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MFI BALANCE SHEET AND INTEREST RATE STATISTICS AND EBA GUIDELINES ON FINREP AND COREP/LARGE EXPOSURES

MARCH 2012

BRIDGING THE REPORTING REQUIREMENTS - METHODOLOGICAL MANUAL

SECOND EDITION

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ABBREVIATIONS

AAR	Annualised Agreed Rate
APRC	Annualised Percentage Rate of Charge
ASA	Alternative Standardised Approach
BAD	Banking Accounts Directive
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BSI	Balance Sheet Items (acronym denoting MFI balance sheet statistics)
CA	Capital Adequacy
CBCSDI	Cross-Border and Cross-Sector Consolidation Basis for All Domestically Incorporated [credit institutions]
CBD	Consolidated Banking Data
CEBS	Committee of European Banking Supervisors [now EBA]
CIU	Collective Investment Undertaking
COREP	COmmon solvency ratio REPorting
CR EQU IRB	Credit Risk: Equity – Internal Rating Based Approaches to Capital Requirements
CR IRB	Credit, counterparty credit, dilution and delivery risk: Internal Rating Based Approach to Capital Requirements
CR SA	Credit, counterparty credit and delivery risk: Standardised Approach to Capital Requirements
CR SEC IRB	Credit Risk: Securitisations – Internal Ratings-Based Approach to Capital Requirements
CR SEC SA	Credit Risk: Securitisation – Standardised Approach to Capital Requirements
CR SEC	Credit Risk Details – Credit Risk: Detailed information on securitisation by originators and sponsors
CR TB SETT	Credit Risk Settlement Risk in the Trading Book
CRD	Capital Requirements Directive
DC	Domestic Consolidation
DCCB	Domestically-Controlled Cross-Border Consolidation Basis
DCCBS	Domestically-Controlled Cross-Border and Cross-Sector Consolidation Basis
EBA	European Banking Authority
ECB	European Central Bank
EMU	Economic and Monetary Union
ESA 95	European System of Accounts 1995
ESCB	European System of Central Banks
EU	European Union
FCCBS	Foreign-Controlled Cross-Border Cross-Sector Consolidation Basis
FINREP	Financial Reporting
FSC	Financial Stability Committee [of the ESCB]
FSI	Financial Soundness Indicators
FV	Fair Value
FVC	Financial Vehicle Corporation
GAAPs	Generally Accepted Accounting Principles (US-GAAP)
HH	Household [sector]
HTM	Held-to-Maturity
IAS	International Accounting Standards
IBS	International Banking Statistics [of the BIS]

IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRB	Internal Ratings Based
JEGR	Joint Expert Group on Reconciliation of credit institutions' statistical and supervisory reporting requirements
L&R	Loans and Receivables
LBG	Large Banking Group
MBS	Money and Banking Statistics
MFI	Monetary Financial Institution
MFM	Monetary, Financial Institutions and Markets
MIR	MFI interest rate statistics
MKR SA COM	Market Risk: Standardised Approaches for Commodities
MKR SA EQU	Market Risk: Standardised Approaches for Position Risk in Equities
MKR SA TDI	Market Risk: Standardised Approaches for Position Risks in Traded Debt Instruments
MKR SEC	Market Risk Relating to Securitisations
MMF	Money Market Fund
MRK SA FX	Market Risk: Standardised Approaches for Foreign Exchange Risk
NCB	National Central Bank
NDER	Narrowly Defined Effective Rate
NFC	Non-Financial Corporation
OFI	Other [non-monetary] Financial Intermediary
OPR	Operational Risk
SA	Standardised Approach
SNA	System of National Accounts
STC	Statistics Committee [of the ESCB]

PREFACE

The Joint Expert Group on Reconciliation of credit institutions' statistical and supervisory reporting requirements (JEGR) was established in June 2008. Since then, its mandate has been renewed twice, in 2010 and 2012. Its sponsors are the ESCB's Statistics Committee (STC) and Financial Stability Committee (FSC), and the European Banking Authority (EBA). Pierre Olivier Cousseran (Banque de France) chaired the JEGR until end-2011. A list of JEGR participants is attached to this publication.

The aim of the JEGR is to bridge elements of the statistical and supervisory reporting frameworks relating to monetary financial institutions (definitions, concepts, valuation rules, reporting templates, etc.) and, where possible, identify reconciliation options between them, taking into consideration, on the one hand, the framework established by EBA for the reporting of financial information compliant with international accounting standards (FINREP), capital adequacy data requirements (COREP) and Large Exposures (LE) and, on the other hand, the European Central Bank's (ECB's) statistical reporting framework for monetary financial institutions' balance sheet items (BSI) and monetary financial institution interest rates (MIR) statistics based on the European System of Accounts (ESA).

In particular, the JEGR has developed a classification system comprising the following two elements:

1) a methodological bridging manual containing a thorough analysis of the areas of potential overlap between the ECB's statistical reporting requirements and selected supervisory requirements addressed to credit institutions; and

2) a relational database which mirrors the bridging manual, aiming to systemically identify possible links (commonalities and differences) between these requirements.

The classification system has helped the ECB and the EBA to identify cases where differences between the two reporting frameworks are not justified by differences in the analytical use of the data. The JEGR considers that in such instances there is scope for reconciliation between the two frameworks, and hence for a reduction of the reporting burden on credit institutions. Moreover, the relational database aims to help reporting agents identify similarities and differences between their reporting obligations in an easy and accurate manner, and is designed to facilitate – under certain conditions – respondents' data production processes. For these reasons, the JEGR work has also been strongly supported by the banking industry.

