EBA Roadmap on the EU Banking Package: Supervisory reporting and disclosure

September 9, 2024

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1. The regulatory context - EU Banking Package 2021 and the EBA Roadmap

On 27 October 2021, the European Commission (EC) published its legislative proposal for the 'EU Banking Package 2021'(CRR3/CRD6). After almost two years of review, amendments and negotiations among the EU co-legislators, CRR3 and CRD6 were finally adopted and published in the Official Journal of the EU on 19 June 2024 . The final texts confirm the anticipated implementation date of January 1, 2025. However, the European Commission has postponed the application date of the market risk rules (FRTB) by one year, now set to take effect on January 1, 2026. The Commission has adopted the delay by way of a delegated act. Member States have 18 months to transpose the CRD6 requirements into their national law, which means that the Dutch Ministry of Finance shall implement the CRD6 into Dutch legislation by 10 January 2026.

As a result of the new EU Banking Package, there have been updates to the supervisory reporting and Pillar 3 disclosure requirements for financial institutions. To support the implementation of these requirements, the EBA published (or will publish) Implementing Technical Standards (ITS), reports and guidelines as part of the EBA Roadmap.

The EBA has developed the roadmap in 4 phases, which outlines the sequencing and focus areas in developing the regulatory products:

- **Phase 1**: 32 mandates will be developed, covering the areas of credit, market, and operational risk, primarily resulting from the transition to Basel III. This phase will also include the first mandates under CRD in the area of ESG.
- **Phase 2**: 43 mandates will be developed, further advancing the coverage of CRR mandates related to credit, operational, and market risk. Additionally, this phase will address a significant number of CRD mandates related to high EU standards in governance and access to the single market concerning third-country branches. EBA considers Phase 2 one of the most intense phases of the entire roadmap for them to develop a considerable number of mandates.
- **Phase 3**: 21 mandates will be developed, including most of the remaining mandates related to regulatory products as well as several reports, mainly covering the credit risk IRB repair programme, finalisation of CVA rules and feasibility study on the EBA Pillar 3 Datahub for large institutions. This phase will complete the majority of the technical standards and guidelines.
- **Phase 4**: 36 mandates will be developed, focusing mostly on reports that provide information on implementation progress, results, and challenges.

In addition, there are 7 ongoing and recurring mandates that are not part of any of the four phases. These mandates mainly relate to credit risk and will become operational on the implementation date in 2025.

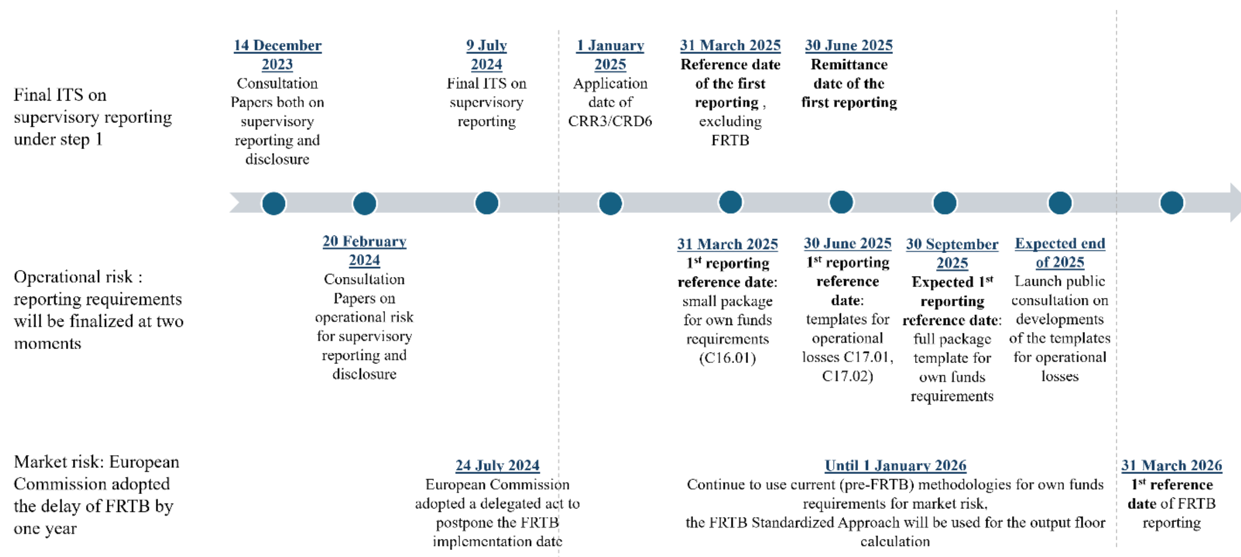
This white paper offers the most recent updates on the implementation of supervisory reporting (Section 2), Pillar 3 disclosure (Section 3), and the Pillar 3 Datahub (Section 4). It clarifies the timelines, scope, and key changes, ensuring you are well-prepared for the timely implementation of these reporting and disclosure requirements.

