monthly from quarterly submissions will undoubtedly help; one member estimates that between a half and one full day would be saved per quarter. There is a concern among our members that if semi-annual reporting were introduced some national regulators might still require quarterly *ad hoc* data to fill the gap.

Initial impressions suggest that the information required of small domestic institutions may be unnecessarily detailed and possibly less helpful to regulators, domestic and European. It would be more useful if the returns could be reduced in detail and volume, with a focus on key indicators.

The business models of small domestic institutions and international systemically-important institutions differ in many respects; their regulatory reporting should therefore be similarly different ie proportionate. We recognise that such a move will mean that the EBA will have to devote additional resources to the project but the outcome will give regulators a clearer idea of a smaller institution's situation. This is the principal reason for regulatory reporting, not to compare institutions of differing size, reach and business model across the European Union. In fact, comparing the capital situations of small domestic institutions across the Union will bring no benefits either – they all vary due to the vagaries of their own market, culture and legal structure.

We note also in part c that the balance sheet total relates only to the standardised approach. Smaller domestic firms are able to adopt the IRB approach and this provision means that any firm on IRB, regardless of size will need to report quarterly. This is a reporting burden disproportionate to the size of smaller IRB firms and we recommend that the reference to standardised approach be removed.

13. *Is the calculation of the threshold sufficiently clear?*

We have understood the threshold for those on the standardised approach, for example in the UK, to be:

$$\frac{\text{Amount of a single institution's capital requirements related to credit risk}}{\text{Sum of the balance sheets of all credit institutions regulated by the FSA}} < 1\%$$

We were unsure of the meaning of “all institutions under the competent authority’s supervision” so have interpreted it to mean credit institutions only (this is reinforced by the question below). And we find slightly confusing the calculation of the balance sheet total figures; a worked example might make the meaning clearer, though of course, the domestic regulator should be able to signpost to individual institutions the basis of calculation each year.

There could be some minor fluctuations caused by differing accounting reference dates but consider that these will be irrelevant.

14*. Competent authorities are obliged to disclose data on the national banking sector’s total assets as part of the supervisory disclosure. Do you find these publications sufficient to calculate the proposed threshold?*

We have found it difficult to locate the figures necessary to perform the ratio on the Financial Services’ Authority’s website. But we expect that these will be put in a more prominent position in time and hope that FSA supervisors will communicate the relevant figure to individual institutions as well.

The information has also been hard to find on the EBA website as well. We understand the reporting metrics are applied inconsistently by different countries. This has an unintended consequence: UK reports in billions, while Finland reports in units. Both figures are published by EBA unamended. This has the affect of making Finland's banking sector’s assets greater than the total of other EU countries’. This is not an ideal basis for this proposal unless the EBA is going to maintain accurate publication.

15. *What would be the cost implications if information on own funds as put forward in Part 1 of Annex I (CA 1 to CA 5) were required with a monthly frequency for all institutions?*

While the incremental production costs of such returns is slight – one member estimates the savings as between half and a full day of staff time - the costs of internal checking and validation are high, and come at the cost of day-to-day business. A lot depends on the timescales for submission; for example, if they coincide with other regulatory returns, such as the Bank of England returns in the UK, institutions might need more resources, rather than fewer. This has an even greater impact on smaller institutions. For individual members of mutuals (customers), there would be no benefits at all. They would feel the impact, however, through lower savings rate and higher mortgage rates – surely not the intention of harmonised reporting?

More regular regulatory reporting would also distract senior management from ordinary business. Senior managers have to sign off all returns.

We would like to know what additional benefits monthly reporting would bring to the EBA and national regulators. What, for example, will they do with the extra information? And we would be keen to know if they have the resources to collect, analyse and act on this additional information? How can the EBA guarantee the security of the data it holds? We would also like to know if European regulators have considered other ways of finding out the information they apparently need from other sources.

Format and frequency of reporting on financial information

16. *Are there specific situations where this approach (differentiating between institutions using IFRS and national accounting frameworks for supervisory reporting purposes) would not be applicable?*

In general, we believe not.

