POSITION PAPER

ESBG Response to the EBA Consultation on FINREP using IFRS 9

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ESBG

European Savings and Retail Banking Group (ESBG) members greatly appreciate the opportunity to partake in this process. The most efficient implementation possible of IFRS 9 is very important to our members and we are confident that the below answers to the questions of the consultation will help to ensure this.

ESBG Responses to the Consultation Questions:

Q1. Is there any additional change introduced by IFRS 9 Classification and measurement rules and principles that needs to be reflected in FINREP IFRS 9 templates to convey to supervisors an appropriate level of financial information on your institution?

From our point of view all main disclosure requirements which are needed for financial statements based on IFRS are covered in the proposed template set which should in principle also reflect the main needs for supervisors regarding financial information. Nevertheless we want to point out that all additional requirements which are not needed based on IFRS disclosure requirements are connected with costs regarding implementation of requested information in the IT-systems as well staff resources and should therefore be avoided where it is possible from the regulators point of view.

We would like to use question 1 to reflect what is expected in **F1.1 row 097** respectively **F1.1 row 110**. We would appreciate examples for equity instruments in both rows. We are thinking that for equity instruments only one of the mentioned rows should be used. Thereinafter we question if the detailed tables **"F4.2.1 Non-trading financial assets mandatorily at fair value through profit or loss"** and **"F4.2.2 Financial assets designated at fair value through profit or loss"** are correct in the sense that for both accounting portfolios in table **F1.1** entries for equity instruments are possible whereas in table in **F4.2.2** there is no possibility for entries of equity instruments.

Additionally we propose to clarify the header for **row 161 in table F.1.1: "Fair value changes of financial assets measured at fair value through other comprehensive income".** This will avoid misinterpretations regarding the fact that, in the mentioned row, only debt instruments are in the scope and not all financial assets which are subject to this accounting portfolio.

Further we want to point out that, in table **"F4.5 Subordinated financial assets"**, entries for the (aggregated) "carrying amount" of such items (column 010) without distinguishing across different measurement models that may potentially apply, are requested. Certain types of subordination may trigger some subordinated financial instruments to fail the SPPI (Solely payments of principal and interest) test (e.g. contractually stipulated right of the issuer, or of issuer's regulatory authority to impose losses on the holder in certain circumstances -> e.g. non-viability).

For such cases, "carrying amount" will equal fair value, given that the applicable measurement model will be FVTPL (Fair value through profit or loss). Also, for subordinated financial assets meeting the SPPI condition and managed under a "hold & sell" business model, "carrying amount" will equal fair value as well, given that the applicable measurement model will be FVTOCI (Fair value through other comprehensive income). On the other hand, for subordinated financial assets meeting the SPPI condition and managed under a "hold to collect" business model, "carrying amount" will equal "amortized cost" (i.e. gross carrying amount less credit loss allowance). Is the column 010 "carrying amount" expected to potentially aggregate together fair values and amortized costs, stemming from different measurement models applying to different subordinated instruments?

Furthermore we would ask for clarification that figures reported under column **005 "Gross carrying amount" in table F5.1 "Loans and advances other than held for trading by product"** should include (as far as non-performing, non-trading loans and advances mandatorily measured at FVTPL and designated at FVTPL are concerned) their respective fair values (carrying amounts) grossed-up by any accumulated negative fair value change due to credit risk for the related assets. Consequently, the total figure in row 080, column 005 in table F5.1 is not reconcilable against table F1.1 Total Assets.

We see further in table **F6.1 "Breakdowns of loans and advances other than held for trading to non-financial corporations by NACE codes"** that the table is also designed to merge "Gross carrying amounts" of all related non-trading assets, irrespective of the underlying measurement model (FVTPL, FVTOCI, AC), with the gross carrying amount of the FVTPL portfolio derived as fair value (carrying amount) grossed-up by any accumulated negative fair value changes due to credit risk. Consequently we see that the following reconciliation against table F5.1 should work: "**F5.1 row 080, column 050 = F6.1 row 190 (column 10, column 21, column 22)".**

The new FINREP IFRS 9 templates propose that two sets of definitions which do not match subsist while being difficult to reconcile. On one hand, the classification of financial instruments by stages is required, which seems reasonable as we are adapting the templates to IFRS 9. However, on the other hand, it is also required that all the financial instruments and off-balance sheet exposures are classified by the performing or non-performing categories as per the EBA definitions. We understand that the drivers which lead to this classification could be avoided in order to focus on the reporting of financial instruments by the IFRS 9 stages. To maintain a dual classification on a contract by contract basis would be costly, implying dual systems for accounting and classification, reconciliation procedures, allocation of allowances calculated by stages, etc. We would recommend that the EBA adopt the full IFRS 9 definitions and adapt the reporting templates to the criteria included within the standard.

