

Reporting – Draft ECB Regulation on Reporting of Supervisory Financial Information (FINREP)

Dear Sir or Madam,

We welcome this opportunity to comment on the draft ECB regulation on reporting of supervisory financial information and are pleased to provide our comments in the following. As requested we are submitting our comments on the draft regulation using the designated template (enclosed).

We would like to preface our comments with the following introductory remarks:

Regardless of whether the institutions are significant or less significant, the Implementing Technical Standards (ITS) on Supervisory Reporting issued by the European Banking Authority (EBA) require IFRS users to submit FINREP group reports for the first time as at end-September 2014. The planned ECB regulation would introduce a phased extension of FINREP reports to all institutions. In principle, we are sympathetic to the ECB's objectives in publishing this draft regulation of increasing the comparability of information, and in particular financial information, and of developing integrated reporting systems that serve not only banking supervision, but also statistical purposes. However, we have doubts as to whether this goal can be achieved by extending FINREP reporting. We are particularly concerned that the FINREP formats, which are primarily geared towards groups of institutions reporting under IFRSs, might also apply to institutions reporting under national GAAPs.

In this context, we expressly welcome the provision set out in Article 1(4) of the draft regulation, which explicitly states that it is not intended either to affect the accounting standards applied or to change the accounting standards applied for supervisory reporting. This means that institutions that use German GAAP will not have to prepare parallel IFRS financial statements merely for supervisory purposes.

Nevertheless, filling in the templates represents a considerable challenge for nGAAP institutions. The basic structure of the tables is geared to the presentation of financial statements under IFRSs, which means that many of the disclosures cannot be entered meaningfully without reflecting aspects of IFRS reporting. For example, German GAAP financial statements do not contain a fair value hierarchy corresponding to that in IFRSs. For this reason, the regulation must clarify explicitly that only information that is actually available under national GAAPs needs to be provided. This will ensure that the future implementation of the draft regulation will not entail any substantial additional burden for the institutions resulting from the need to transmit information that goes above and beyond their national GAAP. To enable the required templates to be completed, reconciliation tables must be developed and implemented technically in the systems so that the items in the templates that are geared towards IFRS concepts can be mapped to the corresponding German GAAP line items. The European and/or national banking supervisors should make available appropriate 'reconciliation guidance' or 'mapping tools' for this purpose, as well as references to national GAAP requirements (similar to the existing IFRS references), that will provide clarification and ensure that the corresponding line items are completed consistently by all institutions reporting under German GAAP. This should reflect the preliminary work to reconcile individual items that was already performed as part of the Comprehensive Assessment.

In the course of the Comprehensive Assessment, significant groups and institutions that apply national GAAPs were required to complete the IFRS-based disclosure templates on the basis of their national GAAP. This placed considerable burden on the institutions in terms of human resources, time and technical requirements. Overall, we assume that the new reporting system will impose both very high initial implementation costs and very high running costs on institutions in Germany. At present, not all of the information required – for example specific breakdowns or non-performing and forborne exposures – is contained in the existing data warehouse, which will result in the need for additional technical and manual data preparation. This in turn requires an additional lead time for system development, implementation, testing, etc.

Thoroughness rather than speed should be the priority in projects of this magnitude. In light of the scope and consequences of the measures described above, we believe that a longer consultation process would have been appropriate. In addition, the designated first reporting reference dates appear to be distinctly ambitious. This applies in particular to the 31 December 2015 date for the significant supervised groups that use national GAAPs. We urge that this date be postponed by at least one year to December 2016 so that the extensive new requirements can be adequately implemented. The proposed initial application dates for the other reporting groups, and in particular for the less significant groups and entities, should also be postponed by at least one year. We would also like to point out in this context that the institutions are currently still busy with extensive implementation activities relating to the new reports to be implemented this year (leverage ratio, liquidity coverage ratio, NSFR, etc.) and with the other new reports that have to be implemented as at this year-end (including banking statistics and asset encumbrance). Moreover, they have to handle implementation of the changes to the liquidity coverage ratio planned for 2015 and the AnaCredit requirements.

A different set of problems may arise in the case of individual institutions and sub-groups that are included in an IFRS group: those institutions and sub-groups already have to meet the FINREP requirements on an IFRS basis because of the IFRS group report. It would consequently make sense for those institutions to prepare their reports at the solo level on an IFRS basis. The ECB should offer an option that will allow these institutions to report either on the basis of national GAAP or submit their reports using the IFRS templates. An option like this would substantially reduce the effort involved in the process of preparing and submitting the FINREP reports for many of the affected institutions. It would also help to increase comparability in Europe. Based on remarks made by the ECB during the public hearing on 13 November 2014, we understand that there are plans to allow the FINREP and COREP reports to be harmonised. As a general rule, the scope for harmonisation between FINREP and COREP is very limited. One indicator of this, for example, is that the relevant FINREP-COREP validation rules have all been abolished by the European Banking Authority (EBA). In this respect, there is no need at all to base COREP and FINREP reports on the same accounting standards. If the solo report is prepared on an IFRS basis in accordance with the option described above, the equity item could be harmonised between FINREP and COREP using a reconciliation table.