17. *What is your assessment of impact, costs and benefits related to the extent of financial information as covered by Articles 8 and 9?*

We feel it is sensible to allow those institutions that report using national GAAP to continue to do so. But we fail to see any benefit to regulators of information produced under different accounting frameworks – they will not be comparable. A better option might be to limit reporting to those institutions on IFRS only. We know that due to the differences in underlying frameworks, the proposed set of templates is more limited than those proposed for IFRS reporting institutions.

A lot of the granular information in the tables in Annex III is not collated on a quarterly basis (and some not at all). This would therefore incur significant costs in terms of sourcing the information initially and maintaining reporting going forward. One member estimates the effort needed as akin to producing a quarterly set of financial statements. Depending on reporting timescales, this change is likely to increase the cost of regulatory reporting to the member – at least one full time member of staff for a small domestic institution. In addition, systems will need to be overhauled to manage the extra requirements with the appropriate level of control.

It is difficult to see the benefit of collecting such a large amount of detailed information and we would question the need for the non-core tables to be submitted. It is also difficult to asses the full impact until it is clear how many of the tables will be collected. Any increase in regulatory burden depends on the amount of non-core information required.

18. *In Articles 8(2) and 9(2) the proposed frequency is semi-annually. Does this reduce reporting burden? Please quantify the estimated cost impact of reporting with semi-annual frequency compared to quarterly*

Our concerns about increasing frequency from six-monthly to quarterly are broadly the same as quarterly to monthly for other returns. The benefits are only marginal when considering all other data required. See answer to question 15.

19. *What is your general assessment of applying reporting standards regarding financial information on an individual level?*

Given the very short timescale to discuss, test and implement the COREP and FINREP templates, we suggest no substantive changes such as a move to a solo basis are proposed until at least five years after 1 January 2013, the current implementation date. By that time, in the UK at least, the FRSME, the UK version of the IFRS for SMEs, will have been introduced.

We would like a clear definition of “individual” is this just the entity, or solo consolidation?

20. *How would you assess costs and benefits of applying the ITS requirements regarding financial information on an individual level? (Please assess the impact for the two scenarios (i) application of parts 1 and 2 of Annex III and Annex IV on an individual level (ii) application of parts 1 to 4 of Annex III and Annex IV on an individual level (ii)) Would there be obstacles for applying reporting on an individual level?*

Option (i) is preferable to option (ii) as it involves less time and fewer resources to implement. It is difficult to see the benefit of applying either option in addition to group level reporting.

21. *If the proposal was to be extended, what implementation time would be needed?*

Clearly, this proposal is dependent on a number of matters not least the successful implementation of CRD IV, the actual start date of these ITS and, in the UK, the actual implementation date of the FRSME, the UK version of IFRS for SMEs (currently 1 January 2015). We think the minimum period that should elapse before the matter is even discussed is 1 January 2018, five years after the current implementation date of these ITS.

CHAPTER 6

IT solutions

22. *What cost implications would arise if the use of XBRL taxonomies would be a mandatory requirement in Europe for the submission of ITS-related data to competent authorities?*

XBRL (eXtensible Business Reporting Language) is a digital “language” that was developed to provide a common, electronic format for business and financial reporting. In XBRL, mark-up tags are used to make business information computer-readable and consumable. For companies reporting in IFRS, the IFRS Foundation publishes tags for each IFRS disclosure. These tags are organised and contained within the IFRS taxonomy. *What about UK GAAP?*

The cost implications of mandating XBRL reporting will depend on the cost of appropriate solutions. XBRL use is relatively new in the UK and would require substantial investment by our members. Such a rule inevitably hits our smaller members hardest, which will have no benefit at all from it.

As the final requirements will only be published in June 2012, there is not enough time for our members to develop their own solutions. What might be helpful is if national regulators such as the UK’s Financial Services Authority update their own reporting system (called GABRIEL) so that any submission through this system would be validated and tagged with XBRL accordingly.

The UK’s FSA has already decided to stop allowing firms to report using Adobe pdf files for COREP templates on costs grounds as well as to align more with EBA’s requirements. The tagging needed by the recent move to iXBRL by the UK’s tax authority, HM Revenue and Customs, was handled by most of our members by a firm of advisers as they lacked in-house expertise. It is therefore probable that advisers will benefit again should XBRL become mandatory.

