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Consultation Paper

Draft Implementing Standards

amending Implementing Regulation (EU) No 680/2014 with regard to FINREP

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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in 5.2.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the 'send your comments' button on the consultation page by 27.11.2018. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA's rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA's Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EC) N° 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found under the Legal notice section of the EBA website.

2. Executive Summary

1. Non-performing exposures are one of the key priorities for supervisors and one of the biggest challenges faced by many institutions across Europe. High NPE levels ultimately have a negative impact on institutions' profitability, solvency and consequently lending capacity to the overall economy.

2. The European Council published in July 2017 its Action plan to tackle NPLs in Europe. The EBA was invited by the Council to contribute to this Action Plan with a number of initiatives and action points, in particular in the area of supervision and development of secondary markets for distressed assets. Among others, the EBA was asked to issue guidelines on the management of non-performing loans (NPLs).

3. This planned revision to Regulation (EU) No 680/2014 includes suggestions on the reporting on non-performing and forborne exposures that is key to assess institutions' strategy on the management of NPLs as well as the overall effectiveness of these strategies. At a more general level, this proposal for changes to the ITS on Supervisory Reporting aims at strengthening supervisors' ability to assess and monitor non-performing portfolios by way of collecting more granular information on these assets on a recurring basis and thereby close identified data gaps.

4. In order to be proportionate, the amended reporting requirements envisage two complementary 'modules'. Module 1 covers revisions to existing templates, introducing additional breakdowns on performing and non-performing exposures, forborne exposures and collateral obtained. Module 2 introduces new templates to provide deeper insights into institutions' NPE portfolios and NPE management strategies and shall be reported only by institutions with elevated levels of NPEs that are not 'small and non-complex'.

5. The envisaged amendments to the ITS on Supervisory Reporting also concern the reporting on profit or loss items in FINREP. 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, amendments to FINREP targeted at improving the insights especially into operating and administrative expenses are proposed. Furthermore, the information collected on fee and commission income and expenses is revised to reflect so far unrepresented sources of income and expenses.

6. 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 removed, assets and liabilities are, with limited exceptions, recognised in respect of all leases. Considering the revised accounting rules, some minor changes to FINREP are proposed to obtain a complete view of the main impacts on lessees' financial situation and profit or loss.

Next steps

7. After a consultation period of 3 months the EBA will revise the proposal, taking into account the feedback received. The submission of the final updated ITS to the EU Commission will take place after the consultation and publication of the data-point model, XBRL taxonomy and validation rules, probably in April/May 2019. The first reference date for the reporting in accordance with the revised version of these technical standards is foreseen to be the 31 March 2020. The expected implementation period for the proposed changes is approximately 1 year.

3. Background and rationale

3.1 Revisions to the reporting on non-performing and forborne exposures (NPE&FBE)

Rationale

8. Non-performing exposures are one of the key priorities for supervisors and one of the biggest challenges faced by many institutions across Europe. High NPE levels ultimately have a negative impact on institutions' profitability, solvency and consequently lending capacity to the overall economy.

9. The European Council published in July 2017 its Action plan to tackle NPLs in Europe. The Council stressed that a comprehensive approach combining a mix of complementing policy actions, at national and at the European level where appropriate, is the most effective way to address the existing stock of NPEs as well as the emergence and accumulation of new NPEs on banks' balance sheets.

10. The EBA, along with other bodies and institutions, was invited by the Council to contribute to this Action Plan with a number of initiatives and action points, in particular in the area of supervision and development of secondary markets for distressed assets. Among others, the EBA was asked to issue guidelines on the management of non-performing loans (NPLs).

11. This planned revision to Regulation (EU) No 680/2014 includes suggestions on the reporting on non-performing and forborne exposures, such as detailed data on changes to the stock of NPLs (inflows / outflows) as well as more comprehensive information on provisioning. This information is key to assess institutions' strategy on the management of NPLs as well as the overall effectiveness of these strategies, shedding light on measures available at the different points of the lifecycle of an exposure, such as the granting of forbearance measures or closure actions like collateral liquidations, the sale of non-performing portfolios etc.

12. At a more general level, this proposal for changes to the ITS on Supervisory Reporting aims at strengthening supervisors' ability to assess and monitor non-performing portfolios by way of collecting more granular information on these assets on a recurring basis and thereby close identified data gaps. It benefits from experience of competent authorities on the supervision of institutions with significant NPE portfolios.

Main features of the proposal

13. The amended reporting requirements envisage two complementary 'modules'. Module 1 covers revisions to existing templates, introducing additional breakdowns on performing and non-performing exposures, forborne exposures and collateral obtained (mainly templates 13, 18 and

19). Module 2 introduces new templates (templates 23 to 26 and 47) to provide deeper insights into institutions' NPE portfolios and NPE management strategies.

Module 1

14. Module 1 comprises the following new, revised or enhanced elements:

- New information on commercial real estate (CRE) exposures as well as new information on exposures secured by immovable property by level of collateralisation;
- Enhanced and new information on performing exposures, NPEs and FBEs toward selected counterparty types (SMEs, households);
- Enhanced and new information on performing exposures and NPEs, broken down by IFRS 9 impairment stages, in order to monitor the connection between performance status and accounting treatment;
- New information on inflows into and outflows from the NPE portfolio, targeted at capturing the dynamics of the development of institutions' NPE portfolio;
- Minor revision of the 'days past due' buckets in the NPE template, in order to facilitate the close monitoring of the gradual provisioning of different types of NPEs;
- Enhanced information on collateral and guarantees received (more granular breakdowns by type of collateral and guarantees received, information on value changes since recognition).

15. Module 1 supports the monitoring of the specific risks born by commercial real estate (CRE) loans (i.e. exposures to real estate developers and the income producing real estates) as a portfolio where particular scrutiny is expected from the supervisors in accordance with the Recommendation of the European Systemic Risk Board on closing real estate data gaps (ESRB/2016/14). In addition, information on exposures secured by immovable property with a high LTV ratio is collected to gain insights into exposures with a potentially insufficient collateral coverage.

16. The revisions to the templates on non-performing and forborne exposures close a data gap identified with regard to exposures to SMEs as a type of counterparty of particular interest from an economic perspective.

17. The request for more granular information on different collateral types aims at gaining a comprehensive view on the coverage of different sub-portfolios in terms of collateral and financial guarantees and deeper insights into the use of collaterals with different liquidity levels. The information on collateral obtained by taking possession provides an indication of an institution's foreclosure management and, considering the transformation of a non-performing exposure to an asset obtained by taking possession as an additional step in the credit cycle, of an institution's strategy for dealing with non-performing assets in a broader sense.

