

# A response to the The PRA's CP16/22 Chapters 11 Disclosure & Chapter 12 Reporting

## Key messages

### Timeliness of disclosure and reporting templates and instructions

**Recommendation 11.1:** Firms ask the PRA to share the final rules at least a year prior to the implementation date.

**Rationale:** This enables firms, and their software suppliers, to develop the new processes required, including testing of internal systems, to be able to implement the new requirements in a robust manner. The UK's current reporting and disclosures are heavily based on the European reporting and disclosures framework. We note the EU has not published new requirements in relation to CRR3 yet, however, future divergence between the two regimes, whilst inevitable, will be an increased workload on firms as they refocus from the EU to the UK framework.

### Future instructions, taxonomy, and platform

#### (i) Future reporting taxonomy

**Recommendation 11.2:** Firms ask the PRA to share the reporting taxonomy at least a year prior to the implementation date.

**Rationale:** The CP indicates that the PRA intends to publish the public working draft taxonomy following this CP for comments on the data modelling and overall technical implementation. Receiving the taxonomy as early as possible will allow all technology providers to develop solutions consistently across the industry. Firms are reliant on these providers to complete testing and need sufficient time to allow for this.

**Proposal:** Upon publication, members ask for:

- **Test environment availability** – given that firms will be required to follow a new and potentially different (compared with the previous EBA version) taxonomy process, firms need to ensure test environment timeliness (both adequate and as early as possible) of such to ensure that they can submit and correct any issues prior to full implementation. Members have generally experienced in the past that the regulators' test environments do not always contain the latest set of rules until late in the implementation window. This causes delays and unintended and avoidable errors in the developments of firms' processes. We therefore encourage the PRA to update the test environment with final rules as early as possible.

- **Third party vendors** of reporting packages are critical to many members. We encourage the PRA to partner with vendors as part of their rules and publication development process, so vendors can expedite the release of their packages to firms.
- **Timely provision of the instructions and final templates** will assist firms in meeting the PRA's expectations in regard to complete, timely and accurate regulatory submissions, by ensuring that adequate time is available to develop our reporting capabilities in line with the final guidance

### *(ii) EBA Taxonomy 3.0 Guidance*

**Recommendation 11.3:** Firms ask the PRA to review and endorse the original intention of the respective templates, as described in the guidance and clarifications, either within the future policy statement that responds to CP 16/22, or ideally include the guidance (can be found in the '*Summary of responses to the consultation and the EBA's analysis' from page 66 of EBA/ITS/2020/05*) within the annexes containing the reporting instructions.

**Rationale:** The PRA has transposed into UK reporting requirements the EBA's reporting taxonomy 3.0. This reporting framework was supported by implementing technical standards (EBA/ITS/2020/05) which included vast amounts of guidance, clarifications and confirmations on intended scope and presentation. There is currently an arduous and disjointed process to evaluate the requirements of each template as instructions and guidance are often published through multiple means and locations. It is our view that this guidance that is embedded into the technical standards are unlike EBA Q&A and that they form a core part of the original requirements included within the accompanying annexes.

It is not expected that most of these templates and their instructions will change significantly through this CP 16/22.

### *(iii) Clarifying examples*

**Recommendation 11.4:** We would like to see the PRA revert to sharing increasing numbers of examples to support the regulations and demonstrate their intentions. Ideally this would be included within the PRA Rulebook itself alongside the requirement.

**Rationale:** Examples from the regulatory authorities have historically proven to be most useful for firms. The old BIPRU manuals were particularly good at including many examples for both calculations as well as for demonstrating how certain metrics are expected to be reported in the templates.

Other areas that may benefit from such examples are the concentration risk capital component, effect of substitution approach in large exposures for different transaction types etc. Another example may be the application of risk weights for standardised exposures in default, in particular relating to exposures secured on residential or commercial real estate. What was a relatively straightforward matter under old rules, now effectively splits exposures secured on this type of property into multiple types depending on whether:

- Regulated or not.
- Secured on commercial or residential property.
- Dependent on cash flows from the property.

The Article (Art 127) contains limited information and worked examples for each type of said property would be useful.

#### *(iv) Validations*

**Recommendations 11.5:** We ask the PRA to:

1. Review and transpose the deactivation of validations in line with the EBAs actions.
2. Review all validations that are 'warnings' to determine whether they continue to be relevant.
3. Publish a separate list of cross-validations or expectations to demonstrate where data points reported in different data items (e.g., COREP vs FINREP/Leverage/Liquidity) or submitted through different systems (e.g. BEEDS vs RegData) are expected to be aligned.

**Rationale:** Firms are currently using the validation rules which accompanied the EBA's taxonomy 3.0. The EBA has since released further reporting frameworks and have amended the status of a number of the validations. In our experience some warning validations are not satisfied because they are not relevant to the scope or signage of a data point or are not in line with the instructions within each relevant annex.

#### *(v) Tabulated Reporting & Disclosure Requirements*

**Recommendations 11.6:** We request that:

1. The PRA publishes tables in the same style and format as those included in the 'Regulatory Reporting'<sup>1</sup> part of the PRA Rulebook.
2. The annex instructions for each data point as well as the templates are in excel. We suggest a supplementary item that is embedded within the "Annotated Table Layout" excel files as opposed to a unique document.

**Rationale:**

1. This would provide clarity and aid a simpler approach to implementation and compliance. The current drafting of the 'Reporting (CRR)' and 'Disclosure (CRR)' parts of the PRA Rulebook follow the format of the EBA implementing technical standards and have carried forward the requirement to cross reference multiple articles to determine the templates, frequency and submission periods applicable to each firm. For example, with respect to the 'Regulatory Reporting' part, firms in regulated activity group 1 submit the data items in table 7.1, with the applicable reporting frequencies for submission as set out in table 7.2 by the submission dates in table 7.3. Some firms already do this but the current approach leaves firms open to risk of incorrect transposing of requirements into an excel document. It is our view that publishing easy to follow tables, as included in the 'Regulatory Reporting' part, will aid consistency and compliance across the industry.
2. Instructions in an excel format would help to provide an easy-to-use reference table. The annex instructions include a lot of explanatory paragraphs alongside the data point definitions which members would not want to lose.

