CROATIAN NATIONAL BANK

EUROPEAN BANKING AUTHORITY
Mr. Ludger Hanenberg
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Dear Mr. Hanenberg,

Please find attached our comments on the EBA's Consultation Paper on Draft Implementing Technical Standards on Supervisory reporting requirements for institutions (CP 50).

Hoping our comments provide some useful insights into the issue of supervisory reporting requirements we remain

Sincerely yours,

Vedran Škegro
Advisor

Martina Drvar
Cheif Advisor

EBA Consultation Paper on Draft Implementing Technical Standards on Supervisory reporting requirements for institutions (CP 50)

- **comments by the Prudential Regulation and Bank Supervision Area, Croatian National Bank**

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?**

   We think that using only CRR scope of consolidation for supervisory reporting of financial information would be a considerable drawback since the IFRS/GAAP scope of consolidation presents in a complete and a more comprehensive way the information required for the supervisory analysis. On the other hand, the CRR scope is also necessary because of the controls of the capital requirements. Therefore it is our suggestion to regulate the supervisory reporting of at least basic financial information (Balance Sheet, Income Statement) on the IFRS/GAAP basis because it is already used for the other types of financial reporting (listings, annual reports, public disclosure). The supervisory reporting of consolidated financial information for the institutions in Croatia is based on both CRR scope and IFRS scope for the basic financial reports (Balance Sheet, and Income Statement) whereas the additional consolidated financial reporting is based only on the CRR scope (asset impairment, capital requirements, large exposures).The individual financial reporting is based on the IFRS since Croatia hasn't established national GAAP for the institutions.

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?**

   The institutions in Croatia are subject to supervisory reporting of financial information according to the IFRS framework, therefore the Annex IV would not be applicable in Croatia (local GAAP are IFRS). Since part of the information proposed in the parts 1 and 2 is already reported to the central banks with the accounting scope of consolidation, we do not think any serious cost implications should arise with its implementation.

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?**

   We think that a calendar year should be the only reporting standards for the financial reports related to a period reporting (income statement, other comprehensive income etc.). Setting another standard would create a drawback for the Croatian institutions where the supervisory financial reporting is set to cover changes within the calendar 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 institutions submit their individual reports on the monthly basis 25 calendar days after the reporting date, whereas consolidated reports are submitted on the semi-annual basis: year end data has to be reported by the end of April, and end June data has to be reported by the end of

September. However, we do not think that the same remittance period should allow for a more streamlined reporting process, on the contrary, it could low the data quality collected from the institutions.

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

We do not support the idea of the same remittance dates for both individual level and consolidated level of financial reporting since there are huge differences in the level of the data processing prior to the compilation of financial reports. Therefore we would like to suggest for the consolidated reporting at least 30 days longer remittance date, that is March 31 to be reported by June 12 instead of May 12 etc. Here we would like to stress the fact that the our current supervisory framework for financial reporting requires semi-annual reporting frequency, so we believe that some of the regulatory cost would be imposed to the reporting institutions in Croatia should the quarterly frequency of reporting be required, especially at such short remittance dates.

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

The earliest point in time to submit audited figures would be the end of March. However, the currently set remittance deadline for the audited year end data of the institutions in Croatia is the end of April.

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

From 2010 the central bank statistical and supervisory financial reporting requirements form the institutions were reconciled, therefore we do not have see any conflicts regarding remittance deadlines (all the other financial reporting is less burdensome for the institutions).

CHAPTER 3
Format and frequency of reporting on own funds requirements

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

Since only one institution in Croatia is currently subject to the IRB reporting, the proposed criteria would reduce reporting burden for the most of the institutions.

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.

n.a.

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

n.a.

11. Is the calculation of the threshold sufficiently clear?

We find the calculation of the threshold sufficiently clear.

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

Reduced COREP reporting frequencies could lead to reductions in institutions which are subject of quarterly reporting period, but we have not yet conducted any cost analysis of administrative *burden and therefore can not provide any required cost quantification. However, 15 banks out of 32 meet all of the criteria for semi-annual reporting (9 institutions have share >1% and could not be included in semi-annual reporting and additional 8 institutions with less than 1% share have parent institutions located outside Croatia and do not meet criteria in point a).*

13. Is the calculation of the threshold sufficiently clear?

We find the calculation of the threshold sufficiently clear.

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?

CNB's publications comprise data on banking sector's total assets and we find it sufficient for calculation of proposed threshold. Due to EBA consideration of monthly requiring frequency on own funds as included in Part 1 of Annex I (CA 1 to CA 5), we think that quarterly reporting period of own funds should remain minimum requirement for the institutions reporting frequency on individual basis, with semi-annual reporting frequency for consolidated purposes (in Croatia own funds data do not change significantly during the quarter and we believe that monthly reporting would result in additional reporting burden but would not necessarily contribute to better supervisory actions).

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?

We have not yet conducted cost analysis of monthly reporting and therefore we can not provide any required cost quantification.

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?

The institutions in Croatia are subject to supervisory reporting of financial information according to the IFRS framework; therefore the Annex IV would not be applicable in Croatia (no local GAAP for the supervisory financial reporting).

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

The institutions in Croatia already provide information related to the breakdown of loans and advances to non-financial corporations by NACE codes and geographical breakdown of debt securities held from general governments by residence of the counterparty, therefore no additional costs should arise.

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.

