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Our reference (please always state):  
Roth/Schwarz

Hanover, 20 March 2012

## **EBA Consultation Paper on Draft Implementing Technical Standards on Supervisory reporting requirements for institutions (CP50)**

Dear Sirs

on 20 December 2011 you published the consultation paper CP 50 on the Draft Implementing Technical Standards on Supervisory Reporting Requirements for Institutions and, as part of the consultation process requested comments by 20 March 2012.

As a bank affected by your extensive reform of the regulatory reporting requirements, we are pleased to take the opportunity to present our comments on your draft and to answer your questions arising from the consultation paper.

In general, we welcome your efforts regarding the modernisation and Europe-wide harmonisation of the regulatory reporting system. However, some aspects of your draft will lead to considerable expense when it comes to implementation and preparation of the reports. In the following we offer you a general comment on the problematic areas of implementation within our group. Furthermore, we answer the most relevant questions for our group from your questionnaire in detail.

The data requirements within the FINREP templates, especially the level of detail involved in some individual items depart very extensively from the reporting requirements of the IFRS which are required by European and German law. Because our accountings systems are primarily designed to meet the IFRS-accounting requirements these additional resp. more extensive requirements by FINREP are not available in our data warehouse. The data requirements arising from the FINREP templates can be divided into three categories regarding the availability of these data within NORD/LB:

- a third of the required data can already be generated today from the existing items and information in the consolidated financial statements;
- another third of the data is not available in the requested form and, from a current perspective, can only be produced manually at great expense; and
- a further third of the data requirements is not currently available and can only be produced at very great expense or cannot be produced with the current accounting systems.

Our data warehouse is based on the requirements for external reporting according to IFRS and focuses on balance sheet amounts and changes in the balance sheet and income statement. Thus, details of customers, regions and counterparties derived from individual transactions of the consolidated units are not reported in our consolidated financial statements and, provided that these transactions even exist, are not included in our consolidated data warehouse.

Because the majority of the data and the requested detailed breakdowns are not available at group level and can, if at all, only be generated with great difficulty extensive system adjustments or manual solutions must be established to meet the reporting requirements according to FINREP. The external and internal requirements that are necessary to adjust our system landscape (e.g. auditing, IT department, auditor, principles of proper accounting) require extensive detailed professional and technical concepts and tests as part of their implementation. Against this background, we do not consider an implementation phase of nine months to be sufficient for implementing the necessary system adjustments and new processes. In addition, the implementation phase is actually reduced to a period of only six months considering that the final ITS will be published on 1 July 2012 and adjustments to our system landscape that are required to ensure the correct recording of the data in the income statement must be finished at the beginning of the reporting period on 1 January 2013. Furthermore, the preparation of our annual financial statements permits any extensive system adjustments during the first three months of the year.

Against the background of the extensive requirements arising from FINREP, we therefore advocate a postponement of the initial application to a date later than 31 March 2013 or a transition phase that contains a significant easing in terms of the scope and deadlines for the reporting.

The FINREP reporting requirements aim to harmonize the European banking regulatory reporting system in order to guarantee comparable analyses, evaluations and cross-comparisons throughout the various European banks. In our opinion, when it comes to the level of detail of the reporting templates, this goal can only be achieved with difficulty with the provided explanations on the requirements that are not based on IFRS. On this point, we question whether the extensive scope of the data with its different possibilities of interpretations may be analysed by the EBA at such a detailed level and therefore the expense of implementation can be justified from a cost-benefit perspective. Thus, for example, we lack precise definitions within the various counterparty groups in Annex V Part 1.20 (a-h) and Part 6.1; in particular, distinctions in terms of Corporate and Retail divided into Non-financial and Households do not emerge from the existing explanations. Allocation assumptions are to be applied by us here, which will restrict the comparability of the data and which seem to us to negate the reason for the level of detail of the information. In contrast to the counterparty classification in the FINREP templates that you request, we argue, when it comes to the circumstances specified, in general in favour of a classification along the same lines as your previous stress test requirements based on country, financial companies, non-financial companies and others.

Furthermore the required submission deadlines within a period of 30 working days from the reporting date in general and especially for the reporting of data by the end of the year are very critical. Our process for drawing up the annual financial statements under commercial law is based on the statutory reporting deadlines and, for the consolidated data, relies on audited reporting packages of the consolidated units. At the reporting deadline that you stipulate, we are still in a very early stage of preparing the annual financial statements and there is no valid data either in the consolidated units or at Group level. The FINREP reporting is based according to current ITS on data before auditing, an additional report in the event of changes triggered by the audit or general changes to the annual financial statements is demanded, however. As the data at the stipulated delivery deadline is subject to significant changes as described on account of the further processing of the financial statements, we assume that, in addition to a provisional report, a second report following up on the audit under commercial law will be necessary in future for supervisory purposes. This will lead to a total of eight reports in total.

The foundation of the future reporting of the FINREP contents is formed by the regulatory basis of consolidation. Within NORD/LB, the regulatory basis of consolidation departs significantly from the basis of consolidation under commercial law. At 31 March 2012, 50 companies and funds are fully consolidated in the consolidated financial statements of NORD/LB pursuant to IAS 27 in conjunction with SIC-12 and 14 other companies are evaluated according to the equity method, of which only 18 companies are also contained in the regulatory basis of consolidation. In addition to these 18 companies from the consolidated group under commercial and supervisory law, a further 14 companies are consolidated for regulatory purposes that are not consolidated under commercial law for reasons of materiality.

The small intersection drawn from both bases of consolidation prevents a simple transfer of the consolidated annual financial statements under commercial law to the regulatory sphere. For this the companies that are not relevant under commercial law will have to be consolidated for the first time for

regulatory purposes and the companies that are significant under commercial law but not relevant for regulatory purposes will have to be deconsolidated.. This procedure of adjusting consolidation effects is very time-consuming and in addition requires a resource-intensive second production of the annual financial statements for the FINREP reports.

