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European Banking Authority

15th January 2020

Standard Chartered response to the European Banking Authority's ('EBA') Consultation on the Draft ITS on supervisory reporting requirements for institutions under Regulation (EU) No 575/2013

Dear Sir / Madam,

We welcome the opportunity to comment on evolution of the EBA reporting framework and specifically the proposals put forward in the EBA's Consultation on the Draft ITS on supervisory reporting requirements for institutions under Regulation (EU) No 575/2013 (EBA-CP-2019-10).

We agree that the proposed amendments to the EBA reporting framework are broadly in line with CRR II and the NPE backstop regulation, and would like to highlight specifically the following:

- We strongly support the objective of integration between supervisory reporting and disclosures and enhanced consistency through standardisation.
- We would like to point out the risk to the implementation timeline for credit risk templates arising from interdependencies with the various EBA initiatives reforming IRB models. Any delays to other policies affecting IRB models, or to review and approval processes of redesigned models are likely to impact implementation timelines for reporting.

We would be pleased to discuss the contents of this letter, and related matters, with you or your representatives at your convenience. We refer the EBA to the technical comments and specific recommendations made in the joint response by the Association of Financial Markets in Europe (AFME), to which we have contributed.

Yours faithfully,



Alan Quaintance
Head of Group Financial Reporting and Technical Accounting

Own Funds

Question 1: Are the instructions and templates clear to the respondents?

Yes, the instructions and templates on Own Funds reporting are clear.

Question 2: Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

We agree that the proposed amendment to the reporting on own funds and the capital adequacy templates and instructions broadly reflect the changes to the underlying own funds framework.

Question 3: Do the respondents agree that the amended ITS fits the purpose of the underlying regulation?

Yes, we do consider the amended ITS fit for purpose.

NPL Backstop

Question 4: The definitions of NPEs and Forbearance are now included in the CRR. So, FINREP instructions on templates 18 and 19 have been reviewed, wherever appropriate, to refer to the CRR. The review of the instructions takes into account that the basis for reporting in FINREP are the accounting values and consistency across FINREP templates have to be kept. In addition, the request of information of NPEs and Forbearance in FINREP is relevant for supervisory purposes other than monitoring the prudential backstop calculation.

Do respondents agree with the review of instructions on the definitions of NPEs and Forbearance?

We agree with the revisions to the instructions on the definitions of NPEs and Forbearance on templates 18 and 19.

Question 5: The template F39 requests information on the stock of NPEs and related loss allowances/provisions broken-down by the same time buckets as introduced in Article 47c of the CRR and used in the new NPE LC templates of COREP as well. These data allow supervisors to monitor institutions' NPE coverage strategies more effectively and capture their risk profiles more accurately. They complement, from an accounting perspective, the information provided in COREP on prudential backstop calculation.

Which benefit and challenges with regard to the compilation and reporting of this information do you envisage?

We agree that the new FINREP template will help monitor the stock of NPEs and the related loss coverage from an accounting perspective.

We expect challenges for compilation and reporting to arise from the increased granularity that is required in template F39. In particular, the breakdown by time passed since exposures' classification as non-performing will require changes to our reporting systems. The implementation costs of these granular new reporting requirements raise issues of proportionality of the proposal.

Question 6: Are the instructions and templates C35.01 to C35.03 clear to the respondents?

The instructions and templates C35.01 to C35.03 are clear.

Question 7: Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

We have not identified any discrepancies so far.

Question 8: Do the respondents agree that the amended ITS fits the purpose of the underlying regulation?

Overall, we agree that the amended ITS fits the purpose of the underlying regulation.

Credit Risk

Question 9: Do respondents consider that the new proposed supervisory reporting templates reflect correctly the disclosure requirements, in particular new templates which introduced considerable change? Given that the integration aims at improving consistency, including a standardisation in formats and definitions, do respondents agree that this objective is achieved?

The proposed changes contribute to achieving the objective, and we expect significant upgrades to our reporting systems will be required to implement the proposed changes.

We would like to point out a potential risk to the implementation timeline for the new reporting templates. Reporting of credit risk templates depends on the underlying IRB models, which are currently subject to change from the wider EBA IRB reforms that all EU banks need to comply with by 2021.