#### *(vi) Naming convention of the annexes*

**Recommendation 11.7:** Reporting and disclosure template workbooks and instructions should be named with the relevant annex number within the file name.

**Rationale:** This will be consistent with how the templates and annexes are referred to within the PRA Rulebook and facilitate easy referencing and use. E.g. "Annex I - credit-risk-reporting-templates.xlsx"

#### **(vii) Submission platform**

**Recommendation 11.8:** PRA should undertake robust testing to ensure that submission platform is 'fit for purpose'.

**Rationale:** There have been a significant number of technical issues and submission difficulties with BEEDS.

#### **Mapping and alignment between disclosure and reporting templates**

**Recommendation 11.9:** We urge the PRA to develop, publish and maintain a mapping tool as soon as possible.

**Rationale:** In the UK, there is currently no PRA published mapping between Pillar 3 disclosures and regulatory reporting. Such mapping helps to ensure consistency in interpretation as well as between firms. Members are still reliant on referring to the EBA published mapping tool and index of annexes for guidance, however given this was not adopted by the PRA and the growing divergence between UK and EU frameworks make this increasingly risky. The benefits of this mapping tool would be greater industry-wide consistency in reporting and disclosure and improved understanding of the templates by users and preparers.

Particularly with the Bank of England's Banking Data Review (BDR) in mind, we would welcome a PRA initiative to provide this mapping and index of annexes, and suggest the [EBA mapping document](#) provides a useful starting point for this.

#### **Proportionality**

**Recommendation 11.10:** We ask the PRA to:

1. Accelerate the work to reduce the reporting and disclosure burden for intermediate firms.
2. To consider a more proportionate approach and assess the thresholds and nature of these requirements (e.g. external market participation or MREL, instead of balance sheet size), reflecting the simpler business models.
3. Provide clarity on whether non-UK large subsidiaries of UK parent institutions are expected to comply with the Disclosure (CRR) part of the Rulebook.

**Rationale:** Members welcome the proposals in the PRA consultation paper CP4/23 - The Strong and Simple Framework: Liquidity and Disclosure requirements for Simpler-regime Firms, to reduce the disclosure requirements for simpler firms. We will address these fully in our response CP 4/23. Simpler firms who are classified as Large institutions (balance sheet size over €30bn) are required to publish Pillar 3 disclosures on a quarterly basis. Whilst firms understand the importance of disclosure, we question why firms that are simple in nature are required to disclose at the same frequency as more complex firms who may be more reliant on external funding. For example, intermediate building societies are required to publish quarterly disclosures, whereas some UK active 'larger firms' in a more complex group structure are not required to publish Pillar 3 disclosures.



## Learnings from CRR 2 implementation

Following CP 5/21, on the implementation of Basel standards, UK Finance welcomed the PRA's approach to updating reporting requirements, and in particular the substantial alignment of reporting and disclosure. In light of CP 16/22, we want to re-highlight some of the key points that were made that relate closely to this consultation paper and that have not been covered above.

### *(i) COREP and FINREP submission deadlines*

**Recommendation 11.11:** We propose that the COREP and FINREP submission deadline at year-end be extended to at least 2 months or 45 business days. This extension should apply to related returns that have the same submission timeframe as COREP or FINREP e.g. the MREL reporting suite.

#### **Rationale:**

Both firms and the PRA want regulatory reporting to be of the highest quality; for resubmissions to be the exception rather than the norm; and for there to be consistency between regulatory reporting and disclosures. These recommendations would allow for submission once only on a 'final' basis; would allow firms to focus attention on external disclosures in the first instance; and by doing so would make a substantive difference to firms' year end reporting challenges and reduce the review burden of the PRA.

As discussed in the CP 5/21 response, firms still face significant challenges at both half year and year ends producing a high volume of financial disclosures, Pillar 3 disclosures, COREP, FINREP and other regulatory reports (including PRA101-103 returns) often for multiple entities, to tight timelines.

Notwithstanding this the year-end deadlines for submitting key regulatory returns still remain a particular challenge. Profits are not necessarily audited by this date, and boards may not have concluded on dividends, meaning that COREP returns must be prepared and submitted on a non-final basis. They must then be updated and resubmitted some weeks later following results finalisation and audit completion. Preparation and governance of key regulatory returns typically involves personnel who are also heavily involved in annual accounts and Pillar 3 preparation: the demands on their time are exceptionally high during this period.

**Recommendation 11.12:** We propose that COREP, FINREP and other related return submission deadlines for non-year end quarters be amended to 30 working days, rather than a strict calendar date.

**Rationale:** Having 30 working days rather than calendar days would ensure a consistent submission timeframe, and avoid the current scenario where submissions are due between 26 and 31 working days (for example, Q1 2023 reporting is particularly tight due to the extra bank holiday for the King's Coronation). This would also remove the current situation where individual FINREP submissions (which do have a 30-working day submission timeframe) are potentially not synchronised with a significantly different timeline for Group FINREP submissions. It would also align to other PRA regulatory reporting which generally have a submission deadline based on working days rather than calendar dates.

## **(ii) Scope of quarterly disclosure requirements**

**Recommendation 11.13:** Members request that the PRA:

1. Revisit quarterly Pillar 3 disclosure requirements and limit these to the highest level of consolidation of a UK banking group and align the frequency with financial disclosure requirements.
2. Discuss the disclosure regime at the Basel Committee with the objectives of reviewing whether the regime achieves its objectives and how it helps to promote market discipline.

