



Bank Polski

**Response of the PKO Bank Polski SA to EBA
Consultation Paper on Draft Implementing Technical
Standards on Supervisory reporting requirements for
institutions (CP50)**

Warsaw, March 2012

Abbreviations used in the document:

Group – Group of PKO Bank Polski SA, Bank – PKO Bank Polski SA, Subsidiaries – subsidiaries within the Group of PKO Polish Bank, IFRS - International Financial Reporting Standard/s, IAS – International Accounting Standard/s, IASB - The International Accounting Standards

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?

Bank's answer:

The document presents the assumption that insurance companies and non-financial entities would be exempt from the scope of prudential consolidation in accordance with CRR. It means that the Bank and a number of banking groups in Poland and Europe would need to prepare separate and additional consolidation, which will exclude entities mentioned above.

The requirement of preparation of the prudential consolidation in the scope described above will lead to large amount of additional workload (increased personnel costs) and also additional IT costs (necessity of separating two subgroups in the applications for the consolidation: the consolidation in accordance with IFRS and consolidation consistent with the CRR).

Moreover, in Bank's opinion, a different scope of consolidation than the IFRS scope will not allow to fully understand the Group's activity and the risks the Group is exposed. Moreover, in some cases workload and costs associated with the implementation and preparation of two separate consolidation would be disproportionate to the results, because in case of some banking groups, non-financial subsidiaries represent a small percentage of the assets of the Group (in the case of PKO Bank Polski SA it is less than 1%).

Additionally, this approach is contrary to the of the International Accounting Standards Board (IASB) targets aiming to full consideration of all entities in the consolidation scope.

Therefore, Bank proposes not resign from introducing scopes of consolidation in accordance with CRR.

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?

Bank's answer:

Referring to the response to the question no 1, necessity of preparation reports according to the different scope of consolidation leads to high labour and IT costs. The requirements to prepare additional financial information in accordance with accounting scope of consolidation will only increase these costs. But the solution, that the financial information will only be in accordance with the IFRS scope of consolidation will lead to costs related with additional reporting.

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?

Bank's answer:

No comments, due to the fact that in Bank's and Group's case, the financial year and the calendar year are equal.

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

Bank's answer:

According to the proposal, the time for preparation of both individual and consolidated information would be 30 working days, which would extend the deadline for preparation of reports on the individual level (currently 15 working days) but significantly shorten the deadlines for drawing up of consolidated data (currently 60 calendar days). It would also mean transmission of that data before the publication of reports.

Such a situation may negatively affect the quality of data submitted to the supervisor. In addition, it will cause significant burden, due to the fact that simultaneously the statutory reporting will be in process (taking into account the different scope of consolidation). This will lead to the necessity for increase the employment in the areas of reporting, and incur expenditure of an IT infrastructure. At the present day, the Bank has no information regarding potential resignation of Polish financial supervision of receiving COREP and FINREP in accordance with the current reporting deadline, which can be especially burdensome if the reporting to the NBP and reporting to the EBA will not be homogeneous. An additional burden is also the requirement that banks will submit unaudited data in accordance with deadlines given above, and after the audit will provide the audited data as soon as possible (if the adjustment will affect the report)

Therefore Bank proposes not to change current remittance deadlines.

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

Bank's answer:

Answer as above.

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

Bank's answer:

Dates of publication audited financial statements (audit is carried out only in relation to annual data) by the Bank and the Group is not fixed. In case of financial statements for the year 2011 it was 5th March 2012. Earlier dates of submitting data seems not possible due to the process of preparation and audit of the information.

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

Bank's answer:

Due to the proposed different scope of consolidation, the institutions subjected to the reporting to EBA, including the Bank, will be required to carry out two separate processes of consolidation. Additionally, if the formats and the scope of information reported to EBA and to the local supervision will not be standardized, the process of preparation the various types of reports with a similar scope simultaneously, will lead to higher operational risk as e.g. the failure to meet deadlines or make mistakes in the prepared reports.

CHAPTER 3- Format and frequency of reporting on own funds requirements and financial information

Section 1 - Format and frequency of reporting on own funds requirements

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

Bank's answer:

According to preliminary calculations, the Bank will not benefit from this exemption.

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.

Bank's answer:

Applying these criteria, more than 99% of the portfolio would be reported. In total commitment towards the 12 countries, no more than five in the class, would be reported. It should be also emphasized that these estimates were made on the terms of the standard approach.

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

Bank's answer:

We understand that the removal of the threshold as 0.5% would require the specification of any country against which the Bank has any exposures. We believe that this approach would increase the labor work and would not contribute any added value to the reports.

In addition, it seems worth reconsider the necessity for reporting commitments to no more than 10 countries for which the commitment in the class exceeds 0.5%.