Module 2

18. Module 2 complements Module 1 by introducing new templates with information that provides further insights into an institutions' portfolios of performing and non-performing loans and advances (NPL), forborne loans and advances (FBL) and on collateral obtained, such as

- Exposures in (pre-)litigation status, exposures with a very high coverage in terms of impairments etc. or accumulated partial write-offs;
- Drivers for inflows into or outflows from the NPL portfolio, flow of impairments and write-offs,
- Collateral in- and outflows, information on vintage of the collateral (recognition in the balance sheet) or
- More granular information on the forbearance management and quality of forbearance.

19. The complementary information on performing and non-performing as well as forborne exposures is requested with a breakdown by exposures to households and to non-financial corporations, and, occasionally, to SMEs, in order to take account of the peculiarities in exposures to these counterparties. Considering the low or very low relevance of market-based funding both for SMEs and households in most EU countries, only information on loans and advances is requested with this additional breakdown.

20. Exposures in litigation or pre-litigation status are singled out in the revised reporting requirement, because they are managed differently from other exposures within institutions, i.e. they are transferred either internally to legal departments or externally to legal firms.

21. Information is also requested on items reflecting provisioning policies as well as write-offs to understand and evaluate institutions' practices and strategies with regard to the management of loans with a heightened credit risk.

22. The aim of collecting more granular information on inflows and outflows from the NPL portfolio is to understand the key drivers for the development of the NPL portfolio in the respective accounting year.

23. Foreclosure may be one of the means chosen by institutions to deal with and reduce the level of non-performing exposures. Where the collateral obtained is included in institutions' balance sheets, it may become a relevant source of credit risk. Therefore, supervisors need to have a clear view on the level of foreclosed assets in institutions' as well as their composition, development in terms of value, liquidity and accounting policies applied (cancelled loan amounts, gross foreclosed asset values, provisioning, asset types and vintages), in order to understand, and assess the effectiveness of institutions' strategies in the area of collateral obtained by taking possession.

24. Forbearance measures aim at fostering the return of less well performing exposures into a situation of sustainable repayment. Considering the variety of potential measures to improve or reinstate obligors' capacity to pay, the forbearance measures applied by institutions deserve a closer monitoring, in order to understand to which extent the envisaged goals are achieved.

25. Loans and advances measured at cost or amortised costs account for the vast majority of non-performing exposures. However, IFRS 9 may entail the classification of certain loans and advances into fair value categories (i.e. fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVPnL)). For this reason and because loans and advances accounted for at fair value are of particular relevance in certain Member States, the revised reporting requirements also cover, with a few exceptions, fair value portfolios.

Proportionality

26. NPEs are a problem at multiple levels: at micro prudential level, heightened NPEs are associated with lower profitability and lower efficiency; at macro prudential level, high levels of NPEs are connected to stagnant growth as capital is tied up with NPEs and decreased new lending into the real economy. In addition, a high stock of NPEs negatively affect the resilience of the banking sector to shocks and hence increases systemic risk. All of these effects must be tackled in a comprehensive manner. Against this background, relevant information on NPEs needs to be collected and relevant data needs to be monitored from as many institutions as possible with an appropriate level of granularity. On the other hand, the burden the reporting requirement implies for institutions has to be duly considered.

27. In order to introduce proportionality, this revised reporting requirement is structured around two complementary modules. Module 1 addresses the key reporting elements on NPEs, FBEs and collateral obtained which are relevant for all institutions. Module 2 aims at enabling a close monitoring of the NPE strategy of reporting institutions having material NPL and FBL portfolios. It is consequently be proposed to request it only from institutions with elevated levels of NPEs, measured as an NPL ratio of 5% or above. The threshold of 5%[1] aligns the reporting criteria with the criteria used in the draft EBA Guidelines on management of non-performing and forborne exposures to identify institutions which should set an NPE strategy and related operational and governance aspects[2] and the draft EBA Guidelines on disclosure of non-performing and forborne exposures.

28. NPEs are of particular relevance not only for significant institutions, but also for less significant ones, especially when concentrated in one particular market or jurisdiction. Nevertheless, the sizeable reporting burden inherent to Module 2 is acknowledged; in order to balance the benefits and the burden, it is planned to request Module 2 only from institutions that do not qualify as 'small and non-complex institutions'. The definition of 'small and less complex' institutions will be aligned with the definition proposed in the amendments to the Capital Requirement Regulation (draft CRR 2).

Fostering the consistency between reporting and disclosure requirements

29. The information included in the reporting framework is the basis for supervisors to form a clear picture on the situation of an institution in terms of business model / profitability, solvency / risk

[1] The NPL ratio is the ratio between the gross carrying amount of non-performing loans and advances and the total gross carrying amount of loans and advances subject to the definition of non-performing exposures as presented in section 17 of Part 2 of Annex V of this Regulation. For the purpose of this calculation, loans and advances classified as held for sale, cash balances at central banks and other demand deposits shall be excluded both from the denominator and the numerator.

[2] Please also see the Impact Assessment regarding the 5% threshold on page 89 of the Consultation Paper on the Draft Guidelines on management of non-performing and forborne exposures

profile, liquidity and relevance for the financial system. Similarly, the information disclosed by institutions is the basis for market participants to understand and assess the institutions' situation in order to exercise market discipline. Information relevant for market participants should be equally relevant for supervisors.

30. Against this background, the reporting requirements are designed, bearing in mind the disclosure requirements and vice versa. Improving the consistency between the reporting and disclosure requirements, including a standardisation of formats and definitions, should also increase the efficiency and reduce the burden both with regard to institutions' reporting and disclosure obligations, and therefore facilitate the compliance with both.

Examples for the reporting in selected templates

Examples on template F 25.01 (collateral obtained by taking possession other than collateral classified as Property Plant and Equipment (PP&E) - inflows and outflows)

Example 1

Obtaining possession of the collateral (31 December 2017)

31. The reporting institution has in on its balance sheet an NPL with a gross carrying amount of CU 100 (A). Based on the estimate for the discounted expected cash flows from a potential liquidation of the collateral provided by the debtor, the institution books an accumulated impairment of CU 20 (B).

32. The NPL is secured by a single type of collateral, which the institution obtains in November 2017 and recognises in its balance sheet with a value CU 70 (C).

33. At point in time of obtaining possession of the collateral, the part of the NPL not covered by the collateral obtained (CU 30) is considered uncollectible by the institution and derecognised (write-off of CU 10 + use of previously booked impairment of CU 20) (D).