The institutions in Croatia provide consolidated financial information the breakdown of loans and advances to non-financial corporations by NACE codes on semi-annual basis, and individual financial information on quarterly basis, therefore the proposed semi-annual frequency should not impose any additional reporting burden for them. The consolidated information on the geographical breakdown of debt securities held from general governments by *residence of the counterparty shall be required from 2013 on semi-annual basis, and this adds to the regulatory reporting cost for the institutions in the year 2012.*

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

We do not see any obstacles related to the application of the reporting standards regarding information on an individual level, except for the threat for the national supervisors stemming from the small economies with thoroughly established supervisory reporting frameworks such as Croatian to lack sufficient information which are already provided by the reporting institutions. This adverse impact could follow should the frequency or range of date of established reports for which there are justified purposes related to the national specificities be decreased by applying ITS on supervisory reporting and should it effect the established connection with the other national financial reporting frameworks (monetary statistics, public disclosure, tax reporting etc.).

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?

We do not see any obstacles related to the application of the ITS requirements on an individual level, since most of the financial data (80%) are already subject to the financial reporting framework imposed by the central bank for the institutions to fulfil on an individual level

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

The extension of the ITS requirements to the individual level would require 12 months implementation time from the adoption of the final regulation (translated into Croatian language).

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?

A mandatory requirement for the use of XBRL taxonomies for the submission of ITS-related data to competent authorities could arise serious cost for the reporting institutions on the one side, and the central bank on the other side since XBRL taxonomy hasn't been implemented in the present Croatian supervisory reporting framework. The adverse impact would be the fact that currently adopted reporting framework enables central bank to map cca 80% of the ITS-related date, regardless of the taxonomy used for the data collection. In addition, the current taxonomy is used both for statistical and supervisory financial reporting, therefore the introduction of the new taxonomy would create unnecessary cost for both reporting institutions and central bank in its double role of monetary and a supervisory authority.

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.

We would like to stress that without the firm regulatory obligation (ie adopted ITS) it is not possible to impose to the reporting institutions any cost related to the investments into the IT reporting support. The adoption of the new IT support would take at least 12 month after the adoption of the ITS regulation. Therefore we support the phase-in approach where part of the ITS would be implemented as of 31/03/2013 (Balance Sheet, Income Statement, Solvency Overview, Own Funds, Own Funds Requirements), whereas the implementation of the other templates related to the details of different breakdowns could be required in phases before the end of 2014. We do not support the implementation of the national interim solutions because this would impose unnecessary duplication of work between EBA and national supervisors.

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.

The adjustment of the IT and reporting systems would take at least 12 month after the adoption of the ITS regulation. That excludes periods for test reporting, which would take at least another 6 months, but would ensure better data quality.

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?

The institutions in Croatia report core FINREP templates, but based on the date warehouse data central bank can map 80% of the ITS related data. Therefore we assess that the minimum implementation period to implement full scope of the ITS related date would be cca 6 months after the adoption of the ITS regulation (excluding the test reporting period).

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?

n.a.

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

We propose introduction of the longer implementation period for the reporting on a consolidated basis, at least 6 month longer period that would help improve data quality.

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?

In the current XML submission of COREP reports, gray/blocked cells do not affect the reduction of the reporting burden of institution.

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

Given the current IT settings for receiving COREP templates from reporting institutions (XML format), and additional reporting requirements/changes that are presented in the ITS, we anticipate additional costs, but that would not be disproportionate.

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.

At this point we do not have ready-specific analysis of the influence of instructions and validation rules that are related to Annex 1 and Annex 2 ITS.

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?

At this point we do not have ready-specific analysis of cost implications of the new lines for large regulated financial entities and to unregulated financial entities.

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?

At this point we do not have ready-specific analysis of cost implications of the new lines to gather information about exposures without a rating or which have an inferred rating.

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.

Having examined the templates included in Annex III and Annex IV we that the instructions are sufficiently clear. However, once these are presented to the banks, there could be a lot of questions and therefore we propose to consider organisation of provision of answers to those questions once when they arise during the implementation period.

Template 10 (Annex III and Annex IV)

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

We support the thresholds of 10% of total original exposures of 0.5% of total exposures because they certainly lead to a reduced reporting burden.

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

The consolidated information on the geographical breakdown of debt securities held from general governments by residence of the counterparty shall be required in Croatia from 2013 on semi-annual basis, and this adds to the regulatory reporting cost for the institutions in the year 2012.

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

The temporary financial reporting framework in Croatia requires the use of NACE codes for all of the clients therefore no additional cost implications would occur with the introduction of the breakdown by economic sector.

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

n.a.

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?

No difference in cost for institutions in Croatia would appear if the geographical breakdown is differentiating only between domestic and foreign exposures.

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

No additional cost implications of introducing breakdown of sovereign holdings by country, maturity and accounting portfolio because the consolidated information on the geographical breakdown of debt securities held from general governments by residence of the counterparty shall be required in Croatia from 2013 on semi-annual basis, and this adds to the regulatory reporting cost for the institutions in the year 2012.

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?

The temporary financial reporting framework in Croatia requires the use of geographical breakdown country by country, therefore no additional cost implications would occur with the introduction of the proposed breakdown to domestic, EMU countries, other EU and rest of the world.

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?

n.a.

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?

n.a.

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, there are not any specific aspects of national accounting framework that has not been covered or not addressed properly in the templates. There is only additional requirement for the banks to report about the classification of placements and off balance sheet items based on their financial performance (performing, partially performing and non-performing) which is added to the IAS 39 financial instruments accounting portfolios.

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?

n.a.

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?

The temporary financial reporting framework in Croatia requires the institutions to report about interest income and interest expense from financial instruments held for trading and carried at fair value through profit and loss always under the item interest income and interest expense.