REPORTING FRAMEWORK 2.9

June 2019
1. THE AUTHORS

<table>
<thead>
<tr>
<th>Femke Schoeters</th>
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<tbody>
<tr>
<td>Laurent Fretellière</td>
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</tbody>
</table>

2. ABSTRACT

Article 99 of the CRR (Regulation (EU) No 575/2013) requires the European Banking Authority (EBA) to develop and maintain so-called Implementing Technical Standards (ITS) on supervisory reporting. They shall notably cover own funds, large exposures, leverage ratio, liquidity coverage ratio, additional monitoring metrics (AMM), stable funding, asset encumbrance (regrouped under COREP), financial information (FINREP), supervisory benchmarking (SBP) and resolution planning (Resolution).

The ITS are updated on a regular basis, usually once a year, to align with latest regulatory or accounting developments, improve consistency between reports, address specific transparency priorities, or offer simplifications and clarifications.

Version 2.7 and 2.8 of the reporting framework brought major evolutions, with notably a totally revamped FINREP following the implementation of IFRS 9, new templates for prudent valuation, exposures to general governments and resolution, and the finalisation of the ALMM framework. They also highlighted the importance for regulators to ensure consistency between financial and prudential reporting, by multiplying cross references between COREP and FINREP.

After the 2.7 and 2.8 frameworks big bang, the 2.9 version of the reporting framework could appear less challenging. The implementation effort should not however be underestimated: 2.9 covers three important regulatory evolutions – namely the non-performing exposures management guidelines, the LCR amending delegated act, as well as the new securitisation framework –, and reinforce the scope of the FINREP.

From our experience, even minor changes in the tables' structure or in the reporting instructions can represent an important hurdle for reporting institutions if not captured and analysed in advance. More importantly, software providers and internal IT teams will need to get support and clear guidance from Risk and Finance divisions to implement the new framework in accordance with each institutions’ specificities.

3. OVERVIEW

On 28 August 2018, the European Banking Authority (EBA) published a consultation paper on changes in the implementing technical standards (ITS) for supervisory reporting.

It includes changes to FINREP (non-performing & forborne exposures, P&L disclosures, IFRS16 application), COREP (new securitization framework), Liquidity (alignment with the LCR amending act), and Resolution. It also covers annual update on Supervisory Benchmarking Portfolio. Changes related to Funding plans are part of the DPM 2.10 framework.

Each package is currently at different adoption stage, and has different first time adoption date.

<table>
<thead>
<tr>
<th>REPORT</th>
<th>STATUS</th>
<th>1\textsuperscript{st} TIME ADOPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>COREP - Securitisation</td>
<td>Final draft published</td>
<td>Data as of March 2020</td>
</tr>
<tr>
<td>COREP – LCR</td>
<td>Final draft published</td>
<td>Data as of April 2020</td>
</tr>
<tr>
<td>FINREP</td>
<td>Final draft expected July/August 2019</td>
<td>Data as of March 2020</td>
</tr>
<tr>
<td>SBP</td>
<td>Final draft expected July/August 2019</td>
<td>Data as of December 2019</td>
</tr>
<tr>
<td>RESOLUTION</td>
<td>Final draft published</td>
<td>Data as of December 2019</td>
</tr>
</tbody>
</table>
4. KEY AREAS OF FOCUS

This Briefing Note focuses on the implications of these latest reporting requirements, highlighting areas that banks should carefully evaluate to implement them in a timely fashion, considering all compliance and operational issues.

This briefing note mainly focuses FINREP1, COREP and Liquidity packages, which regroup the most important changes brought by the 2.9 EBA Reporting Framework, and provides an overview of EBA objectives triggering changes to Resolution, Benchmarking portfolio and Funding Plans.

4.1. FINREP

The adjustments made to the FINREP reporting requirements answer to two main concern: align with recent changes in prudential requirements (non-performing and forborne exposures) and accounting policies (IFRS16), as well as increase transparency on items for which requirements were limited or non-existing so far (P&L, remuneration policy).