The ECB is currently conducting a cost analysis, via the national central banks, which is based on a questionnaire. In light of the ongoing reporting requirements and the new reporting requirements applicable to banking statistics and banking supervision reports that will take effect as at the end of the year, expecting this questionnaire to be completed within the specified period is highly ambitious. Nevertheless, the participating banks, data centres and associations will do their best to assess the implications of the FINREP proposals. In view of the tight timeframe and the various outstanding content related issues, it will in many cases not be possible to submit a detailed cost estimate. Especially because of the lack of any mapping tables, as mentioned above, and other support instruments, the most that can be expected are rough trend statements about the extent of the costs of implementing the FINREP requirements and administering them subsequently.

In conclusion, we wish to note that it has long been a key demand of the banking industry for supervisors to examine closely the question of whether additional reporting requirements are necessary, and the extent to which they are appropriate. The implementation effort and the ongoing costs should always be carefully weighed up against the achievable benefits. Since the ECB is proposing a four-level reporting process as part of its FINREP requirements, it is generally following the proportionality principle. On the other hand, we believe that the sheer volume of data to be reported will considerably overstretch less significant institutions as things stand today. For example, more than half (38) of the 71 'full FINREP' reporting formats will have to be submitted regularly for simplified supervisory financial reporting. A balanced approach is called for particularly with regard to the degree of data granularity and the reporting threshold of one billion euros under discussion, so as not to strain the limited resources available to the smaller less significant institutions.

We therefore urge that the reporting threshold for the transition from data points to simplified supervisory financial reporting be raised from one billion to five billion euros. Measured by aggregate total assets, this reporting threshold means that around 80 per cent of the banks in Germany would at a minimum have to report FINREP data in accordance with the simplified supervisory financial reporting or more extensive reporting requirements. The information provided from this would produce a sufficiently high level of total assets coverage and would mitigate the administrative burdens in particular for small and medium-sized institutions. At a minimum, however, the reporting threshold should be lifted to three billion euros so as to harmonise the total asset thresholds with those that apply to the contributions levied for the Single Resolution Fund (SRF).

Please see the enclosure for further comments on the draft regulation. The Federal Financial Supervisory Authority and the Deutsche Bundesbank will each receive a copy of this letter.

PUBLIC CONSULTATION

DRAFT ECB REGULATION CONCERNING REPORTING ON SUPERVISORY FINANCIAL INFORMATION

TEMPLATE FOR COMMENTS

| | | | |
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| Name of Institution/Company | German Banking Industry Committee (GBIC) | Country | Germany |
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Comments on the draft ECB Regulation concerning reporting on supervisory financial information

| Issue | Article | Comment | Concise statement why your comment should be taken on board |
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| National GAAP to FINREP reconciliation guidance, mapping table | 1 | | We expressly welcome the provision set out in Article 1(4) of the draft regulation, which states that it is not intended for the regulation either to affect the accounting standards applied or to change the accounting standards applied for supervisory reporting. Nevertheless, filling in the templates represents a considerable challenge for national GAAP institutions. The basic structure of the tables is geared towards the presentation of financial statements under IFRSs. As part of the Comprehensive Assessment, the significant groups and institutions already had to complete the IFRS-based disclosure templates on the basis of nGAAPs, which placed considerable burdens on the institutions in terms of human resources, time and technical requirements. To enable the required templates to be filled in, reconciliation tables must be developed and implemented technically in the systems. These reconciliation |