2. Supervisory reporting

2.1 Where do we stand in this process?

The EBA follows a two-step approach for the mandates on supervisory reporting. Currently, it focuses on the mandates under step 1 which are relevant for the reporting requirements to support the implementation of the final Basel III reform (also known as Basel IV). Under step 2, the EBA will work on mandates that are not directly related to the Basel IV implementation, e.g., ESG, third- country branches, the EBA has not launched any documents yet for step 2.

The timelines for the reporting requirements outlined in Step 1 are presented in the graph below. It outlines a general timeline aligned with CRR3, which governs the majority of reporting obligations. However, the processes for operational risk and FRTB are currently discussed separately from the main processes and, as a result, show some deviations from the primary timeline.



The final draft ITS has been already adopted by the EBA on 9 July 2024 and submitted to the European Commission. The first reporting reference date of the final ITS is set as 31 March 2025 with the remittance date at the end of June 2025 (extended from 12 May 2025).

The ITS on operational risk reporting together with other related policy products are consulted in a separate process and are not yet fully finalized. Our understanding is that the final ITS on the supervisory reporting currently includes a small package for reporting own funds requirements on operational risk. Meanwhile the EBA is working on more detailed requirements for operational risk such as the operational losses and business indicator components. The EBA intends to publish a full package templates of own funds requirements of operational risk by end of 2024 and continues to develop templates for operational loss in 2025.

The implementation of the FRTB framework is postponed until 1 January 2026. The final ITS on supervisory reporting also caters for this delay, meaning that the internal models approach under CRR2 would have to remain part of COREP until the date when the FRTB framework enters into force. The EBA published a no-action letter in response to the postponement of the FRTB framework on 12 August 2024. In the no-action letter, the EBA recommended that the amendments related to the boundary between the banking and trading books, or those defining internal risk transfers between books, should not be a priority in the supervisory processes. At this moment it remains unclear whether the market risk reporting requirements (e.g. the template for trading and banking) will be subject to further changes in response to EBA's recommendations.

Besides the final draft of the ITS, the relevant IT solutions and the updated mapping tool between the revised disclosure templates and the reporting templates are published to facilitate the preparation and use of Pillar 3 data.

2.2 What are the next steps in the EBA Roadmap?

The EBA is mandated to develop IT solutions in order to make the technical standards more user friendly for institutions. It will publish a technical package (Reporting Framework 4.0) during Q4 2024, consisting of CRR3/CRD6 amendments including Data Point Model (DPM), validation rules and taxonomy.

The EBA also intends to publish the full package covering all the data needed for reporting the own funds requirements for operational risk by end of 2024, aligning the publication date with other Level 2 products (e.g. the business indicator). Furthermore, the EBA is continuing its work on more detailed requirements for the operational loss and plans to develop relevant templates in 2025.

The legal deadline for step 2 mandates is 12 months after the CRR3/CRD6 entry into force, thus the EBA will complement the step 1 ITS with the CRR3 supervisory reporting requirements that are not directly linked to the implementation of final Basel III reform (also known as Basel IV).