The changes affect a variety of FINREP templates in varying degrees of complexity. The following overview illustrates the effects of the transition from DPM 2.8 to DPM 2.9.

1 FINREP information are provided based on the consultation paper, the final paper to be published in the coming month may still result in adjustments to the final templates. A close follow up is appropriate.

| No Changes | Material Changes | Changes for institutions with elevated levels of NPEs (≥ 5%) |
| No Changes | P&L/other | NPE/FBE |

**Quarterly**

- 20 Geographical Breakdown
- 21 Tangible and Intangible Assets (Operating Lease)
- 22 Asset mgmt... and other service functioning
- 23 Loans and Advances: Additional Info
- 24 Flows of NPL, impairment and write-offs **
- 25 Collateral obtained by taking possession

**Annually**

- 40 Group structure
- 41 Fair Value
- 42 Tangible and Intangible assets (Valuation Method)
- 43 Provisions
- 44 Defined benefit plans and employee benefit
- 45 Breakdown of sel. Profit or loss items

**Semi-Annually**

- 46 Statement of changes in equity
- 47 Average duration and recovery periods
- 48 Additional information

4.1.1 THE REVISION OF THE NPL / NPE AND FBE REPORTING

A significant portion of the changes under FINREP DPM 2.9 relates to adjustments and additions to the EBA guidelines on non-performing (NPL / NPE) and Forborne Exposures (FBE) (EBA / GL / 2018/10) which are applicable as from 30 June 2019. To address the particularities of the guidelines that are distinguishing core from non-core elements on NPL/NPE management, the FINREP consultation papers envisaged two “modules”:

**Module 1** covers changes to existing templates and is relevant to all users:

- Supplementary break downs of commercial real estate financing, SME and household financing, and real estate backed financing with a high loan-to-value (LTV) ratio (> 80% / > 100%).
- Amendments to IFRS 9 Impairment Levels for PEs and NPEs.
- Reporting of additions and disposals from the NPE portfolio on a gross book value basis, the addition of overdue bands to NPEs and supplementary information on collateral received, such as the granular security split and performance information.

**Module 2** significantly extends the reporting requirements for institutions with an NPL ratio of 5% or greater by introducing five new templates:

- An increased level of information regarding the management of NPL holdings and, in particular, the reporting of the implementation and handling of non-performing loans and compliance with the NPL strategy by the affected users.
- Disclosures about exposures involving the planning or execution of enforcement actions, as well as exposures...
with very high impairment coverage

- The drivers for inflows and outflows from the NPL portfolio, changes in risk provisions and depreciation
- Disclosure requirements related to collateral inflows / outflows and the value of collateral (accounting).
- Detailed information about the Forbearance management and the quality of the Forbearance.

**REPLY INSIGHT:** reducing the level of NPE/NPL is a key concern for the European commission. The Reporting Framework 2.9 requirements are only one of the measures decided by the EBA to strengthen bank regulation, together with new NPL management guidelines and additional Pillar 3 disclosures. To ensure data quality in your reporting and compliance with new FINREP by March 2020, make sure to involve all stakeholders working in NPL/NPE within your organisation, using same sources and system when possible.

### 4.1.2 P&L

Expenses play a crucial role in institutions’ performance, but are, compared to institutions’ income, asymmetrically represented in the current reporting framework. Given their prominent role for the EU banking sector, the proposed changes to the items in the profit and loss account relate primarily to administrative and staff expenses.

Furthermore, the information collected on fee and commission income and expenses is revised to reflect so far unrepresented sources of income and expenses.

Changes include:
- Separate disclosure of contributions to settlement and deposit protection funds
- Detailed breakdown on administrative expenses, particularly staff and IT expenses
- Basic overview of fee and commission results
- Information on the remuneration of employees by type and category of remuneration

**REPLY INSIGHT:** As FINREP will require more detailed data on P&L, make sure that your accounting system can provide enough granularity. Consistency will be required with information disclosed in the Annual Report.

