FINANCE, RISK AND COMPLIANCE

SUPERVISORY REPORTING REFORM

The European Banking Authority (EBA) has proposed changes to Supervisory Reporting. In this paper, we share what this means for reporting institutions.

PRUDENTIAL COMPLIANCE

The EBA reporting framework has made significant strides since its first publication in 2013. The new framework strives to harmonise prudential reporting requirements and financial institutions compliance capability.

SUMMARY

Integration between supervisory reporting and disclosure is the basis of the reform being proposed by the EBA.

Key information in the reporting framework provides a view for supervisors and resolution authorities on the following areas:

- Solvency
- Risk Profile
- Profitability
- Operating model
- Liquidity
- Resolvability.

The Capital Requirements Directive and Capital Requirements Regulation (referred to as CRD V (EU) 2019/878 and CRR II Regulation (EU) 2019/876) mandates the EBA under Article 430(7) to develop uniform reporting requirements. The banking package aims to enhance proportionality based on the size, risk profile and systemic importance of reporting firms.

Following this mandate, the EBA has revised its strategy in relation to the EBA Supervisory Reporting Framework, which forms part of the single rulebook for banking in Europe.

PROPOSAL

On Wednesday 16 October 2019, the EBA issued a public consultation on a new ITS on supervisory reporting requirements for institutions.

The proposal covers all supervisory reporting requirements for firms under CRR II.

The reporting ITS will enable consistency in reporting and mapping between quantitative disclosure data and supervisory reporting, fostering greater transparency, comparability and compliance.

To support the integration of both the reporting and disclosure framework proposals, the EBA have published a mapping table to demonstrate how the frameworks have been integrated.

REPORTING REFORM

The EBA proposal seeks to align the supervisory reporting requirements with CRR II and Backstop Regulation (EU) 2019/630 and to enhance the level of consistency between the reporting and disclosure framework. The ITS also considers the EBA Action Plan published in 2017 relating to non-performing exposures (NPEs) through the application of prudential backstops to newly originated exposures.

The proposal draws on commonalities between information disclosed to regulators and that which is disclosed publicly. Consistency and enhanced quality through an integrated approach to supervisory and quantitative disclosure shall be realised following the reform to the framework, facilitating compliance with both elements of reporting and disclosure requirements for firms. This moves towards mitigating the burden on reporting institutions, fostering consistency between reporting and disclosure requirements by leveraging the same data to complete both disclosure and reporting requirements.

KEY CHANGES

The EBA proposed alignment between Pillar III disclosure requirements and supervisory reporting means where possible information disclosed shall also be expressed in supervisory reporting and fosters comparability between institutions for the public and regulators alike.

The EBA consultation on the new draft ITS for supervisory reporting focuses on the following key areas:

- Standardisation of reporting requirements
- New proportionality measures:

  I. Three new COREP templates on prudential backstop
  II. Reduced own funds reporting requirements for certain exposure classes (infrastructure projects) in both standardsised approach (SA) and Internal Ratings Based approach (IRB) templates
  III. FINREP template reform for NPEs by time-buckets with a semi-annual frequency
  IV. Introduction of templates for Net Stabled Funding Ratio (NSFR) with simplified templates for small and non-complex firms
  V. Requirement for large institutions which are either G-SIIs or listed to report on the new IRB and CCR templates, with reduced frequency

- Integration of Backstop Regulation: Own funds reporting changes and NPE treatment as a mandatory prudential deduction from institutions' own funds
- Bridge data gaps with credit risk and counterparty credit risk reporting requirements following updates to CRR II
- Template removal to decrease reporting burden
- Alignment with the Large Exposures framework reform
- Leverage Ratio template changes including alignment with CRR II Article 92(1a) G-SII add-on for the leverage ratio
- Mapping between quantitative disclosure templates and supervisory reporting
- Data Validation Rules, Data-Point Model (DPM) and XBRL taxonomy.

SUPERVISORY REPORTING CHALLENGES

The ITS proposal introduces reform to reporting requirements to align with CRR II changes whilst reporting comparable information across the suite of supervisory reporting templates and Pillar III disclosure templates. In the long term, this will ease the production time and effort on reporting firms, but to enable successful adaptation to internal processes to this end, it is envisaged significant internal transformation will need to happen.

Fundamental challenges to compliantly implement the ITS include:

Reporting Challenges

- Reporting software capability and integration with finance and risk architecture
- CRR II impact on reporting requirements
- Judgement and interpretation of requirements
- Disclosure triggers for large banks
- Compliance and Governance
- Mapping consistency between disclosure and reporting requirements

Data and processing challenges

- Data architecture and lineage
- Legacy system capability
- Data validation
- Data mapping and aggregation
- Data quality and availability.

TIMELINE

2019

April 2019

- Backstop Regulation (EU) 2019/630 published

June 2019

- CRR II and BRRD II regulation entered the Official Journal (OJ)

16th October 2019

- EBA consultation published on new comprehensive ITS for supervisory reporting requirements

2020

16th January 2020

- Deadline for comments on the consultation paper

June 2020

- EBA propose to submit the final ITS to the European Commission (EC)

2021

from 30th June 2021

- Application of Supervisory Reporting Changes applicable

2022

January 2022

- G-SIIB Leverage Ratio Add-On template updates effective

CAPCO FINANCE, RISK AND COMPLIANCE (FRC)

For financial institutions, new regulations increase complexity and cost. Through guiding and implementing FRC strategies operationally and harnessing new and emerging technologies for regtech, Capco has built a reputation of empowering clients to turn finance, risk and compliance into a competitive advantage.

To support in your understanding and assessment of how this recently announced reform impacts your business, Capco FRC is a team of experts in regulatory change execution.

CAPCO SOLUTION DELIVERY FOR CLIENTS

The continuous reform of the regulatory landscape following the global financial crisis has led to greater robustness and resilience within the banking sector but at a cost of significant time, money and effort to manage the technical implications of compliant regulatory change implementation for reporting institutions.

How we can support you with these challenges:

- Impact analysis of the EBA reporting requirements and alignment with CRR II and backstop regulation
- Review of operating model and internal control framework
- GAP analysis of the current reporting framework and data sources
- Independent Validation and Assurance; reporting governance
- Integration of Pillar III Disclosure Requirements into Supervisory Reporting
- Front to back implementation support
- Regulatory training
- Seminars on market developments and thought leadership.

TO DISCUSS THIS PUBLICATION IN MORE DETAIL PLEASE CONTACT ONE OF THE FOLLOWING TEAM MEMBERS.

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