The ECB and the EBA have already published a first version of the classification system in February 2010. This new edition includes further enhancements and updates. It also includes a series of reconciliation proposals which are in the process of being implemented by the ECB and EBA. These proposals have a general impact on the BSI, MIR, FINREP, COREP and LE frameworks as they bring closer to each other important aspects such as instrument definitions and classification, sector classification, consolidation and accounting rules.

Under its renewed mandate (endorsed in February 2012), the JEGR will continue to act as a forum for fruitful dialogue between statistical and supervisory experts. In particular, it will maintain the classification system by ensuring that the methodological bridging manual remains up to date, in view of forthcoming changes to FINREP, COREP and LE (including possible extensions regarding the liquidity framework and the leverage ratio), as a result of forthcoming amendments to the Capital Requirements Directive, as well as potentially relevant changes to statistical (e.g. securities holdings statistics) or macro-prudential data requirements. In turn, this work may provide room for further reconciliation and the reduction of reporting costs in the future and to further develop the functionality of the relational database.

By ensuring that the classification system is maintained on a regular basis, its advantages for compilers and reporting agents can thus be fully exploited.

This publication covers the first element of the classification system, namely the methodological bridging manual. The relational database can be downloaded from the following web address: http://www.ecb.europa.eu/stats/pdf/jegr/JEGR_database.zip

1 INTRODUCTION

The Joint Expert Group on Reconciliation of credit institutions' statistical and supervisory reporting requirements (JEGR) was established in June 2008. Its mandate was twice renewed in 2010 and 2012. Its sponsors are the ESCB's Statistics Committee (STC) and Financial Stability Committee (FSC), and the European Banking Authority (EBA).[1]

The aim of the JEGR is to identify and promote common elements in the statistical and revised supervisory reporting frameworks relating to credit institutions (e.g. definitions, concepts, valuation rules, reporting templates) and, where possible, to reconcile them. These reporting frameworks are:

- Monetary Financial Institutions' (MFI) balance sheet and interest rate statistics, designed mainly to provide data for ECB monetary policy purposes. Credit institutions form the largest part of the MFI sector. So far as possible, these statistics conform to international and European statistical standards, currently the European System of Accounts (ESA 95, to be replaced by the ESA 2010 in 2014). The MFI balance sheet Regulation was adopted in December 2008, and the interest rate Regulation in December 2001, with major amendments in March 2009.[2] The new requirements were implemented in 2010.

- The FINancial REPorting (FINREP) framework, designed for credit institutions which use the international accounting standards (IAS/IFRS) in their published financial statements and must submit similar information to their supervisory authorities. FINREP was devised by the Committee of European Banking Supervisors (CEBS), now the EBA,[3] in 2005; the current version (Rev 2),[4] published in December 2009, took effect in January 2012.

- The COmmon solvency ratio REPorting (COREP) framework, for use by credit institutions under the Basel framework as implemented with the EU capital adequacy regime. COREP, also devised by the CEBS, dates from 2006; the current version (Rev. 3),[5] published in April 2011 and applicable as of 31 December 2011. COREP is methodologically consistent with FINREP, at least for credit institutions applying IAS/IFRS. COREP will soon also include the common reporting of Large Exposures (LE), defined in the context of capital adequacy as exposures to connected entities exceeding 10% of a credit institution's capital. The LE templates were published in December 2009.[6]

In seeking to reconcile the reporting frameworks, the JEGR must respect the different purposes which they were designed to serve and the accounting principles underlying them.

To meet this goal, the JEGR has developed a classification system for the ECB's statistical requirements relating to credit institutions' balance sheets and interest rates and the relevant supervisory guidelines established by the EBA. This classification system comprises two parts, the present methodological manual and a relational database.[7]

It may be useful to explain briefly why statistical and supervisory data are different. The main use of the statistical balance sheet data reported by credit institutions (banks) and other monetary

1 The European Banking Authority was established by Regulation (EC) No. 1093/2010 of the European Parliament and of the Council of 24 November 2010. It officially came into being on 1 January 2011 and has taken over all the tasks and responsibilities of the Committee of European Banking Supervisors (CEBS).
2 These are Regulations ECB/2008/32, ECB/2001/18 and ECB/2009/7. See http://www.ecb.int/ecb/legal/1005/1021/html/index.en.html.
3 EBA, formerly CEBS (see above).
4 See http://www.eba.europa.eu/Publications/Standards-Guidelines/CEBS-Revised-Guidelines-on-Financial-Reporting.aspx.
5 See http://www.eba.europa.eu/Publications/Standards-Guidelines/The-EBA-publishes-a-revision-of-the-common-reporti.aspx.
6 See http://www.eba.europa.eu/Supervisory-Reporting/COREP/Common-reporting-of-LE.aspx.
7 The relational database can be downloaded from http://stats.ecb.int/stats/shared/JEGR_database.zip.

financial institutions[8] is to support monetary policy analysis and trace the transmission of monetary policy actions to the economy. For this purpose, the focus of interest is the total amount of their monetary liabilities and credit extended, who holds the money, and who borrows from them. The emphasis is on the counterparties rather than on the credit institutions because it is their spending and saving decisions which influence economic developments. The monetary and lending data with the vital counterparty information are not viewed in isolation, but are embedded in comprehensive and integrated economic and financial accounts compiled quarterly within a conceptual framework laid out in the world System of National Accounts and the ESA derived from it. These standards define sectors (households, non-financial corporations, financial corporations, government) as groups of entities displaying similar economic behaviour, and make a strict distinction between resident and non-resident entities. These sector definitions are important for monetary analysis, because (for example) an increase in the money holdings of households or non-financial corporations may have different implications from an increase in money held by (non-monetary) financial corporations. The residence distinction matters because the ECB's monetary policy responsibility is confined to the euro area, and neither non-residents' holdings of monetary instruments nor residents' holdings of monetary claims on entities abroad are considered to have the same significance for monetary analysis as residents' holdings of monetary instruments issued by resident credit institutions and other MFIs.