### 4.1.3 IFRS16

From 1st January 2019 onwards, IFRS 16 Leases (‘IFRS 16’) replaces IAS 17 as the new standard for the accounting of leases. Under IFRS 16, mainly the accounting of leases by the lessee changes: the differentiation between finance and operating leases is re

**REPLY INSIGHT:** IFRS16 surely impacted Financial Institution and their balance sheet. However changes in FINREP are limited, as the new template do not require to provide detailed information on models used for this new standard.

#### Interconnection between NPL/NPE Pillar 3 disclosures and Reporting Framework 2.9 FINREP tables

The following overview illustrates the templates to be disclosed for the new guidelines on the disclosure of non-performing and deferred exposures (EBA / GL / 2018/10) and gives the interconnection with the data for the FINREP DPM 2.9 as currently proposed in the consultation paper.

<table>
<thead>
<tr>
<th>Template</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - Credit Quality of forborne exposures</td>
<td>Template 3 - Credit Quality of performing and non-performing exposures by past due dates</td>
</tr>
<tr>
<td>2 - Quality of forborne</td>
<td>Template 4 - Performing and non-performing exposures and related provisions</td>
</tr>
<tr>
<td>3 - Changes in Stock of non-performing loans and advances</td>
<td>Template 5 - Quality of non-performing exposures by geography</td>
</tr>
<tr>
<td>4 - Semi-annually</td>
<td>Template 6 - Credit Quality of loans and advances by industry</td>
</tr>
<tr>
<td>5 - Yearly</td>
<td>Template 7 - Collateral valuation - loans and advances</td>
</tr>
<tr>
<td>6 - Collateral obtained by taking possession and execution processes</td>
<td></td>
</tr>
<tr>
<td>7 - Data Module 1 FinRep DPM 2.9</td>
<td></td>
</tr>
<tr>
<td>8 - Data Module 2 FinRep DPM 2.9</td>
<td></td>
</tr>
</tbody>
</table>

### 4.2 COREP

#### 4.2.1 NEW SECURITIZATION FRAMEWORK

**Current securitisation framework**

Current requirements included in the ITS on supervisory reporting as regards to the specific reporting of securitisations information are defined in templates C 12.00, C 13.00 and C 14.00 for credit risk and C 19.00 and C 20.00 for market risk.

While templates C 12.00, C13.00, C19.00 and C 20.00 refer to aggregate data on securitisations, template C 14.00 gathers information on a transaction basis.

Securitisations in the banking book for which a significant risk transfer is recognised shall be reported in templates C 12.00 and C 13.00 whilst securitisations in the trading book shall be reported in templates C 19.00 and C 20.00.

Template C 14.00 shall contain all securitisations.

In the current securitisations framework there are two hierarchies of approaches for credit risk – Standardised Approach (SA) and Internal Ratings Based Approach (IRB).
Securitisations treated under SA shall be reported in template C 12.00 and securitisations treated under IRB shall be reported under C 13.00.

**Changes to the securitisation framework**

The ‘securitisation package’, which aim at building and reviving a sound and safe securitisation market in the EU, was adopted in December 2017 and has entered into force on January 1st, 2019. It consists of two complimentary pieces of legislation:

- The Regulation (EU) No 2017/2402 (“Securitisation Regulation”) creates a single securitisation framework to level the playing field, introduces “securitisation repositories” and defines simple, transparent and standardised (“STS”) securitisations; and
- The Regulation (EU) No 2017/2401 containing targeted amendments to the CRR with regards to securitisation, implements the Baseli III securitisation framework and its new approaches (SEC-IRBA, SEC-SA and SEC-ERBA), and grants a preferential capital treatment to STS qualifying securitisations.