2.3 What are the key changes for supervisory reporting?

Output Floor

Output floor is one of the key changes in the CRR3 that puts a lower limit to the capital requirements produced by internal models. It is a limit that has a level of application at individual and consolidated level (only consolidated level if some prerequisites met). Currently, there are some transitional arrangements for the calculation of output floor which are considered in the reporting templates.

The amendments for reporting are as follows:

- Output floor is included in capital adequacy templates C02.00-04.00.

- A new column is added in group solvency template C06.02 to monitor the impact of the output floor within a group.
- A separate template C10.00 is introduced to monitor the application of standardized approach (SA) in the calculation of output floor.
- To include information on the impact of output floor, the modelled reporting data templates C13.01, C14.01 on securitization and C34.02 on counterparty credit risk) is updated.

Credit Risk SA

For standardized approach (SA) in credit risk, CRR3 introduces a more granular approach for various credit exposure types. This increased risk sensitivity is also reflected in the supervisory reporting templates.

The amendments for reporting are as follows:

- Standardized credit risk templates C02.00, C07.00, C09.01 are updated to include new and amended exposure classes, and the new risk weights. Also, for exposures to central banks, a new "of which" row has been added.
- Also, C07.00 is updated to allow for monitoring and reporting of the transitional provisions applicable to credit conversion factors (CCFs) for unconditionally cancellable commitments (UCCs).

Credit Risk IRB

For internal risk based (IRB)in credit risk, the use of advanced modelling approaches are limited to reduce complexity and comparability in CRR3. Besides a new exposure class structure is introduced (including a new class for Collective Investment Undertakings (CIUs)), new rules for CCFs is introduced and the use of IRB in exposure class equity is not permitted.

The amendments for reporting are as follows:

- Capital adequacy template C02.00 and IRB templates C08.01, C08.02, C08.03, C08.05, C08.05.1, C08.07, C09.02 are updated according to the new exposure class structure.
- For C08.01 and C08.02, new columns are added to reflect the new rules for CCFs.
- New rows in C08.01 to capture information on immovable properties.
- C 10.1 and C10.2 templates on equity exposures for IRB are going to be deleted until the end of transitional provisions. Minor changes are done to these templates.

IP Losses

New provisions are introduced in CRR3 for exposures secured by immovable property and the reporting requirements under Article 430a is revised accordingly. Thus, template C15.00 on the IP losses have been revised according to the amendments of CRR3.

Operational Risk

CRR3 replaces the current methods to calculate capital requirements for operational risk with one single approach called Business Indicator Component (BIC). Since the whole operational risk framework changes, there are new templates introduced for the supervisory reporting.

The amendments for reporting are as follows:

- Template C16.00, capturing the current approaches for the calculation of capital requirements for operational risk is deleted, and the capital adequacy template C02.00 is amended according to the new framework.
- Template C16.01 is introduced to cover the calculation of capital requirements for operational risk under the BIC.
- Template C17.01 for loss information grouped by business lines and event types and C17.02 for big loss events, are amended (with minor changes) according to the new framework, but the scope of the reporting stays the same.

Market Risk

For market risk, Fundamental Review of Trading Book (FRTB) is going to be the basis for calculating the capital requirements in CRR3. Thus, the supervisory reporting requirements are updated according to this new framework.

The amendments for reporting are as follows:

- For simplified standardized approach, the reporting templates C18.00, C21.00, C22.00, C23.00 are amended to include the multiplicative factors introduced for different types of exposures. No structural changes are introduced.
- Template C24.00 for the current internal models approach is going to be deleted with the date of application for FRTB (currently delayed until 1 January 2026).
- Due to the application of FRTB, capital adequacy template C02.00 is updated for market risk. Also for group solvency template C06.02, a mapping of offsetting legal entities of the group is proposed to be included in accordance with Article 325b of CRR3.
- For the market risk framework of investment firms (applying IFR), templates C18 and C23 is renumbered to C18.01 and C23.01. This is due to the potential of migration to FRTB in different times.

Currently, the application of the FRTB framework is postponed until 1 January 2026. Thus, template C24.00 is going to be a part of COREP until FRTB framework entries into force.