These concepts of sector and residence are standard across the world, to enable economic developments to be easily compared across countries. Harmonisation is particularly important in the European Union/euro area, so that coherent area aggregates can be compiled. Consistency of data over time is also necessary, to enable economic and financial developments to be put in perspective over long periods, allowing "through-the-cycle" assessments.

The MFI interest rate data provide essential information on the transmission of monetary policy monetary initiatives to the interest rates received and paid by households and non-financial corporations in the euro area. The two reporting schemes are complementary.

For supervisory purposes, it is the bank which is at the heart of the story. The focus is the individual bank or the banking group, and in particular the various kinds of risk to which it is exposed and the adequacy of its capital in view of these risks. Looking at resident banking offices alone is insufficient: the position of branches and subsidiaries abroad is also relevant, as may be that of resident and foreign non-banking financial affiliates. Hence, the banking group may cross national, euro area and EU boundaries, and may include institutions which are not classified as credit institutions or MFIs more broadly, in which case group consolidated data will cut across statistical categories. Counterparties are of interest mainly from the perspective of credit risk concentration and diversification. Their residence status is relevant, if at all, in that context. Risks concern also currency and maturity mismatches (with the emphasis on residual maturity, not the original maturity recorded for most statistical purposes), legal matters and operational processes. Hence, they may arise from contracts or operations which do not feature on the statistical balance sheet. How all the risks faced by the supervised institutions are interconnected is important.

The rules concerning the valuation of assets and liabilities, the timing of recording of transactions, and whether or not certain items are recorded on the balance sheet may also differ between supervisory and statistical standards.

8 Credit institutions form by far the largest part of the monetary financial institutions (MFI) sector in Europe. The MFI sector includes, in addition to credit institutions, other institutions with liabilities included in the ECB's definition of broad money (M3): these are central banks, money market funds (quite numerous in some EU countries), and other financial institutions with monetary liabilities including issuers of electronic money. Only credit institutions are relevant to the links between the ECB's statistical reporting framework and the FINREP/COREP/Large Exposures frameworks, and so to the work of the JEGR and the scope of this manual.

Finally, although the development of a bank's business and the relative profits and losses over time may be relevant, the supervisory function is less interested in time series and more concerned with a snapshot of the bank's or banking group's current position and in assessing its prospects.

The main differences between these reporting frameworks are summarised in the table below.

Table 1 Main differences between reporting frameworks

	REPORTING FRAMEWORKS			
	Statistical		Financial and supervisory	
	BSI	MIR	FINREP	COREP/LE
Mandatory	Yes	Yes	No, but may be from 2013, for some templates	Yes
Geographical coverage	Euro area	Euro area	EU	EU
Reporters	All resident MFIs = credit institutions, money market funds, central banks and "other" MFIs	All resident credit institutions and "other MFIs" Collection: census or sample	Credit institutions using IAS/IFRS	All credit institutions and investment firms
Group consolidation	No	No	• Yes (national vers. at solo level) • CRD approach • Option for IFRS approach (some templates)	• Solo level • CRD approach
Residency	"Host" principle Foreign branches are excluded	"Host" principle Foreign branches are excluded	"Home" principle[1] Foreign branches are included	"Home" principle Foreign branches are included
Valuation	Market or fair value except for loans and deposits (nominal value)	Nominal value	IAS/IFRS (mostly at market or fair value, but most loans at amortised cost)	IAS/IFRS or National GAAP
Data definitions	Compliant with ESA and BSI Regulation	Compliant with ESA and BSI Regulation	Compliant with IAS/IFRS, CRD, BSI Regulation	Compliant with CRD
Accrual	Yes, separate from underlying instrument	N/A	Yes, with the underlying instrument	Yes, with the underlying instrument
Netting	No	N/A	No (de facto)	No
Loan provisioning	Gross	Gross	Net	Net
Securitisation	• Traditional only • IFRS/nat'l GAAP • With vehicles • Tranched or not	N/A	• Traditional and synthetic • IFRS • With/without vehicle • Tranched or not	• Traditional and synthetic • CRD • With/without vehicle • Tranched only
Main breakdowns	Sector, geographical, instrument, original maturity, currency	Sector, instrument, original maturity (MIR relates to euro business only)	Sector, geographical, instrument, IAS portfolio	Asset class (sector/instrument), currency, type of risk

1) FINREP and COREP could also be on a host country basis, but as a secondary basis of consolidation.

Despite these differences in use and focus of the reported information, the statistical and supervisory data have much in common. This is particularly true for the credit institutions' statistical balance sheet and the FINREP supervisory framework. In contrast, links between the statistical balance sheet and the COREP framework, and between MFI interest rate statistics and the FINREP/COREP/Large Exposures frameworks, are weaker.

The reconciliation work proposed so far by the JEGR is reflected in the FINREP and COREP frameworks, the MFI Regulations and a manual on MFI balance sheet statistics (recently published by the ECB).

It may be worth noting that, while the MFI balance sheet and interest rate statistics (for credit institutions in the euro area) and COREP/Large Exposures reporting are all mandatory, FINREP is not compulsory: on the basis of the draft amendments to the EU Capital Requirements Directive (so-called CRD IV amendments), however, it is expected that the number of credit institutions reporting FINREP information will increase by 2012, bringing an increasing overlap with the MFI population, although perhaps not in all euro area countries.