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| | | | tables will enable the German GAAP line items to be mapped to the corresponding line items in the templates that are geared towards IFRS concepts. The European and/or national banking supervisors should make available appropriate 'reconciliation guidance' for this purpose that will provide clarification and ensure that the corresponding line items are filled in consistently by all institutions reporting under German GAAP. This should reflect the preliminary work to reconcile individual items that was already performed as part of the Comprehensive Assessment. |
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| <p>Duplication of reporting requirements/ECB requirements versus national requirements</p> | <p>1.4</p> | | <p>We think there is a risk that FINREP reporting to the ECB could result in the development of a parallel reporting system. This should be avoided through coordination between the ECB and the national competent authorities. When the FINREP reports that are the subject of the current consultation are being introduced, other national reports should be dropped within a short time so as to avoid redundant reporting and provide some sort of offset. This should be possible because the reporting chain generally means that the banks report to the national competent authorities, and they in turn forward the reports to the ECB.</p> <p>Under section 25(1) of the German Banking Act in conjunction with section 2(1) of the German Financial Information Regulation, institutions in Germany are required to transmit financial information each quarter to the Deutsche Bundesbank. Consequently, the information already collected on the basis of the German Financial Information Regulation represents a degree of redundancy for German GAAP preparers compared with the new information to be collected by the ECB. The disclosures stipulated by the ECB's draft regulation are considerably more extensive than the financial information required to be provided under the German Financial Information Regulation. We therefore assume that institutions that are subject to the ECB reporting requirements will be exempted from the national reporting obligations. So as to adequately reflect the principle of proportionality, we believe that the scope of reporting and the underlying accounting standards (German GAAP v. IFRSs) should be reviewed regularly in subsequent periods.</p> |
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| | | | <p>At a general level, we would like to propose that, in light of the European Single Supervisory Mechanism for banks, the national competent authorities should dispense with any purely national measures that might overlap with the ECB's requirements. Because the basic reporting system developed by the national competent authorities will be rendered obsolete by the introduction of the new ECB reporting regime, the implementation costs arising could have been avoided if the national competent authorities and the ECB had coordinated the reporting requirements.</p> <p>Moreover, the reports on quarterly profit or loss figures must not lead to a situation where banks and savings banks are forced to prepare quarterly financial statements.</p> <p>Finally, the draft regulation proposes that the ECB will allow the national competent authorities to exceed the ECB's minimum reporting requirements if they wish. In this context, the German Banking Industry Committee urges that no additional national reporting requirements should be imposed on the banks over and above the ECB's requirements, unless they serve as summaries of existing reporting requirements such as the German Financial Information Regulation and FINREP.</p> |
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| Definition of a 'significant institution' | 2 and Part II of the Consultation Paper | Inconsistency in the definition of a 'significant institution' | There is a contradiction between the definition of a 'significant institution' in the ECB Consultation Paper and the definition in the draft ECB regulation. Article 2 of the ECB regulation refers to the definition in the SSM Regulation, while the table below paragraph (26) in Part II.1 of the Consultation Paper gives the impression that the term 'less significant' applies to an asset value threshold of €1 billion. We assume that the term 'less significant' is being used as defined exclusively on the basis of the criteria set out in the SSM Regulation, but are asking for clarification in this respect or for the ambiguous wording in this table in the Consultation Paper to be amended. |
| Policy for dealing with IFRS data fields without a national GAAP equivalent | 4ff. | Clarification | The regulation should clarify explicitly that only information that is actually available under national GAAPs has to be provided. This means that data fields required to be filled in with information that is available under IFRSs, but for which there is no equivalent information under national GAAP, can be left blank. |

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| Contradictory requirements applying to single institutions and the group level for national GAAP institutions | 4, 6 | | We would like to draw attention to what we believe is a contradictory requirement governing the reporting formats to be submitted by the institutions at the level of individual institutions and groups: the reporting requirements for significant supervised groups applying German GAAP are governed by Article 4 of the draft regulation, which makes reference to Article 11 of Implementing Regulation No 680/2014, which in turn makes reference to Annex IV to this implementing regulation. This would require all of the reporting formats listed in Annex IV to be submitted. By contrast, the corresponding reporting requirements for significant supervised entities reporting under German GAAP are set out in Article 6(3) and (4) of the draft regulation, which make reference to Annex I(2), which in turn refers to the reporting formats listed in Table 2. This means that individual institutions are not required to report all of the formats required by Annex IV to the ITS on reporting, but only a subset of them. However, the wording of Annex I(2) to the draft regulation also mentions supervised groups, which would therefore also only have to submit the reduced reporting format dataset. As a consequence, the requirements of Article 4 of the draft regulation for groups referred to above would no longer apply again. We therefore urge that this issue be clarified. |
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| Option to apply IFRSs or national GAAP at the solo level | 5, 6, 7 | | <p>Institutions that are included in IFRS consolidated financial statements but prepare single-entity financial statements under nGAAP should be offered an option as part of the current draft regulation to submit data at the 'solo' level on the basis of IFRSs or national GAAP.</p> <p>Based on remarks made by the ECB during the public hearing on 13 November 2014, we understand that there are plans to allow the FINREP and COREP reports to be harmonised. As a general rule, the scope for harmonisation between FINREP and COREP is very limited. One indicator of this, for example, is that the relevant FINREP-COREP validation rules have all been abolished by the European Banking Authority (EBA). In this respect, there is no need at all to base COREP and FINREP reports on the same accounting standards. If the solo report is prepared on an IFRS basis in accordance with the option described above, the equity item could be</p> |
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| | | | harmonised between FINREP and COREP using a reconciliation table. |
| Higher threshold for less significant entities/ for data points requirements | 10 | Amendment | <p>The proposed lower reporting requirements for small supervised entities reflect the principle of proportionality. In addition to smaller volumes of total assets and more simplified business models, these institutions are usually active in specific regions only, which rules them out as systemic threats to the economy as a whole. In light of this, it would be appropriate to scale back the additional administrative costs for these entities.</p> <p>Although we appreciate the reasoning behind the threshold, we believe the current level of €1 billion in total assets is by no means appropriate for achieving the ECB's intention of reducing the administrative burden for small entities. As these entities exhibit virtually zero potential for posing a systemic threat, a larger number of small supervised entities should benefit from lower data point reporting requirements, a solution that would also better reflect the proportionality principle. We therefore suggest increasing the threshold to €5 billion in total assets. Measured by aggregate total assets, this reporting threshold means that around 80 per cent of the banks in Germany would at a minimum have to report FINREP data in accordance with the simplified supervisory financial reporting or more extensive reporting requirements.</p> <p>At the very least, however, the reporting threshold should be lifted to €3 billion. A threshold of €3bn in total assets would be in line with the definition of small institutions for the purposes of the Single Resolution Fund (SRF), as set out in the European Commission's delegated act on ex ante contributions to the resolution financing arrangements under the Bank Recovery and Resolution Directive (BRRD), where member states are allowed to opt for a €3 billion threshold.</p> |