CHAPTER 7

Final provisions

23. How would you assess the cost implications of the following two options?

(1) *Implement the ITS as of the first possible reference date (31/03/2013)*

Timing is perhaps one of the single most worrying issue our members face. They tell us that this date will prove to be very hard to comply with. These are new reporting requirements that require systems alterations and testing, both of which usually take a minimum of 12 months. Our larger members tend to be the only ones which have started work; they are concerned that they are having to work with draft versions of the templates. The smallest, most insignificant change could take days or even weeks of an IT department’s time. Smaller members do not have the resources to review drafts and will have to rely on software providers. These will be under pressure themselves and may not be able to provide an adequate service in the necessary time. All our members are vulnerable to the costs of iterative projects should the drafts be changed.

2) *Delay the implementation of the ITS by 6 months (first reporting based on data as of 30/09/2013) and implement national interim solutions for reporting as of 31/03/2013.*

Any delay is, of course, welcome but we consider six months to be too short practically. As we say earlier, a minimum of 12 months of testing is needed on the *final* versions of the templates. As with all IT projects, there are bound to be unforeseen problems thrown up by testing and time has to be set aside to deal with these.

IT resource is a limited commodity, particularly among our smaller members. In developing harmonised reporting templates, they would have to prioritise resource and/or buy expertise in at a considerable cost. To develop and fully test the system they would be looking at a 3-6 month period depending on requirements for XBRL. But this of course assumes that institutions' IT and finance resource is available. If requirements/solutions are not finalised until December, finance resource will be fully taken up with year-end reporting.

While an interim solution sounds attractive, we remain cautious – any change still needs development and testing. Some institutions could find themselves grappling with an interim solution while at the same time trying to introduce the permanent versions of the templates. Having to develop two sets of data extracts is likely to incur higher implementation costs. This could present enormous resource pressure particularly on purely domestic institutions. Any interim solution would have to be simple to implement – and preferably close to the final version of the templates.

24. *What would be the minimum implementation period to adjust IT and reporting systems to meet the new ITS reporting requirements? Please elaborate on the challenges which could arise.*

Please see above.

25. *What would be the minimum implementation period required for institutions already subject to FINREP reporting to implement the financial reporting described in this consultation paper?*

No comment.

26. *What would be the minimum implementation period required for institutions NOT subject to FINREP reporting at the moment to implement the financial reporting described in this consultation paper?*

Given the FINREP requirements were a late addition, we consider that institutions not currently subject to FINREP should have a longer implementation period than for COREP implementation. With the latter, institutions, particularly the larger, more international ones, have had warning of their possible structure and implementation dates. While they may not have been able to build much into their IT systems, these institutions were at least aware of, and could plan for, a change in direction. That forewarning has not been available in the case of FINREP.

27. *Would the required implementation period be the same for reporting requirements on an individual basis and on a consolidated basis?*

In our opinion the implementation period would be the same.

Annex I and Annex II

28*. Do restrictions (restricted cells are cells which do not have to be reported to supervisors - displayed in the COREP templates as grey/blocked cells) reduce the reporting burden?*

This is certainly the case for smaller institutions. It helps them work out what information has to be reported. A concern is whether the greyed out cells, in certain cases, may require completion in the future. It would be useful if the EBA could clarify this.

29. *Compared to previous versions of the COREP templates are there additional reporting requirements which cause disproportionate costs?*

The UK does not currently complete COREP templates, so the introduction of new templates will require large projects with significant attendant costs. But there are certain templates, such as the group solvency template that our members find unnecessary. They seem to

have been designed for national regulatory purposes and so are not comparable with other firms. In this case, we would strongly recommend that the information captured in, for example, the group solvency template is subject to national regulators' individual solutions that take into account complexities of reporting in each jurisdiction.

We are concerned that the FINREP templates are completely new and unexpected reporting requirements that will require further time and clarification to implement.

30. *Are the templates, related instructions and validation rules included in Annex I and Annex II sufficiently clear? Please provide concrete examples where the implementation instructions are not clear to you.*

Our members are best placed to answer this.

31. *CR IRB – What is your assessment of cost implications of the new lines for "large regulated financial entities and to unregulated financial entities"? What is the most cost efficient way of incorporating this kind of information in the reporting framework?*

We are unclear what this means exactly, and whether the EBA will provide a list of regulated entities that could be cross referenced to firms' databases.

