

POSITION PAPER



FINREP - NPE&FBE, P&L and IFRS 16

ESBG (European Savings and Retail Banking Group)

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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?

We welcome EBA’s initiative of regulating the presentation of resolution funds contribution expenses and deposit insurance contribution expenses for the purpose of the IFRS FINREP reporting. Such initiative would definitely contribute to the harmonization of the presentation approaches across the EU banks.

On another note, we take this opportunity for mentioning that, in our opinion, further clarifications are needed with regards to the distinction between the two newly proposed lines 351 and 435 of table 2. Thus, we note that the description of the amounts to be reported in the line 435 (provisions) could be methodologically unsound. Namely, the new paragraph Annex V. Part 2.48a says: “Where the contribution is made in the form of a payment commitment, this payment commitment shall be included in ‘provisions or (-) reversal of provisions’, if the payment commitment gives rise to a financial liability in accordance with the applicable accounting standard.” In our view, relating “financial liabilities” with “provisions” is questionable because these two terms are mutually exclusive. The contributions are being made on a legal rather than contractual basis and are not financial instruments under LAS 32, i.e. they are not financial liabilities either. Thus the relevant criterion for treating the contributions as provisions under LAS 37 is whether they are of uncertain timing or amount. When this is the case we may ask EBA for further specification.

We also note that LAS 37 does not define where the provisions expenses or their reversals should be presented in profit or loss. From this perspective we do not see a reason for distinguishing between expensed amounts to be reported as “provisions” in line 435 and respectively as “cash-based” in line 351. If nevertheless EBA decides to be prescriptive and move forward with distinguishing between the expense items to be respectively reported in the two mentioned lines, we would welcome a clarification about how updates in the original best estimates of such expenses should be reported. For instance, let us suppose that an amount of 100 is accrued at the beginning of the current reporting period, as representing bank’s best estimate of the contribution attributable to the period and that will have to be paid out at the end of the period. Let us also suppose that the actual amount established as due to the relevant authority is 105. Which of the following reporting alternatives is correct?

- 1. 105 shall be reported in row 351 of the template FIN 2 for the reporting period*
- 2. 105 shall be reported in row 435 of the template FIN 2 for the reporting period*
- 3. 100 shall be reported in row 435 and 5 shall be reported in row 351 of the template FIN 2 for the reporting period.*

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?



Yes, the definition is clear. However we believe the information requested is burdensome and difficult to provide leading to poor data quality. In the same time however, we think that, in a majority of cases, received collaterals could be subject to “accumulate negative changes” for purely accounting reasons and this could retrieve an over-pessimistic view of the quality/performance of those collaterals. For instance, received collaterals that are recognized by the receiving entity as property, plant and equipment having a limited useful life and being measured at cost less depreciation would always have an “accumulated negative change” simply due to accounting depreciation, even if the fair value at the reporting date might have increased since the repossession date.

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 break-down; otherwise, the property can be classified according to its dominant use. ‘Commercial real 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?

The definition for commercial real estate is not the same which is used in COREP. We thus highly recommend EBA to stick to the COREP (CRR) definition of CRE and not define a new one.

One aspect that could be further clarified with regards to the definition of “income-producing real estate” is whether the underlying contracts with the related tenants or buyers should already exist at the date of the loan in order for that property to qualify for “CRE property” and, therefore, in order for that loan to qualify for “CRE loan”. However, “income producing” is not a criterion used in COREP. This will create confusion among data users and will add unnecessary complexity to reporting institutions. The analysis of compatibility with internal classification is on-going and, pending on the suggested clarification, no significant challenges are envisaged at the moment.

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?

The definition is neither sufficiently clear, nor easily applicable. In particular, it is not clear how, in case of a loan secured by more than one type of collateral (i.e. and immovable property and other guarantee) this shall be taken into account. Also, it is not clear if the value of the property shall be re-assessed on a quarterly basis that is at each reporting date. As information is not available within accounting system, implementation will require both time and costs. One aspect that could be further clarified with regards to the definition of LTV-C is specifying what loan value shall be considered in the calculation (contractual on-balance receivable including overdue amounts and/or accrued interest, outstanding principal, gross carrying amount including any unamortized origination fees and transaction costs), notably for loans measured at fair value and loans identified as purchased or originated credit impaired.



