PUBLIC CONSULTATION

DRAFT ECB REGULATION CONCERNING REPORTING ON SUPERVISORY FINANCIAL INFORMATION

TEMPLATE FOR COMMENTS

<table>
<tr><td colspan="2"></td></tr>
<tr><td colspan="2">Institution/Company

Austrian Federal Economic Chamber, Division Bank and Insurance</td></tr>
<tr><td colspan="2">Contact person</td></tr>
<tr><td rowspan="2">Mr X
Ms ☐</td><td>First name
Dr. Franz</td></tr>
<tr><td>Surname
RUDORFER</td></tr>
<tr><td colspan="2"></td></tr>
<tr><td colspan="2">E-mail address
bsbv@wko.at</td></tr>
<tr><td colspan="2">Telephone number
0043 (0) 590 900 3135</td></tr>
<tr><td>☐</td><td>Please tick here if you do not wish your personal data to be published.</td></tr>
</table>

Please separate your comments per issue, citing the relevant article of the draft Regulation concerning reporting on supervisory financial information where appropriate and indicating whether you are proposing an amendment, clarification or a deletion. If you require more space for your comments, please copy page 3.

PUBLIC CONSULTATION

DRAFT ECB REGULATION CONCERNING REPORTING ON SUPERVISORY FINANCIAL INFORMATION

TEMPLATE FOR COMMENTS

Name of Institution/Company	Austrian Federal Economic Chamber, Division Bank and Insurance	Country	Austria

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
Third Countries		Clarification	There is uncertainty regarding responsibility related to supervisory financial information from third country entities as well as entities in non-participating member states. The local GAAPs of countries located outside the Union are not relevant for groups that have reporting requirements for consolidated figures as they are obliged to report both FINREP and COREP based on IFRS. In this respect it should be clarified who should take responsibility for local GAAP in the light of the supervisory financial information. Assuming changes in the relevant local GAAP of a non-participating member state: What should be the flow of information regarding upcoming changes in the GAAP that will also trigger

			changes in the supervisory reporting? We assume that the local NCA has to inform the NCA which is responsible for the institution that is the parent of the entity in the third country, and that the entity in the third-country has to inform the parent institution that is located in the Union. It is necessary that the information regarding local standards of non-participating countries is available in a European language and it has to be clarified which information should be provided and what the flow of information to the relevant NCA in the Union should be. In this respect we kindly ask the ECB to recommend how institutions and/or NCAs will have the power to get the information they need in time and with the quality and extent they need.
Applicable Accounting Standard		Clarification/Amendment	We want to point out that a reporting requirement of FINREP-tables according to local GAAP, that is different to IFRS, would lead to a **significant disadvantage for institutions that are consolidated within a group applying IFRS.** Entities that are consolidated in an IFRS-group, have to prepare the figures in the existing new FINREP-structure (starting Q3/2014) for group-purposes according to IFRS. Entities that are located in countries that apply IFRS as local accounting principles therefore do not have to change the figures for the solo-report. In contrast, where the consolidated entity is located in a country in which local GAAP is unequal to IFRS, the FINREP report according to local GAAP has to be implemented separately. This causes a huge additional workload and costs for the implementation of the new report. The structure of the FINREP-tables as defined in Annex IV of the relevant Implementing Technical Standards follows the IFRS-structure which is in most cases different to the presentation according to local GAAP. The presentation of the figures in a financial report should be readable in the context of the

			underlying accounting principles. Therefore we have strong doubts that reports of figures based on local GAAP in the FINREP structure according to Annex IV would give a fair view on the figures, and we also fear that this might lead to misinterpretations. Any future changes in the FINREP-reporting requirements as well as any changes in the IFRS-principles would cause a double workload for entities located in countries that normally apply local GAAP but IFRS for group purposes. We strongly believe that the IFRS 9 implementation will have a significant impact on the structure of the FINREP reporting set. However, IFRS 9 will also have a huge impact on the local GAAP as local standard-setters already seek to align local GAAP to the IFRS-principles. This would certainly lead to significant efforts for IT and various departments (risk, accounting, etc.) especially for entities that are required to report under two different accounting standards (IFRS for the group level and local GAAP for the solo level). Therefore, we understand the requirement to present figures according to local GAAP from entities that are obliged to deliver IFRS-figures for group-purposes as a **discrimination compared to entities located in countries where IFRS is applied.** Article 24 (2) CRR states that competent authorities may require that institutions effect the valuation of assets and off-balance sheet items and the determination of own funds in accordance with IFRS. We would strongly encourage ECB to discuss a possibility to allow European institutions to calculate risk weighted assets and own funds on solo level based on IFRS. This would not only facilitate internal procedures within banks but would also increase comparability of information collected by ECB on solo and group level. This could be done by offering the possibility that institutions apply for approval to use IFRS for regulatory requirements on a solo level and competent authorities in turn require these individual banking groups to apply IFRS on solo level.