**Amended reporting requirements**

The ITS on supervisory reporting integrate the changes in the new securitisation framework, as templates C 12.00 and C 13.00 will cease to exist and replaced by a new C 13.01. It includes the new single hierarchy instead of the two previous ones (SA and IRB), and requires to report following information:

- The previous approaches need to be replaced by the new ones;
- The previous credit quality steps need to be replaced by the new ones (short and long term);
- Securitisations qualifying for differentiated capital treatment, due to the STS criteria (Art. 243 of CRR) and the senior positions in SMEs securitisations (Art. 270 of CRR);
- Reductions in the risk-weighted exposure amount due to the risk-weight cap and the overall cap.

Furthermore, additional granularity was added in template C 14.00 to facilitate supervisory analysis and due to the need of monitoring the impact of the new framework and, specially, the new hierarchy of approaches.

Moreover, some of the new aspects included in C 14.00 come from the alignment between the reporting and disclosure requirements mentioned in 3.5.

Templates C 19.00 and C 20.00 were amended in order to reflect the new framework. Additionally, template C 09.04 was subject to a minor amendment as well to reflect the hierarchy of approaches.

**4.3 LCR**

The adjustments in the LCR reporting templates are mainly triggered by the amending Delegated Regulation (EU) 2018/1620 including changes in the calculation of in-and outflows in Securities financing transactions (SFT’s) and collateral swaps or the unwind waivers envisaged for some SFT’s and collateral swaps with central bank. The revision also reflects the new securitisation framework since the STS designation is introduced in the eligibility requirements for securitisation exposures to qualify as HQLA.

Furthermore, new rows have been added for the separate monitoring of excess operational deposits and finally a new template was introduced to list the entities within the perimeter of consolidation of the LCR. In parallel the EBA targets simplification as several memorandum items have been deleted.

The new LCR templates will probably have a significant impact on international large-cap banks, whereas smaller institutions, who solely act on the European market and who have a rather simple liquidity buffer structure, will only face minor adjustments.

**4.3.1 THE LCR DELEGATED REGULATION 2018/1620**

The LCR delegated regulation specifies which assets are to be considered as liquid and how cash inflows and outflows can be calculated over a 30 calendar day stressed period.

On 13 July 2018, the Commission Delegated Regulation (EU) 2018/1620 was published which makes certain amendments to the LCR Delegated Regulation (EU) 2015/61 (supplementing the Capital Requirements Regulation or CRR (EU Regulation No 575/2013)) in order to align with international standards and to enable a more efficient liquidity management.

The Amended DA consists of following key topics:

<table>
<thead>
<tr>
<th>Amended Delegated Act</th>
<th>Impact on liquidity reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liquid assets in third countries:</td>
<td>The minimum size for third-country assets can be waived in order to include additional liquid assets from subsidiaries in third countries when the parent institution potentially experiences a liquidity shortfall. However, a cap will be applied up to the volume of stressed net liquidity outflows from the subsidiary.</td>
</tr>
<tr>
<td>Central banks in third countries:</td>
<td>Reserves held in third-country central banks without a credit assessment of credit quality step 1 may be treated as Level 1 liquid assets. General and operational requirements remain applicable or in other words the credit institution should be able to withdraw the liquid assets at any time during stress periods. Furthermore, the recognition is limited to the amount of stressed net liquidity outflows that are denominated in the same currency as the reserves.</td>
</tr>
<tr>
<td>Unwinding mechanism for liquidity buffer:</td>
<td>Regulators have a waiver option to exclude secured transactions with the ECB or the central bank of a member state from the unwind mechanism if they include a high quality liquid asset (HQLA) component and when they have a maturity of 30 years.</td>
</tr>
<tr>
<td>Liquid assets:</td>
<td>Liquid assets will be adjusted to include liquid assets in secured funding transactions with central banks to the liquidity buffer. A minimum impact is expected on data management.</td>
</tr>
</tbody>
</table>

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The EBA is aware of the difficulties of calculating the amount of excess operational deposits and will publish an indicative guideline in the near future.

### 4.3.3 NEW TEMPLATE

The new C77 template is only applicable for the LCR reports at consolidated level and gives an overview of the entities within the perimeter of the LCR.