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| Calculation of the total assets for public-sector development banks | 10 | Amendments | In line with the methodology for calculating the leverage ratio, we are proposing that funds provided on a fiduciary basis should be disregarded from the calculation of the total assets of public-sector development banks. |
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| National IT language | 16 | | Reporting format: Under the ECB regulation, the FINREP data will be transmitted by the national competent authorities to the ECB in the form of an XBRL report. In view of the complex requirements associated with this reporting format, the German Banking Industry Committee is calling for XML to be permitted in addition to XBRL as part of the national implementation process. |
| Postponement of the first reporting reference date | 17 | | Thoroughness rather than speed should be the priority in projects of this magnitude. In light of the scope and consequences of this project, the designated first reporting reference dates appear to be distinctly ambitious. This applies in particular to the 31 December 2015 date for the significant supervised groups that use national GAAPs. We urge that this date be postponed by at least a further year to December 2016 so that the extensive new requirements can be adequately implemented. The initial application dates for the other reporting groups, and in particular for the less significant groups and entities, should also be postponed by at least one year. |
| Definition of threshold | Annex I | | Annex I to the draft regulation contains a number of tables with specific reporting requirements and formats that have to be completed by the institutions concerned for their supervisory reports on the basis of Annex IV to Implementing Regulation No 680/2014. Part 2 of Tables 1 and 2 requires the quarterly geographical breakdown of assets and other items if a defined threshold is exceeded. We assume that this relates to the figure of €1 billion that is used to identify less significant institutions within the group. Nevertheless, we are asking for clarification as to whether this assumption is correct, or whether another figure is relevant here. |
| Compatibility with IFRSs | Annex I | | The explanations on Annex I state: ‘... as well as for supervised entities applying national accounting frameworks based on Directive 86/635/EEC that are compatible with IFRS...’. We are asking for clarification as to which national GAAPs are ‘compatible with IFRS’ within the meaning of this provision, so as to enable a decision to be made whether Table 1 or 2 of the Annex should be applied. |
| Reporting by nGAAP institutions | Annex IV to Implementing Regulation | | A number of the templates in Annex IV to Implementing Regulation 680/2014 contain items with coloured backgrounds that – according to the relevant footnote – only have to be completed by institutions that apply national GAAPs. For example, breakdowns |

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| | No 680/2014, Templates 4.1 – 4.10 | | of financial assets by instrument and counterparty sector of the economy have to be reported in the 'Index' overview template below reporting templates 4.1. – 4.10. Our understanding is that institutions that apply German GAAP need only report templates 4.6 – 4.10, while templates 4.1 – 4.5 represent the corresponding IFRS items. We are assuming in this context that, in the case of reporting templates/items that do not distinguish between the IFRS items and the corresponding German GAAP items, those items still have to be reported by institutions that apply German GAAP, i.e. that institutions that exclusively apply German GAAP do not merely have to report the items with a coloured background. |
| Less significant institutions and threshold of €1 billion | Chapter II.1 'Overview of the requirements of the draft ECB Regulation on reporting of supervisory financial information' | | We are asking for clarification that the threshold of €30 billion continues to apply to the distinction between significant and less significant institutions within the meaning of the SSM Framework Regulation. Additionally, it should be made clearer that less significant institutions have to submit their reports in accordance with the rules for simplified supervisory financial reporting, and that institutions with total assets of less than €1 billion have to report datasets in compliance with the supervisory financial reporting data points. |