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# Swedish Banker' Association comments on the consultation paper on ITS amending supervisory reporting – COREP Prudent validation and Credit risk information

## GENERAL COMMENTS

The Swedish Bankers' Association is of the opinion that the reporting requirements should be in line with requirements in the RTS for prudent valuation and not widen the scope or stipulate something substantially different to the RTS. In particular we find that Upside Uncertainty to be a whole new concept not treated in the RTS, which is resource and computationally intense to achieve. Also Over hedges is a new concept which is introduced as a part of the reporting requirements. Furthermore, the RTS supports a risk based approach when calculating the uncertainty AVAs, which 1.1.1.1 Trading Book of Annex 2 totally contradicts.

A usual concern is the difference in the semantics between the prudential framework and the accounting standards. Problems associated with the definition of the very concepts of fair value and prudent value, will pose a significant challenge in fulfilling a reporting requirement involving both concepts.

The Swedish banks has implemented the RTS on Prudent Valuation using a risk based approach. Valuation exposures are primarily used to calculate AVAs for most positions. Valuation exposures, defined in the RTS as the amount of a valuation position which is sensitive to the movement in a valuation input, are not easily translated into the accounting universe. Only for some product types, a portfolio based price adjustment has been calculated. The risk based approach taking prerogative is indicated by the RTS Art 9.1 and 9.4(a)(i). The introduction of a fair value notion within the scope of the current Prudent Valuation framework would mean that a significant re-implementation of the RTS may be necessary.

In the absence of a single definition of fair value, reporting will be coloured by individual banks interpretations and practices. Risk of double counting is substantial. Comparability of data risk being limited.

There should be a clear explanation in the ITS on the reasons why the fair value of IFRS would be reported for prudential purposes and the suitability of representing fair values in the risk based portfolios. It should be clarified if reporting is intended to be compulsory or on a best effort basis.

Another aspect we want to stress is the tight deadline for answering to this RTS. The short time for responding might have negative effects due to the fact that not all aspects have been relevantly covered or areas have been missed out.

The preparation of the revised COREP reporting for the banks must be given sufficient time. In the consultation the entering into force is set to the "…twentieth day following that of its publication in the Official Journal…". We consider that there must be given sufficient time from the entering into force until the first reporting date. Revised COREP reporting requirements means that the bank IT system to collect and report the figures to COREP has to be revised and in addition checked with new validation rules. EBA should therefore present a realistic time schedule for the implementation of the revised COREP.

## SPECIFIC COMMENTS AND ANSWERS TO QUESTIONS

### Annex 2
### Upside Uncertainty

<u>Swedish Bankers' Association:</u>
The calculation and reporting of the Upside Uncertainty is a new requirement. Although we agree with the concept and definition of upside uncertainty, this concept is currently not required in the RTS. We question the suitability in introducing additional concepts in the ITS.

<u>EBA Explanatory text:</u>
*The EBA believes that an understanding of where the accounting fair value sits within the notional range of plausible values at an aggregate level is essential context for assessing that the downside of this range, and therefore the AVA, is appropriately reported.*

***Question 1: Do you agree with this statement? If not please explain your reasoning. [Annex 2, page 1]***

Swedish Bankers' Association:
We do not believe it to be appropriate to significantly extend the reporting scope beyond what is included in the RTS by introducing a new concept.

- The nature of the complex Expert approaches in place for the separate Pru Val AVA does not facilitate a simply tweak to obtain the flip upside of the distribution. Nearly all AVA would require extensive methodologies, and thus a standalone process alongside Pru Val, to obtain this value.
- The implementation of this concept would result in significant additional administrative costs.
- It is also unclear why a new concept is being introduced outside the scope of the original RTS at this stage, and via the ITS rather than the RTS.
- The arguments for this new requirement is also challenged as Pru Val is a prudency concept which builds on the conservative principles of Fair Value accounting and IFRS 13, and seeks to protect banks from unexpected valuation shortfalls via a capital reserve. It is hard to see where in this context Upside Uncertainty fits. Will there be a capital saving?
- The applicability of an Upside Uncertainty to most of the AVA's, is also questionable, and would undoubtable lead to differing interpretations and methodologies across institutions rendering the measure inconsistent and thus reducing its benefit.