		Debt balance reduction		**Collateral obtained by taking possession other than collateral classified as (PP&E)**		
		Gross carrying amount	Acc. imp., acc. neg. changes in FV due to CR	Value at initial recog-nition	Carrying amount	Accumulated neg. changes
		010	020	030	040	050
010	**Opening balance**					
020	**Inflows during the period**	100 (A) or (C) + (D)	— 20 (B)	70 (C)	70 (C)	
030	**Outflows during the period**					
080	**Closing balance**	100 (A) or (C) + (D)	— 20 (B)	70 (C)	70 (C)	

Value of collateral obtained earlier increases (31 March 2018)

34. In Q1 2018, the value of the collateral obtained by taking possession in the previous year decreases by 15 to 55 in total (E).

35. In order to reflect the correct carrying amount of the collateral at the reporting reference date, the opening balance needs to be adjusted; neither an 'inflow' nor an 'outflow' are reported, given that no new collateral was obtained.

		Debt balance reduction		Collateral obtained by taking possession other than collateral classified as (PP&E)		
		Gross carrying amount	Acc. impairm., acc. neg. changes in FV due to credit risk	Value at initial recognition	Carrying amount	Accumulated neg. changes
		010	020	030	040	050
010	**Opening balance**	100	— 20	70	55 (E)	— 15 (E)
020	**Inflows during the period**					
030	**Outflows during the period**					
080	**Closing balance**	100	— 20	70	55 (E)	— 15 (E)

Value of collateral obtained earlier increases (30 June 2018)

36. In Q2 2018, the value of the collateral obtained by taking possession in the previous year increases by 5 to 60 in total (F). Compared to the value at initial recognition, the collateral still lost CU 10 in value (G), i.e. the former accumulated negative changes are amended from -15 to -10 (G).

		Debt balance reduction		Collateral obtained by taking possession other than collateral classified as (PP&E)		
		Gross carrying amount	Acc. impairm., acc. neg. changes in FV due to credit risk	Value at initial recognition	Carrying amount	Accumulated neg. changes
		010	020	030	040	050
010	**Opening balance**	100	— 20	70	60 (F)	— 10 (G)
020	**Inflows during the period**					
030	**Outflows during the period**					
080	**Closing balance**	100	— 20	70	60 (F)	— 10 (G)

37. The 'accumulated negative changes' in the value of the collateral obtained are reported strictly as difference between the value at initial recognition of the collateral and the carrying amount at the reporting reference date, irrespective of the increase in the value above the value at initial recognition in the previous period.

Selling the collateral (30 September 2018)

38. The reporting institutions decides to liquidate the collateral (sale against cash) and recovers 50 CU (G). The third party servicer responsible for the liquidation requests a fee of CU 5. → Net cumulative recoveries of CU 45 (= Gross recovery (CU 50) – costs (CU 5)) (H).

39. Accordingly, the loss from the sale of the collateral item is CU 15 (I).

		Debt balance reduction		Collateral obtained by taking possession other than collateral classified as (PP&E)		
		Gross carrying amount	Acc. impairm., acc. neg. changes in FV due to credit risk	Value at initial recognition	Carrying amount	Accumulated negative changes
		010	020	030	040	050
010	**Opening balance**	100	— 20	70	60 (F)	— 10 (G)
020	**Inflows during the period**					
030	**Outflows during the period**	— 100 (G)	+ 20 (G)	— 70 (G)	— 60 (G)	+ 10 (G)
040	Outflow for which cash was collected			— 70 (G)	— 60 (G)	+ 10 (G)
050	Cash collected net of costs			45 (H)	45 (H)	
060	Outflow with replacement by financial instrument					
070	Financing granted					
080	**Closing balance**					
090	Profits / (-) losses from sale of collateral obtained by taking possession				— 15 (I)	

Example 2

Obtaining possession of the collateral (31 March 2018)

40.In March 2018, the reporting institution has on its balance sheet an NPL with a gross carrying amount of CU 100 (A), for which an accumulated impairment of CU 20 is booked (B).

41.The NPL is secured by a single type of collateral, which the institution obtains on 31 March 2018. The collateral has a value of 70 (C) at that date. CU 70 of the loan are de-recognised in exchange of the recognition of the repossessed collateral.

42.As the institution still expects at least CU 10 to be recoverable from the borrower, the loan's remaining gross carrying amount of CU 30 (D) is not derecognised on 31 March 2018 and therefore not reported as a debt balance reduction.

		Debt balance reduction		Collateral obtained by taking possession other than collateral classified as (PP&E)		
		Gross carrying amount	Acc. impairm., acc. neg. changes in FV due to credit risk	Value at initial recognition	Carrying amount	Accumulated neg. changes
		010	020	030	040	050
010	**Opening balance**					
020	**Inflows during the period**	70 (A) - (C) or (D)	— 20 (B)	70 (C)	70 (C)	
030	**Outflows during the period**					
080	**Closing balance**	70 (A) - (C) or (D)	— 20 (B)	70 (C)	70 (C)	

Additional write-offs (30 June 2018)

43.On 15 April 2018 the institution books an additional impairment of CU 10, not expecting anymore a payment from the borrower. Later that month, it decides to derecognise the remaining CU 30 of the loan as it considers them uncollectible.

44.The data reported in template F 25.01 remains exactly the same as the one reported in March.

Examples on the F 24-templates (Flows of non performing exposures, impairment & write offs since the end of the last financial year - loans and advances)

Example 3 – Inflows and outflow from the NPE portfolio

45.On 1 October 2015, the institution has an exposure (loan) to a counterparty with a gross carrying amount of CU 100 that is partially secured by a portfolio of securities (expected to be worth CU 65). This loan becomes non-performing in December 2015 and a forbearance measure is applied. By the end of June 2017, it meets the conditions for being reclassified as performing forborne under probation (A).

46.On 2 January 2018, the loan becomes non-performing again (B).

47.On 30 March 2018, the institution takes possession of the collateral, now valued at CU 50 (D). In this moment, it recognises a partial write-off of CU 15 (E). The institutions still expects a cash recovery from the loan's unsecured part (CU 35).

48.Because of a further deterioration of the debtor's financial situation, the remaining CU 35 of the NPL are completely written off in September 2018 (F). The institution forgives the debt (G).

