German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments

on the Draft Implementing Technical Standards on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 (EBA-CP-2019-09)

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent approximately 1,700 banks.

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General remarks

A major focus of the EBA's consultation paper, in our view, in addition to the technical consolidation of data in a single set of ITS and the implementation of changes under CRR2, is the planned harmonisation of public disclosure and supervisory reporting requirements (cf. also the parallel EBA consultation EBA-CP-2019-10 and our comments on disclosure contained therein).

We basically welcome the idea of harmonising disclosure and supervisory reporting provided that it will reduce the reporting burden on banks. As we see it, this means that it should be possible to derive all quantitative disclosure data from supervisory reporting templates.

The integration of disclosure templates into the supervisory reporting system and the expectation that the subsequent disclosures will correspond to the information submitted in the templates give rise to a number of new questions and problems, however. To ensure that harmonisation will actually deliver the desired relief, suitable solutions still need to be found.

One of the problems we see is the **shortening of the time** available for preparing the reporting templates in comparison to the current disclosure timeline. While some templates can be filled quite easily, others, such as C34.01 (size of derivative business), C08.04 (RWEA flow statements) and C08.05 (IRB approach to capital requirements: back-testing of PD), have become much more complex as a result of integrating disclosure data and will require a high degree of coordination within banks.

In these cases, the earlier submission and completion dates associated with including disclosure data in supervisory reporting represent an additional burden. We would therefore welcome it if the submission dates for original supervisory reporting templates and for some of the new templates included for disclosure purposes could be staggered. A possible solution would be to submit supervisory reporting data in the narrower sense along with some disclosure templates on the envisaged dates and to submit other, more complex disclosure templates around four weeks later. In the event of centralised disclosure, moreover, it would need to be ensured that, even where less complex data were concerned, disclosures generated by the EBA from supervisory reporting were not made available before the publication of the corresponding officially audited annual or interim financial statements.

Different submission deadlines are also needed for **year-end disclosures**. It would make little sense, in our view, to prepare disclosures or the templates included in supervisory reporting for disclosure purposes on the basis of unaudited annual accounts. It should not be underestimated how much additional time and effort would be involved in preparing disclosures first on the basis of provisional, unaudited annual financial statements and then once again on the basis of the audited accounts. We would therefore welcome it if the templates included for disclosure purposes only had to be submitted after the annual financial statements had been audited. Disclosure at an earlier date is simply not possible.

The consequences of **submitting corrections** to supervisory reporting data and – due to integration and alignment – to disclosures also need to be thoroughly thought through. Corrections may become necessary for various reasons other than errors in the preparation of reports. In addition to corrections resulting from the fact that the auditing process has not yet been completed when data are submitted (difference between unaudited and audited annual accounts), retrospective changes to supervisory validation rules can also make it necessary to submit corrections – sometimes to data relating to several previous reporting dates. We understand that it may be necessary to adjust disclosures in the event of major modifications to supervisory reporting. We do not, however, believe that renewed disclosure will serve a useful purpose in the event of minor or insignificant corrections. Quite apart from the time and effort involved in their preparation, amended Pillar 3 reports are more likely to confuse investors than to offer them new insight and enhance transparency. We therefore recommend the introduction of materiality thresholds below which renewed or corrected disclosure is not necessary.

The EBA's future plans are not clear to us. According to the European Commission's recent consultation document on implementing the Basel reforms in the EU,[1] data for Pillar 3 disclosures may in future be automatically generated by the EBA from supervisory reporting data. If this is the EBA's objective, we recommend dispensing altogether with Pillar 3 disclosures by banks (quantitative data). As the details of the potential centralised disclosure are not yet known, it is not possible at this stage to make a definitive assessment of the idea. Quantitative and qualitative data might, however, end up being disclosed separately. It is questionable, in our view, whether this would be compatible with Article 434(1) of CRR2 (disclosure "in a single medium or location"). If the EBA published quantitative figures only, these could be misinterpreted and lead to erroneous or distorted analysis. Major changes compared to a previous period need to be accompanied by explanations, which can only be provided by the holder of the original data. The quantitative data would probably lack coherence as well, since not all quantitative data can be derived from supervisory reporting. The responsibility for inaccuracies would also need to be clarified, as would the possibly limited ability for banks to respond to any inaccuracies. Assuming that qualitative data will still need to be provided, we recommend that banks should only have to regularly supply and/or update information that is subject to regular change. Finally, we recommend dispending with the annual EBA transparency exercise.