This methodological manual provides a thorough overview of the differences and commonalities between the ECB statistical framework and the EBA supervisory framework. It presents all the bridging work that has been done by the JEGR to date. The JEGR is aware that the reporting frameworks (in particular FINREP and COREP) will be amended again, and in fact the present manual takes into account the latest versions of FINREP, COREP and LE.

The relational database is designed to complement this methodological manual, with which it is fully consistent, by helping data compilers identify the relationship between the different reporting requirements, thereby potentially reducing the reporting burden on respondents. The relational database is accompanied by a users' guide.[9]

Based on this methodological manual and the relational database, the JEGR has submitted proposals to its sponsors on how to exploit the links and promote synergies between the different reporting requirements. The JEGR is publishing this manual and a shorter summary version translated into other EU languages, to make it accessible to a wider, less technical audience.

The structure of this document is as follows.

Chapter 2 identifies links between the statistical balance sheet and FINREP, focusing on the purposes and main features of the two reporting schemes and describing their organisation. It then points out the common elements in the main methodological concepts underlying them. It concludes with some considerations on the collection and compilation of flow statistics (transactions).

Chapter 3 identifies links between the statistical balance sheet and the COREP – Large Exposures framework, comparing the instrument breakdown in the statistical balance sheet with the COREP and Large Exposures templates covering credit risk (including securitisation), market risk, own funds and operational risk.

Chapter 4 relates statistical requirements for interest rate data to supervisory reporting (COREP, FINREP and Large Exposures). The main features of statistical requirements for interest rates are discussed first, referring to the breakdown by type of risk and the corresponding COREP-Large Exposures templates. Chapter 4 then looks at the structure of FINREP and the links with statistical interest rate data.

Annexes provide further background information.

The box below provides a summary of main conclusions and findings of the JEGR.

9 See Annex 7.

Box 1

MAIN CONCLUSIONS AND FINDINGS OF THE JEGR

One of the main differences between the statistical and supervisory reporting systems concerns the degree of *consolidation* of the reported data. The scope of consolidation of banks' branches and subsidiaries defined in the MFI balance sheet and interest rate Regulations is different from that of FINREP, COREP and Large Exposures. While statistical reporting must make residence and sector distinctions, it is not so important to do so in the supervisory framework. The statistical balance sheet reporting is defined on the basis of the "host" residency principle and on an individual institution basis, whereas the reporting under COREP/Large Exposures and FINREP (where applicable) on an individual basis – which, unlike the MFI balance sheet statistics, includes foreign banking branches – follows the "home" residency basis. In addition, the FINREP and COREP/Large Exposures frameworks are applied also on a group consolidated basis using the consolidation approach in the Capital Requirements Directive (for FINREP, the IFRS consolidation approach is also an option). These different practices make a large difference to the data for credit institutions with foreign branches/subsidiaries.

The MFI balance sheet Regulation requires *loans and deposits* to be reported at *nominal value*, without deduction of provisions from loans (even though central banks may in practice allow reporting net of loan provisions). For other instruments the *valuation rules* in the MFI balance sheet Regulation are flexible. In particular, the recommendation for statistical reporting of holdings and issues of securities at market/fair values, irrespective of whether the securities are held for trading or until maturity, is not binding. In practice, those held to maturity are likely to be measured at amortised cost, in accordance with IAS 39. In legal terms, institutions required or allowed to use IAS/IFRS and which report supervisory information on the basis of FINREP may use the same valuation concepts when reporting for MFI balance sheet purposes, except for loans and deposits. For the latter instruments, reconciliation is possible between fair value or amortised cost and nominal value.

MFI balance sheet and FINREP requirements are consistent as regards the need to record interest on an *accruals basis*, but differ in their requirement regarding the classification of accrued interest not yet paid. The MFI balance sheet Regulation requires accrued interest on loans and deposits to be reported under remaining assets/liabilities, separately identified where possible. In FINREP, accrued interest is recorded with the underlying instrument (as indeed is the preference of the ESA 95).

The treatment of items subject to *securitisation* operations is complex. As explained in Chapter 2, the need for monetary policy purposes is to ensure that loans which have been removed from credit institutions' balance sheets under a traditional "true sale" securitisation are not lost to view, or indeed that loans which have been securitised but not derecognised and so remain on the balance sheet are not counted twice. Synthetic securitisations where only the credit risk (but not the underlying assets) is transferred are not recorded in MFI balance sheet statistics, while the complementary reporting by financial vehicle corporations (FVCs) may provide a rough picture of such credit risk transfers, to the extent that FVCs are resident in the euro area. The MFI balance sheet Regulation does not contain rules for on-balance sheet recognition/derecognition as such; (de)recognition practice may follow either the IAS/IFRS approach, as in FINREP, or local GAAPs. The detailed statistical reporting requirements are designed so as to enable the data derived from the different accounting approaches to give consistent results.

The MFI balance sheet Regulation does not allow *netting* (offsetting assets against related liabilities), and the rules defined in the IAS/IFRS for netting, also applied in FINREP, are *de facto* in line with this approach.

Although there are permitted exceptions, in the MFI balance sheet reporting scheme, loans should be reported gross of all *provisions*, until the point at which they are written off or written down as wholly or partially irrecoverable. In FINREP, loans are reported in the balance sheet net of accumulated impairment losses.

The residency concept in the MFI balance sheet Regulation and the FINREP guidelines on geographical breakdown are consistent, though as explained earlier the application is different. FINREP and MFI statistics apply definitions of counterpart *sectors* that can be easily bridged.