### 4.3.4 MEMORANDUM ITEMS

The number of Memo-items has been reduced significantly by deleting the lines that are no longer considered as relevant. On the other hand, some other memo-items have been introduced to provide information on certain secured funding/lending transactions with central banks, as these may be waived from the application of the unwinding mechanism (waiver option).

**REPLY INSIGHT:** changes brought by the new ITS largely follow the LCR amending act. Impact assessment and requirements made to ensure compliance with the new act could be re-used to assess in what extent the DPM 2.9 will affect your team and processes.

### 5. OTHERS

#### 5.1 SUPERVISORY BENCHMARKING OF INTERNAL MODELS

All competent authorities need to assess annually the quality of internal approaches used for the calculation of own funds requirements. For this annual assessment the EBA calculates and distributes benchmark values against which individual institutions’ risk parameters can be compared. The calculation of the benchmark values is based on benchmarking portfolio’s submitted by institutions.

For the benchmarking exercise of 2020, the EBA launched a consultation to adjust the benchmarking portfolios and reporting requirements applicable on initial market valuation data of Q32019 and other market- and credit risk data of Q42019.

The adjustments simplify the portfolio’s structure for the credit-risk part of the exercise and to give more insights into the pricing model used for the market-risk part of the exercise.

**Credit risk portfolio**

First, the number of portfolios to be submitted were reduced for all the risk types. A further reduction is achieved by homogenous portfolios in terms country, rating, CRM and sector. Secondly, a simplification and alignment in the structure has taken place.

Lastly there were some technical refinements such as the inclusion of covered bonds, an update of the Indexed loan-to-value range (ILTV), Statistical Classification of Economic Activities of the EU (NACE) and Credit Risk Mitigation (CRM) splits, and the introduction of a sub sample of large corporates with revenue below or above 500m€.

**Market risk portfolio**

The market risk portfolio’s to be submitted stay the same as for the benchmarking exercise of 2019. However, for the 2020 benchmarking exercise there is additional information to be submitted. This information contains pricing information for the benchmark instruments and initial market valuation as well as Price factors assigned to the instruments and sensitivities.

### 5.2 FUNDING PLANS
The guidelines on harmonised definitions and templates for funding plans of credit institutions aim to monitor and assess the refinancing risks and refinancing management of credit institutions.

With the update the EBA wants to align with the FINREP tables and in this way ease the comparability and the production process of the templates. Furthermore, it wants to improve the assessment of the funding plans and obtain the relevant data for the assessment.

As the new guidelines need to be applied as from December 2020 and are part of DPM 2.10.
5.3 RESOLUTION

The EBA and the Single Resolution Board closely cooperate with regard to the reporting on resolution planning.

The reporting framework 2.9 includes additional information required by SRB beyond the minimum framework established in EBA implementing technical standards on resolution reporting requirements: new information on critical functions and financial market infrastructures, as well as amendments to the liabilities data reporting.

To be noted that the EBA do not provide context or detailed information, as these additional requirements are under the SRB responsibility.

6. NEXT STEPS: WHAT ARE THE KEY CHALLENGES?

The impact might be rather significant for international large-cap institutions with substantial exposures in third countries outside of the EU and with extensive activities in the field of secured funding and capital markets. For other institutions, the impact of new reporting standards could be more limited.

Nonetheless, the implementation effort should not be underestimated, as new information and stakeholders may be involved. Time may be required for the assessment of individual effects, implementation of technical solutions and management operations. In this context, we also recommend to perform a fundamental gap analysis of existing implementations.

7. ABOUT AVANTAGE REPLY

With operations in Amsterdam, Brussels, Frankfurt, Lisbon, London, Luxembourg, Milan, Munich, Paris, Rome and Turin, Avantage Reply is the Reply Group financial services consulting practice employing more than 300 specialised consultants and drawing on the wider capabilities of Reply’s 7,500+ people.