Trading and Banking Book

The EBA proposed two different templates for the boundaries and composition of banking book and trading book. However, due to some concerns raised in the industry (especially on the reconcilability of the data and limited clarifications on the information requested for the banking book template), the EBA decided to limit the reporting to only one template for the trading book for the time being (Template C90.00).

CVA Risk

Three new approaches (simplified, basic, standardized) to calculate capital requirements for CVA risk are introduced in CRR3. The conditions for using these approaches are also set out.

The amendments for reporting are as follows:

- The capital adequacy template C02.00 is amended according to the new approaches.
- Template for CVA risks C 25.01 is updated according to the new CVA framework in CRR3. This includes excluded transactions, derivative positions of CIUs, a breakdown of counterparty types (SA-CVA), and systematic and idiosyncratic components of CVA (reduced basic approach).

Leverage Ratio

Leverage ratio has some minor updates based on additional provisions like deductions for exposures related to members of the same institutional protection scheme, collateralized exposures to shareholders. Besides, changes in the credit risk framework for off-balance sheet items (CCFs) and introduction of new exposure classes also has an effect on leverage ratio.

The amendments for reporting are as follows:

- For template C43.00, new exposure classes in the credit risk framework leads to amendments.
- The IFRS9 transitional provisions will no longer apply, which is reflected in template C47.00.

Crypto Assets

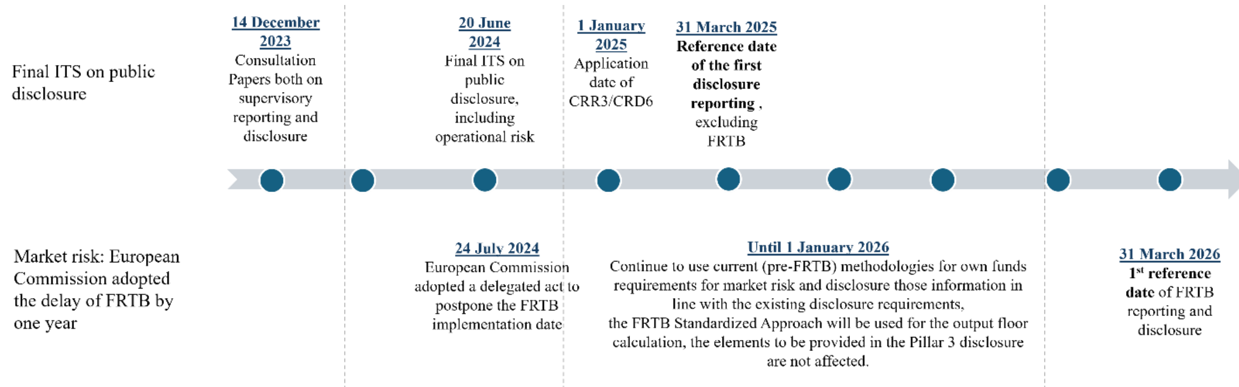
CRR3 introduced a transitional prudent treatment of exposures to crypto assets, as a result of this, a new reporting template C36.00 for crypto assets is introduced.

3. Pillar 3 disclosure

3.1 Where do we stand in this process?

Similar to the supervisory reporting, the EBA currently focuses on the step 1 for the publication of ITS on Pillar 3 disclosures. As for the next steps, in step 2, the EBA will publish the ITS on Pillar 3 disclosures not related to the implementation of the final Basel III reform (also known as Basel IV) , in particular ESG risks (with the proportionality principle) and shadow banking. Furthermore, as part of Phase 3 and after, the EBA will conduct a feasibility study in the Pillar 3 Data Hub, the same approach for large and other institutions as that followed by Small and Non-Complex Institutions (SNCIs). IT solutions mentioned in Section 2 is also relevant for Pillar 3 disclosures.

The timelines for the disclosure requirements outlined in step 1 are presented in the graph below. The main timeline of the Pillar 3 reporting is aligned with the supervisory reporting.



