EBA Consultation on Funding Plans
Consultation paper EBA/CP/2019/02

German Banking Industry Committee

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The German Banking Industry Committee (GBIC) is pleased to participate in EBA's public consultation on Funding Plans (Consultation paper EBA/CP/2019/02).

General remarks on EBA's efforts to harmonise reporting of funding plans

The consultation paper deals with harmonised definitions for funding plans. The bulk of the proposed adjustments result from efforts to achieve ever-closer alignment of templates and funding plan reporting with FINREP definitions. We take a highly critical view of this development. At most credit institutions, the actual planning process is not geared to FINREP items. Due to the absence of any FINREP-based management requirement, planning is usually made on the basis of the items of relevance under commercial law and for internal management purposes.

We support the development towards harmonised definitions but question whether the items included in regulatory reporting are in principle suitable for this purpose. There is as yet no obligation to provide funding plans based on FINREP items, nor do we consider such an obligation to be appropriate, as management of a bank is performed by the management board, which sets individual criteria for the bank's performance. Implementation of the EBA guidelines under consultation would require significant adjustment and transfer of what is in the meantime a hugely complex database of actual planned positions in the individual bank planning process to the reporting format for funding plans. The current requirements have also already imposed an additional burden in any case which, in the event of further alignment with FINREP items and definitions and a widening of the scope of reporting, would tend to increase further. We are at a loss to understand why the consultation paper concludes that the proposed changes will result in an easier data production process and deliver better data quality (page 5, paragraph 3 of the consultation paper). On the contrary, we believe it fails to achieve the declared aim of easing the burden on credit institutions.

Should it not be possible to avoid this kind of harmonisation, we kindly request that our replies to the questions for consultation be given due consideration.

Remarks on consolidation matters in regard to funding plan reporting

The current EBA guidelines on harmonised definitions and templates for funding plans of credit institutions (EBA/GL/2014/04) continue to stipulate in Title II, paragraph 5 that the respective supervisory authorities determine the appropriate level of consolidation for reporting. In this context, the adequacy of information and the proportionality principle have to be explicitly taken into account. This is reinforced by the explanation given by the EBA at the time (Background and rationale: Threshold criteria and consolidation, paragraph 11), according to which determination of the scope of consolidation for each bank should be geared primarily to an adequate level of information with regard to the national financial system, while taking due account of institutions' resources at the same time. We criticise that these sensible specifications concerning the question of an appropriate scope of consolidation have been dropped from the present EBA consultation paper.

This continues to ignore the fact that in practice planning processes take place in some cases at institution level or at consolidated group level under commercial law, but not in parallel at consolidated group level under supervisory law as well, since at this level, taking into account the entities specifically included, no management requirement may effectively exist. Moreover, subsidiaries that only need to be consolidated under commercial law are not taken into account – at least by LSIs – in multi-year planning. The enhanced comparability of funding plans with other supervisory reports, an aspect addressed in the consultation paper, would not be adversely affected if funding plans were to be reported at institution level instead of group level, as FINREP reporting, for example, also has to be made at institution level. This is, incidentally, also in line with the view taken at the time by the Banking Stakeholder Group, which, on the introduction of the EBA guidelines in 2014, called for the scope of consolidation to be based on the bank's internal processes[1]. We therefore request that the arrangement in the current EBA guidelines as regards the question of an appropriate level of consolidation for reporting be maintained.

Remarks on proportionality matters

Due to the European Systemic Risk Board (ESRB) requirement that 75% of bank assets in a market be included in reporting, not only big banks will be covered – in Germany, at any rate – by the reporting obligation. Should no general exemption from reporting geared to big banks be possible for other banks, we suggest graduating the size of the reporting templates for proportionality reasons. Such graduation would be conceivable at the following points: LCR forecast, pricing and P&L. We refer in this context to the proportionality principle as one of the criteria for implementing ESRB recommendations (ESRB/2012/2, implementation criterion 1.c)).

[1] In the opinion of the EBA, the relevant supervisor should assess which scope of consolidation it considers appropriate for the collection of the plan data. The size of the scope of consolidation for which the plan data are to be collected should correspond to the scope that is used as a basis in the planning process of the bank. A departure from this may represent a considerable burden for the reporting institutions and distort the information value of the plan data. The credit institution itself may propose which scope of consolidation provides the greatest informative value.

Question 1 (on template P01.02)
1.1 Do respondents agree with the proposed breakdown of "Total long-term unsecured (original maturity >=1 year)"?
GBIC: The requested breakdown can be generated and includes all relevant senior unsecured instruments considered in the planning process. However, this advanced reporting will cause extra effort in various departments and group entities. A reconciliation of "long-term unsecured" to the other reporting requirements "Liability Data Reporting" to SRB will not be possible, as the definition "Debt **Securities** issued" does not include "promissory notes and covered bonds", since they are part of regular liabilities.

Regarding the "maturity", a residual maturity instead of an original one would be possibly more reliable, since a funding plan as well as a "NSFR" calculation (weighting) is based on residual maturities. A roll-down or maturing volume would be essential for it.