### **Rationale:**

1. Following the implementation of CRR2, increased alignment between regulatory reporting and disclosures was a welcome development which helped to mitigate some of the production challenges which members faced. However, there is a risk with the implementation of Basel 3.1 that some of that efficiency may be lost.

There is now an opportunity to further reduce the burden on firms by removing or reducing the frequency of reports and disclosures that are not aligned to regulatory objectives.

With many groups publishing summary financial information for their large institutions on a semi-annual basis only and restricting publication of quarterly financial information to the consolidated group only, members question how useful the Pillar 3 disclosures for large institutions are in the absence of accompanying financial information. Firms challenge the value of such disclosures when financial disclosures and in some cases, capital disclosures are not required. For example, large institutions that are classified as LREQ firms are currently required to disclose certain leverage metrics at interim quarter ends despite there being no requirement to disclose KM1. It is unlikely that users would be able to properly interpret the leverage metrics in the absence of financial information and further capital metrics.

Firms are happy to publish useful information but question the use of their time preparing, reviewing and approving disclosures if they are not read or found to be useful. We would request that the PRA provides their insight on how useful the Pillar 3 disclosures are to external users, given that the download statistics across firms seem to indicate that the disclosures are not widely accessed and therefore used.

We note that under BCBS, firms whose disclosures are covered by their consolidated head office in a third country are not required to provide additional disclosure returns. Unlike the EU, the UK already has a single market and therefore the requirement that the EU justified on internal market grounds for local disclosures is in our view no longer justified under the objectives of the Basel 3.1. proposals.

2. We note that firms do not see evidence that the volume and frequency of disclosures introduced by the BCBS advance market discipline, the original justification for their introduction.

## FINREP reporting

**Recommendation 11.14 :** We ask PRA to consider whether there are consequential changes to FINREP instructions and definitions. The removal of legacy definitions and references in the EBA Annex V, on-shored in the Reporting (CRR) part of the Rulebook, should also be considered.

**Rationale:** We appreciate that Chapter 12 does not propose any structural changes to FINREP templates however consideration should be given to any potential consequential changes to the incumbent FINREP instructions and definitions as a result of the changes proposed in Chapters 1-10 of CP 16/22. For example, Chapter 3 provides a new definition for “commitments” in the context of off-balance sheet items.

Additionally, albeit these are not linked to the changes in CP16/22 per se, we came across two instances that we would like to highlight where we think the instructions should be updated to reflect developments in requirements/definitions.

- The current FINREP instructions (Annex V) contain legacy references to IAS 17 which has been replaced by IFRS16 with effect from 1 January 2019.
- The definition/scope of CRE (Commercial Real Estate) loans was updated by ESRB in March 2019 however the current instructions point to the 2016 definition which is narrower in scope.

Clarity on definitions will also aid with consistent application of the reporting instructions, minimise the potential of incorrect interpretations and further enhance alignment of FINREP outcomes to Pillar 3 where relevant. This would also ensure consistent alignment of FinRep against CoRep / PRA expectations and potentially remove the risk of inconsistent application across firms.

## An interactive Q&A and validation process

**Recommendation 11.15:** We ask the PRA to provide a mechanism which allows firms to move easily between the rules, examples associated with them and Q&As for example a Wiki-style approach or EBA's embedded Q&A model.

**Rationale:** Interpreting reporting and disclosure requirements is not always straightforward. Placing the interpretation challenge on individual firms inevitably increases the likelihood of inconsistency and misunderstanding. Members feel that there is a gap, following the cessation of EBA Q&As, for UK only firms. Members have cited examples of skilled person on section 166 reviews indicating that more than one approach can be appropriate and that there should be a mechanism in place to check with the PRA.

**Proposals:** A Wiki-style approach, as suggested by members at the Bank of England (BoE) Banking Data Review (BDR) event in January 2023, where the regulator is the ultimate custodian of the rulebook, could be a way forward. Firms could raise queries, other firms could suggest amendments or clarifications on how items should be measured and reported, but ultimately, the PRA would provide the decision on the intent of the measurement and reporting and how it should be completed. This would result in a collaborative curation process that could significantly improve consistency of regulatory reporting.

Embedding Q&As in the corresponding sections of the PRA rulebook that they relate to, like EBA's interactive rulebook approach, would also be welcomed.

### **11.1.8 BoE's BDR work and interaction with Basel 3.1 implementation**

**Recommendations 11.16:** We suggest some quick wins that are not likely to interfere with strategic principles of the BDR work:

- **Purpose** of disclosure and reporting templates: for each new or replacement template proposed in CP 16/22, PRA should set out the objective and detailed purpose of the template
- **Mapping tool:** As noted earlier, provide a mapping between COREP /FINREP, leverage and Pillar 3 templates
- **Frequency:** critically review frequency and challenge users within the PRA on whether all quarterly templates are required. Could some be semi-annual or even annual?
- **Scope:** evaluate whether it is necessary to capture Solo COREP reporting to the extent required currently, where firms also produce consolidated returns. The PRA currently makes a significant distinction for FINREP between reporting required for Solo entities compared to group entities, should a similar review be undertaken for COREP?
- **Volume and appropriateness:** In respect of FINREP, re-evaluate whether the volume of reporting required at consolidated levels is proportionate.

**Rationale:** For consistency and robustness of disclosures of Pillar 3 and regulatory reporting as discussed above.

### **Pillar 3 disclosures on ESG**

**Recommendation 11.17:** We encourage the PRA not to embark on incorporating ESG related disclosures into Pillar 3 at this stage unilaterally. If, and when additional ESG Pillar 3 disclosures are deemed warranted by BCBS, members stress that the PRA co-ordinate such initiatives. We would encourage the PRA not to pre-empt its recommendations and should seek to harmonise as appropriate.