32. *CR SA – What is your assessment of cost implications of the new lines to gather information about exposures without a rating or which have an inferred rating? What is the most cost efficient way of incorporating this kind of information in the reporting framework?*

There are inconsistencies with the templates (reporting "with" or "without" credit rating assessments), that could usefully be clarifed.

Annex III, Annex IV, and Annex V

33. *Are the templates included in Annex III and Annex IV and the related instructions included in Annex V sufficiently clear? Please provide concrete examples where the implementation instructions are not clear to you.*

Our members are best placed to answer this.

Template 10 (Annex III and Annex IV)

34. *Do the provisions of Article 8 (3) and 11 (3) lead to a reduced reporting burden?*

The definition of "domestic exposures" are "… exposures to counterparties located in the jurisdiction of the competent authority the institution submits data to." For the UK, that authority is the Financial Services Authority. We are surprised that exposures fall only into two categories; we consider that "non-domestic" could be broken down into, for example, European Union and non-EU countries.

The vast majority of our members have only "domestic" exposures; it is only the larger ones that have exposures in "non-domestic" countries. For those members, the imposition of a 10% threshold of "non-domestic" exposures will go some way to reduce the regulatory burden. But the requirement to submit information on the geographical distribution of exposures for each country with total exposures of equal or higher than 0.5% of total exposures appears to us to be less helpful – our larger members will typically invest only in a handful of highly rated countries and may therefore find themselves having to report relatively small exposures. We would suggest, therefore, that the figure be raised to 1%.

35. *What are the cost implications of introducing a breakdown by individual countries and counterparties?*

Clearly, this depends on each institution. Some of the information is required by current returns but the format for the new templates is different meaning further investment and testing.

36. *What are the cost implications of introducing a breakdown by economic sector by using NACE codes?*

We understand that the aim of these regulations is to improve the monitoring and measurement of risk through harmonised reporting. We therefore question the usefulness of a breakdown by economic sector. An explanation of what EBA will do with the data would be helpful. The impact of COREP and FINREP should not be underestimated, particularly the timescales proposed. Requesting non-essential information therefore contributes to an already considerable burden.

The vast majority of our members do not use NACE codes, and as a result there will be a significant cost to our sector in moving from the current methodology to the NACE codes. It would be more cost efficient to use SIC codes as used, for example in the UK, for Bank of England reporting.

37. *Would other classification be more suitable or cost efficient?*

We believe that firms should be allowed to keep their current classification systems, in the case of the UK, SIC codes. We see no benefit in the compulsory use of NACE codes, particularly as the changeover is potentially costly and of no obvious tangible benefit.

38. *What would be the difference in cost if the geographical breakdown would be asked only by differentiating between domestic and foreign exposures compared to country-by-country breakdown?*

There would be a reduction clearly but not a considerable one.

39. *What are the cost implications of introducing breakdown of sovereign holdings by country, maturity and accounting portfolio?*

No comment.

Template 14 (Annex III and Annex IV)

40. *How would you assess the cost implications on providing a geographical breakdown of these items with the proposed breakdown to domestic, EMU countries, other EU and rest of the world?*

This would obviously be more costly than the domestic / non-domestic split.

41. *Would application of a materiality threshold similar to Article 8 (3) and 11 (3) (reporting the breakdown only if foreign exposures exceed 10 % of the total exposures) reduce reporting burden?*

This would significantly reduce the reporting burden for many firms.

42. What would be difference in cost implications if breakdown would be requested only with differentiation between domestic/ foreign or alternatively country by country with similar threshold than in Article 8 (3) and 11 (3) compared to the proposal in the Consultation Paper?

No comment.

Templates for reporting financial information according to national accounting frameworks

43. Are there specific aspects of national accounting framework that has not been covered or not addressed properly in the templates?

No comment.

Instructions in Annex V

44. *Does the IAS 7 definition of cash equivalents follow the practice used when publishing financial statements? How would this definition interact with definitions of IAS 39 for assets in held for trading portfolio?*

No comment.

45*. How do you assess the impact of reporting interest income and interest expense from financial instruments held for trading and carried at fair value through profit and loss always under interest income and interest expense?*

No comment.

19 March 2012