



CEBS/04/85
COREP/04/12
November 2004

NEW SOLVENCY RATIO

TOWARDS A COMMON REPORTING FRAMEWORK

I.	PURPOSE OF THIS PUBLIC INFORMATION.....	1
II.	WHY IS A COMMON REPORTING AN IMPORTANT AIM?	2
III.	WHAT HAS BEEN DONE?.....	2
IV.	KEY PRINCIPLES FOLLOWED.....	3
V.	TEMPLATES	5
VI.	DATA MODEL.....	7
VII.	ANNEXES.....	9

I. Purpose of this public information

1. On 1st July 2004 CEBS decided to begin work on a Common Reporting framework for the New Solvency Ratio (Basel II/CAD III). A CEBS working group was created called "COREP" (COMmon REPorting) to perform this task which included all EU banking supervisors. At its October meeting, CEBS approved a 1st draft presented by COREP and agreed the way forward.
2. The three main steps proposed are:
 - o **First step**, every country will have 1 month to present the work done with their own Banking Industry. This discussion would not be a formal consultation, but only an informal information, which would not necessarily require asking for in-depth comments from national banking industries - this would be made through the formal CEBS consultation to follow - its aim is to

get a first view on their opinions. COREP would meet then after this period and consider the results at its December meeting ;

- **Second step**, based on the information received from banks, **a formal consultation** for 3 months could be opened in mid-January. The new document will be posted on the CEBS web-site and the answers would be analysed by the CEBS Secretariat. A COREP Meeting could take place before the end of April 2005 - to propose to CEBS, if deemed necessary, some modifications;
 - Finally, **the formal adoption** of the COREP framework could be announced around June 2005, i.e. at the June 16 CEBS meeting. Each CEBS member will, on a best effort basis, endeavour to implement it. But each country will remain in charge to do it, according to its needs, habits and regulatory powers.
3. This framework under informal discussion consists of three sets of templates:
- The computation of the new ratio with the appropriate filters between IAS accounting figures and regulatory own funds;
 - Tables for credit risk, market risk (VaR model) and operational risk ;
 - Other tables.
4. Additionally all these tables are brought together within a data model. This data model is also provided and it is CEBS intention to complete an XML/XBRL coding for this framework before June 2005.

II. Why is a common reporting an important aim?

- 5. Achieving a common reporting framework in Europe is a highly desirable aim that should reduce the regulatory burden on firms, improve the co-operation and exchange of information between supervisors and help move towards a “level playing field” in Europe.
- 6. The expectations from firms, especially cross border firms, are high. These expectations were outlined by the EU Commission’s Forum Group in its report on reporting requirements (2002) which looked at the administrative burden on firms across the EU.
- 7. BASEL II/CAD III and IAS provide the EU with a unique opportunity to streamline reporting as countries will need to develop new reporting requirements.

III. What has been done?

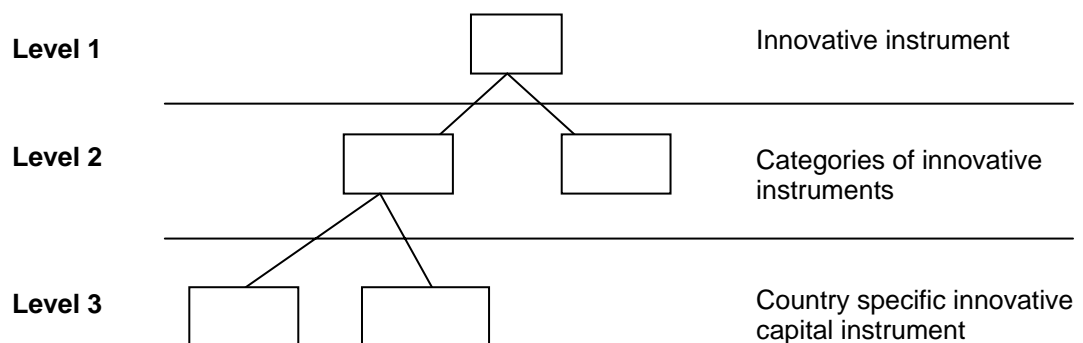
- 8. The CEBS has mandated a working group, referred to as COREP and led by Pierre-Yves Thoraval from the French Commission Bancaire, to work on a common reporting framework for the new Solvency Ratio. The working group has focussed on the Pillar I requirements and its scope has been limited to CAD III / Basel II regulatory own funds, credit risk, operational risk and market risk (VaR model).
- 9. The reporting framework will not cover other areas such as liquidity, large exposures or credit registers for instance.