**Rationale:** There are significant developments ongoing in relation to climate risk and ESG disclosures, including by the International Sustainability Standards Board which is expected to be the global baseline. In addition, [The Basel Committee's strategic priorities relating to climate risks](#) indicated that “*on disclosure, the Committee will continue to coordinate with the International Sustainability Standards Board (ISSB) and, building on this work, seek to complement the ISSB's initiatives by developing a set of bank-specific "Pillar 3" disclosure requirements*”.

Also, as highlighted in the [BoE's March 2023 paper](#) on climate risk there is currently no established international framework on capital requirements relating to ESG and any changes introduced to the prudential framework should first seek international agreement to minimise fragmentation.

## Recommendations on templates 12.1

Members have not been able to review all the templates and related instructions in the consultation period during a busy time meeting year end reporting obligations. However, we have included some results of reviews to date and would like the opportunity to continue to share such observations after the consultation has closed to support the PRA in its objective to finalise the policy statement as quickly as possible. If following the close, firms are finding multiple inconsistencies or questions on specific areas, firms would be grateful for further sessions with the PRA as appropriate.

### Index of comments on templates

No.	Template	Nature of comment
<b>Chapters</b>	<b>1 &amp; 2</b>	<b>Not applicable</b>
<b>Chapter</b>	<b>3</b>	<b>Credit risk - SA</b>
	CR7	Retail sub exposure classes – lack of alignment with PRA Rulebook.
	CR10.5	HVCRE RWA% inconsistent with other exposures, including IPRE.
	CR10	Instruction table mis-referenced.
	CAP 08.06	Reference for rows 0010 to 0120 - rows 0015 and 0025 and not 0005 and 0010?
	CAP 07.00, 08.01, 08.02, 08.06	Separate CR and CCR templates – increase alignment with Pillar 3 and clarity.
	UKB-CR5	Instructions need rewording.
<b>Chapter</b>	<b>4</b>	<b>Credit risk - IRB</b>
	CAP 08:01	Disproportionate volume of analysis.
<b>Chapter</b>	<b>5</b>	<b>CRM</b>
	CAP 07.00	Unfunded credit protection reporting inconsistency
<b>Chapter</b>	<b>6</b>	<b>Market Risk</b>
	CAP 25.11	Applicability – not relevant to all firms (firms which apply the ASA or IMA)
	C14	Confirmation sought for updating instructions.
	UKB MR1	Clarification on scope.
	CAP 24.31-24.39	Trading desk reporting – operational considerations
	CAP 25.01	Mis-referenced rows and clarity from instructions sought.
	CAP 25.02	Mis-referenced rows.
	CAP 25.07	Clarification sought on aggregation.
	CAP 25.09	Additional row suggested.
	CAP 25.01- 25.07	Clarity sought on reporting requirement.
<b>Chapter</b>	<b>7</b>	<b>CVA/ CCR</b>
	CAP 26.01	Better alignment needed for template with instructions. Instructions need clarity. Rationale for reporting certain requirements.
	CAP 26.02	Instructions potentially mis-referenced. Rationale for return.
	CAP 26.03	Clarity on the return and instructions. Confirmation on calculation methodology. Confirmation on returns compared to rule book.
	UKB CVA1	Confirmation and clarity on instructions. PRA disclosure template differs from BCBS.
	UKB CVA2	PRA disclosure template differs from BCBS.
	UKB CVA3	PRA disclosure template differs from BCBS
	CAP 26.12	Confirmation on trades to include.

<b>Chapter</b>	<b>8</b>	<b>Operational risk</b>
	UKB OR1; CAP 16.02, 16.06	Potential deletion If maintained, revision of frequency and alignment with Pillar 2 approach
	CAP 16.04	Question the frequency/ duplication of reporting.
	CAP 16.05	Clarification on definitions of recoveries.
<b>Chapter</b>	<b>9</b>	<b>Pillar 2</b>
		No comments to date
<b>Chapter</b>	<b>10</b>	<b>Output floor</b>
	CAP 02.00	Potential error in reporting instructions, confirmation on the referencing. Potential need for instruction amendment. Greyed out cell - Should this be open for population?
	CAP 02.01	Rationale for this return – consistency with Banking Data Review. Clarity on what is to be reported in each row is needed Confirmation on referencing.
	UKB CMS2	Alignment to other P3 Credit Risk templates

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## Credit risk (Chapter 3)

### Clarity

#### Retail sub exposure classes

The Reporting and Disclosure templates sub exposure classes for Retail do not align with the proposed PRA Rulebook as indicated in the template instructions. A mapping is required to confirm how the granular reporting and disclosure lines map to the sub exposure classes in Article 147(2)(d). We appreciate that some changes to sub-exposure classes are consequential and reflect the changes proposed under the new framework (e.g. purchased receivables etc) but the instructions should be consistent and clear and the breakdowns are fixed for similar reporting and disclosure outcomes where possible. A mapping from the old exposure classes to the new breakdowns should definitely help (where feasible) including clarity in the instructions as these changes will require substantial development to ensure readiness for reporting, comparable disclosures and successful COREP validation.