In addition to these cost aspects when using the regulatory basis of consolidation, a additional cost-benefit analysis should take place, taking into account on the one hand the IFRS data requirements for the companies only consolidated for regulatory purposes and their impact on the financial statements of the group. These companies are not important for the net assets, financial and earnings position of the NORD/LB Group and therefore do not deliver any IAS/IFRS data to us. New systems and processes for preparing the financial statements according to IAS/IFRS and additional resources created for processing the reporting formats only for the purposes of the FINREP reports would have to be implemented. Furthermore in fact they create no benefit internally in terms of controlling and regulatory requirements..

With regard to this topic we would express the principles of materiality pursuant to IAS 1 in conjunction with cost-benefit aspects. For us, one alternative could be to deconsolidate companies not relevant for regulatory purposes but significant under commercial law and do not consider the companies relevant for regulatory purpose but not significant under IFRS.

Response to your questions from the CP50 consultation paper:

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

It can be seen in the statements made so far that, in addition to the one-off expense for implementing the reporting requirements according to FINREP in conjunction with the regulatory basis of consolidation, a significant expense is incurred from the duplicate production of the financial data. A figure cannot yet be put on these costs from the current perspective for NORD/LB, as the analysis activities concerning the preparation of the reporting obligations that exceed the statutory requirements have not yet been concluded. We would, however, like to point out once again the costs in the context of revisions of the templates (IFRS 9), which would be incurred in addition to the implementation and running costs.

**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?**

As explained, it is not yet possible to estimate the costs at the current time. In general, duplicate reporting according to the regulatory basis of consolidation and basis of consolidation under commercial law will not change the implementation costs significantly, as the majority of the costs of preparation are based on the duplicate production with two different bases of consolidation. However, a double burden is incurred as a result of the FINREP requirements for the companies that have previously only been relevant under commercial law. Any reduction in the required data, on the other hand, in terms of scope and level of detail and, related to that, the adjustments within the system landscape reduce the burden of the implementation costs.

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

As already stated, our process for drawing up the annual financial statements is geared towards the statutory submission deadlines. For the quarterly financial statements at 31 March, 30 June and 30 September, we see the earliest point in time for the submission of audited figures on the basis of the consolidated group under commercial law to be two months after the end of the period and, for the annual financial statements at 31 December, no earlier than three months after the end of the period.

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

We currently assume that the preparation of the FINREP reporting will have a significant impact on the original process for drawing up the financial statements and thus the reporting of our consolidated financial statements according to statutory regulations. This results from the scope of the requested

data, the earlier processing of the FINREP requirements on account of the short submission deadline and the duplicate production of the financial statements.

**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?**

Based on the current analysis, the costs for transmitting the data via XBRL cannot be quantified at the moment. In general, an interface connecting our consolidation tool to an XBRL-capable tool will have to be created for delivering the data, which will generate more costs in comparison with the status quo.

**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),**
- (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.**

As described above, the costs of implementation at the date of initial application on 31 March 2013 cannot be estimated yet. A postponement of the initial application by six months to 30 September 2013 with a national interim solution (similar to the previous reporting to you already specified) would, however, rectify the implementation process and partly relieve the burden on the internal resources and thus significantly reduce the overall costs.

**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**

On the basis of the current analysis of the data requirements in the context of FINREP, we can unfortunately not yet cite any information to you concerning the implementation period within NORD/LB. The factual period of six months already specified appears too short by far to us to be able to fulfil the new reporting obligations completely. Implementation in 2013 appears realistic.

**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.**

The FINREP tables and accompanying explanation in Annexes III and IV are not sufficiently clear to us. We refer here in general to the different counterparty classifications, as for example in Tables 3.2 and 3.4: Table 3.2 requires classification according to "General governments", "Credit institutions", "Other financial corporations", "Corporates" and "Retail", while Table 3.4 divides "Corporates" and "Retail information" into "Non-financial Corporations" and "Households". The precise definition of this classification of relevant counterparties is not clear to us from the explanations, which will require a definition on the basis of our internal segmentation of the business partners. In this regard, we would cast a critical eye at whether this kind of latitude in the definitions within the information compromises the actual aim of Europe-wide harmonisation of the reporting system and whether this evaluation of the information at such a detailed level in a cross-comparison thus continues to be sensible and possible.

Furthermore, it is not clear to us whether the required values in Table 7 also include information on the hedge accounting and whether the information is given from the perspective of the counterparty risk.

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

The breakdown of the financial data according to individual countries and counterparties is not available in the data warehouse of NORD/LB for the purposes of consolidated accounting pursuant to statutory regulations. These characteristics exist only at the level of individual transactions within the consolidated units. The data warehouse in the consolidated financial statements will therefore have to be extensively expanded for the purposes of the FINREP reporting in order to be able to produce the required degree of detail on a consolidated basis. As already mentioned, these extensive system adaptations are associated with costs that cannot yet be quantified from the current perspective. At this point, however, we would like to express once again in favour of the breakdown of the business partners known from the EBA stress test templates.

**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?**

A breakdown solely according to domestic and foreign exposures will lead to a reduction in the complexity of the required data volume. As already described, any reduction in the required scope of reporting will lead to a reduction in costs, a detailed figure for which cannot yet be stated for NORD/LB based on the current analysis.

We hope that, through our statements and comments on the consultation paper on the Draft Implementing Technical Standards on Supervisory Reporting Requirements for Institutions (CP 50), we have been able to provide you with some input that will be helpful for the further consultation process.

Please do not hesitate to get back to us if you have any queries.

Yours faithfully

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