Q2. Is the FINREP representation of impairment on assets measured at fair value through other comprehensive income consistent with the way this information will be conveyed in your financial statements? In case of inconsistency, what are the improvements needed in FINREP?

In general we do not see any inconsistency in the way the templates show the information for impairment on assets measured at FVTOCI. Below we want to point out topics which, we believe, need further clarification.

In table **"F4.3.1Financial assets at FVTOCI"**, **column 010** "Carrying amount" we question if the reported amounts are expected to reconcile against the net between (a) "Gross carrying amount" in columns 010,030,040 and (b) "Accumulated impairment" in columns 050-070. If yes, then such "Carrying amount" would be equal to these assets at amortized cost, which will differ from the fair value reported in F1.1 for such assets. Reconciliation to F1.1 would be possible if the amounts in column 010 are expected to show fair values, however, reconciliation within table F4.3.1 "Gross carrying amount minus Accumulated impairments" would fail. Based on Annex V Part 2.25 we assume that reconciliation to F1.1 is expected and therefore we ask for final clarification.

In table **"F4.3.1 Financial assets at FVTOCI" column 020** "of which: instruments with low credit risk" appears to be a sub column of column 015 "Assets without significant increase in credit risk since initial recognition (Stage 1)". Given that instruments with low credit risk as at reporting date, may have acknowledged significant increase in credit risk since initial recognition but are still disclosed in stage 1 based on IFRS 9.5.5.10, we consider that the two headers may generate some confusion. **Renaming the columns** may be prudent. This could be done by creating two separate columns for Stage 1 with sub columns: (1) Low credit risk instruments; (2) Non low credit risk instruments for which there is no significant increase in credit since origination.

Additionally, we want to remark that a **separate disclosure** of this "Stage 1" sub-category may be seen as an implicit requirement from a regulatory point of view as in IFRS 7 there is no explicit requirement to disclose "low credit risk" assets assigned to "Stage 1". Use of 'low credit risk' is a voluntary election in IFRS 9, therefore if a bank does not decide to use that election they are unlikely to gather this information. It is unclear from the requirements as to whether this information can be excluded if a bank does not make this election in IFRS 9. We would see this as extra cost and effort in the preparation of FINREP if we are not applying that election for IFRS 9 purposes.

Regarding **columns 050-070 “Accumulated impairment**” in table “**F4.3.1 Financial assets at FVTOCI”** we do not expect that there is a **direct** possibility to reconcile against any particular OCI (other comprehensive income) item disclosed in other related tables (F1.3, F14 columns 060-080, F46), given that these related tables are designated to disclose the combined (e.g. netted) fair value change accumulated in OCI from FVTOCI assets, without separation of the accumulated impairment element of such FV change. As table **“F12.1 ´Movements in allowances and provisions for credit losses”** does not distinguish between AC (Amortized Cost) assets and FVTOCI assets, columns 050-070 will not be traceable against amounts reported in column 090 “Closing balance” of this table. For the same reason, the amounts to be reported in the columns 050-070 “Accumulated impairment” of the **Table “F4.4.1 Financial assets at amortized cost**” will also be non-reconcilable against amounts reported in column 090 “Closing balance” of table “F12.1. However, when added-up with corresponding amounts in columns 050-070 of Table F4.3.1, they should fit against corresponding amounts in column 090 of T 12.1.

Q3. Are instructions on the reporting of amounts partially and totally written-off clear enough? Which clarifications would you need to ensure good quality of reported data?

Regarding question three, we would like to **clarify the added value of the split between partial and full write-offs in columns 080 and 090 of tables F4.3.1 and F4.4.1, as well columns 110 and 120 of table F12.1** as there is no corresponding IFRS 7 disclosure requirement. As this split is very burdensome and is will lead to extra costs regarding implementation of requested information in the IT-systems as well staff resources an enlargement of IFRS requirements should be avoided.

Further, a clarification is required whether **(accumulated) write-offs requested** to be reported in **columns 080 and 090 in tables F4.3.1 and F4.4.1** include write-offs made against related loss allowances (“usage”). It must also be kept in mind that (period’s) write-offs requested to be reported in columns 110 and 120 of the table F12.1 are explicitly specified as referring to “direct charge offs” to P/L only.

We would also question whether **column 090 of tables F4.3.1 and F4.4.1 “Accumulated gross carrying amount of debt instruments totally written-off”** requires the time of the total write-off, or as at current reporting date?

Q4. Do you believe some of the off-balance commitments listed in Annex I of Regulation (EU) 575/2013 will keep on being measured in accordance with IAS 37 instead of IFRS 9? In case you believe that all commitments listed in the said Annex will be applied the IFRS 9 impairment rules, please provide the rationale backing your view.

