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European Banking Authority
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**Comments on consultation paper EBA/CP/2013/6
Draft Implementing Standards on supervisory reporting on
Forbearance and Non-performing exposures under article 95
of the draft CRR**

Introduction

Many of the ideas and definitions in the consultation paper on reporting of Forbearance and Non-performing loans are either new to the Swedish banks or differ in several important ways. The ideas and definitions have to be built up internally and affect the banks' IT-systems in many ways. It is a huge task to manage this already in 2014. The Swedish Bankers Association therefore considers that the reporting should be introduced first in 2015.

Swedish Bankers' Association support the comments on the consultation done by the European Banking Federation, EBF. However, the specific views of the Swedish Bankers' Association are stated in this comment letter.

Specific comments on the consultation questions

The comments by the Swedish Bankers' Association follow the questions asked in the consultation on forbearance and non-performing exposures. Questions have been answered where we have comments of importance to us.

Question 1. Do you agree that building definitions of forbearance and non-performing by taking into consideration existing credit risk related concepts enables to mitigate the implementation costs? If not, please state why.

Forbearance is not defined in Swedish law or regulation. The concept of forbearance has therefore no uniform definition and could be treated differently among institutions. As there is no uniform definition of forbearance in Sweden, a new uniform definition has to be built from the bottom. The reporting of a uniform concept of forbearance has to be developed internally and it affects many levels and sections



of the banks. The existing credit risk related concepts in Sweden is therefore of minor importance to mitigate the implementation cost, which we expect to be considerable.

Question 2. Do you agree with the proposed definitions [non-performing]? Especially, do you agree with the inclusion of trading book exposures under the scope of the non-performing and forbearance definitions? If you believe alternative definitions could lead to similar results in terms of identification and assessment of asset quality issues, please explain them.

We consider the definitions should be exactly the same as the past due items in COREP. It will be more straightforward and relevant to have the same definition as the past due items. In addition the reporting institutions will then also be able to check the figures between non-performing and past due items, which will improve the quality of the figures.

Question 3. How long will it take you to implement, and collect data on, the definitions of forbearance and non-performing?

At the time being there are no final templates, which is necessary to start building the bank internal reporting systems. Also there is no current regulation to build from and it has to be built from the bottom. We estimate the time to settle the new definitions to around 6 months, to build the IT platform to around 9 months and 3 months to test the reporting system. All in all we estimate the time to be ready to report to one and a half year.

In addition the banks prepare to implement among others the new COREP and FINREP reporting. To a large extent it is the same staff and divisions, which have the skill to handle the different reporting initiatives. In other words there will be difficult bottlenecks and it will be very challenging to manage this reporting already in 2014.

Question 4. What definitions of forbearance and non-performing are you currently using respectively for accounting and prudential purposes?

Forbearance is not defined in Swedish law or regulation. The concept of forbearance has therefore no uniform definition and could be treated differently among institutions.

As regards non-performing the definitions currently used are the definitions from the capital adequacy reporting. To some extent also the accounting rules definitions. However, the current definitions used differ from the one suggested in this consultation.



As proposed in this consultation the definition on non-performing is in conflict with existing non-performing definitions (Basel). What is the background or rationale for this?

Question 7. Do you agree with the proposed scope of on- and off-balance sheet exposures to be covered by the definition of forbearance?

Yes, we consider the proposed scope reasonable.

Question 8. Do you agree not all forbearance transactions should be considered as defaulted or impaired?

Yes.

Question 10. Do you agree with the proposed definitions of debtors and lenders and the scope of application of the forbearance definition (i.e. accounting scope of consolidation)?

The definition is described as being the same as the accounting scope. We consider it more logical if it followed the scope of FINREP, which is the CRD-scope of consolidation.

Question 11. Do you agree with the proposed mixed approach (debtor and transaction approaches) for forbearance classification?