11. Is the calculation of the threshold sufficiently clear?

Bank's answer:

In Bank's opinion, it would be advisable to prepare specific guidelines concerning the calculation of the threshold, with indication which exposures and in what values should be included in the calculations, in particular to specify in what value (if applicable) the exposure should be include for derivative instruments (market value, EAD value), off-balance sheet commitments (before or after taking account of the credit conversion factor), and whether the impact of security (Credit Risk Mitigation) should be taken into account in the calculation of exposure values.

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

Bank's answer:

Not applicable to the Bank and the Group, which will not be exempted. In Bank's opinion, for institutions that will meet these conditions, it will reduce reporting burden.

13. Is the calculation of the threshold sufficiently clear?

Bank's answer:

The question is not applicable to the Bank, as related to the question no 12.

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

Bank's answer:

The question is not applicable to the Bank, as related to the question no 12.

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?

Bank's answer:

Does this requirement relate to the preparing of the information about own funds on individual or consolidated basis? This is an important issue due to the fact that at present the consolidated financial statement and consolidated reporting COREP and FINREP are prepared on a quarterly basis. The implementation of consolidated reporting on a monthly basis will significantly lead to the great burden of IT systems and significantly increase workload (especially for large groups). The answer to the question - whether the reporting scope for EBA and for national supervision will be uniform - will also have a significant impact on the implementation costs. Lack of a consistent scope of information for both receivers will lead to the additional reporting burden on banks and will force changes in reporting systems.

Section 2 - 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?

Bank's answer:

The question is not applicable to the Bank nor the Group since financial statement of the Bank and the Group are prepared in accordance with IFRS.

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

Bank's answer:

Scope of FINREP and COREP prepared by the Bank and the Group is consistent in many areas with the scope of the new reporting disclosures. Other part of the data in the terms of Annex III are available due to disclosure of such information in the financial reports, even it has not been required in FINREP so far. Changes in capital adequacy, which result from the Basel III are currently under analysis and works connected with gathering of such information. Significant difficulties are identified in relation to the consolidation scope which is going to be different for the financial statutory statements and for the local supervisor.

Moreover, a workload of the process will increase as the result of extending the scope of disclosures (e.g. geographical distribution or disclosure about fair value hierarchy). In addition, it will be necessary to raise costs and expenses related to the parameterization and adjustment of systems.

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.

Bank's answer:

The exemption in the frequency of reporting will reduce reporting burden twice, ia due to the lack of necessity of obtaining information of the subsidiaries

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

Bank's answer:

In the absence of significant differences in submitted data, in the opinion of the Bank, due to the fact that the process of preparing the information on an individual level is part of the process preceding reporting on a consolidated level, in addition to increased workload (the fact of filling in forms), there is no other significant burdens.

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?

Bank's answer:

The same response as to the question no 19.

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

Bank's answer:

The answer depends on the scope of data that will be required. If they do not differ from the range on a consolidated level, the implementation process will be the same and will be run simultaneously with the implementation process of reporting on a consolidated level.

CHAPTER 6 - IT solutions for the submission of data from institutions to competent authorities

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?

Bank's answer:

Presently XBRL has been selected as the mandatory format for financial reporting in Poland and is used by Polish banks. The cost of implementation of the XBRL report will result from the adjustment to the new version of the taxonomy. In the Bank's view, the applicability of a uniform standard throughout the EU is important.

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) 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.

Bank's answer:

As mentioned above, mainly due to the different scope of consolidation, implementation of the new reporting requirements will require changes in IT applications supporting consolidated reporting (eg. purchase of additional licenses, changes in applications in cooperation with the suppliers, perhaps also changes in transactional systems to obtain data). A significant amount of work will also be required in regard to adjustments to new disclosures relating to the provisions of the CRR and Basel III in the scope of own funds. This may lead to necessity to extend the period necessary to adjust to the new requirements.

Please keep in mind that currently the document is in the evaluation. The version applicable to the reporting on individual level has not been published yet and a preliminary version of the draft taxonomy of XBRL for reporting was not presented, which blocks the start of the process of the adjustment to the new requirements.

None of the proposed solution is optimal, because the first one imposes a very short period (precluding to carry out tests at the national level), the second one allows the national supervisor to introduce transitional arrangements. The implementation of two versions of the solutions (initially for national supervisors and then for the European Authority) will cause an additional amount of work for banks, related from the adjustment to further requirements, including making changes to reporting systems and doubling the numbers of tests.

Enabling the preparation of reports in the format required by the Authority without changes and testing it on a national level seems to be optimal.

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.

Bank's answer:

At present the answer to this question is not possible. The minimum implementation period is determined from the final scope of the disclosure, and changes in the XBRL taxonomy.

Currently the Bank and the Group report FINREP and COREP using XBRL, therefore, the challenges identified today include: 1) the issue of different consolidation scope, 2) additional parameterization due to the additional disclosure.

Depending on the answers received to these questions, the duration for adjustment will result from time necessary to adapt to the new XBRL taxonomy.

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?