Instructions for the template CR7 "*Institutions shall include the breakdown of pre-credit derivatives RWEA risk-weighted exposure amount and actual risk-weighted exposure by exposure class and subclass, in accordance with the exposure classes and subclasses listed in Article 147 of the Credit Risk: Internal Ratings Based Approach (CRR) Part with further breakdown as included in the template, and separately for exposures under the FIRB approach and exposures under the AIRB approach.*"

Section of disclosure template CR7

<u>6.1</u>	<u>Retail – Secured by residential property SMEs</u>
<u>6.2</u>	<u>Retail – Secured by residential property non-SMEs</u>
<u>6.3</u>	<u>Retail – Secured by commercial property SMEs</u>
<u>6.4</u>	<u>Retail – Secured by commercial property non-SMEs</u>
<u>9.3</u> <u>6.5</u>	<u>of which Retail – Qualifying revolving</u>
<u>6.6</u>	<u>Retail - Purchased receivables</u>
<u>9.4</u> <u>6.7</u>	<u>of which Retail – Other SMEs – Other</u>
<u>9.5</u> <u>6.8</u>	<u>of which Retail – Other non-SMEs– Other</u>

For Example: CR7 and CR7-A, the subcategories do not match the sub exposure class in Art 147(2)(d)

Also see Reporting template CAP 08.07 and CAP 09.02

CRR Article 147(2)(d)

(d) retail exposures, which shall be divided into the following exposure subclasses:

- (i) qualifying revolving retail exposures;
- (ii) retail exposures secured by residential immovable property; and
- (iii) other retail.

### Referencing

#### Template CR10.5 – HVCRE

RWA% as per Table A Article 153(5)

**Table A**

<b>Rating grades:</b>	<b>Strong</b>		<b>Good</b>		<b>Satisfactory</b>	<b>Weak</b>	<b>Default</b>
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>			
<b>Object finance</b>	50%	70%	70%	90%	115%	250%	0%
<b>Project finance</b>	50%	70%	70%	90%	115%	250%	0%
<b>Commodities finance</b>	50%	70%	70%	90%	115%	250%	0%
<b>IPRE</b>	50%	70%	70%	90%	115%	250%	0%
<b>HVCRE</b>	70%	95%	90%	120%	140%	250%	0%

Template CR10.5 has percentages of 50%, 70%, 70%, 90%, 115% and 250%

Template UKB CR10

For this template, the instructions 1.a. with respect to ‘Specialised Lending’ referred to Table A of Article 153.5 should be amended to Table A of Article 153.4.

Template CAP 08.06

For the Row instructions (0010 to 0120): Confirmation sought that the referencing should be to rows 0015 and 0025 and not 0005 and 0010.

## Credit and Counterparty Credit Risk reporting (CAP 07.00; 08:01; 08:02; 08:06) Approach / clarity

Previous taxonomy introduced a series of CCR only COREP templates (C34 templates) ; as well as creating some new CR only templates (C08:03 / C08:04 / C08:05 / C08:07). This reflected the approach in Pillar 3 whereby Credit Risk, and Counterparty Credit Risk, are disclosed separately.

In a similar vein would it be appropriate to now implement separate CR and CCR versions of CAP07:00, CAP 08:01, CAP 08:02 and CAP 08:06? This would further increase alignment to Pillar 3 and would enhance clarity when reviewing. We note that significant portions of CAP07:00 in particular are not required to be analysed in detail for CCR, but due to CCR inclusion in 'Total' row the data has to be reported in that row in any case. Separate CR and CCR templates would allow only pertinent analysis to be collected for CCR.

*Example: CAP 07:00*

The CCR analysis in rows 090-130 is required only for columns 0200, 0210, 0211 and 0221. Nevertheless, in Total row 010, all columns are open and require to be populated with both CR and CCR data. A targeted CCR only CAP 07:00 template could collate the required analysis for columns 0200, 0210, 0211 and 0221 only, broken down by risk weight as well as by CCR transaction type.

If this suggestion was implemented, template CAP02:00 would also need to be revised as it currently combines Credit and Counterparty Credit Risk.

We note that new template C02:01 (and related disclosure UKB CMS1) has disaggregated credit and counterparty credit risk.

## **Disclosure UKB-CR5 Standardised Approach**

Instructions for column 'ad' 'Total' should have the words 'RWA' removed to aid clarity:

*“Total amount of on-balance-sheet and off-balance -sheet [RWA] exposures under the regulatory scope of consolidation”*

## Credit risk - IRB

## **Reporting- CAP 08:01 (new rows 0031- 0034 for breakdown of off-balance sheet items by CCF)**

## Purpose

The new breakdown of off-balance sheet by Credit Conversion Factor in rows 0031-0034 of CAP 08.01 is to be populated for up to 30 columns of that report. Meanwhile, in CAP 08.02 the analysis of off-balance sheet by CCF is inserted as new columns 0101 – 0105 respectively, which is a breakdown only of the Exposure value (EAD).

The volume of analysis of the CCF breakdown in C08:01 appears disproportionate. We propose it should be limited to breakdown of original exposure (col 0020), Exposure value (col 0110), and some of the RWA/EL analysis in relevant columns 0251 onwards. The remaining columns, for these 5 rows, should not be required for reporting.

<u>BREAKDOWN OF OFF-BALANCE SHEET ITEMS BY CONVERSION FACTORS</u>						
<u>10%</u>						
<u>20%</u>						
<u>50%</u>						
<u>100%</u>						
<u>Own estimate</u>						

Reporting -CAP 08:01 (new rows 0190: Corporates where credit assessment by ECAL is not available) and 0200 (of which: investment grade)

## Purpose

New rows 0190 and 0200 will be applicable to exposure sub-classes:

- i) Financial corporates and large corporates; and
  - ii) Other general corporates

The analysis required for these new rows is extensive – most columns of CAP 08.01 are open.

It appears these rows may be in place primarily to collect information on these exposures for output floor purposes (i.e., as reflected in new columns 0275 and 0276). If that is the case, the granular analysis requested appears disproportionate, and we suggest reported data for these rows could be restricted to most pertinent columns only (e.g., original exposure, EAD, output floor values) with other columns 'greyed out'.

## Credit risk – CRM (Chapter 5)

#### Unfunded Credit Protection reporting inconsistency (BCBS vewt to Ch 5)

The proposal to apply a single, weighted average risk weighting to the whole of a protected exposure will create some significant difficulties for COREP reporting.

