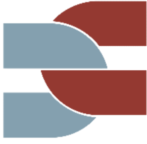

EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS

The Co-operative Difference: Sustainability, Proximity, Governance

Brussels, 14th March 2024

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EACB comments on
EBA draft Draft Implementing Technical Standards
amending Commission Implementing Regulation (EU) 2021/637 on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of CRR
(EBA/CP/2023/38)

General comments

The EACB welcomes the opportunity to comment on the EBA draft ITS on Pillar 3 disclosures under the upcoming CRR 3.

We support the EBA's approach to follow a two-step sequential process in amending the Pillar 3 disclosures and the supervisory reporting ITS, prioritizing those changes necessary to implement and monitor Basel III requirements in the EU.

We also appreciate the fact that the EBA has developed a comprehensive mapping tool to facilitate integration, consistency, and alignment between reporting and disclosure requirements. These sheets enable the mapping of most quantitative disclosure templates with the relevant reporting data points.

We would like to emphasize that all Pillar 3 templates should always and only be directly linked to Pillar 1 requirements. It is key that the EBA Mapping Tool is fully up-to-date and respects this principle.

It should be clear that the efforts required from the industry will be massive over the short timeline envisaged. Banks will need to focus on the newly introduced Basel elements as they have no prior experience with many of the data points or reference data available, and they will be faced with managing a complex and ever changing framework under CRR3, as various elements will become available after various iterations.

Finally, we urge the EBA to reconsider the obligation for banks to disclose the "fully loaded" risk-based capital ratio and the risk exposures amounts, taking into account not only the end of the phase-in of the output floor, but also the impact of the output floor excluding the EU transitional arrangements mechanisms. Such an approach would be counterproductive and it conflicts with the political objectives endorsed by EU co-legislators, in particular with a view to ensure a smooth implementation for the sector and consider in the medium term whether certain elements of the framework need permanent adjustments.

Answers to selected questions

Disclosure of key metrics and overview of risk-weighted exposure amounts

Q1: Are the amended/new templates EU OV1, EU KM1, EU CMS1, EU CMS2 and the related instructions clear to the respondents? If no, please motivate your response?

Q2: Do the respondents identify any discrepancies between these templates and related instructions and the calculation of the requirements set out in the underlying regulation?

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Q3. Do the respondents agree that the amended draft ITS fits the purpose of the underlying regulation?

Q4. In particular, regarding the disclosure of the output floor, do respondents agree with the inclusion of rows EU 5c, EU 6c, EU 7c in template EU KM 1 and the column EU d in templates EU CMS1 and EU CMS2? Please provide the rationale behind your answer.

The importance of transitional arrangements

We encourage the EBA to reconsider the obligation for banks to disclose the "fully loaded" risk-based capital ratio and the risk exposures amounts, taking into account not only the end of the phase-in, but also the impact of the output floor excluding the EU transitional arrangements mechanisms.

We strongly believe that EBA approach would be counterproductive and conflicts with the political objectives endorsed by EU co-legislators, in particular with a view to ensure a smooth implementation for the sector and consider in the medium term whether certain elements of the framework need permanent adjustments.

From experience it became evident that the least favourable ratio becomes de facto the only one considered by the market – even if it represents only a hypothetical future state; this would in practice deprive the transitional measures of any usefulness.

The transitional measures establish mandates for EBA reports that will allow the co-legislators to decide in due time on possible extensions and on the final rules. This means that, when the disclosures will be produced, there is no certainty about the final terms after the end of the transition periods. If all or part of the transitional provisions were to be extended or even made structural, it would be highly questionable to disclose in 2025 a view that will eventually not materialize – or materialize differently.

The relevance of the transitional provisions of Article 465 of CRR3 stands in the need to reflect certain specificities of the European banking model and credit markets, reflecting the willingness of the co-legislators to preserve the competitiveness of EU banks. In particular, the various mechanisms touch upon the following:

- Residential real estate: to ensure that the impacts of the output floor on low-risk residential mortgage lending by institutions using IRB approaches are distributed over a sufficiently long period (2032) to avoid disruptions to credit caused by abrupt massive increases in own funds requirements. During the term of the arrangement, when calculating the output floor, IRB institutions should be able to apply a lower risk weight to the portion of their residential mortgage exposures that is considered to be secured by residential property under the revised SA-CR.
- Unrated corporates: during the transitional period until 2032, institutions using IRB approaches should be able to apply a dedicated treatment when calculating their output floor for investment grade exposures to unrated corporates. Indeed, most EU corporates, to date, do not seek external credit ratings, in particular due to cost reasons. To avoid disruptive effects on bank lending to unrated corporates and to provide sufficient time to implement public or private initiatives to increase coverage of external credit ratings, the legislators have decided that it is necessary to allow for a transitional period to support the extension in the rating coverage.
- Specialised lending exposures: the EU legislators noted that, due to the lack of external rating coverage of specialised lending exposures in the Union, the treatment of unrated specialised lending exposures under

Basel III standards may dissuade credit institutions from financing certain projects or lead them to take on more risk in exposures otherwise treated similarly but with higher intrinsic risk profiles.