MFI balance sheet requirements are for classification of financial assets and liabilities mainly according to original *maturity*, but also according to residual maturity for some breakdowns. FINREP has no requirements for original or residual maturity breakdowns, although IFRS 7 requires institutions to disclose remaining or residual maturities of liabilities, but without specifying standard time bands.

It is possible to set up a bridge between the *instruments* requested in the two reporting schemes despite differences in their balance sheet structure. This bridging may be facilitated if the IAS/IFRS accounting flexibility is used to bring it closer to the MFI balance sheet requirements, though some differences will remain. The revised FINREP guidelines on breakdown by type of loan are in line with statistical definitions for some items.

To complement MFI interest rate statistics, the balance sheet Regulation has recently added a requirement for information on loans backed by real estate *collateral* with a loan-to-value ratio of 1 or below, following the definition in the Capital Requirements Directive. These data are therefore a subset of mortgage loans in FINREP, which include any loans collateralised against real estate, regardless of the loan-to-value ratio.

The IFRS definition of *equity instruments*, also applied in FINREP, excludes instruments which may sound similar but which are liabilities for the issuer (e.g. certain cooperative shares). The Capital Requirements Directive definition of equity exposures, as applied in COREP, includes certain debt exposures whose economic substance is similar to that of residual claims on the assets or income of the issuer. The MFI balance sheet instrument class "shares and other equity" in principle comprises only instruments that are classified as equity for the issuer. Hence, the CRD definition of "equity exposures" and the FINREP category "equity instruments" may be considered as equivalent to the MFI balance sheet definition of "shares and other equity". How far *preferred shares* (issued) in MFI balance sheet statistics coincides with the definition in the FINREP guidelines is not clear at present.

The MFI balance sheet Regulation requires information on *revaluation adjustments* to enable transactions approximating the ESA 95 definition to be derived from balance sheet outstanding amounts. Although FINREP does not require explicit revaluation adjustments, there are substantial similarities between the two reporting schemes with regard to requirements for flows (transactions).

There is significant overlap between the MFI balance sheet requirements and the COREP templates for *credit risk* and *market risk*. For securitised assets, the link applies both for cases where the reporting agent is the originator of the securitised loans and for those where it holds securities issued by the securitisation vehicle. Conversely, there are no links between the MFI balance sheet requirements and the COREP template on *operational risk*.

Finally, there is a significant overlap between the MFI balance sheet requirements and the COREP template for *own funds*.

All in all, the links between the MFI balance sheet reporting requirements and the FINREP/COREP templates are extensive. Those between FINREP/COREP and MFI interest rates, on the other hand, are rather weak. Different objectives limit their common features to the definitions and sector/instrument classifications; moreover, the data requirements differ substantially. Nevertheless some similarities are noted in Chapter 4.

2 STATISTICAL BALANCE SHEET-FINREP

2.1 THE PURPOSE OF THE TWO REPORTING FRAMEWORKS

This section provides information on the background to the development of two reporting schemes, namely statistical balance sheet reporting (shortened in what follows to BSI – the ECB's acronym for balance sheet items) and IAS/IFRS compliant financial reporting (FINREP). It recalls their main purposes (statistical and macroeconomic versus microprudential), explaining why they differ.

2.1.1 MFI BALANCE SHEET PURPOSES

After lengthy preparatory work, the ECB's Governing Council adopted in 1998 an ECB Regulation stating the requirements for the compilation of the consolidated balance sheet of the euro area monetary financial institutions (MFI) sector.[1] These requirements were enhanced in 2001 and again in 2008 – see Regulation (recast) ECB/2008/32.[2]

The requirement relates to the regular production of a properly articulated aggregated balance sheet of the money-creating (issuing) sector for the participating Member States, seen as a single monetary area, in terms of stocks and flows (transactions). This dataset is the source for euro area monetary aggregates and counterparts (see below), and provides some additional detail for further analysis of monetary developments. It also serves other statistical purposes, such as financial accounts and balance of payments.

The statistical system in place for the compilation of BSI statistics is based on two main elements: (1) the definition of the money-issuing sector, and (2) the financial instruments to be covered. The first element, relating to the definition of the money-issuing sector (MFIs), determines the reporting population. The ECB's definition of the euro area monetary aggregates is based on harmonised definitions of the money-issuing sector and the money-holding sectors. The money-issuing sector comprises MFIs resident in the euro area; the money-holding sectors comprise all non-MFIs resident in the euro area excluding central government. The BSI data are compiled by aggregating MFIs' individual balance sheets; they are consolidated at the sector level, meaning that all inter-MFI positions are cancelled out because only the business of the resident (euro area) MFIs with the euro area money-holding sectors is needed. Individual MFI balance sheet data are relevant only as contributions to the aggregate.

The second element refers to the specification of the statistical information to be collected. The monetary aggregates mainly comprise (harmonised) categories of MFI liabilities.[3] The Eurosystem has defined a narrow (M1), an intermediate (M2) and a broad (M3) monetary aggregate, which differ with regard to the degree of liquidity (in terms of transferability, convertibility, price certainty and marketability) of the MFI liabilities they include. Hence, BSI statistics require MFI liabilities to be broken down by instrument, original maturity and – although the monetary aggregates are all-currency concepts – currency of denomination. The counterparts to M3 comprise all other items in the consolidated MFI balance sheet arranged in an analytically useful way. For consistent and meaningful results, these must also be reported in a harmonised manner.