We believe that some of the off-balance commitments listed in Annex I of Regulation (EU) 575/2013 will keep on being measured in accordance with IAS 37 and therefore agree with the proposal mentioned in the Consultation paper.

As per our understanding and, in order to report all the loan commitments and guarantees exposures, this template should include an additional column for those financial guarantees which are valued at FVTPL and therefore not classified in stages. In the current template breakdown, the nominal amount is informed based on the Stage, 1, 2, 3 classification (refers only to amortised cost and FVOCI categories).

Q5. Do you recognize loan commitments and guarantees at fair value or measure some financial guarantees in accordance with IFRS 4, as possible according to IFRS 9.2.3 (a) and IFRS 9.2.1 (e) in connection with IFRS 9.B.2.5 and ? If yes, are the respective outstanding notional amounts significant when compared with the overall notional amounts of loan commitments and guarantees?

No, at the moment we do not recognize loan commitments and guarantees at fair value or measure some financial guarantees in accordance with IFRS 4, as possible according to IFRS 9.2.3(a) and IFRS 9.2.1(e) in connection with IFRS 9.B2.5.

Q6. Are instructions on the allocation of changes in loss allowance between different drivers clear enough? Which clarifications would you need to ensure good quality of reported data?

Referring to table F12.1 and §131 on Annex V – Reporting on financial information, there may be 2 ways to understand the requirements of this paragraph, depending on the definition of "*the reporting periods following the origination or acquisition" (hereafter "the following reporting periods*"):

- The "*following reporting periods*" refer to periods beginning on 1 January and ending after the origination or acquisition date (example: origination in Q1 of year N. "*Following reporting periods*": Q1 / S1 / financial year N) or to periods beginning after the first reporting date following the origination or acquisition (example: origination in Q1 of year N. "*Following reporting periods*":Q2/Q3/Q4 of year N) In both cases, the changes in the expected losses recognized at the first reporting date are reported in "*Changes due to origination or acquisition*". Subsequent changes (differences between the expected losses at the first reporting date and the expected credit losses at the end of each reporting period of the financial year) are presented in "impairment or reversal of impairment (net) with transfer between stages" or in "*impairment or reversal of impairment (net) without transfer between stages*", as applicable.

- The "*following reporting periods*" refer to periods beginning on 1 January after the origination or acquisition date (example: origination in Q1 of year N. "*Following reporting periods*": Q1 N+1 / S1 N+1, …) The changes in the expected losses are reported from the first reporting date following the origination or acquisition to the end of the financial year in "*Changes due to origination or acquisition*". There should be no amount in "impairment or reversal of impairment (net) with transfer between stages" or in "impairment or reversal of impairment (net) without transfer between stages". "

Referring to **table F12.1 column 040 "Changes due to update in the institution's methodology for estimation (net)"** we are asking for clarification that if such changes result in re-assignment of certain exposures to a different "stage" (e.g. change in methodology for estimation in lifetime PD [probability of default] leading to re-assignment from stage 1 to stage 2 or vice-versa), then the effect of such changes (e.g. allocation or release) has be included in this column, rather than in column 020 "Impairment or reversal of impairment (net) with transfer between stages".

Additionally, please clarify whether the update/review of risk parameters is also classified as change of methodology (hence: changes in allowances due to such updates/reviews should be reported under column 040, although there is no change in the calculation models/update in used formulas/reviewed parameters as inputs). Also, we would like to point out that changes in allowances attributable to such methodology updates may only be quantifiable with a certain delay, which can run from 1 to 6 months. This may result in column 040 being populated with non-nil figures although the triggering change in methodology occurred prior to the start of the reporting period.

Within **column 060 "Changes due to repayments and disposals" in table F12.1** we would ask for confirmation that, in the light of the paragraph 132 of Annex V, changes in allowances due to recurring contractual repayments do not have to be separately identified and reported under this column, unless it is the final contractual repayment collected upon asset's final maturity, hence triggering the asset's full de-recognition due to the expiration of all contractual rights over the asset's cash flows.

Example:

Between T0 and T1 the gross carrying amount (GCA) of a relevant (not impaired) asset decreases from 100 to 60 due to contractual repayments. During the same period, there is an increase from 5% to 7% in the applied PD% (no stage transfer). Loss Given Default (LGD) is constantly 50% and discounting is ignored. Overall, the related credit loss allowance (CLA) would decrease from (a) 2,5=100*50%*5% to (b) 2,1=60*50%*7%. Our understanding is that here there is no necessity for the reporting of the CLA decrease by -0,4 from T0 to T1 to be split into (i) a decrease of -1,0 = (60-100)*50%*5% due the repayment (reported in column 060) and (ii) an increase of +0,6 = (7%-5%)*50%*60 due to the PD increase (reported in column 030). On the other hand, if the repayment between T0 and T1 is 100 (that is: fully extinguishing lender's contractual rights over asset's cash flows), then the full reversal of the related CLA (in amount of 2,5) shall be reported in column 060.