Specifically, we consider the new requirement for PD backtesting with Margin of Conservatism (MoC) the most challenging to implement. Introducing MoC and other new regulatory requirements necessitates a redesign of IRB models. MoC implementation and monitoring happens in phases depending on the supervisory review and approval of the redesigned models. As the requirement to redesign risk models affects the market as whole, supervisory authorities are likely to face resource constraints to review and approve models in a timely manner which may lead to delays and may in turn jeopardise the implementation timeline for template C08.04.

Question 10: Are the instructions and templates clear to the respondents?

We have identified some consistency issues in the labelling of templates. The title of a template should refer to the information in the template i.e. the risk type displayed. For instance, templates C08.03 and C08.04 are labelled "Credit and Counterparty Credit Risks and Free Deliveries". However, the instructions for these templates explicitly require the exclusion of counterparty credit risk.

Template C08.04 includes a row for "Other" with instructions that "Institutions could add additional rows between rows 0070 and 0080 to report other material drivers of RWA movements over the reporting period." We are not aware of any other COREP tables where it is possible to add rows and would welcome some guidance on how this would work in practice, e.g. with respect to the XBRL mappings.

With respect to template C08.07 we would appreciate if instructions could confirm that the scope of this template is not to cover all credit risk exposures (i.e. STD + IRB) but instead to only cover all IRB, those IRB exposures for which we have permission to use the STD approach, and those STD exposures which are subject to roll out.

Question 11: Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

Instructions for template C08.07 state that the exposure value should be in accordance with Art 429(4). This relates to leverage exposure and not exposure per credit risk requirements. We would welcome clarification of the instructions.

Question 12: Do the respondents agree that the amended ITS fits the purpose of the underlying regulation?

We agree that the amended ITS broadly reflects the underlying regulation.

Counterparty Credit Risk

Question 16: Are the instructions and templates clear to the respondents?

We would welcome additional guidance as to which exposure measure should be used for the ranking in template C34.6. Should it be column 0100, 0110 or something else?

Question 17: Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

One discrepancy we have identified is that in template C34.1, row 005 states the percentage as row 0010 over 0050, but the correct reference is row 0010 over 0040.

Question 18: Do the respondents agree that the amended ITS fits the purpose of the underlying regulation?

We refer to the response to questions 16 and 17.

Leverage Ratio

Question 19: Article 429a(1)(d) and (e) of the CRR states that "1. By way of derogation from Article 429(4), an institution may exclude any of the following exposures from its total exposure measure: (d) where the institution is a public development credit institution, the exposures arising from assets that constitute claims on central governments, regional governments, local authorities or public sector entities in relation to public sector investments and promotional loans; (e) where the institution is not a public development credit institution, the parts of exposures arising from passing-through promotional loans to other credit institutions".

Question 19.1: Are the structures presented in Section 5.1.2 complete? If not, could respondents provide detailed information on other structures in which a credit institution may have exposures exempted in accordance with Article 429a(1)(d) or (e) of the CRR?

We do not have comments on the structures presented in Section 5.1.2.

Question 19.2: Do the proposed amendments provide for an adequate reporting on exposures of credit institutions that are involved in these structures?

Reporting may be challenging as it can be difficult to identify the relevant exposures such as promotional loans from public development banks. In this context, we would welcome if the EBA could make available a list of entities that meet the definition of a public development bank.

Question 20: Regarding the proposals to include averaging for some components of the leverage ratio in accordance with Article 430(2) and (7) of the CRR, to develop the standards the EBA shall take into account the how susceptible a component is to significant temporary reductions in transaction volumes that could result in an underrepresentation of the risk of excessive leverage at the reporting reference date.

Question 20.1: No comment.

Question 20.2: No comment.

Question 20.3: What leverage ratio components do respondent consider most and least susceptible to temporary reductions in transaction volumes?

The largest components of the leverage ratio susceptible to significant temporary volatility in volume during the quarter are (a) SFTs and (b) Other Assets. The SFT component is volatile as it is based purely on market demand at any given point of time. The item Other Assets includes debt securities, treasury bills and cash and bank balances with central banks. Cash is inherently volatile and movement on debt securities is based on market yields and liquidity demands.

The least susceptible component is the Tier 1 Capital.

Question 21: Regarding the clarification of the reporting in template C43.00 on whether the breakdown of the RWA should take into account potential substitution effects due to credit risk mitigation, i.e. whether to perform the exposure type categorisation of RWEA by original obligor or guarantor, and bearing in mind that in any case the RWEA reported in C 43.00 is after the RWEA reducing effect of CRM, the respondents are requested to provide the information below considering the importance of consistency as well as reporting costs.