10. The common reporting applies to credit institutions. This Initiative could potentially be extended to Investment firms, subject to Basel II/CAD III requirements as referred to in Article 6 of draft revised Directive 93/6/EEC on the capital adequacy of investment firms and credit institutions.
11. The working group has designed a comprehensive reporting framework based on the templates and has set the basis for a data model that would allow national flexibility on data reporting.
12. A Data Model has been designed with an aim to remain neutral as far as the IS solution to be adopted is concerned. It must however be noted that the recommended solution to take full advantage of all the designed functionality is the XBRL protocol. IS solutions have also been investigated in order to allow the implementation of a common reporting across Europe that would be compatible with existing national reporting systems.

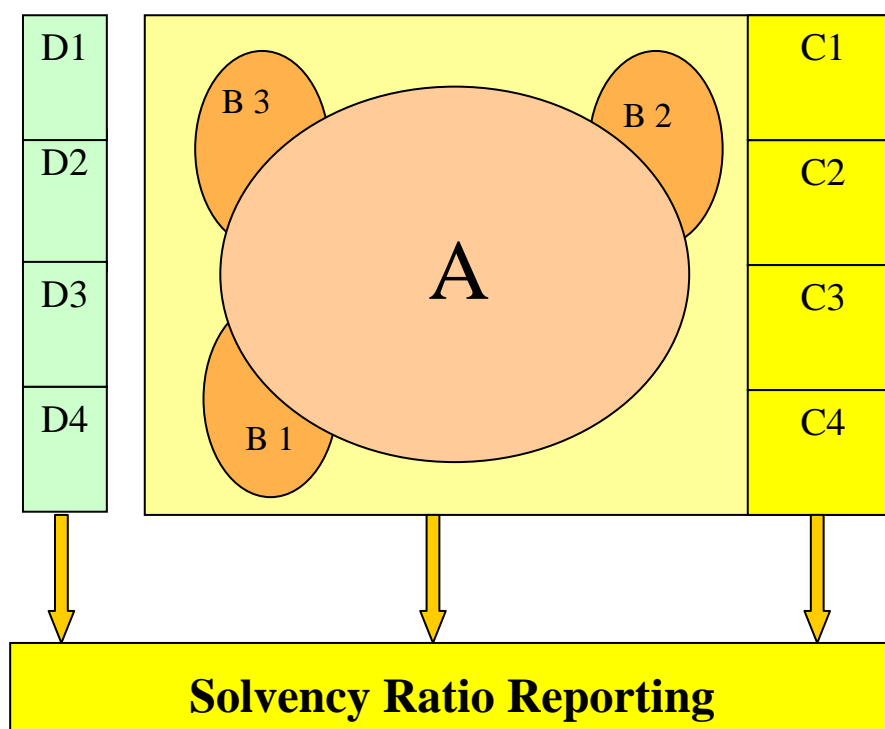
IV. Key principles followed

13. Bearing in mind that the objective of the common reporting is to strike the right balance between the highest level of commonality and some degree of flexibility, the following principles have prevailed:
14. **FLEXIBILITY**. The common reporting framework should allow each supervisor to choose the level of aggregation required in order to obtain an amount of information commensurate with its supervisory targets. It is worth bearing in mind that the common reporting is not envisaged as a “minimum” common reporting.

As set out below, flexibility means the possibility to use or not secondary levels, even if the latter is defined in the common taxonomy.



For example, at level 1, aggregated information on innovative capital will be asked, at level 2, general categories of innovative capital instruments, and where appropriate at level 3, more detailed information (i.e. specific national instrument).



The Common European reporting will actually allow for three different degrees (B, C, D) of flexibility, where:

- A represents the data deemed necessary by all supervisors;
- B1, B2, B3 represent data which are i) country specific or ii) deemed necessary by one or different supervisors. They are included in the European taxonomy;
- A + B represent the European common reporting (taxonomy);
- C: Local or Sector-wide taxonomies (Developed under the same standard as the Common Reporting)
- D: Country specific requirement outside our scope

15. **CONSISTENCY.** The common reporting framework should aim to minimize the number of different concepts used throughout the different templates (exposure classes, exposure types, PD grades, subcomponents of own funds, etc.) and use these concepts always with the same meaning.

A consequence of this principle is that any concept used should have, in order of preference:

- (i) a link to a definition within a relevant EU Directive or guidance issued by international supervisory fora;
- (ii) a link to areas where the concept is used in those Directives or guidance; and in absence of those links
- (iii) a clear and widely accepted meaning amongst financial practitioners.

