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Impacts for Luxembourg Banking industry of the COMmon solvency ratio REPorting project

Under the aegis of the Committee of European Banking Supervisors (CEBS), the COREP project aims to set up the COMmon solvency ratio REPorting framework for credit institutions and investment firms under the future European Union capital adequacy regime.

The project supported by the twenty-five European supervisors pursues three main objectives:

1. Develop a set of common templates to be used by EU supervisors and supervised credit institutions under the capital requirements directive;
2. Facilitate the exchange of information between supervisors based on more standardization and consistency;
3. Increase cost effectiveness for supervisory activities and provide cross-border groups, small and local banks with less or limited administrative burden.

As from January 2007, European supervisors will require the banks to provide solvency ratio information as per the defined European COREP templates.

The scope of the COREP project

The COREP working group focuses on two specific tasks:

1. Definition of the common reporting templates

These templates are used to collect data as part of the solvency reporting to the banking supervisors. The definition of the data to be collected has been done together by a European working group of banking supervisors. The business data model is structured around dimensions (exposure class, exposure type...) and a list of measures (original credit & counterparty, exposure after netting...). For example, a template contains detailed information on the impact of the different types of credit risk mitigation techniques available in the context of the foundation internal rating based approach. The templates highlight the allowed and invalid combinations between the measures and the dimensions. The templates, dimensions, measures and their related data represent the framework for solvency ratio reporting commonly agreed by the European banking supervisors.

2. Definition of a common taxonomy under a standard based reporting solution

CEBS recommends the usage of the Extensible Business Reporting Language (XBRL) standard to facilitate the structure and exchange of the business data model of the COREP templates. The COREP working group is translating the structure, elements and validations defined in the templates into XBRL taxonomies. The taxonomies also maintain the business model and calculation relationship between elements as well the validation between the measure and dimensions.

The CEBS and COREP working group recommends particularly XBRL based on the following added values of the financial reporting standard:

- Flexibility and extensibility of the taxonomy to meet common European and local regulatory requirements and business model evolution;
- Data elements are uniquely tagged and can be reused within different reporting processes (one standard for many applications and several processes);
- Business, validation and calculation relationships between elements are defined within the XBRL taxonomy and not embedded in within the applications;
- Unique business and financial reporting standard supported by an independent worldwide organization.

The business requirements of the COREP project

The COREP working group has set up the following business requirements to support the development of the project.

- **Flexibility:** each supervisor is allowed to choose the scope as well as the level of aggregation of the information required among the COREP templates. The framework will also allow for flexibility to accommodate for differences in the exercise of the national options foreseen in the Capital Requirements. The XBRL standard is also not compulsory and each country has the flexibility to adopt the XBRL standard or develop another local reporting solutions.
- **Consistency:** the model will make use of unequivocal terms with one single well-accepted meaning.
- **Standardization:** the number of different templates (business) has been minimized and their representation has been formalized into the standards based reporting solutions (computing).

In parallel to the development of the COREP templates and taxonomies, the CEBS has also launched a second project called FINREP ('FINancial REPorting') which aims to develop a standardized consolidated financial reporting framework for credit institutions, which is consistent with the IFRS standards. Like the COREP reporting framework, CEBS recommends the XBRL standard to support the exchange of information related to the financial reporting framework.

The impacts for the banking industry

The finalisation of the COREP templates is scheduled for November 2005 and the related COREP XBRL taxonomy should be made available during the 1st quarter of 2006.

As from January 2007, European supervisors will require the banks to provide solvency ratio information as per the defined European COREP templates (which can be adapted as per local needs).

FINREP project is also well underway and strong considerations aim to align this project as much as possible with the COREP project. Belgian supervisor (CBFA) has already taken the lead and proposes the first XBRL taxonomy for the new consolidated IFRS schema A.

Today, a majority of European supervisors among Spain, Belgium, France, Germany, Greece, Denmark, Italy, Sweden, United Kingdom, Netherlands, etc. have announced that they are considering standard based reporting solutions to support the collection of regulatory data elements. At Luxembourg, the CSSF will require banks to receive the COREP and FINREP information under the XBRL standard at the latest by January 2008.

As a result of the standardisation's efforts of the regulatory reporting, it is expected that the banking groups operating on a cross-border basis will face a lower administrative burden, while small, local banks will not be imposed additional costs as the reporting framework had to be updated in any case. Moreover, they may benefit from cost savings thanks to the new reporting technology proposed.

Banks and credit institutions may leverage and benefit from the European Common and Financial Reporting framework and the related XBRL taxonomy as follows:

- Independently of the country concerned, they can report to their national supervisors using the same procedure and methods;
- They can benefit from a unique standard to support both the publication of financial information and the regulatory reporting;
- They can consolidate the individual entities reports for an overall corporate situation;
- They can present their solvency ratios and financial results in a homogeneous way in all the countries where they operate;
- They can proactively integrate the supervisor taxonomy rules and controls within their internal framework and reduce the risks of reporting errors.

The level of integration of the COREP templates and taxonomies will probably depend on the size of the bank or its affiliation within a larger group. Independently of their size, all banks will have to be already prepared to:

- Analyse the new and multi-dimensional data reporting requirements;
- Assess to which extent their current data model matches with the COREP templates and future FINREP requirements;
- Gain knowledge in new standard based reporting solutions;
- Assess, analyse, build and test the benefits they may derive from these evolutions.

Obviously, the banks will have the choice to determine to which extent they want to integrate the COREP templates, FINREP reporting and the related XBRL taxonomies within their current framework. Minimal solution can consist of having a resource entering manually the required information in the templates and have the reporting files translated into an XBRL format.

Optimal and efficient solutions will consist in the design of an integrated supply chain which produces the COREP / FINREP information directly from the back office environment and uses the relevant XBRL taxonomies to support both internal and external reporting needs of the banks.

COREP and FINREP projects will present certainly an impact for the banks in a context where a lot of efforts are already dedicated to regulatory reporting issues. Banks can nevertheless leverage from the standardisation and consistency efforts done by the European supervisors by integrating this Common and Financial framework into their reporting supply chain. While investments will be required, we trust the integrated option will provide clear returns on investment by reducing the cost related to the preparation, validation and publication of financial information and regulatory reports.

If you have any queries or should you require further details or assistance please contact one of the following specialists:

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