



**EUROPEAN CENTRAL BANK**

07 July 2005

**REPLY OF THE EUROPEAN CENTRAL BANK TO THE  
PUBLIC CONSULTATION BY THE COMMITTEE OF EUROPEAN BANKING  
SUPERVISORS (CEBS) ON THE CONSOLIDATED FINANCIAL REPORTING  
FRAMEWORK FOR CREDIT INSTITUTIONS**

On 7 April 2005, the Committee of European Banking Supervisors (CEBS) published a consultation paper on the development of a standardised consolidated financial reporting framework (CP06) for credit institutions (“the Framework”). The consultation is open to all interested parties, including supervised institutions and other market participants. The consultation closes on 8 July 2005.

The European Central Bank (ECB) welcomes the public consultation on the Framework. The ECB has a natural interest in taking part in this consultation. Indeed, the ESCB is itself a primary collector and compiler, through its Statistics Committee, of statistical information in the field of money and banking, and a primary user, through the Banking Supervision Committee, of Macro-prudential indicators (MPIs).

In the area of money and banking statistics, the ESCB compiles and disseminates, among others, data on the balance sheets of the euro area Monetary Financial Institutions (MFIs) on a solo and domestic residency basis at a monthly frequency. These data are reported to the ECB by the MFIs resident in the euro area, via the national central banks of the Eurosystem, on the basis of the reporting requirements laid down in Regulation ECB/2001/13<sup>1</sup>. In carrying out this task, the ECB is keen to fulfil its statistical requirements while minimising the reporting burden. Without prejudice to the national organisation of various reporting frameworks, this objective may also be served by maximising possible synergies between the statistical reporting framework and other reporting frameworks.

For financial stability purposes, the work carried out by the CEBS is of high importance, given its impact on the compilation of those MPIs that use group level consolidated information and are reported to the ECB by the national authorities of the EU25 countries (central banks and national supervisors). The MPIs are a crucial component of the financial stability analysis conducted by the ESCB and, as they are going to be affected by the forthcoming regulatory changes, the reporting

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<sup>1</sup> Regulation of the European Central Bank of 22 November 2001 concerning the consolidated balance sheet of the MFI sector (ECB/2001/13)

framework for IAS and Basel II application prepared by the CEBS is a useful conceptual benchmark. The ECB is directly involved in the work of the working groups of CEBS and will continue to closely follow, and possibly contribute, to their work.

Even though some common features may exist between the ESCB's MFI individual balance sheet statistics and the consolidated data collected by banking supervisors, the differences between these reporting frameworks, in terms of scope, purpose and even basic concepts such as residency, will anyhow enable only limited synergy gains. Most gains could be expected from the possibility to aggregate the consolidated data collected by banking supervisors. Indeed, from a financial stability viewpoint, the cross-border comparability of consolidated financial indicators may help to assess the situation of the national banking systems across countries and at overall euro area and EU level, especially in terms of risk.

As a general remark on the proposed Framework, the ECB notes that the ESCB requires for the production of its own statistics that the data are sufficiently homogeneous to enable their aggregation, in particular at euro area level. In this regard, the proposals contained in the Framework clearly constitute a step towards supervisory convergence and greater homogeneity. For example, the introduction of the International Financial Reporting Standards (IFRS) in the European Union creates an opportunity to harmonise the relevant data at an IFRS level, as an objective benchmark consistent with the information available to the market. At the same time, the proposed Framework appears to intentionally provide a large degree of flexibility in the actual implementation of the reporting. This flexibility is a general feature of supervisory data.

The ECB expects that the Member States will implement the proposed Framework in a way ensuring that the flexibility will preserve the benefits of the increased homogeneity. Indeed, achieving a sufficient homogeneity of the reporting requirements may well be a very cost-effective way to broaden the currently limited set of aggregated data available to users for overall analysis at European level. The overall effect of introducing more homogeneity of the reporting requirements on the reporting burden for banks will eventually depend on a) the number of banks that currently do not have to apply IFRS to their consolidated accounts compared with the number of banks required to report under the CEBS scheme, b) the level of detail of the agreed homogeneous data and c) the scope offered by further harmonisation to fulfil user requirements for overall analysis at European level. Obviously, the heterogeneity of national retail banking markets should further be taken into account when analysing the resulting aggregate indicators.

Finally, the ECB has the following observations from the point of view of the money and banking statistics to the CEBS Consultation Paper on Financial Reporting, while noting that as already

mentioned synergy gains may only be limited, depending on the national organisation of the various reporting frameworks.

### **Implementation of breakdowns**

The selected data model in the Framework can accommodate information about e.g. the different types of portfolio, instrument, currency denomination, counterpart, and maturity breakdown. This may open the possibility to link supervisory data and statistical data from a conceptual point of view and to reduce the reporting burden for those institutions that have already implemented these splits in accordance with the statistical standards.

It may be noted that in particular in terms of counterpart breakdown, the proposed split appears to be based on the Proposal for a European Directive amending the existing Capital Adequacy Directive. Detailed harmonised standards for the (statistical) classification of counterparts are already provided by the European System of National and Regional Accounts (ESA 95), which is in line with the global System of National Accounts (SNA93), and related implementation documents (e.g. the ECB's Sector Manual). Assuming that this (more detailed) classification also meets the data requirements of supervisory authorities, the CEBS may wish to consider specifying in the Framework the breakdown by counterpart sector as much as possible in line with the ESA 95. Mapping procedures may then facilitate the conversion between the statistical data and those guided by the Capital Adequacy Directive. In turn, this may facilitate the provision by banks of a breakdown in line with what is needed for consolidated solvency reporting.

### **Accrued interest**

The IFRS does not give a clear-cut answer as to whether unpaid accrued interest should be accounted for in a separate caption of the balance sheet or be included in the portfolio caption to which it relates. CEBS envisages including it in a separate caption of the balance sheet, which however may induce inconsistencies in the event banks decide for a different interpretation of IFRS in the preparation of their accounts. In doing so, all financial instruments will have to be accounted for at the price excluding accrued interest. The Regulation ECB/2001/13 mentioned above follows a similar approach.

While Table 10 of the supplementary breakdown tables displays the detail of accrued income and expenses by type of account, the ECB would deem it useful, subject to reporting burden considerations, to also separately identify the counterpart sector in respect of the accrued interest. Such data would be helpful for statistical purposes, for example, to cross-check the sector accounts of the

economy. However, as sector accounts are based on unconsolidated data, this request would only become crucial once the CEBS Financial Reporting Framework is extended to individual accounts.

Further, if the CEBS – as discussed above – considers it appropriate to break down exposures by regulatory portfolio according to the forthcoming capital requirements, an inconsistency might arise between financial reporting and solvency reporting, given that for purposes of the latter a risk weighting of accrued income according to counterparties would be adequate.

### **Publication of this reply**

This reply will be published on the ECB website.