***Question 2: Would the 'upside uncertainty' measure defined above and used in column 120 be suitable as a definition of the upside uncertainty? If not please provide reasons and any alternative suggestions for how such an upside measure could be defined. [Annex 2, page 1]***

Swedish Bankers Association:
As mentioned under Q1, we do not believe it to be appropriate to significantly extend the reporting scope beyond what is included in the RTS. Hence, we do not favour the inclusion of this definition into the reporting standards. This also leads to potential risks on individual interpretations between reporting banks thus not supporting uniform requirements within the EU.

**Question 3: Is the above approach to splitting out fair valued assets and liabilities and fair-value adjustments on the one hand between the different types of AVAs and on the other hand between asset classes and product categories practical to implement? If not please describe the practical obstacles. Please suggest any alternative approaches (particularly if an alternative approach has been found useful for internal reporting purposes). [Annex 2, page 5]**

<u>Swedish Bankers' Association:</u>
Splitting fair value assets and fair value liabilities between asset and product classes is not practical to implement, due to comparability issues between risk and accounting information. Also, Trading Book and Banking Book is not an accounting concept and hence the implication of having to present the information on this level will be most cumbersome.

Given the fundamental differences in the accounting and internal management framework (upon which Pru Val is currently built) it will be very problematic to provide Fair Value data beyond Group/accounting totals. Breakdown per asset classes or portfolios as required by template C32.02 are currently not supported by the accounting set up which stores the Fair Value data. The requirement set out in the ITS requires a fundamental change to align the accounting set up with internal reporting tools such as Risk management. This has an impact well beyond the remit of Pru Val. The cost would be considerable and in our view far outweigh the benefits.

Some additional clarification is sought on the exact legal entities and expectations in terms of matching the Fair Values submitted via the Pru Val population being tested/in scope.

Furthermore the requirement to combine a capital adjustment concept, Prudential Filters with Fair Value Balance sheet items does not take into account the differences between these diverging concepts.

As commented on above, there are significant obstacles to reporting AVAs per asset class and product category. In the risk based approach used for the RTS, valuation exposures are not in a direct relationship to the portfolio based product categories and data used is not the same as for fair value reporting. Consequently, it will also be challenging to allocate IPV differences to AVA categories.

<u>EBA explanatory text:</u>
*Rows 040 to 160 provide a breakdown of AVAs by broad asset class and between 'Exotic' and 'Vanilla' product categories for portfolios held in the trading book. This allocation is a portfolio based allocation, not a position or a risk based allocation. An AVA shall, to the extent possible, be attached to a portfolio.*

**Question 4: Is the above portfolio-based approach to splitting out AVAs and other attributes between 'Exotic' and 'Vanilla' practical to implement? If not please describe the practical obstacles. Please suggest any alternative approaches (particularly if an alternative approach has been found useful for internal reporting purposes). [Annex 2, page 12]**

Swedish Bankers' Association:
The above portfolio based approach is not appropriate as the RTS supports a Risk based approach when calculating in particular the market price and Close out Cost AVAs, which is totally contradicted by the portfolio approach described in Annex2.

We would suggest that the reporting requirements should match the RTS, and that the AVAs should be split on risk basis. For which the stipulated asset and product classes are still relevant.

EBA explanatory text:
*Row 180 is intended to highlight where offsets of risk exist between portfolios such that the total institution-level AVA is not the sum of the portfolio-level AVAs.*

***Question 5: Do you think such mismatches between the portfolio-level AVAs and the institution-level AVAs would be significant? Please give examples. [Annex 2, page 12]***

Swedish Bankers' Association:
This is probably institute specific, the level at which netting is performed impacts the netting benefit and hence will impact the size of the mismatch.