Bank's answer:

With reference to the answer to questions 23 and 24 in the opinion of the Bank foreseen period of 9 months is too short. The minimum period for final determination of the reporting requirements is 1 year to the moment of submitting the test reporting to the national supervisor.

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?

Bank's answer:

Bank and the Group report FINREP, therefore, the question does not apply.

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

Bank's answer:

The period of implementation of consolidated data will be longer because it will require adjustments to the reporting application, due to the fact that the proposed scope of consolidation will be different from that used currently and the need to introduce appropriate changes in subsidiaries.

Annex I and Annex II - templates and instructions for reporting own funds requirements (COREP)

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?

Bank's answer:

In the opinion of the Bank this solution should be kept also in the final version of standards.

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

Bank's answer:

In the Bank's opinion generally changes to the current COREP reporting templates have been introduced only where required by CRR. A wide range of disclosures regarding own funds, will require additional costs, however the changes do not go beyond the provisions of CRR.

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.

Bank's answer:

In the view of Bank at this stage of work the templates, instructions and validation rules for capital requirements seem clear mainly because, they are based largely on the current version.

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?

Bank's answer:

In the Bank's opinion the proposed way of presenting these lines minimize costs ensuring at the same time the necessary data to the supervisor.

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?

Bank's answer:

In the Bank's opinion, implication of such reporting requirement will introduce a large additional burden involving a significant change in the IT systems that will not result in any relevant information to the supervisor. Moreover, such a breakdown appears to have no reference in CRR requirements.

Annex III, Annex IV and Annex V - templates and instructions for reporting financial information (FINREP)

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.

Bank's answer:

No comments.

TEMPLATES 10 (CREDIT RISK)

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

Bank's answer:

No comment, due to the fact that the above exemption is not applicable.

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

Bank's answer:

In the Bank's opinion the additional disclosures regarding the aforementioned divisions will require additional workload and also adapting and extending the functionality of reporting systems / applications.

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

Bank's answer:

The Bank does not identify problems with the division of NACE economic sectors.

Polish institutions use the division into sectors of the economy according to the Polish Classification of Activities (PKD 2007) which was introduced by Council of Ministers Regulation of 24 December 2007 on the Polish Classification of Activities (PKD) (OJ No 251, item 1885). PKD 2007 was based on the statistical classification of economic activities NACE Rev2, introduced by Regulation (EC) No 1893/2006 of the European Parliament and the Council of 20 December 2006 on the statistical classification of economic activities NACE Revision 2 and amending Council Regulation (EEC) No. 3037/90 and certain EC Regulations on specific statistical domains (EU Official Journal L 393/1 of 30.12.2006). Therefore PKD seems to retain compatibility and consistency with NACE Rev. 2. The difference between PKD 2007 and NACE refers only to a number of levels of classification (PKD - 5 levels, NACE - 4 levels)

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

Bank's answer:

Referring to the answer above to question No. 36 - no comments.

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?

Bank's answer:

In the Bank's opinion, additional disclosures about the Bank's geographic distribution will require additional workload and also adapting / extending the functionality of reporting systems / applications and indirect systems (e.g. used to calculate write-offs or calculation of capital requirements for specific types of risks as well as selected data structures in data warehouse). The division into "domestic" and "foreign" is easier to apply and will require smaller changes in parameterizations, as this division is currently used for some disclosures.

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

Bank's answer:

In the opinion of the Bank, additional disclosures regarding the above, will require additional workload.

TEMPLATES 14 (Geographical breakdown)

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?

Bank's answer:

As mentioned in the answer to the question no 38, additional disclosures about geographical breakdown will require additional workload and also extending the functionality of source- and reporting- systems. The difference in the cost of reporting by zone (national, EMU zone, etc.) or by country will not be significant.

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?

Bank's answer:

The above exemption does not apply both for the Bank and Group and therefore no response.

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?

Bank's answer:

The above exemption does not apply both for the Bank and Group and therefore no response.

TEMPLATES FOR REPORTING UNDER NATIONAL ACCOUNTING STANDARDS

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

Bank's answer:

Question does not apply to the Bank and the Group since the financial statements (both individual and consolidated) are prepared in accordance with IFRS.

INSTRUCTIONS IN ANNEX V (FINREP)

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?

Bank's answer:

Bank and the Group prepare financial statements (both individual and consolidated) in accordance with IFRSs as adopted by the European Union. Therefore, the definition of IAS 7 for the preparation of cash flows statements and also the definitions of IAS 39 in the classification and valuation of assets held for trading in the statement of financial position and profit and loss account are applicable.

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?

Bank's answer:

Bank and the Group prepare financial statements (both individual and consolidated) in accordance with IFRSs as adopted by the European Union. In accordance with the policies adopted by the Bank and the Group, interest incomes and expenses comprise interest income and interest expense arising from trading instruments and instruments at fair value through profit or loss, excluding derivatives, classified as assets held for trading. Only the interest on the hedging derivative instruments are presented in profit or loss.