Avantage Reply delivers advisory and management consulting services to financial services institutions with respect to Risk and Compliance, Finance (including Capital Management and Regulatory Reporting), and Treasury. Since its establishment in 2004, Avantage Reply has been committed to industry specialisation (financial services) offering insights and in-depth experience.

Avantage Reply works with board members, CROs, CCOs, COOs and CFOs, senior and mid-management finance and risk executives of leading financial services institutions across the Eurozone and the United Kingdom. We provide advisory and management consulting services to help financial institutions address the risk, finance and compliance challenges arising from changes in regulation and strategic and organisational change, including technology.
### APPENDIX - Deep dive in the COREP amended tables

The table below summarizes the COREP templates which have been impacted. All other templates, not mentioned in below table, remain unchanged.

<table>
<thead>
<tr>
<th>Template Reference</th>
<th>Title</th>
<th>Impact DPM 2.9</th>
<th>Instructions</th>
</tr>
</thead>
<tbody>
<tr>
<td>C02.00</td>
<td>OWN FUNDS</td>
<td>Slightly amended</td>
<td>Row removed</td>
</tr>
<tr>
<td>C12.00</td>
<td>CREDIT RISK: SECURITISATIONS - STANDARDISED APPROACH TO OWN FUNDS REQUIREMENTS (CR SEC SA)</td>
<td>Deleted</td>
<td>Replaced by C13.01</td>
</tr>
<tr>
<td>C13.00</td>
<td>CREDIT RISK: SECURITISATIONS - IRB APPROACH TO OWN FUNDS REQUIREMENTS (CR SEC IRB)</td>
<td>Deleted</td>
<td></td>
</tr>
<tr>
<td>C13.01</td>
<td>CREDIT RISK: SECURITISATIONS (CR SEC)</td>
<td>New</td>
<td>In case the institution acts as originator, the information in this template is required for all securitisations for which a significant risk transfer is recognised and in which the reporting institution is involved in a securitisation treated under the Internal Ratings Based Approach. In case the institution acts as investor, all exposures shall be reported. Specific reporting items are applicable for originators, sponsors and investors.</td>
</tr>
<tr>
<td>C14.00</td>
<td>DETAILED INFORMATION ON SECURITISATIONS (SEC Details)</td>
<td>Amended</td>
<td>Distinction between intra-group, private or public securitization Distinction added depending on the role of the institution: originator, sponsor, investor or original lender. The LEI code must be privileged to identify the originator. Two types of securitisation are added (ABCP program and transaction). Significant risk transfer: new column which summarises whether the originator has applied to treat securitisations schemes on the basis of having achieved significant transfer and which method is used. Securitisation qualified for differentiated capital treatment: new column</td>
</tr>
<tr>
<td>C14.01</td>
<td>DETAILED INFORMATION ON SECURITISATIONS BY APPROACH (SEC Details Approach)</td>
<td>New</td>
<td>There is a need to have the breakdown by approach of the exposure values, RWAs and capital charge after cap.</td>
</tr>
<tr>
<td>C19.00</td>
<td>MARKET RISK: STANDARDISED APPROACH FOR SPECIFIC RISK IN SECURITISATIONS (MKR SA SEC)</td>
<td>Slightly Amended</td>
<td>This template requests information on positions (all/net and long/short) and the related own funds requirements for the specific risk component of position risk in securitisations/ re-securitisations held in the trading book (not eligible for correlation trading portfolio) under the standardised approach. Reference to SA and IRB have been removed.</td>
</tr>
<tr>
<td>C20.00</td>
<td>MARKET RISK: STANDARDISED APPROACH FOR SPECIFIC RISK FOR POSITIONS ASSIGNED TO THE CORRELATION TRADING PORTFOLIO (MKR SA CTP)</td>
<td>Slightly Amended</td>
<td>This template requests information on positions of the CTP (comprising securitisations, nth-to-default credit derivatives and other CTP positions included according to Article 338 (3) of CRR) and the corresponding own funds requirements under the standardised approach. Reference to SA and IRB have been removed.</td>
</tr>
</tbody>
</table>
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