1.2 Otherwise, which breakdown would you suggest?
GBIC: No answer.

Question 2 (on template P02.02)
Template P02.02 has been expanded to include additional public sector and Central Bank sources of funding. Do respondent believe that now this template covers all forms of public sector and central bank sources of funding or should additional forms of sources be included?
GBIC: The new template includes funding from central banks and promotional banks (KFW, EIB). However, funding from public authorities is not included in P02.02, but is shown in P01.02, Row 147. Only by combining those two would all forms of public-sector funding be considered in the funding plan.

Question 3 (on template P02.06)
3.1 Do respondents agree that information on currency breakdown after hedging (template P02.06) will provide effective insight into possible currency mismatches?
GBIC: No, we disagree. The bank's foreign currency loans/deposits are hedged to EUR on a portfolio basis; a breakdown into single loans/deposits is not possible or would, at most, only represent assumptions. Therefore, for these positions, all hedging activities must be included in a separate, dedicated FX hedging category, with one line for assets and one line for liabilities.

3.2 Does the information reflect banks' FX management approach or do you see the need to request more information to better reflect banks' FX management?
GBIC: Before proposing an additional information request, clarification of the definition of "currency mismatch" would be necessary, i.e. how is a currency mismatch exactly measured?

3.3 Are the instructions are clear enough?
GBIC: Unfortunately not; more detailed instructions would be necessary.

3.4 If the instructions are not clear please indicate how they could be improved.
GBIC: Please include exact FINREP references to FINREP data points in the format "Form.Colum.Row" especially for the reporting lines "050 Other Financial assets" and "110 other Financial Liabilities". In addition to that, further information is needed on natural hedges.

It can be concluded from point 27 of the explanatory remarks on template P02.06.01 and the example included therein that the information requested on structural currency mismatches is to be provided not only for significant foreign currencies but also for the respective reporting currency. We fail to understand how currency mismatches in the (home) reporting currency can occur and should therefore be grateful for an explanation or clarification from the EBA in this regard.

Question 4 (on template P05.00)
Do respondents agree with the possibility to have "retained issuance" for each of the instruments included in template P05.00? If not, could you please indicate which ones should be maintained and which ones should not and the reasons for it?
GBIC: Since we may only use secured issuances for refinancing operations with central banks, only retained issuances for these categories seem to provide information.

Question 5 (on template P05.00)
5.1 Which methodology do you apply to calculate carrying amounts for future issuances (please describe as detailed as possible and highlight any problem with that calculation)?
GBIC: some of our members use nominal amounts for planning purposes.

5.2 Are you of the opinion that reporting maturing and new issuance volumes (as defined in P 05.00) as nominal amounts would better reflect your planning procedure and approach and do you believe that this alternative is preferable?
GBIC: Yes, we believe so. Planning issues are better reflected with nominal amounts (i.e. non-retained issuances, issuances retained). Yet, for transparency reasons and for the sake of harmonisation, actual positions should be reported according to FINREP.

Question 6 (on template P05.00)
The instructions on template P05.00 indicate that when instruments move from one category to another, including phased-out AT1 instruments becoming fully eligible T2 instruments, the instruments should be registered as an outflow in the "Maturing (gross outflows)" of the corresponding original instrument category and as an inflow in "Non-retained issuance (gross inflows)" of the corresponding new instrument category.

6.1 Do respondents believe that these movements could occur too often or be big enough so that including them as inflows or outflows as explained above and in the instructions may distort the analysis of the information?
GBIC: No, we do not believe that these movements could occur too often.

6.2 If the answer to the 6.1 is positive, which would be the best way for the respondents to report this information?
GBIC: No answer.

Question 7 (on alignment with FINREP as regards assets and liabilities)
7.1 Do respondents agree with amending the templates to align definitions with FINREP? Are there other definitions that could be further aligned with other parts of the EBA supervisory reporting framework?
GBIC: The "Template Related Instructions" lack explicit detailed references to FINREP data points in the format "Form.Colum.Row" and differentiation according to whether reports are for IFRS or nGAAP users. The

previously shown references to FINREP tables, rows, and columns are **not** included any longer. Quoting references to FINREP definitions (Annex V) without including the relevant FINREP tables hampers efficiency and user friendliness – which were supposed to be the main reason for this harmonisation exercise.

7.2 Do respondents agree that alignment of definitions will facilitate reporting production process?

GBIC: For banks applying IFRS for accounting purposes, in general, yes – if concrete references to FINREP tables, rows, and columns are included. For banks applying n-GAAP, kindly see our general remarks on EBA's efforts to harmonise funding plan reporting.

In addition to that, other instructions lack accuracy. For example:
Assets (P01.01), Row 010: the heading says: "Cash and cash balances at central banks", whereas the instruction refers solely to the definition of cash balances at central banks. It is not clear what the report is requesting in the designated cell. Only cash balances at central banks? Including cash balances? And what about other demand deposits that are included in FINREP reporting? Will they need to be considered as well?

7.3 Are there other aspects in the template design or further integration with FINREP reporting technical package that could help in data production process?

GBIC: We believe that 28 February as a reporting date is too early and does not provide reporting banks with sufficient time. Please bear in mind that within the first two months of a year banks prepare their financial statements and for auditing of these. In addition to that, banks will also finalise and publish their disclosure reports within a given period. Consequently, as an alternative reporting date we advocate 31 March.

Please note that a proper alignment with FINREP is only possible with exact FINREP references to FINREP data points in the format "Form.Colum.Row" and differentiation according to whether reports are for IFRS or nGAAP users.