The Basel 3.1 approach is to risk weight the unprotected part of the transaction according to the underlying counterparty, and the protected part of the transaction according to the protection provider. This is consistent with the existing approach.

It is also consistent with the approach to reporting inflows and outflows for mitigation on reporting templates.

To implement the PRA's proposed approach is not without cost: existing reporting processes and systems will have to be modified to implement it. But there would seem to be no benefit: overall RWAs will be unchanged.

In addition, information submitted to the PRA on the reporting templates may, in fact, be less useful. For example:

- Where a very large part of an exposure to a corporate counterparty with a high risk weight is protected by an institution with a low risk weight, the unprotected portion remaining in the corporate CAP 07.00 template after mitigation outflows will appear to be to a low-risk-weighted counterparty.
- Where a very small part of an exposure to corporate counterparty with a high risk weight is protected by an institution with a low risk weight, the protected portion transferred to the institution CAP 07.00 template as a mitigation inflow will appear to be to a high-risk-weighted counterparty.
- In rows 0140-0280 of the CAP 07.00 reporting template and in columns a to ac of the UKB CR5 disclosure template, mitigated exposures will rarely exactly match one of the prescribed risk weightings.

The proposal is an unnecessary deviation from Basel and should not be implemented.

The first two sub-bullets are best illustrated with an example, assuming a £100 exposure to a 150% RW counterparty, part protected by a 20% counterparty (two examples, one with 95% protected and one with 5% protected):

<b>Very large part protected</b>	<b>RW%</b>	<b>Obligation</b>	<b>Mitigation risk transfer</b>	<b>Post-mitigation</b>	<b>RWA</b>
Obligor	150%	100	-95	5	7.5
Protection provider	20%		95	95	19.0
		100			26.5
Weighted average	26.5%				
<b>Very small part protected</b>	<b>RW%</b>	<b>Obligation</b>	<b>Mitigation risk transfer</b>	<b>Post-mitigation</b>	<b>RWA</b>
Obligor	150%	100	-5	95	142.5
Protection provider	20%		5	5	1.0
		100			143.5
Weighted average	143.5%				

In the first example, the remaining unprotected exposure to the obligor will be reported on the corporate template as 26.5% risk weighted but will actually be an exposure to a 150% counterparty.

In the second example, the protected part of the exposure will be reported on the institution template as 143.5% risk weighted but will actually be an exposure to a 20% counterparty.

## Market Risk – Reporting (Chapter 6)

### CAP 25.11 Market Risk Authorisations (MKR AUTH)

#### Applicability

The General Remarks for this template indicate that its purpose is two-fold:

- 1) *This template captures the approaches that firms used to calculate the market risk own funds requirements, and*
- 2) *the balance sheet size that determines the eligibility for using specific approaches*

The 'Market Risk approaches' part is relevant for all firms to complete:

<b>Market risk approaches</b>		
<b>Type of Approaches</b>	Use this approach (Yes/No)?	

0040	Simplified standardised approach (SSA)	
0050	Advanced standardised approach (ASA)	
0060	Internal models approach (IMA)	

However, the “On and off-balance sheet business subject to market risk” part is only relevant to firms wishing to take advantage of the small trading book exemption, or apply the SSA, or which expects/intends to do so in future. That is, this template provides information on the criteria specified in Art 325a (1) and (2), which are the criteria for using the SSA.

Reporting month	On- and off-balance sheet business subject to market risk								Total assets	
	Breakdown by regulatory book									
	Trading book		Non-trading book		in % of total assets	Positions subject to foreign exchange risk	Positions subject to commodities risk			
	of which: Trading book business for the purposes of Article 94 CRR	Total	in % of total assets							
	0010	0020	0030	0040	0050	0060	0070	0080		
0010	Month 3									
0020	Month 2									
0030	Month 1									

Given this, we propose that this part of 25.11 should only be mandatory for firms which take advantage of small trading book exemption, or apply the SSA, or plan to do so in future. This part of the template should not be required from firms which apply the ASA or IMA.

#### Market Risk - Simplified standardised approach (SSA)

12.22 The PRA does not propose to make any changes to COREP templates C18.00–C23.00 which would continue to be reported by firms that will apply the SSA. Minor amendments are proposed to the instructions for C18.00–C23.00 to replace references to the CRR with the proposed PRA Rulebook references as set out in Appendix 4, including a clarification that the new multipliers in Article 325(2) of the Market Risk: General Provisions (CRR) Part should apply to the aggregated risk class-level own funds requirements reported in COREP templates C18.00–C23.00 (as proposed in paragraph 6.31 of Chapter 6).

Whilst Template C19 (SEC MKR) is to be retained for Firms using the Simplified Standardised Approach, this Template currently links to C14 (SEC Details) Template which no reference is made to in the CP. We would like to know if the PRA intends to also update the ITS instructions for Template C14 to clarify that Market Risk data is only to be reported where the Simplified Standardised Approach is used for Securitisation Market Risk.

#### Market Risk Disclosure - Template UKB MR1 - Quantitative disclosure for the market risk advanced standardised approach (ASA)

We would welcome clarification on the scope of this template in respect to whether modelled IMA exposures should also be included for the purposes of output floor requirements.

**Market Risk Reporting – COREP Template CAP 24.31-24.39 IMA2: Market Risk IMA Back testing and P&L**  
We understand the intent of this template and its importance as part of the PRA’s FRTB regime however we would appreciate if consideration could be given to the following aspects:

**Frequency:** Considering the level of granularity being requested at trading desk level, the frequency could align to the prescribed frequency of the IRB Credit Risk Back testing COREP template (i.e. C08.05) which is annual or otherwise reduce to semi-annual rather than being required quarterly.

**Data Horizon:** Considering this is a back testing reporting template, should the horizon be T-280 vs the proposed T+280.