We consider that only the transaction approach should be used. That is contracts should be classified as forborne on a contract by contract basis and all forborne contracts should be reported. The debtor approach is on the other hand complicated to handle and will need much resources.

Question 12. Do you agree with the exit criteria for the forbearance classification? In particular:

- a. *what would be your policy to assess whether the debtor has repaid more than an insignificant amount of principal or interests?*
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- b. *do you support having a probation period mechanism?*

Yes, we support the probation period mechanism suggested, that is the 2 year rule and the 1 year rule.

Question 13. Do you agree with the proposed approach regarding the inclusion of forborne exposures within the non-performing category? In particular:



- a. *do you agree the generic non-performing criteria allow for proper identification for neither defaulted nor impaired non-performing forborne exposures? Would you prefer to have the stricter approach (all forborne exposures identified as non-performing) implemented instead?*

We consider the definitions should be exactly the same as the past due items in COREP. Please see question 2 above.

Question 15. Do you agree with the coverage of the proposed definition and with the possibility to apply the generic non-performing criteria to all fair-valued non-performing exposures? Do you expect challenges when implementing them and collecting data on fair-valued non-performing exposures? Would you suggest other criteria instead?

We would like to add that the proposed definitions would be very complicated to create or collect for past time.

Question 18. Do you agree not to consider exposures subject to incurred but not reported losses as non-performing?

Yes.

Question 19. Do you agree with the proposed approach regarding the materiality threshold?

We agree to continue to use the current threshold.

Question 20. Do you agree with the proposed definitions of debtors and lenders and the application of the non-performing exposures definition on an accounting scope of consolidation?

Corresponding to our answer to question 10, we consider that the consolidation should have the same scope as in FINREP, which is the CRD-scope of consolidation.

Question 21. Do you agree with the proposed approaches (debtor approach for non-retail exposures, and possibility of a transaction approach for retail exposures)? In particular, do you agree with the idea of a threshold for mandatory application of the debtor approach? If so, which ratio methodology would you favour and why?

As regards the thresholds we consider it indeed necessary. However, we think that the thresholds used for SME:s in the COREP reporting would be more suitable.



Question 22. Do you agree with the exit criteria from the non-performing category?

Yes.

Question 23. Do you agree with the separate monitoring in a specific category of exposures ceasing to be non-performing? Do you think this specific category should be integrated within the performing or the non-performing category?

The cost would be very high to collect this information. It is very hard to define the items requested. We strongly question the benefit of this information as the reporting cost would be far too high.

Question 25. Could you indicate whether all the main drivers of costs and benefits have been identified in the table above? Are there any other costs or benefits missing? If yes, could you specify which ones?

We think that EBA has not taken the banks "pre study" into consideration when calculating the total cost. The "pre study" consist of the work to build up the definitions of forbearance and non-performing in the internal systems. Also we think that cost associated with data collection and data extraction has to be added.

We also question that existing definitions are used. The intention of the EBA is that the new definitions should be defined more broadly and not based on existing definitions to limit costs. However, the detailed instructions and reporting have instead lead to that EBA has created additional definitions and what it means to cost of new definitions and new reporting costs.

Question 26. For institutions, could you indicate which type of one-costs (A1, A2, A3) and ongoing costs (B1, B2, B3) are you more likely to incur? Could you explain what exactly drives these costs and give us an indication of their expected scale?

As regards one-off costs that the Swedish banks incur is A1 and A3. Regarding the ongoing costs it is B1 and B3.

Question 27. Do you agree with our analysis of the impact of the proposals in this Consultation Paper? If not, can you provide any evidence or data that would explain why you disagree or might further inform our analysis of the likely impacts of the proposals?

As we answered in question 25 above, we question that existing definitions are used. The intention of the EBA is that the new definitions should be defined more broadly and not based on existing definitions to limit costs. However, the detailed instructions



and reporting have instead lead to that EBA has created additional definitions and what it means to cost of new definitions and new reporting costs.

Best regards

SWEDISH BANKERS' ASSOCIATION



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