Question 21.1: Would respondents agree to align the information reported by requiring the RWEA in this template without taking into account potential substitution effects due to credit risk mitigation?

While such an alignment is feasible in the reporting systems, we would question whether this alignment would be desirable in terms of costs and benefits. We would find it useful to understand what additional value the EBA expects from this presentation of RWEA.

Question 21.2: Would respondents have strong reasons based on costs to prefer instead the reporting of both values, the RWA as well as the leverage ratio exposure, after substitution effects? What would be the reasons?

There are clearly resource implications of the proposed change to pre-CRM exposures in this template. At the same time, we consider the value added of this presentation to be limited. For reasons of consistency, we would prefer to keep reporting requirements in line with RWEA reported in CA2.

Question 22: Are the instructions and templates clear to the respondents?

Yes, overall the templates and instructions are clear.

Question 23: Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

No, we have not identified any discrepancies between the templates and instructions and the calculations of the requirements set out in the underlying regulation.

Question 24: Do the respondents agree that the amended ITS fits the purpose of the underlying regulation?

Yes, overall we consider the amended ITS fit for purpose.

Large Exposures

Question 25: Are the instructions and templates clear to the respondents?

Yes, we find the instructions and templates on large exposures reporting to be clear.

Question 26: Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

The templates on identification of the counterparty (C 27.00) require a 'Code' and a 'National Code' to be reported for each counterparty. It is not clear exactly how these would be useful in practice.

The Code must be the LEI code or, if the LEI is not available, the National Code. The Code must also be consistent across templates and over time. Given the countries and markets Standard Chartered is operating in, we note that a significant proportion of counterparties do not (yet) have a LEI codes.

We therefore recommend maintaining the status quo and report internal identifiers that are constant across templates and time. In addition, we suggest reporting the LEI code instead of the National Code.

Question 27: Do the respondents agree that the amended ITS fits the purpose of the underlying regulation?

Overall, we agree that the amended ITS reflects the purpose of the underlying regulation.

NSFR

Question 28: Paragraph 4 of Article 428d in the CRR2 states: “all derivative contracts referred to in points (a) to (e) of paragraph 2 of Annex II that involve a full exchange of principal amounts on the same date shall be calculated on a net basis across currencies, including for the purpose of reporting in a currency that is subject to a separate reporting in accordance with Article 415(2), even where those transactions are not included in the same netting set that fulfils the requirements set out in Article 429c(1).”

Reporting by *currency subject to separate reporting* is required to be made on a net basis across different netting sets. This might envisage a situation of derivatives across various counterparties with different settlement currencies. There is a need to provide further instructions on which specific currency subject to separate reporting report should capture the net value in these cases. The implication is that the CRR2 requires consistency between ASF and RSF by currency subject to separate reporting on which specific requirements can be set by CAs.

It is proposed to look at each netting set and calculate the fair value for each of them in its settlement currency. For all netting sets with matching settlement currencies a net amount shall be calculated in accordance with Article 428k(3) and 428ag(3), and reported in the relevant currency subject to separate reporting.

Do respondents agree with this proposal? Would respondents consider it more adequate to look at all payables and receivables related to derivatives and calculate a net amount?

The proposed netting by currency does not necessarily correlate to the long-term funding requirement by currency per derivative netting set. We would therefore welcome further clarification on the proposed methodology. A common understanding of the methodology across market participants is essential in order to avoid reporting inconsistencies and, given the scope for CAs to set currency specific requirements in the future, avoid any divergence in market practices between jurisdictions

We note that the methodology as proposed may also increase complexity and costs of reporting.

Question 29: Do respondents consider that the “NSFR calculation tool” appropriately translates the use of the different templates for informative purposes?

The applicable factor section is not clear. We assume that this is intended to identify differences between Firm weights vs Standard weights, but we would welcome further guidance. We note that templates 80 and 81 do not automatically display totals / product totals which are reflected in template 84.

Question 30: Are the instructions and templates clear to the respondents?

We would welcome further clarification of what the intention is behind the reporting of standard factors and applicable factors. Moreover, we would welcome further guidance on which HQLA splits need to be applied to margin and CCP default fund lines. The instructions are not clear with regard to what should be captured here.

