EBA ITS ON SUPERVISORY REPORTING

Update on CRR2 and Backstop Regulation | October 2019

REPLY
AVANTAGE

CHANGES TO THE SUPERVISORY REPORTING

On October 16th 2019, the EBA published the consultative paper on revised Implementing Technical Standards (ITS) on supervisory reporting, which aim to keep the reporting requirements in line with changes in the regulatory framework and with the evolving needs for Supervisory Authorities' risk assessments.

The changes result from the finalisation of Basel 3, Avantage Reply analysed the changes and summarised the modifications in the reporting templates (own funds, COREP, credit risk, counterparty credit risk, large exposures, leverage ratio, net stable funding ratio and FINREP).

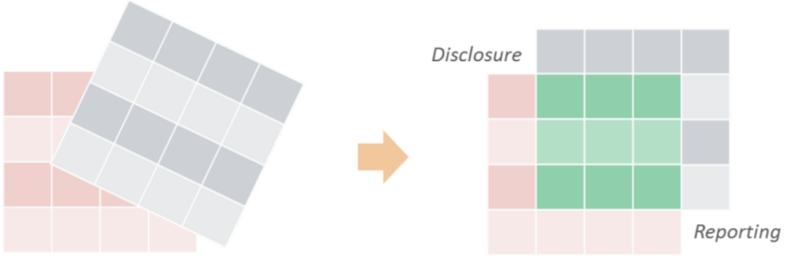

Illustration: EBA revised ITS on supervisory reporting

The EBA seeks to optimise EBA Pillar 3 from a silo based approach to an all-inclusive ITS. It also implements regulatory changes introduced by the CRR2 and aligns the disclosure framework with international standards. The new ITS aim to reinforce market discipline, by increasing consistency and comparability of institutions' public disclosures, and to implement the CRR2 regulatory changes in alignment with the revised Basel Pillar 3 standards.

Supervisory reporting evolution: time-line

31/08/2019 — 2.8

- Introduction of prudent valuation templates in COREP
- Amendments in Credit Risk, Securitization and Pillar 2

31/12/2019 — 2.9

- Amendment with respect to securitization (COREP)
- Amendment of NPE and Forborne Exposures (FINREP)
- Introduction of LCR reporting

31/12/2020 — 2.10

- Introduction of FRTB package in the reporting (market risk)

30/06/2021 — 3.0

Amendment with respect to CRR2 and CRD5, major changes in:

- Own fund;
- Credit Risk (including CCR);
- Large Exposures;
- NSFR;
- FINREP;
- Investment Firms reporting
- MREL/TLAC (expected)
- ..

CHANGES TO THE SUPERVISORY REPORTING RELATED TO THE CRR2

OVERVIEW

CRR 2 amendments

- Solvency requirements (Annex 1)

Amendments to the supervisory reporting

- Credit risk
  - Revised breakdown through additional templates (PD ranges under a standardised range),
  - Explanation of movemements in RWA between two reporting periods
  - Addition of reporting requirements on the back-testing of PDs
  - Investments in Collective Investment Funds, included in the standardised and internal models based templates
- Own funds
  - New items reflecting the additional deductions to be made from own funds
  - At a later stage, the reporting requirements may be reviewed to reflect policies still to be developed by the EBA, such as the RTS on the application of the deductions of prudently valued software assets on the basis of Article 36 (4) CRR
  - Breakdowns and memorandum items
  - Investment firms shall submit the information specified in templates 1 to 5 of Annex I, according to the instructions in point 1 of Part II of Annex II with a quarterly frequency.
- Counterparty Credit Risk
  - SA-CCR (standardised approach for counterparty risk) replaces Standardised Method and Market-to-Market Method
  - The SA-CCR is more risk sensitive but may prove to be too complex and costly to implement for smaller institutions. For this reason the CRR2 also includes a simplified version of the SA-CCR (the ‘simplified SA-CCR’) and an updated version of the Original Exposure Method (OEM)
  - Therefore, due to the updates of the CRR2 and the lack of information in the ITS, additional information has been added to COREP templates C07.00 and C08.01 on counterparty credit risks and free deliveries
  - PD backtesting: pillar 3 requirements migrated to COREP (template C08.03)
  - Ensuring enhanced comparability between institutions both by supervisors and the general public