			According to article 466 CRR, competent authorities may grant institutions a 24 months period before applying IFRS based on article 24 CRR. To avoid double burden, institutions should be allowed to switch to IFRS for regulatory purposes on the first reporting date for "FinRep solo". Article 466 CRR does not stipulate that a shorter period than 24 months is not possible, therefore, first time of application of IFRS on solo level could be aligned with the first reporting date for FinRep solo. We would highly welcome an elimination of discrepancies by giving allowance for entities that are consolidated in an IFRS-scope to report solo-FINREP according to IFRS. This would prevent aforementioned sunken costs and an additional burden for the institutions concerned. We therefore propose to include **a reference to article 24 (2) CRR in article 6 of the regulation** on reporting on supervisory financial information (see also below at Art. 6). Moreover, we kindly ask the ECB to grant subsidiaries the allowance for the option to report for this purpose according to IFRS also on the solo-level if their parent institution applies IFRS on a consolidated basis, even if local accounting principles differ from IFRS.
Scope of the report	Art. 1 (2)	Clarification	Article 1 (2) of the draft regulation on reporting of supervisory financial information refers to exceptions of Articles 6 and 13 for supervised entities on individual level (reference: Part One, Chapter 2 of Regulation (EU) No 575/2013). We want to point out that exemptions from subgroup-reporting should be defined in the ECB-regulation in case that subgroup-reporting is not relevant under Regulation (EU) No 575/2013, e.g. in case a subgroup is subordinated to a supervised group in the same country.
Reporting requirements for subsidiaries in non-	Art. 8 and 9	Amendment	There is not yet sufficient clarity provided regarding reporting requirements for institutions located in the EU with subsidiaries outside the SSM as well as outside the Union, especially in case of a multilevel group-structure.

participating member states or third countries			We would like to explain that by giving an example: Assuming a parent institution located in Germany has a subsidiary in Slovenia and the Slovenian entity has a subsidiary in Croatia. Which entity has to fulfill the relevant reporting requirements at which level? We assume that the parent in Germany would have to report only the figures of the parent to the German NCA while the Slovenian entity would be required to report the requested figures for the Slovenian entity as well as the Croatian entity to the Slovenian NCA. Our conclusion is, that for the Slovenian NCA the terminology of Art. 4 (15) and (16) (EU) No 575/2013 would be relevant and therefore the direct participation in the Croatian subsidiary would be the relevant one for the purposes of the ECB-report. It has to be clarified whether there are any references of Articles 8 and 9 of the Draft Regulation on reporting of supervisory financial information to Article 22 CRR, sub-consolidation in cases of entities in third countries. We therefore ask the ECB to clarify which institution has to report the information for the relevant third-country institution to its local NCA – i.e. the superior parent, meaning the parent of the entity that has a subsidiary in the third-country, or the entity, that is in the scope of Article 22 CRR and that has immediately participated in the third-country entity?
Implications of IFRS 9 on the reporting of supervisory financial information:		Choose one option	IFRS 9 will have a huge impact on the accounting frameworks of the EU-countries regardless of whether IFRS or local GAAP is applied for accounting-purposes. The implementation of IFRS 9 will not only impact valuation and measurement but also the presentation of figures and very likely also financial reporting as well as regulatory reporting (COREP). It is also very likely that local standard setters will introduce the whole set of changes or at least parts of the IFRS 9 in their national GAAP to avoid enlargement of differences between local and international accounting principles. Therefore both IFRS and local standards will change significantly within the upcoming two years.

EUROPEAN CENTRAL BANK

EUROSYSTEM

			We believe that this will also have a huge impact on the reporting of supervisory financial information. Information and feedback provided for the purpose of the public consultation as well as cost-estimates therefore have to be understood as very preliminary. Here, we also want to remark, that due to the parallel implementation of the supervisory financial information and the IFRS 9 we understand the content and significance of the new report as a moving target as long as IFRS 9 is not fully implemented at EU-level as well at Member State level. In this respect, we would like to refer to the upcoming endorsement and the non-predictable impacts in the accounting standards as well as future reporting standards. A possible impact of IFRS in COREP is considered within the CRR (e.g. Article 80 (4) CRR). We would be pleased if foreseeable changes like the IFRS 9 implementation will be taken into account in the Regulation on reporting of supervisory financial information.
	Art. 6 (1)	Amendment	For the avoidance of doubt we would propose to include a direct reference to Article 24 (2) CRR as currently included in Art 5 (1) and Art 3 (1) of the draft regulation on financial reporting.
Proportionality Principle	Art. 12 (7), 13 (7)	Amendment	We strongly argue for an increase of the threshold for the application of reduced reporting obligations from 1 bn Euro to 3 bn Euro.
Reporting Dates	Art. 17, 1. and 2.	Amendment	The reporting dates proposed in the draft regulation are very ambitious. The institutions need more time to implement the new provisions. As regards Art. 17 Nr. 1 we suggest to extend the starting date to at least end of 3rd quarter 2016. As regards Art. 17 Nr. 2 we propose to extend the starting date to at least end of 1st or even 2nd quarter 2017. By no means the reporting date should start with year-end because it would then obviously coincide with the annual financial statement. The reason why we argue for shifting the starting dates backwards lies in the fact that with the