Additionally we are wondering whether the full "usage" of credit loss allowances upon contractual modifications triggering de-recognition of the modified asset have to be reported in this column, or rather in column **070 "Write-off through decrease in allowance account"**.

Generally speaking **IFRS 9.5.5.1 requires that, upon modifications not triggering de-recognition, the impairment is re-assessed based on the modified terms and conditions.** Therefore, we ask for clarification if such re-assessments result in allocations or releases simultaneously with transferring of the modified exposure to a different stage, the mentioned allocation or release shall be reported in the **column 020 "Impairment or reversal of impairment (net) with transfer between stages"**, mixed up with non-modification related stage re-assignments. If not, in what column should the effects of such modifications be reported? Additionally we question if such re-assessments result in allocations or releases without transferring of the modified exposure to a different stage, the mentioned allocation or release shall be reported in **column 030 "Impairment or reversal of impairment (net) without transfer between stages"**, mixed-up with non-modification related allocations/releases within the same stage. If not, in what column should the effects of such modifications be reported? Based on point 129 of the new draft FINREP Instructions (Annex V), we understand that such modification-driven changes shall be reported in columns 020 or 030, without separation from non-modification-driven similar changes. However, we considered it useful to raise this question, notably by reference to IFRS7.35I.b which, in our current understanding, requires separate disclosure of changes in loss allowances due to modifications not triggering de-recognition.

In accordance with the resolution of **IASB's ITG (IFRS Transition Resource Group for Impairment of Financial Instruments)** meeting dated 11th of December 2015, the credit loss allowance attributable to credit-impaired "Stage 3" exposures shall be equal to the present value of cash shortfalls identified in accordance with the IFRS 9 definition of credit loss and with IFRS 9.B5.5.29 by comparing all cash flows contractually due (hence: including interest receivables accruing after default) against expected recoveries. In practice, this means that the amount of the Stage 3 credit loss allowance will increase every period by the difference between full effective interest, accruing into the gross carrying amount of the credit-impaired exposure and "unwinding" (that is: the interest income element resulting by applying EIR to the present value of expected recoveries). This increase in credit loss allowance reflects the adverse "time-value-of-money" effect over expected cash shortfalls.

We are questioning in what column such recurring increase in Stage 3 credit loss allowance should be reported? Would it be in column 080 "Other adjustments"? By extrapolation to stages 1 and 2 in what

column is the (adverse) discounting ("time-value-of-money") effect over credit loss allowances expected to be reported?

We assume that, for stages 1 and 2, the discontinuing effect embedded in the loss allowance change between any given two successive reporting dates shall not be separately identified and reported, but it will be an integral part of the movements reported in column 020 and 030. We would ask for clarification if this assumption is correct. The above mentioned request for clarification equally applies to "purchased or originated credit impaired" (POCI) assets against which a credit loss allowance is recognized, due to expectations of lifetime credit losses worsening compared to initial recognition.

Additionally, we would like to clarify whether, by analogy to the reporting of discounting effects on credit loss allowances against on-balance exposures as referred to above, discounting effects on credit risk provision liabilities against Stage 3 and POCI off-balance exposures would need to be reported similarly (that is: under the column 080 "Other Adjustments" given their booking as interest-like expenses), whilst discounting effects on credit risk provision liabilities against Stage 1 and Stage 2 off-balance exposures would be an integral part of the movements reported under the columns 020 or 030, as applicable?

Regarding the **simplified approach allowed by IFRS 9.5.5.15** (lease receivables, trade receivables, contract assets) in our opinion table F12.1 does not included dedicated lines for the mentioned in-scope instruments. As Annex V states this information should be merged into dedicated lines in stage 2 and stage 3.On the other hand, IFRS 7.35 H.b.i requires separate disclosure of the development in credit loss allowances for such items which would not be fulfilled in the current version of the aforementioned template for reporting purposes to regulators.

Also, there are not foreseen dedicated lines for development in loss allowances **against POCIs** for which lifetime expected credit losses worsened since initial recognition (hence: loss allowances are built-up in accordance with IFRS 9.5.5.13). On the other hand, IFRS 7.35H.c requires separate disclosure of the development in credit loss allowances for such items.