How data behave over a long period is a core element in monetary analysis, requiring a stable and robust set of statistical definitions (e.g. sector coverage needs to be stable over

1 Consolidation in this context means the elimination of assets and liabilities within the MFI sector, which differs from the consolidation approach at banking group level used in the context of financial supervision or financial stability analysis, which mostly concerns the perimeter of financial institutions subject to the supervisory law (see Section 2.3.1 for more details).
2 See a list of the most relevant legal acts in Annex 1.
3 Central banks are MFIs, so banknotes and coins and any other monetary liabilities they may have are included. The monetary aggregates also include some monetary liabilities of entities which are not MFIs (in some countries central government agencies and post office giro institutions take deposits); these are reported separately and added in.

time – see Section 2.3.9). Balance sheet (stocks) information needs also to be complemented with financial transactions (flows)[4] for the compilation of growth rates. This is because growth rates are not calculated simply as the change in the relevant outstanding amounts, but exclude valuation effects, reclassifications and certain other influences on balance sheets which are not transactions as defined in the international statistical standards. In general, harmonisation of definitions and concepts is a very important aspect in statistics, especially in the compilation of euro area aggregates, where a lack of it would harm the quality of euro area figures.

The accounting practices underlying BSI statistics refer, in addition to the relevant international statistical standards, to the national transposition of the Banking Accounts Directive (BAD),[5] and supervisory and accounting standards (IAS/IFRS, where applied at national level to MFI balance sheets on a solo basis), with one important exception where accounting standards should not be strictly followed (valuation of deposits and loans). This flexible approach minimises the reporting burden, as the same set of (accounting) rules are largely used for financial reporting and, to the extent possible, statistical reporting.

2.1.2 FINREP OBJECTIVES AND PURPOSES

The introduction of the international accounting standards (IAS/IFRS) in Europe prompted considerable changes to the administrative/accounting systems of credit institutions using these standards for their financial reporting purposes, and has also compelled European supervisory authorities to adapt their prudential financial reporting. These circumstances created an opportunity for convergence of supervisory practices. Using IAS/IFRS as the basis for prudential reporting provides scope for further alignment of supervisory and financial reporting and ultimately for harmonisation of the prudential reporting frameworks within the European Union.[6]

Against this background, and motivated by the absence of prescribed reporting formats under IAS/IFRS, the CEBS (now EBA) engaged in the development of guidelines for a standardised consolidated and harmonised financial reporting framework (FINREP) for credit institutions consistent with the international accounting standards. Currently, the framework is not intended to cover either all disclosure requirements of IAS/IFRS or solo reporting;[7] rather, it was devised for use by EU supervisory authorities when asking for consolidated financial information from credit institutions for supervisory purposes. In other words, FINREP is specifically intended for credit institutions that use IFRS for their financial reporting and must provide periodic financial statements to their supervisory authorities. An overview of the use of FINREP across EU countries is provided in Annex 3.

FINREP, like COREP, does not serve only the need for microprudential data on individual banks. These frameworks also provide much of the information required for macroprudential analysis of the banking sector as a whole. In particular, the uniform and mandatory application of COREP (possibly to be extended to some parts of FINREP) in the European Union will contribute to improving the assessment of profitability and capital adequacy with regard to the risks faced by the European banking system. For instance, the more granular geographical and sectoral breakdowns of exposures presented in the non-core tables of FINREP support a more detailed and deeper analysis of potential sources of financial vulnerability and the challenges posed to financial stability by different kinds of risk within the banking sector.

4 In the case of BSI statistics, financial transactions (flows) are currently compiled as differences of stocks corrected for revaluations and other volume changes in financial assets and liabilities (see Section 2.4 for more detailed information).
5 Council Directive 86/635/EEC of 8 December 1986, as amended.
6 Over time, the European Commission has endorsed almost all IAS/IFRSs within the so-called IAS Regulation. See http://ec.europa.eu/internal_market/accounting/legal_framework/Regulations_adopting_ias_text_en.htm
7 As in many countries credit institutions are or will be required/allowed to use IAS/IFRS in solo accounting, national supervisory authorities may adapt FINREP for solo financial reporting.

FINREP also aims to reduce European companies' reporting burden by presenting a harmonised financial reporting framework for prudential purposes for use across Europe by the different supervisory authorities. Harmonisation of definitions and concepts at the EU level is increasingly important for prudential supervision and financial stability purposes, especially for peer group analysis and the compilation of national, euro area or EU aggregates where a lack of it would harm the quality of the analysis.

Unlike the BSI requirements, the FINREP revised framework is still not mandatory.[8] Nevertheless, national supervisory authorities are strongly recommended to use the framework. As a means to strengthen the implementation at the national level, the revised Guidelines explain that when the national authorities do not apply the framework, they must inform the EBA Secretariat and publicly explain their reasons on both the EBA and their own websites.

Under the new FINREP Guidelines published in December 2009[9], the EBA decided to adopt explicit minimum and maximum reporting requirements, i.e. to use the "maximum data model" which limits reporting requirements to the core and non-core information specified in the framework. The minimum reporting requirement will be the "core" information (templates 1.1, 1.2, 1.3, and 2).[10] The maximum reporting requirement will be the core information plus the "non-core" information contained in the rest of the templates. Each supervisor is free to choose a point anywhere between these two extremes. In any case, supervisory authorities may not modify the templates based on national needs. This approach represents a compromise between the need for flexibility to accommodate different supervisory needs and the desire for greater convergence and harmonisation.

Supervisory reporting[11] requirements rely on two main sets of data: (1) individual company data and (2) consolidated data at the group level. Firstly, national supervisory authorities are (mainly) engaged in analysing the financial conditions of individual credit institutions. Although the financial position of the sector as a whole or of institutions in the same peer group may ultimately have an impact on the financial conditions faced by individual institutions (contagion risk), prudential supervision is mainly about the financial situation of the individual institution at a certain moment in time.[12] In this context, while temporal analysis may be appealing and helpful in many circumstances, financial supervision is more about future prospects and financial soundness, and past performance is only relevant so far as it influences the present and future condition of the institution(s).