CHANGES TO THE SUPERVISORY REPORTING RELATED TO THE CRR2

OVERVIEW

CRR 2 amendments	Amendments to the supervisory reporting
Leverage Ratio (Annex 10)	› 3% leverage ratio requirement for institutions in the EU applicable from June 2021 › The changes mostly reflect the changes in the leverage ratio definition as laid out in the Basel III reforms › The update of the standardised approaches for the counterparty credit risk framework by the CRR2 has been also reflected in the leverage exposure value › Articles 429a (1)(d), (1)(e), and (2) of the CRR2 provide exemptions of certain categories of exposures related to public development credit institutions and promotional loans. › Inclusion of Pillar 2 requirements (P2R) and guidance (P2G) in C47.00 in accordance with Article 104a and Article 104b of the CRD5 which address risks of excessive leverage. › The leverage ratio templates have been updated to request large institutions to report based on averages over the reporting period only for those components requested by the BCBS for disclosure, i.e. for SFTs. The daily values used by the institutions to calculate those averages are also to be reported.
Large exposures (Annex 8)	› The CRR2 introduces some changes to the large exposure framework. The calculation of large exposure limits are based on a higher quality of capital ('eligible capital' has been replaced by 'Tier 1 capital). The reporting requirement of exposures of a value greater or equal to EUR 300m but less than 10% of the institution's Tier 1 capital on a consolidated basis has been included in the large exposures reporting. › The requirement to report maturity buckets of an institution's 10 largest exposures on a consolidated basis to an institution and to unregulated financial sector entities has been removed.
NSFR (Annex 26)	› 100% Net stable funding ratio (NSFR) requirement starting from June 2021 › Two different sets of templates and instructions have been included: **one for the standard NSFR and one for the simplified NSFR** › The RSF and ASF templates capture the necessary elements for calculation and supervisory assessment of the required and available stable funding.

CHANGES TO THE SUPERVISORY REPORTING RELATED TO THE CRR2

OVERVIEW

CRR 2 amendments	Amendments to the supervisory reporting
› NSFR (Annex 26)	› In line with the CRR2, in general all institutions shall report the fully-fledged NSFR templates › In line with the CRR2, institutions that are considered small and non-complex may seek authorization from the competent authority to apply the simplified NSFR and accordingly report simplified templates
› Other amendments	› **FINREP** The amendments to FINREP other than the ones related to the NPL backstop are driven by: i) accounting issues (e.g. the presentation of purchased and originated financial assets (POCIs) outside the IFRS 9 impairment stages); ii) issues raised by Q&As (e.g. the inclusion of cash balances and other demand deposits in the loss allowance movements) and; iii) the need of integration with Pillar 3 framework › **Asset Encumbrance** The minor amendments to the Asset Encumbrance module has been introduced to ensure full alignment with Pillar 3 framework. › **Losses from immovable property** IP Losses reporting has been amended with regard to the reporting frequency (from semi-annual to annual) as mandated by Article 430a of the CRR2 › **Harmonising the use of LEI codes in supervisory reporting** › Some amendments have been done with the purpose to harmonise the use of LEI codes in supervisory reporting and harmonise practices that enable to identify unequivocally the same entity across different reporting request. › Promoting the use of LEI codes will improve the quality of the data reported reducing redundancy enabling data processing, aggregation and calculation, assuring the comparability between data from different sources and times and thereby improve the data quality.

CHANGES TO THE SUPERVISORY REPORTING RELATED TO THE CRR2

DETAILED OVERVIEW (1/3)

Own Funds	
C01.00 New Rows	Accounting revaluation of subsidiaries' goodwill derived from the consolidation of subsidiaries attributable to third persons
	Accounting revaluation of subsidiaries' other intangible assets derived from the consolidation of subsidiaries attributable to third persons
C01.00 Deductions	(-) Amount exceeding the 17.65% threshold related to CET1 instruments of financial sector entities where the institution has a significant investment
	(-) Amount exceeding the 17.65% threshold related to deferred tax assets arising from temporary differences
	(-) Insufficient coverage for non-performing exposures
	(-) Minimum value commitment shortfalls
	(-) Other foreseeable tax charges
	(-) Excess of deductions from eligible liabilities over eligible liabilities
C05.01 New rows	Instruments issued through special purpose vehicles
	Instruments issued before 27 June 2019 that do not meet the eligibility criteria related to write-down and conversion powers pursuant to Article 59 BRRD

Credit risk	
C08.03	IRB approach to capital requirements: breakdown by PD ranges
	IRB exposure class/own estimates of LGD and/or conversion factors
C08.04	IRB approach to capital requirements: RWEA flow statements
C08.05	IRB approach to capital requirements: back-testing of PD
	IRB exposure class/own estimates of LGD and/or conversion factors
C08.05b	IRB approach to capital requirements: back-testing of PD according to Art 180(1)(f)
	IRB exposure class/own estimates of LGD and/or conversion factors
C08.06	IRB approach to capital requirements: specialized lending slotting criteria
C08.07	IRB approach to capital requirements: scope of use of IRB AND SA approaches
C08.03	IRB approach to capital requirements: breakdown by PD ranges

CHANGES TO THE SUPERVISORY REPORTING RELATED TO THE CRR2

DETAILED OVERVIEW (2/3)

Counterparty credit risk	
C34.01	Size of the derivative business
C34.02	CCR exposures by approach
C34.03	Exposure value for standardised approaches: SA-CCR or simplified SA-CCR
C34.04	Exposure value for the original exposure method (OEM)
C34.05	Exposure value for the internal model method (IMM)
C34.06	Top 20 Counterparties
C34.07	IRB approach – CCR exposures by exposure class and PD scale
C34.08	Composition of collateral for CCR exposures
C34.09	Credit Derivative exposures
C34.10	Exposures to CCPs
C34.11	RWEA flow statements of CCR exposures under the IMM