In every stage for allowances there is the requirement to report each position for collectively and individually assessed allowances **(F12.1 row 160/170, 330/340, 510/520)**. We question in what sense the word **"assessed"** is meant. In more detail what is the trigger to distinguish between "individual" or "collectively" assessed. Is the trigger based on the granularity of parameters used for the credit loss calculation or based on the granularity of criteria used for staging? According to **IFRS 9 B5.5.1 – B5.5.6** the stage allocation can be performed based on assessments of the significant increase in credit risk on an individual or a collective basis. We question if these different types of assessment relate to the requirement to split credit loss allowances to "individually assessed" and "collectively assessed". **If yes**, we would appreciate more detailed instruction how to proceed in case stage allocation is performed on an individual basis and credit loss allowances are assessed on a collective basis. **If not**, and the requirement relates only to the approach according to which credit loss allowances are calculated we would appreciate detailed instruction if:

- Credit loss allowances are calculated on an individual basis if risk parameters PD, LGD and CCF (Cash conversion factor) are customized on client/asset level, meaning each of these risk parameters is estimated for client/asset individualized cash flow forecasts.
- Credit loss allowances are calculated on a collective basis if the conditions/criteria for individual assessment (bullet point 1) are not fulfilled.

Referring to the below shown example within template F12.1 and in regards to Annex V Part 2.129 which stipulates that *"Impairment or reversal of impairment (net) with transfer between stages" shall include the net amount of changes in expected losses due to a significant increase or decrease in credit risk since initial recognition. This shall include also changes in the expected losses related to modified assets [IFRS 9.5.4.3 and Appendix A]. When the increase or decrease in credit risk is due to a change in credit risk, including because of a modification without de-recognition [IFRS 9.5.4.3 and Appendix A], but does not imply a transfer between impairment stages, institutions*

shall report the net amount of changes in expected losses in the column "Impairment losses or reversal of impairment (net) without transfer between stages".

We ask for clarification if this would mean that the sum of the positive (transferred-in) and negative (transferred-out) amounts reported in the column **"Impairment or reversal of impairment (net) with transfer between stages"** should be equal to zero, hence, always reflecting only P/L-neutral changes in the respective three loss allowance balances? Please see the below illustrative example.

Example:

Quarter 1: Loan is freshly originated and measured at 12 months expected loss in Stage 1 with loss allowance of 100.

Quarter2: Due to significant increase in credit risk the loan is transferred to Stage 2 which leads to an expected loss of 300.

According to our interpretation, this scenario shall be cumulatively reported as follows for the first half of the reporting year:

		References	Opening balance	Impairment or reversal of impairment (net) with transfer between stages	Impairment or reversal of impairment (net) without transfer between stages	Changes due to update in the institution's methodology for estimation (net)	Changes due to origination and acquisition	Changes due to repayments and disposals	Write-off through decrease in allowance account	Other adjustments	Closing balance
				Annex V.Part 2.77; IFRS 7.35B(b); IFRS 7.35J; IAS1.82(ba); Annex V.Part 2.129	Annex V.Part 2.77; IFRS 7.35B(b); IFRS 7.35J; IAS1.82(ba); Annex V.Part 2.129	IFRS 7.35I; IFRS 7.35B(b); Annex V.Part 2.130	IFRS 7.35I; IFRS 9.B5.5.25; Annex V.Part 2.131	IFRS 7.35I; Annex V.Part 2.132	Annex V.Part 2.78;IFRS 9.5.4.4;IFRS 7.35L; Annex V.Part 2.133	IFRS 7.35B(b)	
			010	020	030	040	050	060	070	080	090
010	**Allowances for financial assets without increase in credit risk since initial recognition (Stage 1)**	IFRS 9.5.5.5	0	-100	0	0	100	0	0	0	0
180	**Allowances for debt instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)**	IFRS 9.5.5.3	0	100	200	0	0	0	0	0	300
530	**Total on-balance sheet assets**	IFRS 7.B8E	0	0	200	0	100	0	0	0	300

Picture 1: Illustrative example "Impairment or reversal of impairment (net) with transfer between stages"

Further clarification is needed if, during the reporting period, loss allowances against certain exposures **are no longer individually assessed but collectively assessed** (e.g. because the exposure fell below the minimum threshold for individual assessment) or **vice-versa**, how such changes in granularity of loss allowance assessment are expected to be reflected in the above mentioned rows.

Our assumption is also that changes in loss allowances due to **foreign-exchange differences** are expected to be reported within column **080 "Other adjustments".** Therefore we would appreciate some clarification in Annex V if our assumption is correct.

Additionally we ask for clarification how **movements of credit loss allowances triggered by existing off-balance sheet exposures becoming on-balance during the reporting period** (i.e. fresh drawings from an existing committed facility) shall be reported in the table F 12.1.