49.The following information is reported in template F 24.01 as of 30 September 2018:

		Gross Carrying amount
		010
010	**Opening balance**	0* (A)
020	**Inflows**	
030	Inflow due to reclassification from performing not forborne	
040	Inflow due to reclassification from performing forborne	100 (B)
050	of which: reclassified from performing forborne exposures under probation previously reclassified from non-performing	100 (A, B)
060	Inflow due to purchase of exposures	
070	Inflow due to accrued interest	
080	Inflow due to other reasons	
090	Of which: Inflow more than once	0* (B**)
100	Of which: Inflow of exposures granted in the past 24 months	
110	Of which: Inflow of exposures granted during the period	
120	**Outflows**	
130	Outflow due to reclassification as performing not forborne	
140	Outflow due to reclassification as performing forborne	
150	Outflow due to partial or total loan repayment	
160	Outflow due to collateral liquidations	

170	Net cumulated recoveries from collateral liquidation	
180	of which: Write-offs in the context of collateral liquidations	
190	Outflow due to taking possession of collateral	— 65 (D + E)
200	Net cumulated recoveries from taking possession of collateral	50 (D)
210	of which: Write-offs in the context of taking possession of collateral	— 15 (E)
220	Outflow due to sale of instruments	
230	Net cumulated recoveries from sale of instruments	
240	of which: Write-offs in the context of sale of instruments	
250	Outflow due to risk transfers	
260	Net cumulated recoveries from risk transfers	
270	of which: Write-offs in the context of risk transfers	
280	Outflow due to write-offs	— 35 (F)
290	Outflow due to reclassification as held for sale	
300	Outflow due to other reasons	
310	Of which: Outflow of non-performing exposures that became non-performing during the period	
320	**Closing balance**	0*

** Zeros included for illustration purposes only; they are not reported as such (Article 17 (1) letter a of the ITS)*
*** The exposure was only classified once as NPL in the respective period (financial year 2018).*

50.Given that the write-offs described above are made during the period and the debt is forgiven, the following is reported in template F 24.03 on 30 September 2018:

		Gross Carrying amount
		010
010	**Write-offs during the period**	— 50 (E) + (F))
020	Of which: Debt forgiveness	— 35 (G)

51.As an aside, the collateral obtained by taking possession would have to be reported, among others, in template F 25.01, with a debt balance reduction of 65 (gross carrying amount) and a value at initial recognition of the collateral itself of 50.

Example 4 – Write-offs and debt forgiveness

52.Case A: An NPL of CU 100 is fully written-off on 30 October 2018. The Right to recover is legally forfeited on 30 March 2019 with regard to CU 70 of the loan, but for the remaining CU 30 the right to recover is kept.

53.Case B: An NPL of CU 100 is written-off on 30 October 2018 by 70% (CU 70). The right to recover is legally forfeited on 30 March 2019 with regard to the full loan amount (CU 100) and therefore CU 30 are written-off at the moment of forfeiture.

54.Case C: On 31 January 2019, the right to recover an NPL of CU 100 was legally forfeited with regard to 60% of the loan (60 CUs), and for the remaining 40 the right to recover was kept. On 31 March another CU 10 are written-off, assuming they will not be repaid. However, these CU 10 are not forfeited.

55.This is reported in template F 24.03 on 31 December 2018 as follows:

		Gross Carrying amount		
		010		
		Case A	Case B	Case C
010	**Write-offs during the period**	– 100	– 70	0*
020	Of which: Debt forgiveness	0*	0*	0*

As of reference date, it is not yet known that the debt will be forgiven.

No write-off done during the period

56.On 31 March 2019, template F 24.03 is filled in as follows:

		Gross Carrying amount		
		010		
		Case A	Case B	Case C
010	**Write-offs during the period**	0*	– 30	– 70
020	Of which: Debt forgiveness	0*	– 30	– 60

no write-off done during the period

only write-offs during the period are considered

3.2 Improvements to the reporting on profit or loss items (P&L)

57. As analyses conducted on institutions' profitability and business models by supervisory and other authorities frequently show, expenses play a crucial role in institutions' performance. Additional information on certain types of expenses also provide some insights on institutions' governance.

58. Given their prominent role for the EU banking sector, a review of the level of information available on expenses inside the reporting framework is necessary, considering that income and expenses are currently asymmetrically represented. Amendments to FINREP provide meaningful insights into the issue by improving the level of detail provided especially on operating and administrative expenses.

59. The planned revisions to the reporting on profit or loss items cover the following main elements:

- Additional information on administrative expenses, such as staff expenses and IT expenses;
- Revisions to the reporting on fee and commission income and expenses;
- Additional information related to profitability indicators; as well as
- Minor amendments to reflect contributions to resolution funds and interest income / expenses on selected exposure types.

60. Staff expenses account for roughly half of an institution's expenses and other administrative expenses are the second biggest block. Given that the management and reduction of costs has been a focus of institutions in the recent years, it is important to understand better what drives these expenses.

61. The revised reporting requirements capture staff expenses by structure and category of staff respectively nature of the remuneration, whereby, in the latter case, concepts presented in Regulation (EU) No 604/2014 (RTS on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile) are widely re-used and the reporting requirements are aligned to the extent possible with the reporting requirement defined in EBA/GL/2014/08 (Guideline on the remuneration benchmarking exercise).

62. Information is requested on 'Information Technology expenses' as sub-category of other administrative expenses. IT expenses, understood as expenses to deliver IT-enabled business processes, application services and infrastructure solutions for business outcomes, have been identified in recent analyses as material and significant among the other administrative expenses.

63. Under the current FINREP instructions, the majority of the fee and commission income and expenses are reported as 'other' fee and commission income. Some discussions suggest that especially fee and commission income in the retail business (e.g. fees for management of current account, fees on loans granted), card fee incomes and fees generated through corporate finance activities (e.g. M&A, treasury management) as well as fee and commission expenses related to the distribution of institutions' products via external agent networks or loan brokers are currently

unrepresented, but warrant closer monitoring. Apart from this, the proposed revised reporting requirements envisage an alignment of the breakdowns for fee and commission income and expenses.

64. In addition to the financial information, a few information items are proposed for collection that reflect the main external factors affecting institutions' cost structure and allow further insights into the distribution channels of institutions, such as the number of employees and the number of branches which are key cost drivers for institutions. Additionally, it is also relevant to assess institutions' responses to non-bank competition, most notably from FinTechs in light of the increasing digitalisation of banking. These new items, although different in nature from other FINREP information, are nevertheless often published by institutions in their financial reports.

3.3 Changes to FINREP with regard to IFRS 16

65. 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 removed, assets and liabilities are, with limited exceptions, recognised in respect of all leases. Considering the revised accounting rules, some minor changes to FINREP are proposed to obtain a complete view of the main impacts on lessees' financial situation and profit or loss.

4. Draft implementing standards

In between the text of the draft ITS that follows, further explanations on specific aspects of the proposed text are occasionally provided, which either offer examples or provide the rationale behind a provision, or set out specific questions for the consultation process. Where this is the case, this explanatory text appears in a framed text box.

COMMISSION IMPLEMENTING REGULATION (EU) No …/...

of XXX

amending Commission Implementing Regulation (EU) No 680/2014 with regard to FINREP

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,
Having regard to Regulation (EU) No 575-2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012,[3] and in particular Article 99 (5) thereof,

Whereas:

(1) Commission Implementing Regulation (EU) No 680/2014[4] specifies the modalities according to which institutions are required to report information relevant to their compliance with Regulation (EU) No 575/2013.