**CAP 24.33 - Trading desk general information:** We would welcome further clarity in the instructions with respect to the requirements of Column 030. Will this be a free text column/cell or a list of pre-defined answers will be provided as part of final rules.

#### Template CAP 25.01

For row 360, we believe the text in the template, 'not listed from Rows 0030-0370', is incorrect and should be 'not listed from Rows 0020-0350'.

For row 370, we believe the text in the template, 'not listed from Rows 0030-0370', is incorrect and should be 'not listed from Rows 0020-0360'.

For row 380, we believe the text in the template, 'not listed from Rows 0030-0370', is incorrect and should be 'not listed from Rows 0020-0370'. Furthermore, we believe the text in the template, 'not included in rows 380 and 390', is not required and should be removed.

For row 360, we believe the instructions are incorrect. The instructions should refer to 'calculating the aggregated top 10 of the other currencies in row 0360', not row 370 as written.

For row 370, we believe the instructions are incorrect. The instructions should refer to 'the next 10 in row 0370', not row 380 as written.

For row 380, we believe the instructions are incorrect. The instructions should refer to 'and all other remaining currencies in row 0380, not row 390 as written.

For row 380, we request that you clarify the requirement as the instructions are not consistent with the template. The template indicates that the next 10 most material currencies should be reported, whereas the instructions ask for all remaining currencies to be reported.

For Rows 360-380, we request that you clarify how to rank the currencies. We believe it should be based on the absolute value of the net position, from largest to lowest.

#### Template CAP 25.02

For row 0180, we believe the text in the template, 'not listed in rows 030-090', is incorrect and should be 'not listed in rows 020-090'.

#### Template CAP 25.07

We request clarification from you in relation to Rows 0570, 0620, 0630, 0650 & 0660 on how to aggregate the vega sensitivities in the liquid and illiquid bucket.

#### Template CAP 25.09

We believe there should be an additional row to capture 'Other risk' within residual risk.

#### Template CAP 25.01: CAP 25.07

We request that you clarify the reporting requirement for column 0160 'own funds requirements'. We believe it should be calculated by selecting the scenario that generates the highest total own funds requirements and apply this one for all risks, without changing scenario from one risk to another.

#### CVA Reporting (Chapter 7)

##### Template CAP 26.01

1. CAP 26.11: For the Column (0020): Confirmation sought that the heading/title should be 'Alternative Approach' rather than 'Fall-back Approach' in line with the instructions.
2. CAP 26.12: Please confirm in the instructions that if a firm is not using the Alternative Approach, then it does not need to complete CAP 26.12, or if it does, please make it clear in the instructions what is required.
3. CAP 26.13: For the Row 0010; Columns 0050-0080, confirmation sought on the rationale for reporting CCR exposures and RWAs (floored and non-floored)? It is only for exposures subject to CVA capital requirements so a slightly different scope than CCR and Output Floor templates (i.e. would exclude SFTs, intragroup and cleared transactions) but not clear why it should be included in a CVA template.

### **Template CAP 26.02**

1. CAP 26.21 –For the Row 0040; Column 0010 and Rows 0050-0070; Column 0020: The instructions refer to ‘Rule 4.7’, this seems to be incorrect. Should it be ‘Rule 4.6’?
2. CAP 26.21 – For the Rows 0080-0090; Column 0010: The instructions refer to ‘Rule 4.6’, this seems to be incorrect. Should it be ‘Rule 4.5’?
3. CAP 26.21 – Row 0100; Column 0010 is not required for the calculation of capital requirements, so it is not clear why it is required.

### **Template CAP 26.03**

1. CAP 26.32 – For the Row 0020: The bucket name of ‘Financials including government-backed financials’ does not match that in Rule 5.27(1) which includes pension funds. The return and instructions need to clarify what is required.
2. CAP 26.33 and CAP 26.34 – For the Row 0080: Confirmation sought in relation to how this row for ‘other’ should be calculated as no instructions provided on how these should be aggregated. The instructions need to be clear on the methodology, for example, using a sum of Kbs and components.
3. CAP26.36 – Confirmation sought in relation to why the return does not include a row for bucket 13, “Other qualified index” compared to rule 5.29 of the PRA rule book.

## **CVA Disclosures**

### **Template UKB CVA1**

1. For the Rows 0010-0020: Confirmation sought on instructions for systematic and idiosyncratic components of BA-CVA being different from equivalent items in the PRA reporting template in terms of formula. Appears to require a calculation that is not required for capital requirements calculation:  $\sqrt{\sum cSCVAc2}$ . However, the definitions are consistent with the BCBS disclosure instructions.
2. For the Column b: PRA disclosure template differs from BCBS disclosure template former asking capital requirements and latter RWAs. This should be made clear on the face of the template.

### **Template UKB CVA2**

Same question as above in Template UKB CVA1 Question 2.

### **Template UKB CVA3**

Same question as above in Template UKB CVA1 Question 2.

## **CVA Risk**

### **Template UKB CVA1: The reduced basic approach for CVA (BA-CVA)**

Can PRA confirm that template UKB CVA1 is not to be completed where BA netting sets will be calculated using the Full BA approach.

## **CVA Risk**

### **Template CAP 26.12 Notional amount of the derivatives business**

Can PRA confirm whether this template should include transitional legacy trades, or only those trades used in the CVA capital calculation.

## **Operational Risk (Chapter 8)**

### **UKB ORB1 /CAP 16:05 and related CAP16.02**

Given the PRA's view on the merits of operational risk losses as noted in Chapter 8 (extracts below), we challenge the need for operational risk loss event Pillar 3 disclosure and COREP reporting. Should the PRA conclude that operational risk loss event information is needed then we suggest the PRA use the operational risk loss events monitored and assessed as part of its "*sophisticated Pillar 2 assessment process*". If for some reason, such information is still required we suggest:

- allocation basis for operational risk loss events for COREP should be aligned to the allocation basis used for Pillar 2 / STDF, to ensure consistency and minimise operational burden.
- frequency of reporting be annual, given the lack of correlation to capital measure
- reporting for newer firms is shortened as the business model/strategy and operating activities may have changed significantly over the prior years and consistent data may not exist in most cases
- disclosure requirements are eliminated as such disclosure may create misleading market perception.