Other specific questions that have arisen while reviewing the proposed templates include

- Part II, Article 17: how should encumbrance be reported if the transaction through which the asset has been borrowed (collateral swaps from assets borrowed on unsecured)?
- Row 1.1.1.1 states residual maturity of less than 6 months but the columns require up to > 1 year assets, how should these be reported?

Question 31: Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

Yes. One discrepancy that we have identified between proposed templates and underlying rules is the HQLA split by LCR haircut percentage which includes haircuts that do not exist in the LCR.

Question 32: Do the respondents agree that the amended ITS fits the purpose of the underlying regulation?

The new templates broadly align with the direction implied via the 2014 templates and try to address some of the questions around netting.

While the removal of tenor splits for HQLA reduces the line items on the RSF side, this decrease in reporting granularity has been offset by additional required reporting requirements relating to LCR haircut percentages.

FINREP

Question 33: Under Appendix A (IFRS 9), purchased or originated financial assets (POCIs) correspond to purchased or originated financial assets that are credit-impaired on initial recognition.

IFRS 9 sets out specific rules to measure the expected credit losses (ECL) for POCIs, outside the general approach to impairment by Stage. In order to have a presentation of POCIs more consistent with their measurement criteria, in the following templates F04.03.1; F04.04.1; F07.01; F12.01; F18.00, POCIs are included in separate columns outside the Impairment Stages.

In the template F18, POCIs are also split between non-performing and performing, to take into account any cases where, after the initial recognition, POCIs do not meet the definition of “credit-impaired” of Appendix A (IFRS 9) anymore.

Question 33.1: Do respondents agree with the separate presentation of POCIs outside the IFRS 9 Impairment stages?

Yes, we agree that a separate presentation of POCIs outside the IFRS 9 impairment stages makes sense.

Question 33.2: Are the criteria to distinguish between “non-performing” and “performing” POCIs clear? Which challenges with regard to the practical application of these criteria do you envisage?

Overall, the criteria to distinguish between “non-performing” and “performing” POCIs are clear.

Question 34: The information on cash balances at central banks and other demand deposits has been included in template F12.01. Although the amount of impairment for cash balances at central banks and other demand deposits should not be relevant in general, these assets are subject to impairment as the other financial assets included in the accounting portfolios of “financial assets at cost or amortized cost” and “financial assets through equity subject to impairment or at fair value through other comprehensive income”. The inclusion of these data is also consistent with data reported in templates F18 and F19.

Question 34.1: Which challenges with regard to reporting of this information do respondents envisage?

We anticipate challenges in sourcing the information templates. The proposed changes will also require minor changes to our reporting systems.

Question 34.2: Do you see any inconsistencies between this data and the data collected in other FINREP templates?

We have not identified any inconsistencies.

Question 35: In template F12.02, additional columns have been added to report the direct transfers between Stage 1 and Stage 3, without considering any intermediate passage through Stage 2. This information is useful in the context of monitoring IFRS 9 post-implementation initiatives and supervisory activities.

Which challenges with regard to reporting of this information do respondents envisage?

We have not identified any major challenge, we expect that the number to be reported in these data points will not be significant.

Question 36: In template F18.00, the information on loss allowances for more than 30 days-past-due exposures has been added. This information is already reported in template F23.04 by institutions which fulfil both of the conditions referred to in points (i) and (ii) of Article 9(2)(h) of the current ITS on reporting. Since this information is relevant for monitoring IFRS 9 post- implementation initiatives and supervisory activities, it has been included in template F18.00 for all institutions, although it may create some overlaps with F23.04.

Which challenges with regard to reporting of this information do respondents envisage?

We have not identified any challenges for reporting this information.

Other amendments

Question 37: Are the instructions and templates clear to the respondents?

Yes, we think that the instructions and templates are clear.

Question 38: Do respondents agree with the proposal to harmonise templates and instructions with regard to the reporting of the information of LEI codes?

We agree with the approach to harmonise the use of LEI codes in supervisory reporting and to align practices that enable the unequivocal identification of the same entity across different reporting request.

With regard to the changes to Article 105 (11), we would find it helpful if the EBA could provide some working examples for the new linkage to liquidity horizons stipulated in Article 325(bd).

We would also welcome additional guidance on the new fields introduced in template F40.

Question 39: The integration between disclosure and reporting aims at improving consistency, including a standardisation in formats and definitions. Do respondents agree that this objective is achieved?

We strongly support the objective of enhanced consistency and integration between supervisory reporting and disclosures and agree that the proposals contribute to achieving this objective.