EACB Comments

On EBA Draft Implementing Technical Standards amending Commission Implementing Regulation (EU) 680/2014 on supervisory reporting of institutions

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Introduction

The members of the EACB welcome the opportunity to comment on the EBA proposal to amend the ITS on supervisory reporting with regard to the new requirements as regards the reporting of information on prudent valuation and supplementary requirements as regards the reporting of credit risk information.

General comments

- *Timeline for implementation*

The current draft indicates that Implementation time would be 20 days from publication of the amended ITS. However, the timeline of implementation should allow at least a 6 month period for institutions to adequately plan IT solutions and adopt them.

Reporting requirements for prudent valuation are far more granular than just Additional Value Adjustment (AVA) calculation related issues. This will require IT changes and additional data gathering for banks that cannot be accomplished in the proposed timeline. These changes also result in high costs to banks that should be further elaborated in the impact assessment. We would like to encourage EBA to only concentrate on necessary data gathering to ease the reporting burden of banks.

- *Scope of the ITS*

We believe that a clarification is needed with regard to the scope of this reporting requirement. In some Member States, institutions are required by law to apply n-GAAPs that require valuation of their financial assets that are not trading assets at the lower of cost or market (LOCOM). We believe that these assets should explicitly be excluded from prudent valuation reporting.

Recital 1 of the RTS on prudent valuation (as adopted as Delegated Regulation 2016/101) explicitly refers solely to positions held at fair value. In addition, also the EBA indicates in its analysis of responses received to the consultation document (pag. 52 of the final Draft RTS, January 2015) that positions held under other valuation regimes (e.g. LOCOM) are implicitly excluded from the scope of the prudent valuation requirements.

We suggest to explicitly clarify the matter and exclude such positions in a Recital of the ITS. Overall, the requirement to calculate AVAs for LOCOM assets is inappropriate, since the LOCOM methodology itself already represents a prudent valuation approach as market values that exceed cost are not recognised in the valuation process.

- *Threshold and reporting methodology*

The technical standard on Prudent Valuation defined a € 15bn threshold for the simplified approach. Such threshold however is low as it includes all fair valued assets and liabilities including liquidity portfolios which banks are accumulating to comply with LCR requirements.

Low threshold results in many banks being in the scope of core approach for Prudent valuation, which entails high IT and process costs for smaller banks in relation to their size as they have to implement same processes and systems as banks with large trading and fair value portfolios. It also has to be noted that the RTS on Prudent valuation does not standardise Additional Value Adjustments (AVAs) calculation but rather defines a framework for AVA calculations. Standardised reporting on non-standardised calculation would potentially result in non-comparable supervisory information.

It also seems that the suggested templates include data that does not directly relate to Prudent Valuation, requiring for instance fair value related items, revenues , risks etc. (e.g. C 32.02, C 32.03, C 32.04). Moreover, including multiple types of data on the same template at the same level of granularity with a common split (e.g. product/portfolio) is a significant challenge and could not be anticipated from the content of the RTS on prudent valuation.

The operational challenges arise as processes involved for these different data sets are not always conducted by the same departments or within the same systems, and are often available only at different granularity levels or use inconsistent taxonomy ('product A' may be called 'product B' in a different system).

Implementing this reporting requirement will in some situations take significant time and considerable resources in terms of both human resources and set up and running costs. Regression testing will also be important to ensure that no other reporting dependencies are impacted by system developments.

Answers to specific questions

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

We strongly disagree with such interpretation. The RTS on Prudent valuation does not provide a single standardised AVA calculation. Furthermore, neither CRR or RTS on Prudent valuation require calculation of upside uncertainty. It is unreasonable to expect banks to have this kind of information readily available, especially within an implementation timeline of 20 days from adoption.

Normal distribution is the standard method of simulating, for example, IR derivative valuations. In most cases 10% confidence interval is just the opposite to 90% confidence interval and thus provides no extra information.

It should also be noted that competent authorities already receive far more information than they can use for their supervisory duties. Only relevant information should be included in ITS requirements.

Q.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]

As indicated above, upside uncertainty does not provide any added supervisory value.

Q.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]

Required information is far too detailed and granular, especially if compared to requirements of CRR and RTS on Prudent valuation. Required information should be limited to columns 010-110 and rows 010-290 without split between exotic and vanilla instruments. In template C 32.03 split is Equities, Rates, Credit, Commodities, FX or Hybrid products, which should be sufficient. Also proportionality should be considered for the breakdown of the trading book, in cases where trading book exposures are under the € 15bn threshold, breakdown of the trading book should not be required, which would be in line with the threshold for simplified approach.

Q.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]

The split between exotic and vanilla instrument cannot be made on the basis of IMM since most banks do not apply IMM. Split between exotic and vanilla instruments does not appear necessary.

Q.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]

It is impossible to usefully summarise models and products in just a few key words. The whole template C 32.03 should be left out as this, as model review, is clearly a Pillar II issue. Non-standardised information should not be gathered in the COREP framework.

Q.9 Do respondents have any comments on the structure and content of the proposed templates on prudent valuation?

As a general comment supervisors should adhere to necessary regulation based information only. In its current form, the ITS requires banks to report information far beyond regulatory scope. This results in unnecessarily high burden and costs to banks, without any related added supervisory benefits. Cost would be proportionally higher to smaller institutions, as the ITS does not sufficiently consider proportionality in its current form.

Fair Value Exclusions (C32.01 Column 020-070 / Row 10-210): For institutions that are close to the € 15bn threshold applied to determine whether the simplified approach is appropriate, some additional reporting of exclusions can be sensible (C32.01 Column 020-070 / Row 10-210). However, this requirement would represent an unnecessary burden for institutions that are very far above the threshold. We believe that columns 020-060 should only be a requirement for those institutions using the simplified approach (i.e. below the threshold, where exclusion data is useful to judge whether the exclusions are material to their position relative to the threshold). Moreover, it is unclear if the table needs to be filled out for local GAAP as well.

Fair Value (C32.01 Row 120): The principles of prudent valuation should not apply when the valuation basis is lower of cost or market (LOCOM) as applicable in the relevant accounting framework. The valuation basis LOCOM diverges from the fair value approach and it would, thus, not be sensible to submit it to the prudent valuation approach.

Template on concentrated positions (C 32.04) would not provide supervisors any value adding information. This type of information should be part of Pillar II review process and not be included in regulatory reporting.