Another aspect that could be further clarified with regards to the definition of “current value of the property” is what is the oldest acceptable reference date of the assessment or price index referred to in the definition, by comparison to the current reporting date.

Additionally, at a more general level, we consider the requirement of calculating and disclosing LTV values for non-financial corporations as too complex since non-financial corporations usually have collaterals which are used for more than one product of one or more clients. Additionally, due to an m to n relationship between exposure and collateral, what should be considered as market value of collateral, the whole market value of the collateral associated with a specific exposure, or the market value allocated to a specific exposure (which would be technically demanding, as it would require completely new type of allocation)? Furthermore, how should the prior charges be treated as regards market value of collateral?

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?

We believe that increasing the frequency of collecting/ reporting this information would not be justified from a cost/ benefit ratio standpoint. This is because, in the case of large banking groups, compiling this information requires significant time and effort given the relatively large number and wide diversity of group’s structure (territorial, legal, level of integration with group’s IT environment, etc.). In the same time, we would expect little informative benefit from increased (quarterly) frequency, given the relative stability of group’s structure i.e. the consolidation status of an entity once included in the consolidation scope generally doesn’t change until deconsolidation of the entity. Additionally, many columns as ‘LEI code’, ‘Entity code’, ‘Entity name’ and other columns contain very constant information that is attached to an entity in the beginning of its existence and changes very rarely, if ever, over the lifetime of an entity. Moreover, Banks are already required to inform and notify their authorities, at national or European level, of any changes in their group structures when changes occur. We do not believe that a collection of group structures’ information on a quarterly basis would improve awareness of such changes.

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?

The data required on salaries and number of staff are not accounting information but rather human resources or statistical information.

We refer to :

- Information on salaries and on number of staff by category (human resources information)
 - o IT staff wages and salaries (F44.3r031)
 - o Fixed and variable remuneration (F44.4r010and020)
 - o Fixed and variable remuneration of "Management body (in its management function) and senior management", "Management body (in its supervisory function)" and "other identified staff" (F44.4c020to040)
 - o Number of staff : Total, "Management body (in its management function) and senior management", "Management body (in its supervisory function)" and "other identified staff" (F48r010to040)
- Information on management data

o Average number of staff at retail branches (F48r060)

We question the rationale to collect such information within the financial reporting framework as defined by the article 99 of Regulation (EU) No 575/2013. The article refers only to financial information to be reported by credit institutions, excluding, de facto, other nature of information such as statistical information. Accordingly, FINREP should only be designed for application by banks when preparing their consolidated supervisory financial reporting under IFRS standards to meet article 99 requirements, without adding any other nature of information.

If the proposed requirement would be maintained, it should be noted that it would imply additional IT developments and operational burden to meet these requirements because data are not directly available in accounting general ledgers.

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?

Primarily, we believe that there is a strong need to align at least definition, at best disclosures requirements on FINREP templates with others regulations (EBA guidelines on the application of the definition of default regarding non-performing and forborne exposures, EBA guidelines on disclosure of non-performing and forborne exposures). Also, we are confronted to different implementation dates of these guidelines which are highly correlated.

Further clarifications would be necessary in our opinion, as follows:

- *Annex V. 327 & 328: the “gross carrying amount” of non-trading loans and advances measured at FVPL is as defined in Annex V.34.(a)? If yes, does it mean that the “accumulated negative change in FV due to credit risk” (to be reported in line 130 of F23) shall be deemed zero for performing FVPL non-trading loans?*
- *Annex V. 332 & 338: these paragraphs seem to indicate that the GCAs that should be cumulatively reported as YTD movements in/out the NPE category in the template F24.1 shall be the GCAs at the very point in time when the related movements occurred. As technical implementation of such requirement would lead to very high efforts and costs, we would kindly ask to confirm if month-end GCAs could be used in such cases (namely: GCA at the end of the month during which related movement occurs).*
- *Annex V. 341 & 342.d: we interpret the “increase” described in the paragraph 341 (F24.2 sub-row 30) as representing the adverse effect of passage of time over the net present value of the expected cash shortfalls (credit losses) calculated in accordance to IFRS9. Please confirm this understanding. Also, if this understanding is correct, we believe that further clarifications are necessary with regards to how the amounts (“decreases”) described in the paragraph 342.d (F24.2 sub-row 060) shall be calculated (namely: distinguished separately for NPLs for which impairment releases are observed during the reporting period while the exposure stays an NPL).*

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?