16. **STANDARDISATION**. In part because of the former two principles, the common reporting should aim to minimize the number of different templates, being aware that this is achievable at the cost of losing some information.
17. The application of these principles explains many of the options taken. Its impact may be found anywhere in the proposed framework. Some examples are:
 - (i) Regarding flexibility, the ample use of tree structures with the inclusion of intermediate “totals” and “subtotals” provide a wide range of possibilities to the supervisors in order to aggregate information. Particularly relevant is the tree structure used for the exposure classes (total exposures, central governments and central banks, regional governments...); or that used for the exposure types (total, on-balance, off-balance, etc).
 - (ii) Regarding consistency, the use of similar exposure classes for the different approaches used in credit risk assessment (SA & IRB) or, where applicable, the same concepts for the columns in the templates are clear examples.
 - (iii) With respect to standardisation, a unique template has been designed for all the different IRB approaches, whether foundation or advance, with only one exemption for the “slotting criteria” within the specialised lending.

V. Templates

18. Data Reporting Requirements

For ease of reference the data that will be required for the purpose of this reporting framework have been presented through a set of templates. Each template can in turn be applied at the required level or for various items of the designed lists (exposure class, asset type...) as defined in [annex 1](#).

It must be noted that not all the templates will necessarily apply to the same institution at the same time. For instance the treatment of the Equity exposures under the IRB approach is managed through 3 templates, one for each of the available approaches.

19. Reporting Data Lists

Because aggregated figures are not necessarily meaningful, i.e. adding up cash exposures with derivative notional, or simply to maintain the required degree of flexibility, a number of data have been organised through Data Lists:

Exposure Classes:

Although they are based on the 7 Exposure Classes described under the IRB Approach in the Directive, they provide a level of detail sufficient to allow its use under the Standardised Approach.

Exposure types:

Because the risks considered are very different, the directive treated certain types of exposure in very different ways. In order to obtain from the Institution a detailed picture of the elements behind their ratio, the reporting framework allows for a breakdown of some components according to the following 5 types of items: total exposures, balance sheet, off-balance sheet, repos and derivatives.

Maturity:

This applies only for the Specialised Lending under the “Slotting Criteria” approach that requires distinguishing between exposures at more than 2.5 years and below.

CRM Types:

This list is used to obtain a thinner level of information on the transfer of risk from one exposure class to another generated by the CRM techniques.

20. Summary and Impact of IAS templates

- Summary template provides details for the numerator and summarises the main elements of the denominator that are detailed in the other templates.
- The Impact of IAS template includes a prudential filter that might be used to make the necessary adjustments between IAS accounting figures and regulatory own funds.
- It has been decided to include in the summary template only very synthetic figures regarding the prudential filters. Details of the filters have been isolated in a specific template. These filters make assumptions in areas where the final decision has still to be taken and will need to be reviewed when decisions are made by CEBS/EGAA.

21. Standardised Approach

- 4 templates are dedicated to the Standardised Approach: Capital Requirements, Impact of CRM and 2 templates for the exposures on Traditional and Synthetic Securitisations.
- The Capital Requirement templates can be broken down into 4 Exposure types and 12 exposure classes. Within the template, the exposures are in turn split by Risk Weight and by CCF.

22. Internal Rating Based Approach

- This more complex approach requires 9 templates. However it must be noted that usually not all templates shall be used at the same time.

23. CRM Risk Transfer Table

- This template has been designed to report in detail how the CRM techniques transfer risks from one exposure class to another within each of the three main approach used (STA, FIRB and AIRB) and also among the exposures treated under these different approaches.
- As already mentioned above , this template can be split by type of CRM.

24. Market Risk Templates

- The templates designed for the Market Risk Capital Requirements are only meant for the Internal Model Approach. The CAD II SA reporting requirements have not been harmonised and remain unchanged and specific to each country. The first template is an overview of the Capital Requirement computation, the second template aims at providing the supervisor with information on the regulatory value at risk and its back testing.

- Regarding market risk, the common EU reporting framework is limited to internal model. Due to the complexity and the differences of approaches to the standardised approach, it seems difficult to streamline these reporting requirements. As a preliminary approach, the standardised approach for market risks would be kept outside the framework.

25. Operational Risk Templates

- The first template on Operational Risk is meant to report some level of detail on the computation of the Capital Requirement.
- The second template aims at obtaining from the Institutions information on the Operational losses they have suffered during the year.