(2) On 13 January 2016, the International Accounting Standards Board (IASB) published International Financial Reporting Standard (IFRS) 16 Leases ('IFRS 16'). This standard aims to improve financial reporting on lease contracts and changes the accounting of leases for institutions that are subject to Article 99(2) of Regulation (EU) 575/2013.. IFRS 16 was imiplemented into Union law by Regulation (EU) 2017/1986.[5]

(3) Amendments to Implementing Regulation (EU) No 680/2014 are required in order to reflect the implementation of IFRS 16 into Union law.

(4) Amendments to Implementing Regulation (EU) 680/2014 are also required to reflect competent authorities' ability to effectively monitor and assess the institutions' risk profile and to obtain a view on the risks posed to the financial sector.

(5) Institutions' risk profile and profitability are be affected by high level of non-performing exposures (NPEs). High levels of NPEs ultimately have a negative impact on institutions' profitability, solvency and consequently lending capacity to the overall economy. Revisions to the reporting requirements that strengthen the ability of competent authorities to assess and monitor non-performing portfolios by way of collecting more granular information on these assets on a recurring basis and thereby close identified data gaps are necessary.

3 OJ L 176, 27.6.2013, p. 1.

4 Commission Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 (OJ L 191, 28.6.2014, p. 1).

5 OJ L 291, 9.11.2017, p. 1–62.

(6) The performance of institutions in the EU, both in terms of profitability and sustainability of business models, is influenced significantly by the structure and extent of their expenses. In order to ensure that competent authorities gain deeper insights into those, the reporting framework needs to be improved.

(7) This Regulation is based on the draft implementing technical standards submitted by the European Supervisory Authority (European Banking Authority) (EBA) to the Commission.

(8) EBA has conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the opinion of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010[6].

HAS ADOPTED THIS REGULATION:

Article 1

Implementing Regulation (EU) No 680/2014 is amended as follows:

(1) point (c) of Article 9(2) is replaced as follows:

‘‘(c) the information specified in Part 4 of Annex III, with the exception of the information specified in template 47, with an annual frequency’’

(2) in Article 9(2), the following point (h) is added:

‘‘(h) the information specified in templates 23, 24, 25 and 26 in Part 2 of Annex III with a quarterly frequency where both of the following conditions are fulfilled:

(i) the institution is not a small and non-complex institution as defined in Article XX of Regulation (EU) No 575/2013 as amended by Regulation (EU) YYYY/NNNN;

(ii) the institution’s NPL ratio is equal to or higher than 5%. For this purpose, the NPL ratio is the ratio between the gross carrying amount of non-performing loans and advances and the total gross carrying amount of loans and advances subject to the definition of non-performing exposures as presented in section 17 of Part 2 of Annex V to this Regulation. For the purpose of this calculation, loans and advances classified as held for sale, cash balances at central banks and other demand deposits shall be excluded both from the denominator and the numerator.

The entry and exit criteria referred to in Article 4 shall apply;’’

<u>Explanatory text for consultation purposes</u>

With regard to point (i), please note that the reporting requirement is envisaged to apply to all institutions with the exception of institutions that are ‘small and non-complex’. The definition of ‘small and non-complex’ institutions is one element of the proposed revisions to the CRR (draft CRR 2). If an EU-wide harmonised definition of ‘small and non-complex’ institution is available by the time this draft ITS is finalised, the final draft ITS will make reference to it. Should no final

[6] Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

definition be available, point (i) will be replaced by a set of criteria that aim at identifying a subset of institutions that shall be exempted from the reporting requirement, taking into account the reporting burden involved in the reporting of tables 23 – 26 and 47.

(3) in Article 9(2), the following point (i) is added:

‘‘(i) the information specified in template 47 in Part 4 of Annex III with an annual frequency where both of the conditions set out in points (i) and (ii) of point (h) of this paragraph are fulfilled. The entry and exit criteria referred to in Article 4 shall apply;’’

(4) point (c) of Article 11(2) is replaced as follows:

‘‘(c) the information specified in Part 4 of Annex IV, with the exception of the information specified in template 47, with an annual frequency’’

(5) in Article 11(2), the following point (h) is added:

‘‘(h) the information specified in templates 23, 24, 25 and 26 in Part 2 of Annex IV with a quarterly frequency where both of the following conditions are fulfilled:

(i) the institution is not a small and non-complex institution as defined in Article XX of Regulation (EU) No 575/2013 as amended by Regulation (EU) YYYY/NNNN;

(ii) the institution’s NPL ratio is equal to or higher than 5%. For this purpose, the NPL ratio is the ratio defined in point (h) (ii) of Article 9 (2).

The entry and exit criteria referred to in Article 4 shall apply;’’

(6) in Article 11(2), the following point (i) is added:

‘‘(i) the information specified in template 47 in Part 4 of Annex IV with an annual frequency where both of the conditions set out in points (i) and (ii) of point (h) of this paragraph are fulfilled. The entry and exit criteria referred to in Article 4 shall apply;’’

(7) Annex III to Implementing Regulation (EU) No 680/2014 is replaced by Annex I to this Regulation.

(8) Annex IV to Implementing Regulation (EU) No 680/2014 is replaced by the text set out in Annex II to this Regulation.

(9) Annex V to Implementing Regulation (EU) No 680/2014 is replaced by the text set out in Annex III to this Regulation

Article 2

This Regulation shall enter into force on the the twentieth day following that of its publication in the *Official Journal of the European Union*.
It shall apply from 1 March 2020.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission
The President

On behalf of the President

[Position]

<u>Questions for consultation</u>

Please see Annex 3 to this Consultation Paper (Annex V to the draft ITS) for questions 1 to 7 on specific elements of the proposal.

Q9. Are the scope of application of the revised reporting requirements as set out in the draft ITS above, the reporting templates as set out in Annexes 1 and 2 to this Consultation Paper (Annexes III and IV to the ITS) and the related instructions in Annex 3 to this Consultation Paper (Annex V to the ITS) sufficiently clear? In case of uncertainties with regard to scope of entities subject to the reporting obligation or the information that shall be reported, please provide clear references to the applicable provision respectively the relevant columns/rows of a given template as well as specific examples that highlight the need for further clarifications.

ANNEXES

[*see separate files*]

5. Accompanying documents

5.1 Draft cost-benefit analysis / impact assessment

As per Article 16(2) of Regulation (EU) No 1093/2010 (EBA Regulation), any guidelines and recommendations developed by the EBA shall be accompanied by an Impact Assessment (IA) which analyses 'the potential related costs and benefits'.