Currently for step 1, on 20 June 2024, the final draft ITS is adopted by the EBA and submitted to the European Commission. These ITS will come into effect on January 1, 2025, with the first reporting reference date set for March 31, 2025. The obligations at the first reference date will be limited, impacting mainly large institutions, with most of the new disclosures requirements will be applicable from June 2025 onwards.

For the operational risk, the disclosure requirements are included in the final draft ITS on the Pillar 3 disclosure. However, due to the close linkage to the supervisory reporting templates and the ongoing policy developments, EBA indicates that the disclosure framework will be revised, as needed, when step 2 of supervisory reporting work is concluded. At this time, it remains uncertain whether there will be further changes to disclosure requirements and timelines.

For the market risk templates, the final draft ITS already reflect the postponement and provide explicit guidance on the information to be disclosed in the different templates. Institutions shall continue to use the current version of disclosure tables and templates until the new FRTB framework enters into force.

3.2 What are the next steps in the EBA Roadmap?

The EBA will publish a technical package, including DPM, validation rules and taxonomy, that shall be used by large and other institutions to submit this information to the EBA Pillar 3 data hub.

For operational risk, as discussed in the supervisory reporting section, there is still ongoing work regarding the operational risk requirements, which will affect the disclosure framework. We understand that the disclosure framework for operational risk will be revised as necessary once the supervisory reporting work under step 2 is completed.

3.3 What are the key changes for Pillar 3 disclosure?

The amendments summarized in Section 2 for supervisory reporting is also relevant for Pillar 3 disclosure. In this section, the templates that are amended is going to be presented.

Output Floor

- EU OV 1 (on overview of the total own funds requirements and the total risk exposure amounts): Amended to capture the impact of transitional cap (Article 465 CRR3). It also captures new frameworks to calculate own funds.
- EU KM 1 (on key metrics provides a summary of the main prudential and regulatory information and ratios covered by the CRR): Amended to include "pre-floor amounts".
- EU CMS 1 (new): It provides a comparison of risk-weighted exposure amounts (RWEA) calculated using the full SA and the actual RWEA, and the disclosure of the RWEA used in the base of the output floor at risk level.
- EU CMS 2 (new): It provides a comparison of RWEA under SA and IM approaches at asset class and sub-asset class levels. Besides an additional column for the RWEA used to calculate output floor is included.

Credit Risk

- EU CR 4 and EU CR 5 (on the use of SA): Amended according to the new exposure class set and risk weights for credit risk SA in CRR3.
- EU CR 6A, EU CR 7, EU CR 7A (on the use of IRB): Amended according to the new exposure class set, also the scope of application for A-IRB and F-IRB is updated.
- EU CR 10.5 (on equity exposures): It is kept flexible in the time being for the new disclosure requirements of Article 438 (e). It will be reviewed in Step 2.

Market Risk

- EU MR A and EU MR B (on qualitative disclosure requirements): Amended according to the new qualitative disclosure requirements the Articles 435 (1), 445 (1) and 455 (1) of the CRR 3, considering also the corresponding BCBS tables.
- EU MR 3 (new): On own funds requirements under simplified SA.
- EU MR 1 (new): On disclosure requirements under alternative SA.
- EU MR 2 (new): On own funds requirement for alternative internal model.

Due to the postponement of the application of the FRTB framework, it is proposed in the ITS that the institutions should use the current version of disclosure tables and templates on market risk until the FRTB framework entries into force.

CVA Risk

- EU CVAA (new): General qualitative disclosure requirements on CVA (Article 445a (1) CRR3).
- EU CVA1 (new), EU CVA2 (new), EU CVA 3 (new): Components used for the computation of own funds requirements under the 3 approaches.
- EU CVAB (new): Qualitative disclosure requirements for SA (Article 445a (2) CRR3).
- EU CVA4 (new): Flow statement explaining changes in RWEA for institutions using SA.

Operational Risk

- EU ORA (on qualitative information on operational risk): Amended to include the qualitative disclosure requirements of Article 446 (1) of CRR3.
- EU OR 1 (on own funds requirement for operational risk): This template is deleted, and replaced with a new template on operational risk losses.
- EU OR 2 (new): On the calculation BI components and subcomponents.
- EU OR 3 (new): On operational risk own funds requirements and risk exposure amounts.