Extracts from Chapter 8 of CP 16/22:

*"The PRA considers that the information value of operational risk losses generally diminishes over time as business models and lending activities change. The SA's use of a 10-year window of unweighted past losses in the ILM could result in it being inappropriately affected by large historical operational risk losses near the start of the 10-year period that might be weak predictors of future losses."*

Extract of rules for operational loss allocation bases:

- CP 16/22 Appendix 4 (Draft PRA Rulebook) Annex K para 7.2.6(c) states: "it must allocate losses caused by a common operational risk event, or by related operational risk events over time but posted to the accounts over several years, to the corresponding years of the loss database in line with their accounting treatment."
- FSA form 073 (for Pillar 2 data collection) states: "Operational risk losses caused by a common operational risk event or by multiple events linked to a root event must be grouped and entered into the dataset as a single loss."

#### CAP 16.02 and template 16.06

Similarly, with ILM being set at 1 for all firms, we again question the rationale for reporting column 0020 and 0030 of template CAP 16.02 and template 16.06 in its entirety. There is no requirement to calculate an ILM in the proposed 'Operational Risk' part of the PRA Rulebook, nor is there any methodology or formula provided to calculate it in the Rulebook. A formula is provided in the Annex II instructions only. We challenge the PRA's inclusion of these data points and ask whether the PRA have gone beyond the scope of the Rulebook when designing these templates. The requirement to report this information would be better suited as part of the stress testing process where the data will actually be used, and not as part of the collection of information related to Pillar 1 capital requirements.

#### Operational Risk – Business Indicator Calculation

Articles 315 and 317 of CRR both set out that in calculation of the Basic or Standardised approach to operational risk

*"Institutions shall calculate the average over three years of the [relevant indicator] on the basis of the last three twelve-monthly observations at the end of the financial year. When audited figures are not available, institutions may use business estimates."*

The PRA draft rulebook (Annex K - Operational Risk) does not include any comparable text regarding the use of audited figures / business estimates in calculation of Business Indicator. Should similar text be added?

#### UK CAP 16.04 – Operational Risk

The PRA proposes that firms would submit CAP16.00 to the PRA on a quarterly basis, consistent with existing COREP reporting requirements on operational risk capital requirements. This requires firms to submit the same return CAP16.04 four times based on the numbers at the financial year end. Firms question the PRA on the useful of this?

## Template CAP 16.05

For rows 010, 050, 060, 100: We request clarification in relation to the definition of recoveries in this context? Does the definition include rapid recoveries and insurance recoveries? If not, how should these items be reported?

### Reporting - Own Funds

#### Reporting - CAP 02:00 (Own funds requirements CA2)

##### Clarity

##### Row 0034 'Output floor activated'

The instructions for row 0034 of CAP02:00 reference 72.5%. This percentage is only relevant from 1/1/2030 (as noted in the instructions for column 0030 of this template). Should the instructions be amended?

0034	<b>1.01 Output floor activated</b>  Indicate if the output floor has been activated (i.e. when 72.5% of RWAs calculated using SAs exceed RWAs calculated using IM approaches) calculated per as per Article 92 of the Required Level of Own Funds (CRR) Part of the PRA Rulebook.
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##### Row 0010 'With regards to the standardised approaches only output floor (column 0030)

There appears to be an error in the reporting instructions for row 0010. Confirmation is sought that the referencing should be to (column 0020).

##### Row 5898 'Total Risk Exposures amount for capital charge due to switching positions between trading and non-trading book'

Column 010 "All approaches" of CAP02:00 is 'greyed out' for row 5898. We believe this is incorrect and should be open for population.

### CAP 02.01- Output Floor

While this return is largely a duplication of information in other COREP returns, the instructions for its completion are limited and some specific points need to be clarified:

- Where should 'Risk exposure amounts for contributions to the default fund of a CCP' be reported (in row 0020 Counterparty Credit risk; or row 0070 Residual RWA)?
- The instructions for Row 0040 (Securitisation exposures) reference CVA templates. Confirmation is sought that the referencing should be to SEC templates.
- Row 0070 (Residual RWAs) - can specific examples be provided of items which should be included in this row

#### Output floor disclosures - Template UKB CMS2- Comparison of modelled and standardised Risk Weighted Assets (RWA) for credit risk at asset class level

Based on the proposed instructions for this template, "*the rows will be set at jurisdiction level to reflect the exposure classes required under national implementation of IRB and SA*".

For consistency and comparability purposes in future Pillar 3 publications and considering the above instructions, we would welcome an alignment of the Corporate and Retail sub-exposure classes to those ones prescribed in the proposal for other STD and IRB Credit Risk disclosures such as UKB CR4 & UKB CR7 and equivalent changes in supervisory reporting templates i.e. COREP. This should also reduce the potential of different interpretations amongst banks.

We request clarity in the instructions to confirm if the Row 'Purchase receivables' will include both corporate and retail purchase receivables, and if yes, then confirmation that the same to be excluded from respective 'Corporates' and 'Retail' rows.

Row 011 spelling error: 'multilateral development banks'.

We request clarity in the instructions to confirm if the Row 020 'Banks and other financial institutions' is intended to cover exposures to institutions that are not quasi sovereign per art 147(2)(b)ii

We request clarity in the instructions to define the scope of row 'Others'. For example, if Non Credit Obligation assets under Art 147(2)(g) should be reported here?. Also confirmation that the total row should represent the total of IRB credit risk exposures that will be measured against the Output Floor.