<u>Reporting and comparison periods</u>
In its final report on Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11, version 2*), the EBA introduced a definition of a comparison period based on the specific frequency of a disclosure. According to no 19 on page 35, each template "should have its quantitative information supplemented with a narrative commentary to explain (at a minimum) any significant changes between reporting periods." As a result, a single Pillar 3 report has different comparison periods. In an annual report, for example, some analysis and comments relate to Q4 (for quarterly templates), some to H2 (for semi-annual templates), and others to the entire year (for annual templates). This is an inconsistent way of

[1] Cf. https://ec.europa.eu/info/files/2019-basel-3-consultation-document_en (page 48).

analysing and commenting on observed changes and gives rise to confusion. Previous industry practice, by contrast, always takes a "year-to-date" view in order to present significant changes in a consistent manner.

These draft ITS do not explicitly spell out this general rule governing comparison periods, but it remains implicitly defined by the templates and their differing reporting frequencies. To enable a consistent view of reporting periods and changes between periods, we strongly recommend retaining the frequency of templates, but not combining them with the definition of the previous period. When defining a reporting or comparison period, the "year-to-date" approach (i.e. the end of the previous year) should be consistently used.

Consistency between EBA-CP-2019-09 and EBA-CP-2019-10
The new EU CQ templates in these disclosure guidelines (former templates from EBA/GL/2018/10) require, among other things, the disclosure of a "gross carrying amount", the draft ITS on supervisory reporting requirements requires the "accounting value" to be reported (cf. also GBIC comments on the draft ITS on supervisory reporting).

We request that uniform terminology be used.

We continue to be critical of the time lag between the implementation of disclosure requirements for non-performing and forborne exposures, which had to be implemented by 31 December 2019, and the corresponding FINREP requirements, which are to be implemented by 30 June 2020.

Detailed remarks

NSFR disclosure

a) *Number of disclosed quarters for each reference date*
   The consultation paper does not address in detail how many quarters should be included in each disclosure under Article 451a(3) of CRR2. Should banks only disclose the required information for the current reference quarter or should they also disclose information on previous quarters? If banks have to disclose information on previous quarters, the EBA needs to provide further details about the number of quarters as well as instructions for using the NSFR disclosure template (EU LIQ2) for more than one reference date.

b) *Key metrics*
   When disclosing the NSFR, changes compared to the last reference date have to be reported. For small and non-complex institutions disclosing key metrics, this means changes compared to the previous year. In our view, this information is of no value to users. How comprehensive does the information have to be?

Question 12 on EU LI2
In template EU LI2, reconciliation of market risk (column e) is not feasible at present since it is unclear how the exposure in the last row (row 12) is to be determined.

Explanation per market risk approach

Standardised approach:

Some exposures may be subject to several types of market risk (e.g. interest rate risk and foreign currency risk). This raises the question of which EAD should be entered (to be consistent with COREP, the EAD per market risk type would have to be shown, which would lead to multiple entries).

Internal model approach:

No EAD exits if the internal model approach is used since RWAs are determined at portfolio level using VaR estimates. This raises the question of what amount to enter as the EAD in the template.

Proposed solution to the problem

a) Drop the requirement to include market risk in EU LI2.
b) Spell out in detail how to determine the EAD (both for the standardised and for the internal model approach).

<u>Question 16</u>

We doubt that the CCA table will provide meaningful information. Some banks have hundreds, or even thousands, of such instruments. Disclosure of each individual instrument would be totally excessive. We believe the requirement should be limited to instruments of material importance to the bank in question. Alternatively, categories of instruments could be disclosed (e.g. broken down by ranking in the event of insolvency) with ranges for prices and other conditions and without details of ISINs or other identification numbers. Disclosure along these lines would offer users a more useful basis for making decisions.

<u>Questions 27-30: disclosure of credit risk (non performing loans, NPLs)</u>

According to the templates for NPLs (including EU CR2), disclosure is also required in the event of an NPL ratio of < 5%. Any disclosure of templates that are not part of reporting in the event of an NPL ratio of < 5 % represents a tightening of existing requirements which we believe is not intended. We therefore recommend that these templates should only be disclosed if the NPL ratio is > 5 %. (Template EU CR2, for example, refers to FINREP template 24.1. But this template is only part of reporting if the NPL ratio exceeds 5%. In our opinion, template EU CR2-B in EBA/GL/2016/11 complies in full with the requirements of Article 442(f) of CRR2.)