Leverage Ratio

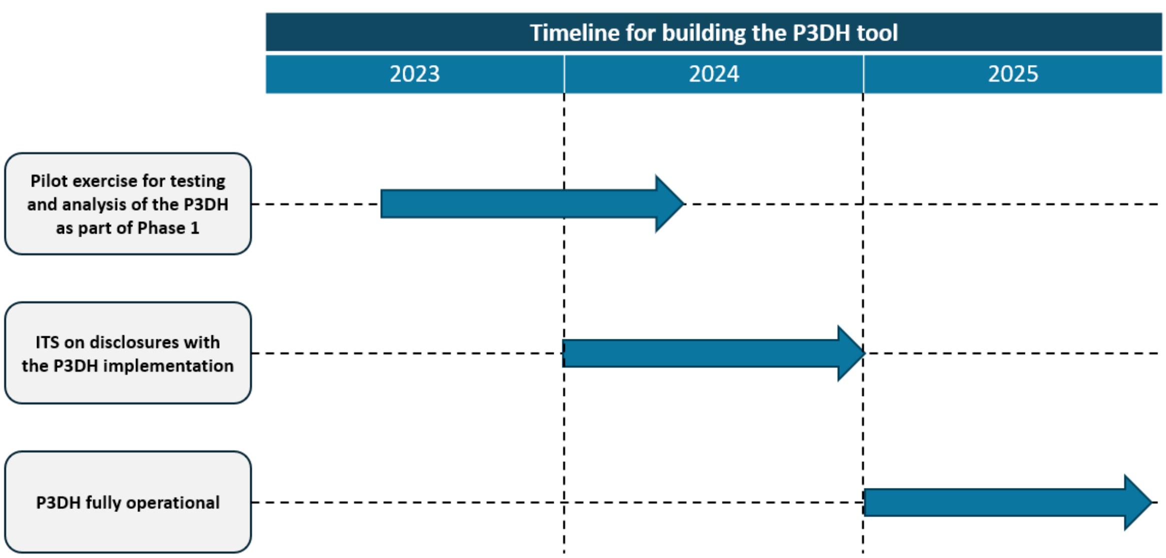
- EU LR 2 (on leverage ratio common disclosure): Amended to consider the exclusions from total exposure measure for the relevant exposures.

Crypto Assets

- EU CAE 1 (new): Information on exposures to crypto assets.

4. What is Pillar 3 Data Hub?

Pillar 3 Data Hub (P3DH) aims to provide a centralized single electronic access point where all the relevant stakeholders may reach the prudential disclosures of the institutions. The EBA is building this tool in order to comply with the CRR3 mandates in Article 434 and 434a. The expected timeline under phase 1 for the data hub to be built is as follows:



The EBA published a discussion paper on the topic on 14 December 2023, where the main objectives for building the P3DH are determined as:

- A single platform for users to have common access to the disclosed Pillar 3 data.

- Promoting data comparability through simultaneous data download and interactive tools.
- Cost reduction for Pillar 3 compliance, especially for small and non-complex institutions.
- Promoting transparency and market discipline.

For these objectives to be realized, the institutions, the EBA and the users should follow different processes that are initialized in the discussion paper and will follow with the final report.

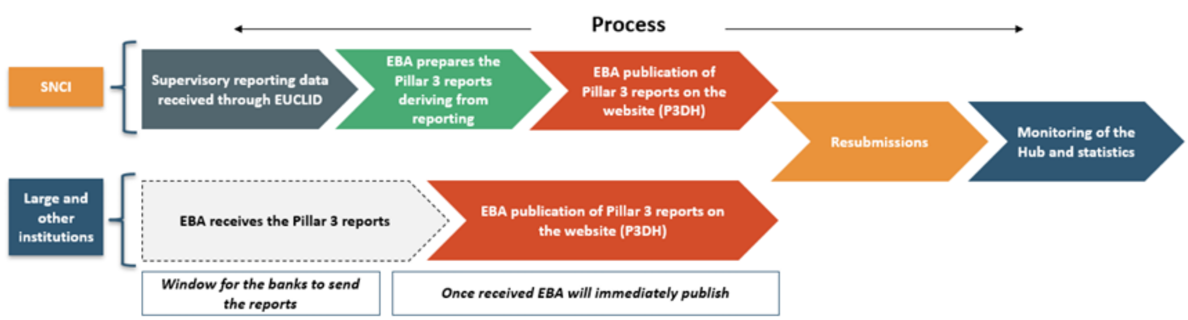
4.1 What are the processes for institutions?

