Deloitte.

REPORTING FRAMEWORK 2.9

FINREP: NON-PERFORMING AND FORBORNE EXPOSURES

Moving to a modular release regime

Reporting framework 2.9 consists of five reporting packages. Upon this framework version release, European Banking Authority (EBA) has moved to a **modular release regime**, where different modules of the reporting framework will be published and applied at different points in time.

One of the biggest challenges within the updated framework might be the new standards for reporting **non-performing and forborne exposures**.

31.12.2019.	**RES**	Changes to existing resolution reporting requirements (adjustments and additional templates)
	SBP	Changes to reporting requirements as specified in the ITS on supervisory benchmarking of internal models
31.03.2020.	**COR**	Changes to COREP to align with new securitization framework
30.04.2020.	**LCR**	Changes to LCR to align with the LCR amending Act
30.06.2020.	**FIN**	Changes to FINREP concerning non-performing and forborne exposures reporting, P&L and IFRS16

The amended requirements envisage **two complementary modules** for NPE and forborne exposure reporting.

Module 1 applies to **all reporting institutions** and covers:

- new information on commercial real estate exposures and exposures secured by immovable property, by level of collateralization
- enhanced and new information on performing exposures, NPEs and FBEs towards selected counterparty types
- enhanced and new information on performing exposures and NPEs, broken down by IFRS 9 impairment stages
- new information on inflows into and outflows from NPE portfolios
- minor revisions to the 'days past due' buckets in the NPEs template
- enhanced information on collateral and guarantees received (more granular breakdowns by type of collateral and guarantees received, information on negative value changes since recognition)

Module 2 applies to **reporting institutions with NPL ratio of 5% or above** and introduces new templates to provide deeper insights into institutions' NPE portfolios and NPE management strategies (templates 23 to 26 and 47), which cover:

- 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 NPLs portfolio, the flow of impairments and write-offs
- information on in- and outflows of collateral obtained by taking possession (recognition in the balance sheet) and its vintage
- more granular information on the forbearance management and quality of forbearance

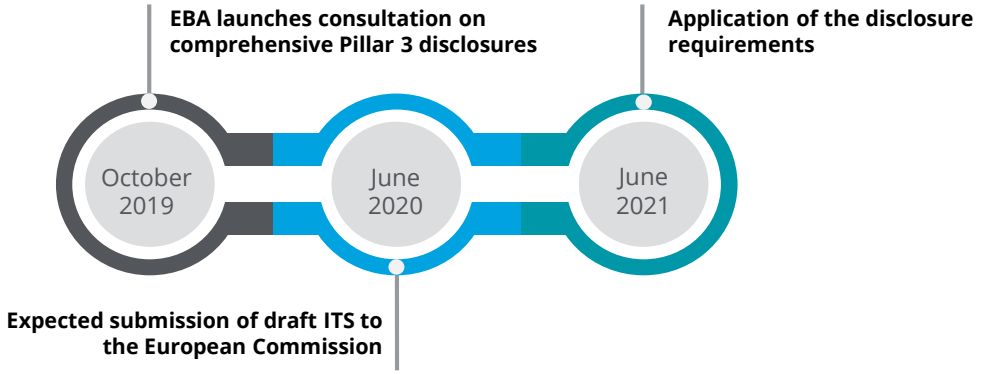
Data Point Model 2.9 includes over 1,100 new validation rules for FINREP. The analysis of validation rules can help to gain a better understanding of the expected data and can serve as an implementation aid, since the validation rules establish data relationships both within individual tables and between different tables

BACKGROUND AND RATIONALE

In October 2018, EBA published guidelines on the management of non-performing exposures (NPEs) and forborne exposures that have been in force since 30 June 2019. These guidelines are a part of the Action Plan to tackle NPEs in Europe published by the Council of EU. EBA has now published ITS on reporting these NPEs and forborne exposures.

Pillar 3 disclosure requirements are evolving

European Banking Authority (EBA) has launched a public consultation on the new comprehensive Implementing Technical Standard (ITS) for financial institutions' public disclosure, designed to promote market discipline. This proposal seeks to optimize the EBA Pillar 3 policy framework by moving from a silo based approach, with different disclosure policy products, to an **all-inclusive ITS**. It also implements regulatory changes introduced by the CRR2 and aligns the disclosure framework with international standards.



What should banks be doing already?

June 27, 2019 marks the date of **CRR 2 entry into force** giving banks 2 years to prepare for the new requirements. The majority of provisions under the new regulation are set to apply from June 28, 2021. Changes, amongst others, affect leverage ratio, net stable funding ratio (NSFR), requirements for own funds and eligible liabilities, counterparty credit risk and market risk, large exposures as well as reporting and disclosure requirements.

CRR 2 requirements are expected to be implemented **by June 2021** and **banks should already be starting to think about appropriate implementation programs.**

Integration of Pillar 3 disclosure requirements into supervisory reporting

EBA proposes new provisions for integration of Pillar 3 disclosures with supervisory reporting, including comprehensive mapping between the quantitative Pillar 3 disclosure templates and supervisory reporting. These provisions are aimed at improving consistency between reporting and disclosure requirements that should ease the process of preparing these reports.

Proportionality and scope

CRR 2 introduces new definitions for enhanced proportionality, namely small and less complex institutions and large institutions. For small and non-complex institutions key metrics will be the focus of disclosures while large institutions will be required to disclose more detailed and comprehensive information. Being listed or non-listed will also have an impact on the scope and frequency of disclosures.

Content of disclosures

The new disclosure requirements include various amendments to better align with international standards. Some of the more evident technical changes include requirement to disclose information on related party transactions with potential material impact on the risk profile of the consolidated group, additional collateral-related disclosure requirements, extensive loss disclosures, including total operational risk losses over the past 10 years, disclosures relating to IRRBB, key metrics in a tabular format and amended remuneration disclosures.

KEY PROPOSALS REGARDING PILLAR 3

How we can help

Deloitte can **support you** with the following tasks:

Support in preparation of reports and disclosures

- Pillar 3 consolidated and individual reports
- FINREP and COREP reports

Validation and cross-check implementation in the reporting process

- New validation implementation support

Additionally, we can provide our insights in the following areas related to regulatory reporting processes:

1. Data quality and governance
2. Regulatory interpretations
3. Support in report preparation
4. Impact assessment of regulation changes
5. Management of unscheduled reporting requests

Your contacts

Andris Liepins
Director | Risk Advisory
+371 29 287 567
aliepins@deloittece.com

Guna Kudrjavceva
Manager | Risk Advisory
+371 29 157 668
gkudrjavceva@deloittece.com