Secondly, financial supervision requires the availability of consolidated accounts at the reporting-group level (see Section 2.3.1 of this chapter for a more extensive explanation). The supervisory and accounting concepts of consolidation involve the netting out of transactions and positions between all units within a reporting group. The scope of consolidation in IAS 27 requires parent entities to consolidate financial statements of all (resident and non-resident; financial and non-financial) subsidiaries. Supervisory standards (the Basel framework, as transposed in the European Union via the Capital Requirements Directive) require the scope of consolidation of banks' accounts to be limited to financial institutions other than insurance companies. Thus, subsidiaries which

8 According to the draft CRD IV amendments, some parts of FINREP may become mandatory.

9 FINREP is based on the International Financial Reporting Standards (IFRS) as of 31 October 2009, which have been endorsed by the European Commission. Changes to the accounting standards affecting FINREP (e.g. changes that may arise in IAS 39 and IAS 1) are being assessed by the EBA.

10 This means that that when an authority decides to apply the FINREP framework to supervised credit institutions within its jurisdiction, it must, at the minimum, require institutions to report the "core" information.

11 That is, FINREP, COREP and Large Exposures.

12 A distinction should be drawn between prudential supervision (looking more at the micro aspects) and financial stability (looking at the macro aspects), as the analysis and related data requirements of the two functions differ. In general, financial stability analysis relies, among other data sources, on the aggregation of data used primarily for financial supervision purposes.

are non-financial corporations are excluded from the consolidation.

In FINREP, the consolidation scope is the same as that required by the Capital Requirements Directive (CRD), for all the templates: credit institutions and other financial institutions are fully consolidated, while the accounts of insurance companies and non-financial corporations – if any – use the equity method.[13] In addition, national supervisory authorities may collect a limited set of templates using the IAS 27 consolidation scope.

2.2 THE STRUCTURE OF THE TWO REPORTING FRAMEWORKS

This section provides a brief explanation of the logic behind the organisation of the two reporting schemes.

2.2.1 MFI BALANCE SHEET: STRUCTURE

The statistical framework in place for the compilation of the consolidated balance sheet of the euro area MFI sector is based on a set of (five) monthly and quarterly tables, which are inter-connected and complementary (see Annex 1). These double-entry tables are generally organised in instrument rows, with additional detail by currency and original maturity, and across the top by sector of counterpart, country or currency, depending on the table. The BSI Regulation provides detailed definitions for the variables to be reported.

Table 1 – Stocks: This monthly table requires stock data on the business of MFIs with sufficient detail to provide the ECB with a comprehensive statistical picture of monetary developments in the participating Member States seen as one economic territory and to allow flexibility in the calculation of monetary aggregates and counterparts covering the euro area. The data supplied in this table are generally broken down by: (1) instrument, (2) sector of counterpart, (3) residency (domestic/other participating Member States/rest of the world/not allocated), (4) original maturity, (5) currency (euro/other), and (6) purpose for loans to households (credit for consumption/lending for house purchase/other lending). The table is reported to the ECB 15 working days after the end of the reference period to enable monthly monetary statistics to be reported within four weeks (and always in time for the first ECB Governing Council meeting of the following month).

Table 1A – Revaluation adjustments: The ESA distinguishes between a transaction ("*an economic flow that is an interaction between institutional units by mutual agreement*") and other influences on balance sheet levels, including the effect of changes in market prices on the value of securities held on the balance sheet and of write-offs/write-downs of loans, both of which are included in revaluation adjustments. Monthly data on revaluation adjustments, together with information from other sources on reclassifications and exchange rate changes affecting balance sheet items, contribute to the compilation of flow statistics (transactions) for the monetary aggregates and counterparts.[14] Although more limited, the data supplied in this table are also generally broken down by: (1) instrument, (2) sector of counterpart, (3) residency (domestic/other participating Member States/rest of the world/not allocated), (4) original maturity, (5) currency (euro/other), and (6) purpose (credit for consumption/lending for house purchase/other lending). The table is reported to the ECB 15 working days after the end of the reference period.

Table 2 – Sector breakdown: Sector breakdowns matter for monetary analysis because (for example) an increase in the money holdings of households may have a different significance than the same increase in the hands of non-monetary financial corporations. Key sector breakdowns are reported monthly in Table 1.

13 *"The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee"* (IAS 28.2).

14 For more details on the compilation of flow statistics, see Section 2.4.

This quarterly table requires additional detail on the sector breakdown of certain items in Table 1. The quarterly sector detail relates mainly to a finer breakdown of the general government sector and the rest of the world, as well as the other resident sectors (for some instruments). The data supplied in this table are generally broken down by: (1) instrument, (2) sector of counterpart, (3) residency (domestic/other participating Member States/rest of the world), and (4) original maturity. For loans, there are further breakdowns by (5) remaining maturity and (6) purpose/real estate collateralisation. The table is reported to the ECB 28 working days after the end of the reference period.

Table 3 – Country breakdown: This quarterly table requires additional information on the breakdown of positions (stocks) vis-à-vis individual EU countries and the rest of the world (i.e. outside the European Union). The data supplied in this table are broken down by: (1) instrument, (2) sector of counterpart (MFIs and non-MFIs), (3) residency (country by country), and (4) original maturity (only for holdings of securities other than shares). The table is reported to the ECB 28 working days after the end of the reference period.