Large and Other Institutions

According to CRR3, Large and Other institutions are mandated to submit all Pillar 3 information directly to the EBA. The EBA will immediately publish the reports after receiving. The quantitative information will be published in xBRL-CSV format and the qualitative information will be published in PDF format. Thus, institutions should provide the information with the corresponding format.

Small and Non-Complex Institutions

For Small and Non-Complex institutions, the EBA will publish the Pillar 3 disclosures based on the supervisory reporting of the institution to the competent authorities. The EBA will perform the required aggregations and calculations using the mapping tool.

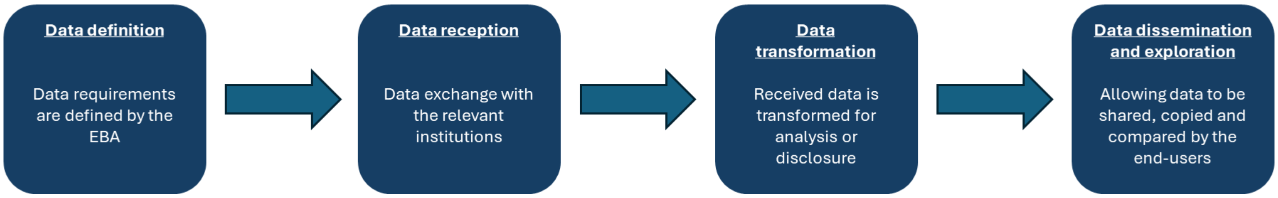


Source: The EBA[1]

[1] EBA Discussion Paper on Pillar 3 Data Hub Processes and Possible Practical Implications, 14 December 2023

4.2 What are the processes for the EBA?

In order to have P3DH fully functional by 2025, the EBA also has to follow the 4 processes as follows:



4.3 What are the processes for the users?

The processes for the users of the data in P3DH are still under discussion. The main discussion points are the timeline for the availability of the information, visualization and exploration of information.

5. Conclusion

The new EU Banking Package introduced a whole new or updated framework for the prudential treatment of various risk types. We have observed in the market some challenges in implementing the new reporting and disclosure requirements. The CRR3 has introduced new methodologies that demand more granular data across various risk categories and products, such as real estate exposures, exposures to unrated institutions. It is crucial to identify data attributes that align with these new methodologies. With additional templates and more detailed information required, banks are currently focused on establishing the necessary data flows. While the EBA has published its final ITS on supervisory reporting and disclosure, numerous policy documents are still being released for consultation, such as those related to operational risk. We anticipate further revisions to be updated by the EBA in late 2024 and 2025, with reference dates set at various points during 2024 and 2025 to incorporate these changes in the reporting process. It is essential to stay informed about EBA publications at an early stage and identify potential changes relevant to your organization.

How can Probability & Partners help?

Probability & Partners is a risk advisory firm that provides risk management, regulatory compliance, and quantitative modelling solutions to companies in the financial sector. We help you stay updated with the latest regulations in a dynamic regulatory environment. Our team helps you comprehend regulatory changes and delivers fully implemented, integrated solutions. We demonstrate our expertise across a wide range of topics under the Basel agenda, including capital management, liquidity risk, CRR/CRD regulatory assessments, ICAAP/ILAAP, and regulatory reporting, among others. Founded in 2014, Probability & Partners is based in Amsterdam and Gouda. Our team comprises highly experienced practitioners, consultants and academics.

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