Subject to working on a Risk based portfolio definition this is a realistic requirement, it will however have resourcing implications as any additional reporting sets creates additional computations.

***Question 6: Where the difference is significant what additional practical difficulties would arise from calculating AVAs for each of the portfolio categories in rows 050-170? [Annex 2, page 13]***

Swedish Bankers' Association:
As stated in Q4 above the RTS supports a risk based approach, and stipulates that the total category AVA should be calculated by summing up the individual uncertainty AVAs, which in turn should be calculated on valuation exposure level. Valuation exposure is not simultaneous to portfolio level.

The size of the difference is somewhat irrelevant as the challenge is the extra work required to undertake an additional set of calculations.

EBA explanatory text:

*Columns 040 and 050 of the Model risk AVA template request descriptions of the main features of the model and corresponding products valued using the model. As a consequence, the columns contain open cells limited by the maximum number of characters available per cell in the national IT-reporting systems (e.g. 60 characters).*

*Only the main features of the model or products should be reported. This information is meant to highlight what is referred to behind the internal names reported in Columns 010 and 030, in particular for the purposes of cross-firm analysis. While this is expected to introduce a substantial one off cost at the first implementation of the template, it is considered that the descriptions should be relatively stable over time not to generate significant burden thereafter.*

***Question 7: What are stakeholders' views on the ability to usefully summarise in a few key words the models and products concerned, as well as on the associated reporting burden or IT issues? [Annex 2, page 15]***

Swedish Bankers' Association:
We believe it can be a challenge to reach uniform reporting requirements, if each institute is free to set descriptions for the main features of models and products. Therefore we suggest that the EBA sets out those features in order to align the reporting.

Whilst the Swedish banks consider the requested information to be quite fair, and we should be able to answers these kinds of questions, there is a considerate amount of work required to develop the existing set up to provide the additional information and to specifically provide the requested breakdown.

Developments would be required in Model Risk as well as in the IPV process.

The most challenging fields are Observability, IPV Difference and IPV Coverage. We are also lacking a name for the product group that goes to a model. The lack of guidance with regard to naming convention/model explanation will limit the usefulness of this information.

***Question 8: Do you find the proposed instructions on prudent valuation clear? Are there specific parts where definitions or instructions should be clarified?***

Swedish Bankers' Association:
In general we can see that the proposed instructions follow the purpose with an alignment throughout the European Union Members. However, we think that the proposals include many question marks and unclear areas, mainly when it comes to

introducing new concepts and extending the scope of Prudential Valuation. Examples of those areas are:

- Split by Trading Book – Definitions "Portfolio Based Allocation" Unclear
- Exotic/Illiquid – Clear definition, yet to assess whether existing categorisations complies with the definition. Thus may require changes.
- Is the Portfolio reporting split required for all AVA's as implied by the s/s?
- It is unclear whether Unearned Credit Spreads & Inv & Funding Cost only reported in row 200 & 210 (of C32.02) i.e. not allocated out at all
- Upside uncertainty which is a new concept and not included in the RTS for Prudent Valuation
- Over hedges which is not a general concept in Fair Value accounting nor in the RTS for Prudent Valuation
- The reporting requirement of splitting the fair value adjustments between assets and product classes may be directly inappropriate
- The focus on a portfolio based approach is not appropriate as the RTS for Prudent Valuation supports a Risk based approach

***Question 9: Do respondents have any comments on the structure and content of the proposed templates on prudent valuation?***

Swedish Bankers' Association:
The templates should focus more on reporting Pru Val as set out in the RTS rather than adding a lot of "nice to have" info calculated or collated on different basis and concepts which are not easily matched to Pru Val categories /concepts.

SWEDISH BANKERS' ASSOCIATION

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