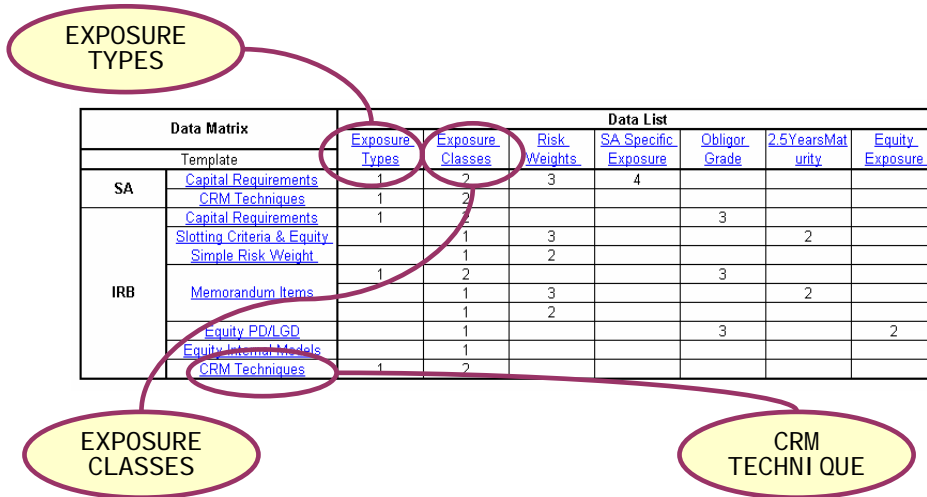
26. Other Supervisory Information

- 5 additional templates have been agreed. The information required in these templates are not directly linked to the computation of the Solvency Ratio, but rather aim at providing the supervisor with a better view on some specific risks through detailed information that BASEL II / CAD III permits:
 - on individual exposures;
 - on exposures per industry;
 - on the split of risk within groups;
 - on major operational risk losses
 - on originated securitisation programs.

VI. Data Model

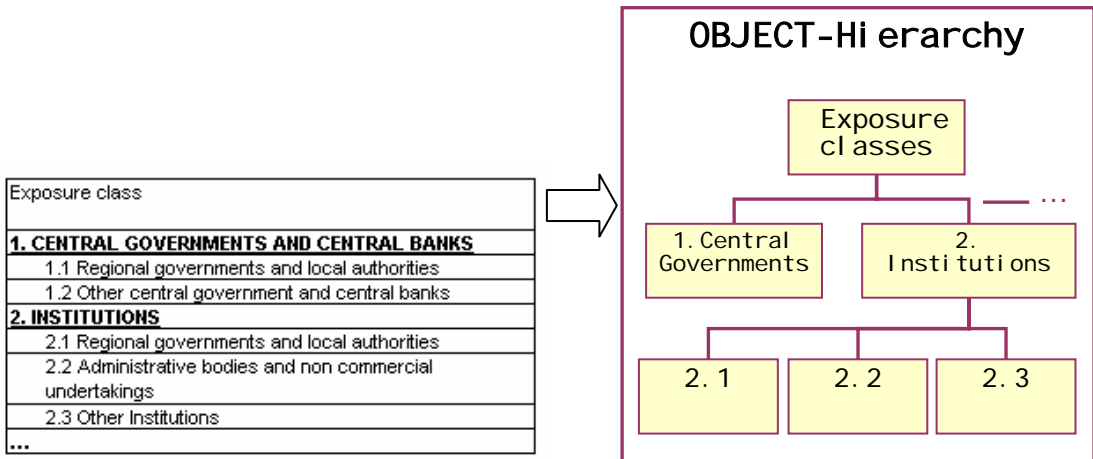
27. The same objectives that have shaped the framework apply to the data model. These are:
- Hierarchical tables that allows each country to choose its level of details;
 - Unique definition for each item;
 - All the necessary references to the relevant directives;
 - An architecture suitable to any reporting standard.

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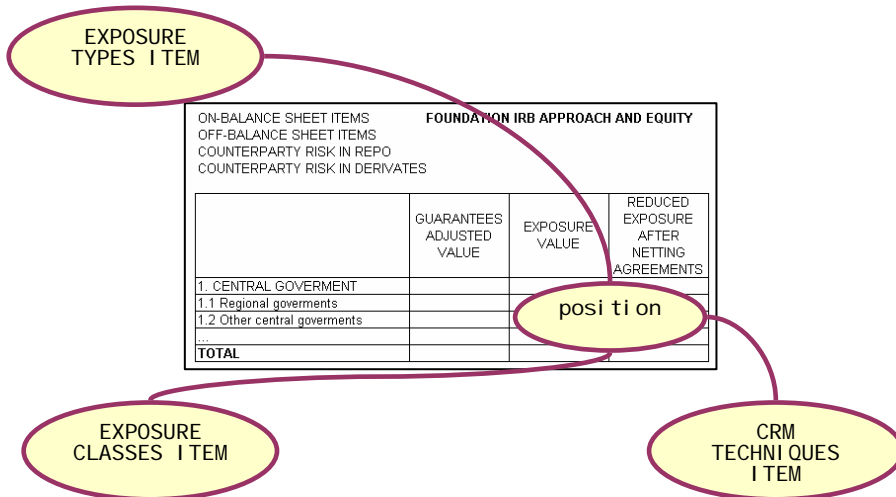