- Unconditionally cancellable commitments ('UCC'): the Basel III standards introduce a credit conversion factor of 10% for unconditionally cancellable commitments ('UCC') in the SA-CR. The co-legislators, already in the CRR3 recitals, alert that this is likely to result in a significant impact on obligors that rely on the flexible nature of the UCC to finance their activities when they face seasonal fluctuations in their businesses or when managing unexpected short-term changes in their working capital needs. The legislators have deemed appropriate to provide a transitional period during which institutions will continue to apply a lower credit conversion factor to their UCC and to assess whether a potential gradual increase in the applicable credit conversion factors is warranted, thus allowing institutions to adjust their operational practices and products without hindering the availability of credit to institutions' obligors.
- Securitization: setting the P factor at 1 instead of the agreed 0.5% for a period until 2032 will be very penalizing. Indeed, this deadline was precisely set so as to allow waiting for the implementation of the reform in progress that may lead to another calibration.
- SA-CCR: The calibration issue of the alpha factor highlighted by the industry and recognised also in the US, led the co-legislators to set alpha at 1 till 31 December 2029 with the possibility for the EC to issue a legislative proposal that may lead to another calibration.

Consequently, **disclosing the solvency ratio without these transitional provisions would be a negation of the co-legislators intentions as reflected in the level 1 text**.

Likewise, we see that Art. 438 CRR does not request to disclose the EU transitional provisions. Indeed, it only requests to show the impact of Art. 92(3) but "to date" not in 2032. **While we could agree to disclose the information of Article 438 of CRR3 with the impact of the output floor at 72,5% (i.e. end of phase-in), we believe that the EU transitional provisions should not be overstepped**.

This is even more relevant now that it is clear that the US will further delay the live date for their implementation. Such disclosure would therefore be particularly detrimental to EU banks that would be forced to show an excessively depleted ratio.

In addition, **the accuracy of the data to be disclosed (three different metrics) will be very challenging from an operational perspective in 2025** given the very short deadline for banks. Particularly for certain RW calculations such as the unconditional cancellable commitments where the risk is currently at 0%.

Finally, during the Public Hearing in January 2024, the EBA suggested that the request for publishing the information post-transitionals would be akin to the previous publication of the IFRS 9 quick fix requirements. However, the two cases are hardly comparable for the following reasons:

- the transition period for the IFRS 9 Quick Fix was much shorter;
- it did not include any possible extension/revision;
- the application of the transitional arrangements was optional for the banks.

Moreover, prescriptive wording was directly included in the articles of the CRR 2 Quick fix, as institutions were asked to publish the CET1 capital "*that they would have if they did not apply this article [the transitional provisions]"* (Art. 473bis para. 8 on transitional provisions for IFRS 9).

Such prescriptive wording is not included found in the articles of CRR3 on transitional provisions (art. 465).

<u>Clarifications on consolidated application</u>

The Output floor is an overall calculation and depends on all risk components used in the relevant banking entity. The output floor therefore has the original characteristic of being non-additive so as to consolidate.

In the case of a group where the Member State authorizes the exemption from the application of the output floor at the level of the sub-entities making up the group in its country, it will be very important to specify that no calculation of output floor elements is needed at the level of these exempt entities. Indeed they are not relevant at the highest level of consolidation as there will be a dedicated calculation at group level.

We understood during the public hearing that the EBA indeed intended such reporting and disclosure to only apply at consolidated level and that this would be clarified in the instructions. We encourage the EBA to illustrate this as unambiguously as possible.

Disclosure of the use of the standardised approach

Q5. Are the amended templates EU CR 4, EU CR 5 and the related instructions clear to the respondents? If no, please motivate your response.

Q6. Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

Q7. Do the respondents agree that the amended draft ITS fits the purpose of the underlying regulation?

Q8. In particular, for templates EU CR 4 and EU CR 5, do the respondents agree with the reconciliation of the row numbering with the Basel one in the corresponding templates? Please provide the rationale behind your answer.

Disclosure of the use of the IRB approach to credit risk

Q9. Are the amended templates EU CR 6, EU CR 6-A, EU CR 7, EU CR 7-A and the related instructions clear to the respondents? If no, please motivate your response.

Q10. Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

Q11. Do the respondents agree that the amended draft ITS fits the purpose of the underlying regulation?

Q12. Regarding the template EU CR 7, do the respondents agree with reconciliation of the row numbering with the Basel one in the corresponding templates? Please provide the rationale behind your answer.

Q13. Do the respondents agree with the deletion of the rows on SMEs in templates EU CR 6-A, EU CR 7 and EU CR 7-A?

Disclosure of use of standardised approach and internal model for market risk

Q14. Are the amended/new templates EU MRA, EU MRB, EU MR1, EU MR2, EU MR3 and the related instructions clear to the respondents? If no, please motivate your response.

Q15. Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

Q16. Do the respondents agree that the amended draft ITS fits the purpose of the underlying regulation?

Q17. Regarding the template EU MRB, do the respondents agree with the reconciliation of the row numbering with the Basel one in the corresponding template? Please provide the rationale behind your answer.

Disclosure of credit valuation adjustment (CVA) risk

Q18. Are the new templates EU CVAA, EU CVA 1, EU CVAB, EU CVA2, EU CVA 3, EU CVA 4 and the related instructions clear to the respondents? If no, please motivate your response.

Q19. Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

Q20. Do the respondents agree that the amended draft ITS fits the purpose of the underlying regulation?

Other questions

Q21. Do the respondents consider that the "mapping tool" appropriately reflects the mapping of the quantitative disclosure templates with supervisory reporting templates?

Please see under "General Comment".

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