Example: A credit loss provision liability of 100 is recognized against a Stage 1 corporate loan commitment exposure existing at the beginning of the reporting period (T0). During the reporting period (T0;T1), half of the commitment is drawn (hence: it becomes an on-balance exposure in the form of a loan asset). Assuming, for simplification purposes, that the credit loss provision liability attributable to the drawn commitment (at the time of the drawing) is 50, please clarify in which column in line 560 of Table F 12.1 the 50 shall be reported. Also, please clarify whether the same 50 shall also be reported in the column 050 line 130 of Table F 12.1, with any residual difference (up or down) to the amount of the credit loss allowance calculated against the newly arising on-balance sheet asset, as at T1, going in column 030 line 130.

Q7. How will you identify the different drivers for change in loss allowance for open retail portfolios?

Please refer to our comments and requests for clarifications, as documented in our response to Q6. The mentioned comments and requests for clarification indicate our concerns in respect of data processing & collection processes necessary for reporting movements in expected credit loss allowances as requested under the draft template 12.1, notably, but not only, for open retail portfolios.

Q8. Are the instructions and template on the reporting of transfers of financial assets between Stages sufficiently clear? If not, what changes could be made to the template or the instructions to ease the reporting by institutions and improve the supervisors' understanding of the application of the significant increase in credit risk threshold over time?

Referring to the instructions in EBA/CP/2015/23 where it is stated that "*Transfer between Stages refer to situations where a financial asset* ***that is still recognized at the end of the reporting period is not included in the same impairment Stage in the end of a reporting period (final Stage) as the Stage it was included in at the beginning of the reporting period (initial Stage).*** *Only transfers between the initial Stage to the final Stage shall be reported, not the intra-period transfers*".

Does this mean those financial assets that were originated or acquired during the period (hence: no "initial Stage" assigned to them at the beginning of the reporting period) are **outside the scope** of table **F12.2,** even if they were re-assigned to a different stage subsequent to their initial recognition but before the reporting date?

Example: An asset is originated on 1st of February and assigned to Stage 1. As of 30th of November it is transferred to Stage 2 due to significant increase in credit risk. Will this asset fall in the scope of the Table F12.2 for the full reporting year?

Further EBA/CP/2015/23 states that "*The amount reported as transferred shall be the gross carrying amount included in the final Stage as at the reporting date, and not the gross carrying amount included in the initial Stage as at the transfer date*".

We ask for clarification if this also applies to assets that **suffered partial write-offs** during the reporting period.

Example: An asset is in "Stage 2" as at the beginning of the reporting period, with a gross carrying amount of 100. During the reporting period, the asset becomes credit-impaired and an amount of 70 is written-off as reasonably assessed irrecoverable. The gross carrying amount as at the end of the reporting period is 35 (30 + 5 accrued interest). We seek confirmation that the amount to be reported in column 030 of F12.2 is 35.

Similarly to the Table F 12.1, no dedicated lines appear to have been designed for instruments for which the **simplified approach is allowed by IFRS9.5.5.15** (lease receivables, trade receivables, contract assets). As Annex V states in general that this information should be merged into dedicated lines in stage 2 and stage 3. Nevertheless, IFRS 7.35 H.b.i requires separate disclosure of the development in credit loss allowances for such items, which is not fulfilled in the reporting template to regulators at the moment.

Q9. Do respondents agree with the approach suggested in the example above on "the reporting of impairment on assets measured at fair value through other comprehensive income (FVOCI)" to present impairment of debt instruments measured at FVOCI on a net basis?

Yes we agree with the approach suggested in the example on the reporting of impairment on assets measured at FVOCI to present impairment of debt instruments measured at FVOCI on a net basis.

Q10.What further improvements are needed in FINREP IFRS 9 templates in order to convey supervisors with appropriate and comprehensive information regarding the level of impairment and its developments in your institution?

Addressing/answering the clarification requirements mentioned under some of the questions Q2 to Q9 above may be instrumental for us in indicating whether further improvements to the templates would be necessary.

Q11.What further improvements are needed in FINREP IFRS 9 templates in order to convey supervisors with appropriate and comprehensive information regarding the level of hedging activities and its impact on the financial position and profit or loss of your institution?

Further improvements are needed in templates F2 - F10 "Economic hedges" Economic hedges regarding trading derivatives is not information retained as a disclosure in IFRS standards but is pertinent information.

This disclosure is required at the balance sheet level (FIN10). We propose that it would also be useful to require it in the statement of profit & loss, after the lines dedicated to "Non-trading financial assets mandatorily at fair value through profit or loss" and "Financial assets designated at fair value through profit or loss". This is the only way to have a meaningful disclosure related to Interest income / expenses when non-trading financial assets, mandatorily, at fair value through profit or loss, or financial assets designated at fair value through profit or loss are economically hedged. This way, interest income / expenses of the "economically hedged" item and the interest income / expenses of its linked economic hedge will be disclosed in the same P&L item.

A specific line dedicated to "Gains or (-) losses on economic hedges" should also be added just after the lines related to "Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss" and "Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss".