28. The templates were taken and incorporated into a data model. The data model matrix (See [annex 3](#)) summarises the data model and highlights the level of reporting agreed. This represents A + B in the European common reporting framework.

29. All items of an object are built up in an object hierarchy.



30. In fine, every position inside one template can be located as a combination of items of all involved objects.



VII. Annexes

ANNEX 1: List of Templates

Section	Template Name	Count	Breakdown by					Total
			Exposure Type	Maturity	Exchange	Guarantee Type	Exposure Class	
Ratio								
	Summary	1						1
	Impact of IAS	1						1
SA								
	Capital Requirements	1	4				12	48
	Impact of CRM	1	4					4
	Securitisations Trad	1						1
	Securitisations Synth	1						1
IRB								
	Capital Requirements	1	4				20	80
	Impact of CRM	1	4					4
		1	4					4
	SL Slotting Criteria	1		2				2
	IRB Equity PD/LGD	1			4			4
	IRB Equity Simple RWA	1						1
	IRB Equity Internal Model	1						1
	Securitisations Trad	1						1
	Securitisations Synth	1						1
SA & IRB								
	CRM Risk Transfer table	1				4		4
Market Risk								
	Overview	1						1
	Daily Info	1						1
Operational Risk								
	Capital Requirements	1						1
	Losses	1						1
Other Supervisory Information								
	Individual Exposures	1						1
	Sectorial Exposures	1						1
	Affiliates	1						1
	Individual Operational Losses	1						1
	Securitized Exposures	1						1
TOTAL		25						167

ANNEX 2: Flexibility based on Hierarchical Lists

Label	Level	SA Capital Requirements & CRM	IRB Capital Requirements	IRB Slotting Criteria Equity Simple	IRB Capital Requirements Memo	IRB Equity PD.LGD	IRB Equity Internal Models	IRB CRM	Risk Redistribution
<u>CENTRAL GOVERNMENTS AND CENTRAL BANKS</u>	1	A	A		A			A	A
Regional governments and local authorities	2	A	A		A			A	
Other central government and central banks	2	A	A		A			A	
<u>INSTITUTIONS</u>	1	A	A		A			A	A
Regional governments and local authorities	2	A	A		A			A	
Administrative bodies and non commercial undertakings	2	A	A		A			A	
Other Institutions	2	A	A		A			A	
<u>CORPORATE</u>	1	A	A		A			A	A
Administrative bodies and non commercial undertakings	2	A	A		A			A	
Specialized lending	2		A		A			A	
Slotting criteria	3		A	A	A			A	
Excluding slotting criteria	3		A		A			A	
Other Corporate	2	A	A		A			A	
Purchased receivables	3		A		A			A	
Excluding purchased receivables	3		A		A			A	
Off which SME	2	A	A		A			A	
Purchased receivables	3		A		A			A	
Excluding purchased receivables	3		A		A			A	
<u>RETAIL</u>	1	A	A		A			A	A
Secured by Real Estate	2	A	A		A			A	
Qualifying Revolving	2		A		A			A	
Purchased receivables	3		A		A			A	
Excluding purchased receivables	3		A		A			A	
Other retail	2		A		A			A	
Purchased receivables	3		A		A			A	
Excluding purchased receivables	3		A		A			A	
Of which SME	2	A	A		A			A	
Secured by real estate	3		A		A			A	
Other retail	3		A		A			A	
Purchased receivables	4		A		A			A	
Excluded purchased receivables	4		A		A			A	
<u>Equity</u>	1	A							A
Simple Risk Weight Approach	2			A	A			A	
PD/LGD Approach	2				A	A		A	
Internal Models Approach	2						A		
<u>Securitisation Positions</u>	1								A
Traditional	2								
Synthetic	2								
<u>Other Non Credit Obligation Assets</u>	1	A							A

OR	Requirements														1		
	Event Types														2	1	
OTH	Details by Counterparty																1
	Details by Sector																1
	Other Group Info																1
	OR Major Losses																1
	Securitisation Details																1