The analysis presented in this section focuses on the implications of recent developments in the banking sector as well as the revisions to the regulatory framework for the specific FINREP templates described in the consultation paper above. The three main topics with implications on reporting templates are (i) continued attention placed on the level of NPLs in Europe, (ii) specific supervisory observations of recent studies with respect to P&L items (e.g. the analysis by competent authorities on profitability and business models), (iii) the applicability of IFRS 16 from January 2019. The analysis that follows will be structured along these three main topics. Given the nature and the scope of the revisions, the IA is high-level and mainly qualitative in nature.

Revisions to the reporting on Non-performing and forborne exposures (NPE&FBE)

A. Problem identification

NPEs remain one of the key challenges of Europe's banking sector. Whilst improvements have been observed over recent years, progress is slow and in particular remains very heterogeneous across countries. Bank funding continues to take prominence in the European funding market and EU banks are still heavily reliant on net interest income. This further places asset quality and credit risk at the centre of EU banks' business models. The effects of high levels of NPEs in bank balance sheets on funding costs, capital and efficiency (among other things), can seriously jeopardise institutions' ability to run a viable and sustainable business model.

Recognising the importance and priority of this topic for the EU banking market, several initiatives have been launched, at European level as well as by individual competent authorities to addressing the problem of NPEs. The European Council's Action Plan to tackle NPLs, published in July 2017, envisages the EBA to contribute to the action plan, inter alia by developing Guidelines on NPL management consistent with the ECB's Guidance to institutions on non-performing loans from March 2017. In the spirit of the Council Action Plan and keeping up with the general developments, there is a need to improve also the supervisory reporting on NPEs.

Monitoring developments in institutions' NPE levels is crucial. In order to achieve improvements and sustainable levels in the long term it is important to be able to assess and monitor developments better and at a more granular level. This would also contribute to developing a better understanding of which NPE strategies and practices are effective and working. Improving consistency and granularity in NPE reporting would be a big step towards improved monitoring and enabling informed policy decisions. Therefore, it is key to address inconsistencies in NPE management and reporting and achieve a better way of monitoring developments.

B. Policy objectives

The proposed revised FINREP templates, by significantly improving the information available on NPEs, addressing the data gaps identified and harmonising the information reported, aim to strengthen supervisors' ability to assess and monitor non-performing portfolios.

In order to be proportionate, the proposal is structured around two complementary modules. Module 1 envisages revisions to existing reporting templates (mainly tables 13, 18 and 19), in order to inter alia gain more detailed insights into exposures to certain sub-sectors and LTV levels. Module 2 introduces new templates (tables 23 to 26 and 47), proposing additional, even more granular reporting for institutions with higher NPE levels.

C. Options considered

Section C. under each topic presents the main policy options discussed and the decisions made during the development of the updated templates for each of the three topics, respectively. Advantages and disadvantages, as well as potential costs and benefits of the policy options and the preferred options resulting from this analysis are also reported.

(1) Status quo/ intervention

Option 1a: Keep the current level of detail of the NPE related FINREP templates.

Option 1b: Improve the level of information and granularity in the NPE related FINREP templates.

(2) Proportionality in Module 2

Option 2a: Module 2 templates to be filled in by all institutions.

Option 2b: Module 2 templates to be filled in only by institutions with material NPE portfolios (>5%).

Option 2c: Introduce further proportionality by requesting Module 2 to be filled in only by **significant** institutions with material NPE portfolios (>5%).

Option 2d: Introduce further proportionality by requesting Module 2 to be filled in by **all institutions** with material NPE portfolios (>5%) **with the exception of small and non-complex institutions**.

(3) Additional granularity – Fair valued items in Module 2

Option 3a: Report only loans and advances at cost and amortised cost (Module 2).

Option 3b: Add also the reporting of loans and advances at fair value (excluding loans and advances classified as held for trading, trading financial assets and items held for sale) (Module 2).

D. Assessment of the options and preferred options

(i) Status quo / intervention

Detailed, harmonised monitoring is crucial in order to provide supervisors with the necessary information to promote a sustainable NPE management and sustainable long-term NPE levels across the EU.

The guidance and (reporting) framework put in place on NPEs over the last years has already been a big step forward. In 2014, common definitions of NPE and forborne exposures (FBE) were introduced to facilitate the identification of problematic assets. The reported data allows detailed insights into, for example, NPEs by exposure classes and geographical location. In 2017 and outside the supervisory reporting framework, the EBA published standardised templates providing a common EU data set for the screening, financial due diligence and valuation during NPL transactions, providing data at the most granular level, including information on counterparties related to the loan and the collateral provided.

Other guidance and products include the EBA Report on the dynamics and drivers of non-performing exposures in the EU banking sector, the EBA Report on Statutory Prudential Backstops, the Consultation Paper on the Draft Guidelines on management of non-performing and forborne exposures and the recently issues Consultation Paper on the Draft Guidelines on disclosure of non-performing and forborne exposures. All of this has already resulted in a major improvement of transparency and market certainty, as well as a reduction in information asymmetries.

Given the relevance of the NPE issue for the banking sector, more information is needed and the reporting requirements need to be adjusted accordingly. The current reporting framework does not present sufficient details on NPEs to monitor developments effectively, especially more details on specific vulnerable portfolios (e.g. exposures to particular sectors or exposures with certain LTV levels) as proposed would be useful.

The revised templates proposed in the CP above in particular envisage more granular information on:

- Various sub-sectors and sub-types of exposures (such as SMEs, CRE exposures);
- Level of collateralisation (differentiation between high versus low LTVs);
- Collateral and financial guarantees (e.g. breakdown by collateral type);
- NPL inflows and outflows.

Collecting more granular information on the performance of exposures to various sub-sectors or of specific sub-types of exposures, in particular on those which tend to be more risky and where particular scrutiny is appropriate, would allow recognising trends and identifying vulnerabilities (early on). Having a detailed understanding of the performance of loans in sub-segments is crucial to better apprehend the vulnerabilities and address any NPE problems in the long term, for example by allowing targeted policies or promote changes in institutions' activities in specific sectors.

Likewise, LTV levels are an important indicator of the riskiness of a loan and in the presence of the low interest rate environment and house price developments in some countries over recent years, LTV ratios as a macroprudential instrument have been the subject of many policy discussions. Having more detailed information on the distribution of LTVs across institutions' portfolios would inter alia allow a much better assessment of institutions' risk appetite in their lending decision and of vulnerabilities of specific borrower types. Moreover, it would also inform policy debates, which ultimately imply more targeted and more effective outcomes at the system level and for the real economy.

Monitoring inflows versus outflows is crucial to assessing key drivers of NPEs, as well as institutions' strategies and their effectiveness. In particular, specifically reporting on NPL inflows in the last 24 months allows an insight into recently granted loans and hence potentially also into changes in institutions' lending behaviour over time.