Please refer to Q12-Q14 below for other specific comments or clarification requests.

Q12.Do you agree with the allocation of hedged items and hedging adjustments by derivative risk categories in templates F11.4 and F11.5 or could a more relevant split be implemented?

Generally speaking we agree with the allocation of hedged items and hedging adjustments by derivative risk categories in the mentioned templates with the following remarks.

IFRS9.6.6.5 mentions that, for assets and liabilities that are hedged together as a group in a fair value hedge (e.g. portfolio hedge of interest rate risk, as relevant for reporting under column 050 of table **F11.4 "Hedged items in fair value hedges"**), the gain or loss in the statement of financial position on the individual assets and liabilities shall be recognized as an adjustment of the carrying amount of the respective individual items comprising the group. Furthermore, IFRS7.24B.(a).(i) requires separate disclosure of fair value adjustments accumulated in the carrying amount of fair value hedged items, irrespective of whether those hedged items are subject to micro-hedge or are hedged on a group basis. From this perspective we would like to clarify whether the "carrying amount" expected to be reported under column 050 of table F 11.4 is before or after consideration of related accumulated fair value adjustment. We expect that, despite the IFRS presentation and disclosure requirements mentioned above, it shall be before consideration of such adjustment, having also in mind that Table 1.1 and 1.2 continue to require such adjustments to be presented in a dedicated line of the balance-sheet. In respect to the above, we question if table F 11.4 must be filled by institutions which will make use of the **carve-out** option?

Still with regards to **F11.4** we would appreciate clarification that **"Remaining adjustments for discontinued hedges"** arising from discontinued portfolio fair value hedges are outside the scope of this table.

We propose to modify the current breakdown on the type of risk hedged (interest rate, equity, foreign exchange and gold, etc.) by a breakdown based on the type of instrument hedged. In our opinion, the type of risk criteria may create inconsistencies between entities due to both identification and reporting issues (i.e. one item is hedging more than one risk).

Q13. Is the maturity schedule provided in template F11.5 adequate to allow the proper identification of structural hedging transactions?

Generally speaking the maturity schedule provided in **F 11.5 "Hedge accounting – timing of expected hedged cash flow for cash flow hedges and disposal of foreign subsidiaries for hedges of a net investment in a foreign operation"** is adequate. However, we are questioning whether the requested information would be sufficient to satisfy the requirements of IFRS7.23A/23B, also considering that Table F 11.5 addresses only cash flow hedges and hedges of net investments in foreign operations, whilst the mentioned IFRS7 requirements address quantitative information about how terms and conditions of all hedging instruments are expected to affect the amount, timing and uncertainty of future cash flows of the entity.

Additionally, given our above mentioned understanding, based on its title, the Table 11.5 does not cover fair value hedges. With regards to this we would ask for a clarification as to what is the expected content of line 080 "HEDGED CASH FLOWS IN A PORTFOLIO HEDGE OF INTEREST RATE RISK". We assume portfolio hedges of interest rate risk can normally be found under the title of fair value hedges.

We do not consider the information included in this template relevant for internal management purposes or supervisory purposes. Therefore, we propose its elimination from the FINREP IFRS 9 adaptation.

Q14. Would a reporting of the expected reclassification timing of the cash flow hedge and hedge of a net foreign investment reserves by types of risk, or a reporting of the timing of the nominal amount of the hedging instrument be preferable to a maturity breakdown of the hedged cash flows as currently proposed in template F11.5 in order to show the possible impact of the cash flow hedge on the future performance of your institution?

From the point of view of achieving full consistency with the requirement of IFRS7.23B.a, a reporting of the timing of the nominal amount of the hedging instrument might be preferable to the currently proposed maturity analysis.

Moreover, we would welcome a general clarification on whether the Table 11.5 is designed to primarily address hedged items (as its title and also the header of its columns 010-040 might suggest) or whether it rather focuses on hedging instruments (as the reference to IFRS7.23B in line 070 might indicate).

Q15. How do the requirement to report changes of fair value due to credit risk match with your approaches for valuation in the financial statements, disclosures in the notes to the financial statements and risk management practices?

N/A.

Q16. If you disagree that reporting accumulated negative changes in fair value due to credit risk on non-performing exposures achieves a credit risk metric approximating impairment for exposures measured at fair value, which other metric would you propose to be used?

We do appreciate the positive effects of reporting only the accumulated negative fair value changes due to credit risk, compared to the current FINREP requirement of reporting the accumulated changes in fair value due to credit risk for exposures measured at FVTPL (both positive and negative).

However, up to date we are still unclear about the feasibility of providing the new information and therefore we cannot conclude about questions related to it. Even though our GAP analysis is still ongoing we would like to express our concern on this issue in the case the entities could not identify and report the information required.