Credit and counterparty credit risk	
C07.00 new rows	Size of the derivative business
	CCR exposures by approach
	Exposure value for standardised approaches: SA-CCR or simplified SA-CCR
C07.00 new columns	Exposure value for the original exposure method (OEM)
	Exposure value for the internal model method (IMM)
	Top 20 Counterparties

Large exposures	
C27.00 revision	Counterparty identification
C28.00	Exposures in the non-trading and trading book
C29.00	Detail of the exposures to individual clients within groups of connected clients

CHANGES TO THE SUPERVISORY REPORTING RELATED TO THE CRR2

DETAILED OVERVIEW (3/3)

Leverage ratio	
C40.00 New rows	Security financing transactions
	Off-balance sheet items
C47.00 New rows	Derivatives: replacement cost under the SA-CCR
	Derivatives: Potential future exposure contribution under SA-CCR
	Derogation for derivatives
	Various other exemptions/exclusions
	Regular-way purchases or sales awaiting settlement
	Pillar 2 requirement (P2R) to address risks of excessive leverage
	Pillar 2 guidance (P2G) to address risks of excessive leverage
	Pillar 1 Leverage Ratio requirement
C48.01	Leverage ratio volatility: Mean value for the reporting period
C48.02	Leverage ratio volatility: daily values for the reporting period

Other amendments	
F04.3.1. and F04.4.1. F07.1.	Purchased or originated credit-impaired financial assets
F12.00	Cash balances at central banks and other demand deposits
F12.01	Cash balances at central banks and other demand deposits
	Allowances for purchased or originated credit-impaired financial assets

NSFR	
C80.00	NSFR - Required stable funding
C81.00	NSFR - Available stable funding
C82.00	NSFR - Simplified required stable funding
C83.00	NSFR - Simplified available stable funding
C84.00	NSFR Summary

For small and non-complex institutions, subject to permission from competent authority

CHANGES TO THE SUPERVISORY REPORTING RELATED TO THE BANKSTOP (NPL)

OVERVIEW

Backstop

- NPE reporting

Amendments to the supervisory reporting

- Own funds templates
  - The proposal under COREP framework includes a set of three templates on NPE loss coverage (NPE LC).
  - The objective of the templates is for the institutions to report transparently the minimum coverage requirements for NPEs as introduced under the CRR and for the supervisors to monitor the risk profile of institutions in relation to NPEs and capital requirements.

- FINREP template
  - The definition of the definition of NPEs and Forbearance has been removed from FINREP instructions, given that it is now included in the CRR itself.
  - Introduce a new template (F39) in FINREP for reporting NPEs by time buckets with a semi-annual frequency. In the new template, the gross carrying amount/nominal value of NPEs and the related loss allowances/provisions have been broken by the same time buckets as introduced in Article 47c of the CRR and used in the new NPE LC templates of COREP as well.
  - The NPEs have been also broken-down by instrument and some additional details (e.g. the amount of exposures affected by the Backstop Regulation) are provided in separate rows. This amendment facilitates banks to determine the appropriate amounts of specific credit risk adjustments to be included in the backstop calculation.
  - The new FINREP template aims to monitor the stock of NPEs and the related loss coverage from an accounting perspective
  - The new Finrep template allows supervisors to conduct reviews, as part of their SREP process, on the accounting impairment coverage levels that are the basis for determining the specific credit risk adjustments included in the backstop calculation.

CHANGES TO THE SUPERVISORY REPORTING RELATED TO THE BANKSTOP (NPL)

DETAILED OVERVIEW

SSM NPL Guidance

EBA NPE/FBE

Performing

- ✓ Early warning signals

Non performing

- ✓ Provisioning & write-off approach to address the addendum: Explain (justify) + internal backstop

Performing Forborne

- ✓ Forbearance measures granted
- ✓ Debtors about to face financial difficulties

Non Performing Forborne

- ✓ Forbearance measures granted
- ✓ Debtors facing financial difficulties

	NPL Backstop
C35.01	Calculations of deductions for non performing NPEs exposures
C35.02	Minimum coverage requirements & exposure values of non performing, not forborne exposures
C35.03	Minimum coverage requirements & exposure values of non performing forborne exposures
F39	Breakdown of NPE by time passed since exposures' classification as non-performing (semi-annual frequency)

Regulation (EU) 2019/630, which amends the Capital Requirements Regulation, or CRR (Regulation 575/2013), with regard to the minimum loss coverage for non-performing exposures (NPEs), has been published in the Official Journal of the European Union. On the basis of a common definition of non-performing loans, the new rules would introduce a "prudential backstop," that is, a minimum loss coverage for the amount of money banks need to set aside to cover losses caused by future loans that turn non-performing.