MFSA

Malta Financial Services Authority

CEBS Consultation Paper on the Amendments to the Guidelines on Common Reporting dated 17 June 2010

MFSA Feedback

Having reviewed the consultation document the MFSA is in agreement that a harmonised reporting package may reduce the compliance costs for cross border institutions and also increase comparability among institutions. However, we would like to highlight the following points:

1. Proportionate Reporting

While the MFSA recognises the importance of applying the proportionality principle to the application of these reporting standards, we are concerned with the proposal of applying lower reporting frequencies for certain credit institutions, namely those which are 'domestic-only'. In this respect, it is felt that quarterly reporting, and monitoring, would still be necessary for such institutions, as these could still pose systemic risks in the financial market. If anything, 'domestic-only' banks should be subject to enhanced oversight if their funding is composed of purely domestic retail deposits. The criterion in this respect should therefore not be the basis of where the bank operates but possibly its size and funding profile. However, having said this, it is deemed that, at least, the core returns should be submitted on a quarterly basis by all credit institutions.

However, notwithstanding the above, it should be noted that the Maltese industry for the provision of securities business (i.e. investment firms industry) is mainly made up of small firms which: [a] do not employ more than 20 employees; [b] rarely deal in complex instruments; and [c] are not involved in cross-border business. It is acknowledged that CEBS's consultation document on COREP indicates that proportionality would be applied as each institution would only need to compile templates which are relevant to its business. Furthermore, the Authority would have the option to reduce the reporting frequency. However, in the case of the above mentioned small investment firms, it is felt that these proportionality measures are not sufficient to address the potential administrative burden which can be imposed on small investment firms. Consequently, in these cases, the MFSA suggests the following:

[a] CEBS could issue similar (but less complex) standardised financial returns applicable to small firms;

[b] The returns for small firms would exclude the advanced approaches for the calculation of risks. Small firms clearly do not have the resources to apply the advanced approaches. Applying the templates on the advanced approaches in the returns applicable to small firms could generate unnecessary confusion within the industry; and

[c] The returns for small firms would be as automated as possible. This automation is currently applied by the MFSA to small investment firms, in order to enable them to calculate their risks and thus reduce the administrative burden on investment firms with respect to the calculation of risks and also reduces the checks which must be carried out by the Authority's officials in this regard.

2. Remittance Dates

Paragraph 39 of the Consultation paper states that CEBS proposes to set the maximum remittance dates for the submission of consolidated returns to 40 business days and those for solo returns at 20 business days after reporting reference date. In this respect, it is felt that submission of the consolidated returns 40 business days (i.e. approximately 2 months) after reporting reference dates may be deemed to be too long, rendering the information historic. While it is acknowledged that in large cross-border institutions, consolidation of information from the various components of a group is time consuming, it should be of prudential concern to note that credit institutions would need 2 months to calculate their consolidated position at a certain point in time, when it is being assumed that such information should be readily available in order for the institution to monitor is position on an ongoing basis.

3. Reporting Template: CA

The need for the insertion of a separate sheet '*CA Annex*' is acknowledged in order to insert all the country specific items. In fact, it is agreed that it would definitely not be feasible to include these items in the original CA template. However, in view of the fact that the *CA Annex* sheet incorporates different items that need to be filled in by institutions depending on their jurisdiction, unlike the principle to be applied with respect to the other templates, it is suggested that the respective Authorities would be allowed to remove the non-applicable rows from this sheet, so as to make it more user friendly for the credit institutions licensed in their jurisdiction.

4. Reporting Template: Group Solvency

This template should provide a good picture of the standing of the group. However, in the case of banking groups adopting centralised risk management profiles, the sum of each individual institution may not be equal to the total risk position of the consolidated group, as exposures in one entity may be mitigated by positions held by another entity within the group. Consequently, it is suggested that the guidelines may need to include details regarding such a situation.

5. Reporting Template: CR SA

We believe that the proposed removal of column 2 would simplify the return. However, we believe that the Authorities may lose out on certain relatively important information should columns 12 and 14 regarding the amount of volatility adjustments applied under the Financial Collateral Comprehensive Method, be removed.

On the other hand it should be noted that the compilation of the information for columns 8 and 9 (i.e. total outflows and inflows) was found to be of concern for a number of institutions. In fact, at present the MFSA had shaded these two columns and introduced a separate spreadsheet showing a matrix of the original counterparty's exposure class against the collateral exposure class. The institutions found it easier to compile this separate 'matrix' spreadsheet and the authority was still privy to the information of the amount of original exposures and collateralised exposures in each exposure class. Consequently, should the same concern be expressed by a majority of participants, it is suggested that the introduction of such a spreadsheet may be considered, in lieu of the 'inflows' and 'outflows' columns and the migration of the exposure from one CR SA spreadsheet to another.

6. Reporting Template: CR SA Total

We are in agreement with the reporting of this template compiling the sum of the individual CR SAs. In this respect, to make the return more user friendly, it is suggested that automated formulas may be inserted in most of the cells of CR SA Total (especially in the rows entitled '*Breakdown of Total Exposures by Exposure Classes*'), which would automatically pick and calculate the information included in the separate detailed CR SA sheet. This would help avoid errors arising out of unnecessary manual inputs.

7. Reporting Template: CR Sec SA and CR Sec IRB

The Authority agrees with the introduction of the additional information to be submitted in this template.

8. Reporting Templates: Market Risk

The guidelines clearly indicate that certain templates need only be compiled for either the top 10 currencies or a minor number of currencies, if these currencies reach the 90% threshold of the sum of the total net long and net short positions for all interest rate positions. Furthermore clear examples are provided regarding this point. However, although this materiality threshold may reduce the reporting burden, it is still unclear how the capital requirement is to be calculated on the remaining 10% of such exposures. Consequently, further details regarding this point may be required in order to determine whether sufficient information regarding the remaining 10% would actually be submitted.

Malta Financial Services Authority
13 September 2010