Whilst recognising the additional reporting burden that these proposed revisions would imply for institutions, most of the information should be expected to be readily available at institutions and should in fact be assumed to be part (to a certain extent) of their regular internal risk monitoring. Adding it to the supervisory reporting increases the reporting cost for institutions initially; however, in the long-run, the data collected can contribute to significantly increasing the understanding of the NPL landscape by both institutions and supervisors, and thereby notably contribute to addressing the problems of NPEs in the EU banking sector.

Therefore, **Option 1b** – to improve the level of granularity collected in the relevant FINREP templates, is superior to option 1a.

(ii) Proportionality in Module 2

Module 2, as described in the background complements Module 1 and explains some of the exposures and developments reflected in Module 1 in even more detail, for example with regard to the NPL inflows and outflows or information on collateral obtained by taking possessions.

Considering the additional level of granularity added in Module 2, special attention with regard to the issue of proportionality is warranted. Generally speaking, and given that NPEs present a problem both at the micro-prudential level for the individual institution and the macro-prudential level for the financial system as a whole, relevant information needs to be collected and relevant data needs to be monitored from as many institutions as possible with an appropriate level of granularity. Nevertheless, this objective of obtaining the maximum feasible scope and amount of data needs to be assessed in consideration of the level of granularity of reporting information at hand, as well as the reporting burden it implies for institutions. In view of this, given the level of granularity included in Module 2, it is assessed that it would be disproportionate to request Module 2 data from all reporting institutions.

Therefore, Option 2a is ruled out. Instead, three options are considered for applying proportionality in Module 2:

Under Option 2b the most granular information is proposed to be asked only from those institutions demonstrating weaker portfolios. Module 2 is to be completed only by institutions with an NPL ratio of 5% or above. The threshold of 5% has been chosen to align the reporting criteria with criteria used in the draft EBA Guidelines on management of non-performing and forborne exposures to identify institutions which should set an NPE strategy and related operational and governance aspects[7].

Requesting very detailed data may in particular overburden smaller institutions. It could therefore be argued that even more proportionality should be introduced in the reporting of Module 2, by further limiting it to only significant institutions with higher NPE levels.

Therefore, an additional option, introducing further proportionality is considered:

Option 2c introduces an additional proportionality factor, proposing Module 2 to be filled in only by significant institutions with an NPL ratio of 5% or above.

Differentiating between size- versus risk- based proportionality is important in the context of NPEs. An institution's level of risk, that is its level of NPEs, should arguably be the determining factor to assess if additional, more granular reporting is appropriate, not least because the NPE level will govern the actions and NPE strategies necessary within an institution. Substantial NPE problems can exist regardless of an institution's size. In particular, analysis conducted as part of the impact assessment on the Consultation Paper on the Draft Guidelines on management of non-performing and forborne exposures showed that on average the issue of NPEs is more pronounced amongst smaller and medium-sized banks (in terms of their volume of total assets and the level of cross-border activities). With the focus of the proposed new reporting templates on the performance of EU banks exposures and therefore risks, focusing only on significant institutions would therefore be too restrictive in determining reporting requirements and risk would no longer be the main driving factor.

Further, in order to form a complete picture and assess the extent (and potential) risk of NPEs to the banking sector, including also less significant institutions into the reporting is necessary. For instance, many less significant institutions may show a very high level of NPEs, which, especially when concentrated in one particular market or jurisdiction, could imply substantial risks to financial stability and have broader economic consequences.

[7] Please also see the Impact Assessment regarding the 5% threshold on page 89 of the Consultation Paper on the Draft Guidelines on management of non-performing and forborne exposures

Therefore it is viewed as crucial and most effective to include more than significant only institutions with NPE levels > 5%. Taking into account the sizable reporting burden Module 2 will imply for very small institutions, however, a compromise **Option 2d** is proposed. The latter foresees reporting of Module 2 by all but small banks with NPE levels > 5%.

It is assessed that granting some proportionality by size of institutions but at the same time not limiting the reporting to significant institutions but allowing risk to be a key determining factor for reporting requirements, is the preferred option in terms of cots and benefits. Hence, proportionality Option 2d is preferred to Option 2b and Option 2c.

(iii) Additional granularity – Fair value

Countries differ in terms of their accounting of loans and advances. If trading activity is low and there is no active market for loans and advances, the latter will be predominantly accounted for at cost or amortised cost. However, other countries account for loans and advances mostly at fair value. In addition, the application of IFRS 9 may entail the accounting of more loans and advances at fair value than was previously the case under IAS 39.

In order to capture the full picture and allow all countries to report appropriately, adding the reporting of loans and advances at fair value to the scope of exposures covered by the respective reporting templates, however without a breakdown by accounting portfolios to contain the reporting burden, is preferred and hence **Option 3b** is superior to Option 3a.

Improvements to the reporting on profit or loss items (P&L)

A. Problem identification

Costs play a crucial role in EU institutions' performance, also once again highlighted by a recent analysis conducted on European institutions' profitability and business models by competent authorities. Given their prominent role for the EU banking sector, a discussion around the level of information available on costs as part of supervisory reporting is necessary. Because of the importance in the context of institutions' business models and profitability, amendments to the FINREP templates could provide meaningful insights into the issue by improving the level of detail provided on operating and administrative expenses.

B. Policy objectives

To reflect the importance of the cost factor, amendments to selected P&L templates are proposed, adding more detail on, amongst other things, operating and administrative expenses and collecting some information on structural and external factors influencing institutions' cost structure.

C. Options considered

Status quo/ intervention

Option 4a: Keep the current level of detail of the P&L related FINREP templates.

Option 4b: Improve the level of information and granularity in P&L related FINREP templates.

D. Assessment of the options and preferred options

Status quo/ intervention

Business model sustainability of EU banks is a recurring topic. Today's environment and the continued profitability pressure under which institutions remain makes it particularly important for supervisors to carefully assess this particular area. Business model analysis is a key element also of the Supervisory Review and Evaluation (SREP) process in the EU, identifying business and strategic risks and assessing the viability and sustainability of institution's business models.

In order to understand the latter and better comprehend profitability issues, a better insight into institutions' cost structures and drivers is essential. The information on P&L items included in the current reporting framework does not provide sufficient detail on this. Moreover, the coverage of cost / expenses versus income is currently very asymmetric in FINREP. For example, a lot more items are collected on operating income compared to operating expenses.

Additional items to be collected as part of the revised templates presented in the Annexes to this Consultation paper include additional information on staff expenses and IT expenses as part of the other administrative expenses, which together account for the biggest share in institution's expenses and usually cannot be reduced at short notice. The category 'other' in the fee and commission income is proposed to be refined, in order to better understand institutions' sources of income other than interest income and understanding the fee and commission expenses better. Deeper insights into institutions' fee and commission income and expenses should in particular facilitate understanding alternative sources of income and potential risks in terms of profitability.