Q17. Compared to the current reporting requirement of the fair value changes due to credit risk on all exposures at fair value through profit and loss except held for trading, would monitoring accumulated negative changes on non-performing exposures only entail significant increase or decrease in the cost of monitoring and reporting those fair value changes due to credit risk?

Probably not, given that we expect that a majority of non-trading exposures that will be measured at FVTPL under IFRS9 would fall under the "Level 3" fair value hierarchy defined by IFRS13. Hence, monitoring the fair value changes due to all significant drivers (including credit risk of the counterparty) will be anyhow necessary in order to be able to fulfill all disclosure requirements of **IFRS13 in respect of "Level 3"** valuations (e.g. sensitivities).

Further, we ask for the following clarification in respect of negative changes in credit risk to be reported in the **Tables F 18 "Information on performing and non-performing exposures"** and **F 19 "Information on forborne exposures".** Negative changes in credit risk of "DEBT INSTRUMENTS AT FAIR VALUE THROUGH profit or loss, OTHER THAN HFT" that are **"performing"** shall not be reported anywhere in these tables. For example, if the counterparty of a non-trading non-SPPI loan measured at FVTPL becomes defaulted, then the related negative change in fair value due to credit risk shall be reported in the column 150 of Table 18 (and also in the column 140 of Table 19, if the loan is also forborne). However, if that counterparty is non-defaulted but its credit risk increased significantly since origination (hence: the loan would have been allocated to "Stage 2" and impairment allowance would have been calculated based on lifetime expected credit losses if the loan hadn't been measured at FVTPL due to having failed the SPPI criterion), then the related negative change in fair value due to that significant increase in credit risk since origination is outside the scope of reporting in both Table 18 and Table 19.

In light of the new IFRS 9 stage allocations, we would like to better understand the need to continue presenting a split of the information between 'performing' and 'non-performing'. We believe it would be more appropriate to require information to be reported based on the IFRS 9 stages.

Q18. At which level (portfolio, instrument by instrument) do you compute and track fair value changes due to credit risk? Do you implement any aggregation/offsetting between gains and losses in fair value due to credit risk when estimating them?

For one of our members fair value measurement (hence: changes in fair value due to various drivers, notably credit risk) has to be computed and tracked at instrument level for all instruments accounted for at fair value based on IFRS, including for those that according to IAS32 have to be netted-off in the balance-sheet for presentation purposes. Aggregated computation has been sometimes used due to technical limitations, but only in respect of fair valuation of financial instruments at amortized cost for disclosure purposes, and only based on dedicated plausibility checks. It is still under analysis

whether, by the time of adoption of IFRS9, instrument-level calculation would be fully practicable for instruments not accounted for at fair value.

Q19. Do respondents have any comments on the structure and content of the proposed templates and in particular the amendments proposed to Annex III of Regulation (EU) No 680/2014? Where there are disagreements to not amending or further amending a particular cell or template, please provide substantial reasons.

In relation to the short positions we do not agree with the criteria used to classify this item in the financial statements. The templates and its corresponding instructions state that the short positions should be classified by counterparty, considering that the counterparty for each of them is the counterparty in the repurchase agreement that is covering the short position.

We consider the **counterparty for the short positions should be the issuer of the financial assets included in those short positions**. The main reasons are:

- The risk associated to these positions fair value is the one related with the issuer of the financial instruments.
- If the repurchase agreements in the balance sheet (asset) with different counterparties and related to a specific financial asset refer to a nominal amount that exceeds the one in the short positions in that financial asset, there is no real direct link between the asset (repurchase agreement) and the liability (short position) that allows the entity to report the templates in the way it is asked: classifying the short positions based on the repurchase agreements counterparty.
- The proposed criteria is aligned with the current criteria used in reporting other templates and is considered to be more relevant from a micro and macro perspective, etc.

ESBG would once again like to thank the EBA for taking our submission on this very important matter into consideration. Should any clarification or additional information be required we will gladly provide it.

About ESBG (European Savings and Retail Banking Group)

ESBG brings together savings and retail banks of the European Union and European Economic Area that believe in a common identity for European policies. ESBG members support the development of a single market for Europe that adheres to the principle of subsidiarity, whereby the European Union only acts when individual Member States cannot sufficiently do so. They believe that pluralism and diversity in the European banking sector safeguard the market against shocks that arise from time to time, whether caused by internal or external forces. Members seek to defend the European social and economic model that combines economic growth with high living standards and good working conditions. To these ends, ESBG members come together to agree on and promote common positions on relevant matters of a regulatory or supervisory nature.

ESBG members represent one of the largest European retail banking networks, comprising of approximately one-third of the retail banking market in Europe, with total assets of €6,702 billion, non-bank deposits of €3,485 billion and non-bank loans of €3,719 billion (31 December 2014).

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