<u>Questions 34-37: disclosure of use of the standardised approach</u>

According to current understanding, template EU CR5 only requires the disclosure of exposure values post-CRM. Article 444(e) of CRR2 refers to “the exposure values and the exposure values after credit risk mitigation”. In the past, this has often been interpreted to mean that exposure values before credit risk mitigation also have to be disclosed in a second EU CR5 template. We recommend including a clarification in the final ITS that the disclosure of template EU CR5 complies in full with the requirements of Article 444(e) of CRR2.

Question 42: template EU CR7-a – substitution effect
The penultimate column in this template should show "RWEAs without substitution effects (reduction effects only)". Both types of collateralisation are normally included in the calculation of RWAs. The additional calculation and separate presentation of exposures after deduction of collateral and before substitution would impose a significant additional burden on many banks. We see no additional benefit for users, moreover, given that the collateral types are already broken down in great detail in the preceding columns.

Additional comment on template CR7-a:
In the EBA's mapping tool, column g in the template "Part of exposures covered by leasing (%)" is the only column to indicate "no mapping to reporting". EU CR7-a of Annex 25 does not contain this column. We therefore assume that this column has been included in error in the mapping tool.

Questions 51-53
There are inconsistencies in the population of transactions to be disclosed here (and in the mapping tool). On the one hand, the introduction to Article 439 of CRR2 refers only to counterparty credit risk under Part 3, Title II, Chapter 6. On the other hand, securities financing transactions dealt with under Chapter 4 (e.g. Article 439(g) of CRR2) also appear. No clear distinction is made in the disclosure templates, in our view. In principle, only the exposures under Part 3, Title II, Chapter 6 should be presented in the disclosure under Article 439 unless explicitly required otherwise. Duplicate disclosure (both in credit risk and counterparty credit risk) is not appropriate and should be avoided.

Question 61
In our general remarks, we express some concerns resp. some pre-conditions about the centralisation of disclosure. Owing to its flexible design and the need for accompanying analysis and explanation, template MR4 is an example of a template which we believe cannot be generated either by a central authority or from supervisory reporting.

Question 62
Template MR2-B, as another example, is a flow statement. This and other templates contain various fields that cannot be derived from supervisory reporting. This is also reflected in the mapping tool ("No mapping to reporting"). We are therefore highly sceptical of the idea of centralising the disclosure of such templates.

We also have a general comment about all templates with flow statements. This is an issue for banks which make intra-year disclosures. Where templates showing changes over time are concerned (EU CR8, EU CCR7, EU MR2-B, EU CR2), it is not appropriate to use an intra-year comparison period (e.g. data as at end of June or September) for the annual report, as reconciliation with the annual report is not possible and in some cases no (published) intra-year accounting data are available. The comparison period for the annual report should therefore always be the previous year. This means the end value of the previous period (= start value) should always be as at the end of the previous year.

Question 72

According to the draft ITS, the mapping tool “is not part of the draft ITS but it is provided as an accompanying document for informative purposes and to support institutions when populating the quantitative disclosure template.” It is not clear to what extent use of the mapping tool is supposed to be mandatory or how deviations from the mapping tool will be dealt with by the EBA or national competent authorities. We consider the mapping tool to be error-prone, especially with respect to future changes to supervisory reporting.

We also believe that insufficient time has been granted to assess the consistency and accuracy of the mapping. It took the EBA several years to develop the tool. Banks were given three months for its assessment in a phase in which they were simultaneously preparing their interim reports and supervisory reporting templates for the third quarter, as well as dealing with several parallel consultations on disclosure by the Basel Committee. Some CRR2 implementation project work which is covered by the ITS is not starting in many banks until 2020. We would therefore like to request more time to submit comments on mapping.

Question 73

The individual bank’s understanding of materiality should govern how corrections are handled as it is best placed to assess the need for correction. When an error is identified, the bank should assess whether a correction is necessary in the following report. The assessment could be based on the materiality and decision-usefulness of the information, as well as the number of report retrievals (downloads), if ascertainable. The time to have elapsed since the incorrect disclosure was made should also play a role.

Templates CCYB1 and CCYB2 – mapping tool

We suggest including tables CCYB1 and CCYB2 in the mapping tool since they already correspond to supervisory reporting templates.

General: spaces

It is not clear whether totally empty rows and columns can be omitted from the templates. We are concerned that fixed formats will create large empty spaces in reports. We recommend allowing empty columns or rows to be omitted from fixed format templates. This naturally does not mean carrying out any renumbering. The original numbering of rows and columns should always be retained.