A major part of the NF information that would have to be reported within this template is more detailed than required by the current NFI reporting processes. A thorough assessment of the efforts and costs that would have to be incurred for adapting these processes to the more granular requirements of this template could not be completed by the deadline for providing our feed-back. However, we can already tentatively conclude that, the mentioned efforts and costs would exceed the incremental NF informative benefits.

Indeed, we see no benefits, to collect statistical information within financial templates with no link with accounting. On the contrary, we see great challenges resulting from the IT development costs needed to collect the information that would outweigh the benefits. Moreover, we are sceptical regarding the relevance of the information and the objective of FINREP to provide information on key aspects of the consolidated financial reporting for supervisors.

Finally, overlapping of reportings - similar information requested with regard to a different scope of consolidated entities and collected by different authorities – should be avoided. Hence, authorities should be attentive not to increase the number of reports and to rationalise all the reporting frameworks that are applicable to banks.

For these reasons, we would suggest to delete the template F.48.

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.

In formulating our comments to the Questions 1-8, we have already pointed out several clarification needs that, in our opinion, would help the proper understanding and implementation of the new requirements. As a general comment, in some cases, the very detailed level of information that corresponds to a detailed product type level or that consists of a number of items is not directly available in the accounting general ledgers. It can only be provided through database management systems. For these cases, as we do not believe that the role of FINREP templates is to follow up additional detailed statistical or management data we question the rationale to collect such information with regard to the aim of FINREP reporting as defined in article 99 of Regulation (EU) No 575/2013 (cf Question 6),

We refer to:

- *Very detailed level of information that corresponds to a detailed product type level (management control information)*
- *IT outsourcing charges (F16.8r020)*
- *Fine granularity of payment service fee products : Current accounts, Credit cards, Debit cards and other card payments, Transfers and other payment orders (F22.1r131to135)*
- *Fee and commission expenses by activity : Payment services - Credit, Debit and other Cards (F22.1r256)*
- *Number of instruments concerned by some information (statistical information) (F23.1to23.3r010to030 ; F26r010)*

Besides, the information should be reported at the highest level of the group consolidation. Thus, “IT sourcing” expenses are related to the use of external service providers. External service providers shall be understood as provided by external entities outside the scope of the entire group.

We also take the opportunity of Question 9 for submitting to your attention a few further comments, as follows:

- *With reference to the Module approach, please clarify:*
 - *Should the 5% threshold be applied on a consolidated level for Institutions that are on a consolidated level below the threshold, but for which one of the institutions being consolidated is above the threshold.*