These additional items would hugely contribute to improving the supervisory understanding of institutions' business model and profitability conditions. Therefore, **Option 4b** – to increase the granularity of the P&L related FINREP templates- is superior to Option 4a.

Changes to FINREP with regard to IFRS 16

A. Problem identification

IFRS 16 changes the accounting rules for leases, in that operating and financial leases are no longer differentiated but they are all accounted for in the same way on the part of the lessee. These changes imply that some of the current reporting items will no longer be fully consistent with the new accounting rules.

B. Policy objectives

To address the changes in the accounting rules for lessees, some minor amendments and updates to selected templates are proposed.

C. Options considered

Status quo/ intervention

Option 5a: Keep the current FINREP templates unchanged.

Option 5b: Change the relevant FINREP templates to reflect changes in the accounting framework.

D. Assessment of the options and preferred options

Status quo/ intervention

Keeping the current templates unchanged would imply that the reporting framework is mis-aligned with the accounting framework as changes to the accounting rules for lessees would not be reflected in the templates.

Option 5b, to reflect changes in the accounting framework by slightly amending the respective FINREP templates, is therefore assessed as superior to Option 5a.

Conclusion (for all)

Based on the above considerations, the benefits of the proposed revisions to the FINREP templates in the form of improved clarity and granularity on specific balance sheet items and their development, are assessed to outweigh the costs of additional reporting.

5.2 Overview of questions for consultation

5.2.1 Questions included in Annex 3 to this Consultation Paper (Annex V to the draft ITS)

Question 1 (on template F 02.00)

Do respondents agree with the proposed FINREP representation of “Contributions to resolution funds and deposit guarantee schemes” as part of “other operating expenses”? If not, which representation would you suggest?

Question 2 (on templates F 13.2.1 and F 13.3.1)

‘Accumulated negative changes’ tries to capture, in a generic manner and independently from the type of collateral, the accumulated decrease in the value of a collateral item obtained, where the value of the collateral decreased since it was obtained by the institution (i.e. cases of increases in the collateral value are excluded). In this regard, 'accumulated negative changes' captures the net impact of changes in market prices, impairments and reversals of impairments, write-offs, depreciation and appreciation, change of accounting policies and similar on the carrying amount of an individual collateral item, where the difference between the value at initial recognition and carrying amount, as influenced by this factors, is negative.

The comparison between value at initial recognition and the carrying amount at the reference date shall be done for each collateral item separately. In order to obtain the aggregate figure that is reported in the template, only the negative differences shall be aggregated, while cases of positive differences are to be neglected.

Is this definition clear?

Question 3 (on several templates, see F 18.00)

The ESRB recommendation defines CRE as follows:

‘Commercial real estate’ (CRE) means any income-producing real estate, either existing or under development, and excludes

(a) social housing;

(b) property owned by end-users;

(c) buy-to-let housing.

If a property has a mixed CRE and RRE use, it should be considered as different properties (based for example on the surface areas dedicated to each use) whenever it is feasible to make such breakdown; otherwise, the property ca be classified according to its dominant use.

‘Commercial reals estate (CRE) loan’ means a loan aimed at acquiring a CRE property (or set of CRE properties) or secured by a CRE property (or set of CRE properties).

‘Income-producing real estate’ means all immovable properties with income generated by their rents or profits from their sale.

Is this definition clear? To which extent is compatible with, for example, your internal classification? Which challenges with regard to the practical application of this definition do you envisage?

Question 4 (on several templates, see F 18.00)

The ESRB recommendation defines the current loan-to-value ratio as follows:

‘Current loan-to-value ratio’ (LTV-C) means the sum of all loans or loan tranches secured by the borrower on a property at the reporting date relative to the current value of the property;

‘Current value of the property’ means the value of the property as assessed by an independent external or internal appraiser; if such assessment is not available, the current value of the property can be estimated using a real estate value index sufficiently granular with respect to geographical location and type of property; if such real estate value index is also not available, a real estate price index sufficiently granular with respect to geographical location and type of property can be used after application of a suitably chosen mark-down to account for the depreciation of the property;

Is this definition clear? Which challenges with regard to the practical application of this definition do you envisage?

Question 5 (on F 40.01, F 40.02)

The information included in the two group structure templates is currently collected on an annual basis. Without prejudice to notification obligations under national laws, a more frequent collection (quarterly) would improve the timely reflection and awareness of changes to institutions’ group structures. Which benefits and challenges with regard to the compilation and reporting of this information on a more frequent basis do you envisage?

Question 6 (on F 44.04, F 48.00)

Some of the items included in templates F 44.04 and F 48.00 are also collected for the purposes of benchmarking in accordance with EBA’s Guideline on the remuneration benchmarking exercise (EBA/GL/2014/08). The items requested in FINREP are of high-level nature and full alignment has been sought to keep the reporting burden limited. What is your view on the inclusion of this information in FINREP? Do you see any inconsistencies between this data and the data collected in accordance with the GL on remuneration benchmarking exercise that impact the reporting burden?

Question 7 (on several templates, see F 23.01 – F 23.03)

The following templates (templates F 23, F 24, F 26, F 47) request information on loans and advances subject to definition of non-performing and forborne exposures (with the exception of loans and advances classified as held for sale), in contrast to F 18 and F 19 that cover ‘exposures’ in a broader sense, e.g. also debt securities. The rationale behind applying these additional templates to loans and advances only is that the majority of exposures in credit institutions' balance sheets that turned non-performing are loans and advances. To have risk based focus to monitor evolution of asset quality and to balance reporting burden the templates focus on loans and advances only. Are the definitions and instructions on the definition of the scope clear?

Question 8 (on F 48.00)

The information collected in this template is different in nature from the information collected in the remainder of FINREP, i.e. it is mostly of non-financial nature. It is valuable as contextual information to understand core elements of fixed costs of institutions. Similar information, where applicable potentially with regard to a different scope of consolidated entities, is collected, for example, by monetary authorities. Which benefits and challenges with regard to the compilation and reporting of this information do you envisage?

5.2.2 Questions included in the text of the draft ITS

Question 9

Are the scope of application of the revised reporting requirements as set out in the draft ITS above, the reporting templates as set out in Annexes 1 and 2 to this Consultation Paper (Annexes III and IV to the ITS) and the related instructions in Annex 3 to this Consultation Paper (Annex V to the ITS) sufficiently clear? In case of uncertainties with regard to scope of entities subject to the reporting obligation or the information that shall be reported, please provide clear references to the applicable provision respectively the relevant columns/rows of a given template as well as specific examples that highlight the need for further clarifications.