			proposed regulation a tremendous system-change has to be implemented. Moreover end of 2015 the EBA RTS on the LCR and the Liquidity Monitoring Matrix are to be implemented as well, so the institutions need more time in order to have the necessary staff available for the whole implementation process.
FinRep templates nGAAP - table 1.1 and 1.2:		Amendment	FinRep data model for nGAAP entities includes the following line items to report derivatives (1.1 Assets, 1.2 Liabilities): - Trading financial assets: subitem derivatives (row 092) - Derivatives – hedge accounting (row 240) - Trading financial liabilities: subitem derivatives (row 062) - Derivatives – hedge accounting (row 150) Basically, derivatives may be held in the **trading book** or in the **banking book**. Under Austrian GAAP, derivatives held in the **trading book** may be recognized at fair value through profit or loss and would be presented as trading financial assets/liability in the nGAAP FinRep template. For derivatives held in the **banking book** that are **not part of a hedging relationship (stand-alone)**, it is to distinguish between **symmetrical** and **asymmetrical** derivatives: - **Symmetrical** derivatives (eg forwards, swaps) that are contracted at fair market rates and therefore have a fair value of Zero at initial recognition, are not initially recognized on the balance sheet under Austrian-GAAP. Market values and notionals only have to be indicated in the notes to the annual financial statements. Subsequently, in case of a negative market value, a provision for contingent losses has to be recognized. A positive market value may not be recognized on the balance sheet. Symmetrical derivatives that do have initial costs (e.g. because they are contracted at non-market rates) are recognized

			at their initial costs, either as asset or liability. In the following periods, initial costs are amortized to PnL, however, the asset will be written down if current market value falls below amortized costs and a provision for pending losses will be recognized if the market value is negative (and negative market value is higher than amortized amounts received). - **Asymmetrical** derivatives (eg options) under Austrian-GAAP are initially recognized on the balance sheet with their premium value (buyer: on the asset side under “other assets”; seller: on the liability side under “other liabilities”). Subsequently, the buyer has to value the option using a lower of cost or market valuation principle, whereas the seller has to recognize a provision in case the liability is higher than the initially recognized premium value. For derivatives held in the **banking book** that are **part of a hedging relationship**, the lower of cost or market principle does not apply under Austrian GAAP. Different types of hedge accounting exist under National GAAP in Austria (UGB, BWG), including: - **micro hedge**: 1:1 hedging relationship, similar definition as under IAS 39; hedged item and derivative are valued together and a hidden loss (i.e. ineffective hedge with current negative net market value) will be recognized as a provision whereas a hidden reserve will not be recognized at all - **portfolio interest rate hedge**: including a portfolio of derivatives that are held by the bank for interest rate risk management; all derivatives will be valued together and the net negative market value will be recognized as a provision whereas a positive net market value will not be recognized at all - **macro hedge**: including a portfolio of derivatives that are held by the bank for interest rate risk management; net market values of the derivatives portfolio are offset by net hidden reserves/losses of the hedged items (which may be all assets and liabilities of the

			bank). If the overall position is a loss, a provision has to be recognized; no accounting entry will be recognized if the overall position shows a hidden reserve. Although this type of hedge seems to be similar to IAS 39 portfolio fair value hedge for interest rate risk at the first glance, actual accounting requirements (e.g. regarding designation of hedged items, effectiveness testing and accounting entries) are very different. The line items "**derivatives – hedge accounting**" on the asset and liability side of the FinRep nGAAP data model could be used by Austrian Banks to present accounting entries (amortized cost comprising of initial payment less amortization and impairment; current negative market value in case of ineffective hedge – however this negative net market value may also relate to the hedged item, not only to the derivative) relating to derivatives in a hedging relationship. However, these entries will not correspond to the derivatives' market value and entries on the liability side will rather refer to provisions. Guidance will be needed, on how derivatives that are **not recognized at fair value** should be presented in the FinRep data model for nGAAP. One possible solution would be to follow BAD rules and to present all derivatives that are **not part of the trading book** as part of "**other assets/liabilities**" or "**other provisions**" according to nGAAP. If accounting entries for derivatives in **hedging relationships** should be presented in the line item "**derivatives – hedge accounting**", ECB should define which types of hedging should be included (micro/portfolio/macro) and should be aware of the fact, that no market values will be reported in these line items.
		Choose one option	
		Choose one option	
		Choose one option	

EUROPEAN CENTRAL BANK

EUROSYSTEM

		Choose one option	
		Choose one option	
		Choose one option	
		Choose one option	
		Choose one option	
		Choose one option	
		Choose one option	
		Choose one option	