- *If conditions of elevated NPEs and ‘small and non-complex’ institutions should be fulfilled at the same time, i.e. Module 2 would apply only to institutions that are at the same time with elevated NPE and not ‘small and non-complex’.*
- *Consultation Paper, Chapter “Proportionality”, paragraph 27, 28: in order to assess the applicability of the “Module 2” reporting requirements and having in mind Guidelines on management of non-performing and forborne exposures, part 2, point 11: “Credit institutions with a gross NPL ratio equal to or greater than 5% on consolidated, sub-consolidated or solo level should apply sections 4 and 5 of these guidelines to the entities that have NPL ratios exceeding the set threshold.”, we assume that “the NPL ratio 5%” criterion, would apply on consolidated, sub-consolidated and solo level also in FINREP. Please confirm our understanding;*
- *Template F 16.8 “Other administrative expenses” row 040 “Taxes and duties (other)”. Annex V.208iii describes it as “taxes and duties other than (i) taxes related to profit or loss taxes and (ii) taxes and duties from discontinued operations. This item includes taxes and duties such as taxes levied on goods and services and the duties paid by the institution”. Does this mean that “banking tax” expenses that national regulators imposed in various national jurisdictions within EU (including Austria) would mandatorily have to be included in “general and administrative expenses” for FINREP reporting/presentation?*
- *Template F 16.8 “Other administrative expenses” row 070 “Expenses related to credit risk”. Annex V.208vi describes it as “expenses in the context of credit events, such as expenses incurred in relation to the realization of collateral or legal proceedings”. This description seems to diverge from IFRS9.B5.5.55, which states that “The estimate of expected cash shortfalls on a collateralized financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, irrespective of whether foreclosure is probable (ie the estimate of expected cash flows considers the probability of a foreclosure and the cash flows that would result from it)”. Does it mean that expenses that IFRS 9 indicates to be captured in the “net impairment loss” are expected to be reported under “other administrative expenses” by FINREP?*
- *Template F 16.8 “Other administrative expenses” row 080 “Litigation expenses not covered by provisions”. Annex V.208vii describes it as “litigation expenses that were not covered by an associated provision”. We believe that, in practice, such expenses should not exist under the assumption that the associated provisions can always be adjusted up or down in order to reflect the factual developments around on-going litigations, irrespective of the stage reached in the litigation process. Therefore, the integrality of entity’s litigation expenses would actually be captured in the line 450 “Other Provisions” of F2 whilst the outflows extinguishing the related legal obligations would reflect in usages of the related provisions.*
- *Template 18 “Information on performing and non-performing exposures”: we think that it is unclear why the newly inserted columnar breakdown per IFRS Stages (STG1/STG2 for “performing” and STG2/STG3 for non-performing) is greyed-out for FVOCI debt instruments. Also, in our opinion it is unclear how POCI exposures would have to be captured in the newly created columns 109 (NPE-STG2) and 121 (NPE-STG3). Annex V (237.a) only indicates that all POCIs should be taken in column 122.*
- *Template 22.1 “Fee and commission income and expenses by activity”: The prepayment fees are part of contractual CFs and as such they should be part of the estimated CFs when calculating the EIR. Thus they affect the net interest income normally through EIR and, when CF estimates are revised, through catch-up adjustments. From this perspective treating the prepayment fees as a fee income under IFRS 15 does not seem to be appropriate. On the other hand, there are also arguments in favor of the fee income treatment. If banks do not include prepayments and related fees in the CF estimates the prepayment fees would affect the NII only at the time when the prepayments occur and the fees are received. Such one-off NII impact (catch up in the very last moment of the payment) does not seem to be substantiated considering that the interest income is booked on accrual basis and one-off catch up adjustments should occur during the loan life as a result of CF estimate revisions. As a result, the EBA should carefully consider all the arguments before determining the accounting treatment of the prepayment fees.*
- *24.1 Inflows and outflows of non-performing exposures - loans and advances: With reference to Annex V, point 239iv., which states: An outflow shall be reported in the following cases:
(f) The risk pertaining to a non-performing exposure is transferred and the exposure meets the criteria to be derecognized;*



Can you please provide references to CRR or examples for defining risk transfers qualifying for the de-recognition from the balance sheet?

- *Template 26 “Forbearance management and quality of forbearance”:* Distinguishing between exposures forborne once, exposures forborne twice and exposures forborne more than twice might be particularly difficult in terms of technical implementation, notably if one or more of the related forbearance measures triggers operational termination whilst the related deal is not de-recognized in accounting (“insignificant modification”) or, vice-versa, the related forbearance does not trigger operational termination whilst the related deal is de-recognized for accounting purposes (“significant modification”);

- *Template 47 “Average duration and recovery periods”, row 10 “Non-performing loans and advances: weighted average time since past due date (in years)”.* Annex V.366 describes a calculation approach that seems very complex: “The ‘weighted average time since past due date (in years)’ shall be calculated as the weighted average of the number of days past due of exposures classified as non-performing in accordance with paragraphs 213 to 239 or 260 of this Part at the reference date. Non-performing exposures that are not past due shall be considered as being zero days past due in this calculation. Exposures shall be weighted by the gross carrying amount. The weighted average time since past due date shall be expressed in years (with decimals)”. Also, we understand that period-end GCAs should be used as weighs. Please confirm this understanding. As a side comment, we think that the purpose of using GCAs as weighs (which is: placing more importance on large NPL exposures in calculating this average duration indicator) is inevitably altered if the related NPLs were in the meantime subject to partial or full (internal or external) write-offs.

Disclose comments – Yes / No



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