Table 4 – Currency breakdown: This quarterly table requires detailed information broken down by currency (euro/remaining EU currencies – individually for "loans", and for other items GBP/USD/JPY/CHF/remaining currencies together).[15] The data supplied in this table are further broken down by: (1) instrument, (2) sector of counterpart (MFIs and non-MFIs), (3) residency (domestic/other participating Member States/rest of the world), and (4) original maturity (only for deposits and loans vis-à-vis the rest of the world). The table is reported to the ECB 28 working days after the end of the reference period.

Table 5a – Securitisations and other loan transfers: In the absence of further information, securitisations and other loan transfers which result in the removal of loans from MFI balance sheets present a problem for monetary analysis, since they make it appear that credit available to borrowers has fallen. The information provided monthly in this table and (quarterly) in Table 5b (see below), together with complementary information provided by financial vehicle corporations (FVCs), the usual counterparties of MFIs in securitisations, under a separate ECB Regulation addressed to them (ECB/2008/30), avoids this misunderstanding. This monthly table requires the reporting of net flows of loans securitised or otherwise transferred, separately for transactions with and without impact on reported loan stocks, as well as the reporting of the outstanding amounts of securitised loans serviced and securitised loans not derecognised.[16] The data supplied in this table are broken down by: (1) type (FVCs and total) and residency (euro area and total) of the counterparty in the transfer, (2) sector(s) of the borrowers whose loans are being transferred, and (3) their residency (domestic/other participating Member State/rest of the world). The table is reported to the ECB 15 working days after the end of the reference period.

Table 5b – Securitisations and other loan transfers: This quarterly table requires additional detail on the items reported in the monthly securitisation table (Table 5a) where the counterparty in the transfer is a FVC, separately for euro area FVCs and as a total. The detailed data requirements relate mainly to a breakdown of the net flows of loans, with impact on reported loan stocks, by (1) purpose and (2) original maturity. There is also a requirement in respect of the outstanding amounts of loans which have been securitised, but which the credit institution continues to service, broken down by: (1) type (FVCs and total) and residency (euro area and total) of the counterparty in the transfer, (2) sector of the debtor, (3) residency of the debtor (domestic/other participating Member State/rest of the world), and (4) original maturity (only for

15 These data are mainly used to assess the impact of exchange rate changes on balance sheet outstandings. This is important for the derivation of flows (transactions) data – see Section 2.4.

16 The latter item is requested only as a total, on a quarterly basis.

loans to non-financial corporations). The table is reported to the ECB 28 working days after the end of the reference period.

Non-balance sheet information: An annual table requires the reporting of two variables: the number of transferable overnight deposit accounts, and the number of transferable internet/PC-linked overnight deposit accounts. Annual statistics must be transmitted to the ECB according to a calendar communicated by the ECB each year (the transmission date is typically in June of the following year).

2.2.2 FINREP STRUCTURE

IAS/IFRS, unlike Directive 86/635/EEC, do not impose a single standardised reporting format.[17] On the other hand, FINREP provides a harmonised reporting format and a standardised set of information items based on a common accounting framework. It has been designed for credit institutions that use IAS/IFRS for their published financial statements and must provide similar information in the periodic prudential reports they are required to submit to their supervisory authorities. It includes references to the relevant IAS/IFRS and provides definitions for the variables that are not defined in IAS IFRS.

Under IAS/IFRS, financial instruments may be presented in the balance sheet by type of instrument (instrument approach) or by category of financial instrument (portfolio approach). In FINREP, preference has been given to the portfolio approach (first level), but each portfolio includes a breakdown by type of instrument (second level): derivatives, loans and advances, debt securities and equity instruments on the assets side; derivatives, deposits and debt securities issued on the liabilities side. Indeed, financial instruments are presented by categories of financial asset and financial liability, in accordance with IAS 39.9 and IFRS 7.8. Consequently, on the first level of the assets side of the FINREP balance sheet, five main IAS categories of financial assets are recognised (see Section 2.3.11).[18]

1 **Financial assets held for trading** – This is a subcategory of financial assets at fair value through profit and loss which: (1) are acquired principally for the purpose of selling in the near term, and (2) are part of a portfolio of identical financial instruments that are managed together and for which there is evidence of a pattern of short-term profit-taking. A financial derivative not used for hedge accounting would be included here;

2 **Financial assets designated at fair value through profit and loss** – Any non-derivative financial asset within the scope of IAS 39 may be designated at fair value through profit and loss upon initial recognition, provided that some criteria are met, with the exception of equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured;

3 **Loans and receivables (including finance leases)** – Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not classified in the previous two categories or as available for sale (IAS 39.9).[19]

4 **Held-to-maturity investments** – Non-derivative financial assets with fixed or determinable payments and fixed maturity

17 Nevertheless, IAS 1 prescribes the basis for presentation of "general purpose financial statements" (i.e. those intended to serve users who do not have the authority to demand financial reports tailored for their own needs), to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. IAS 1 sets out the overall framework and responsibilities for the presentation of financial statements, guidelines for their structure and minimum requirements for the content of the financial statements.

18 In fact, IAS 39 only defines four categories of financial instruments. The FINREP fifth category is simply the breakdown of the IAS category "Financial assets designated at fair value through profit and loss" into two to distinguish those financial instruments that are covered by the so-called fair value option from the trading portfolio. Financial assets can also be included in FINREP items "Cash and cash equivalents" and "Non-current assets and disposal groups classified as held for sale"; in the latter aggregated item they are included together with non-financial assets.

19 Debt securities not traded in active markets can be classified in this category.

that the entity has the intention and ability to hold until maturity, if not classified elsewhere. It should be noted that this category should be empty if, during the current financial year or in the previous two financial years, the entity sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity (IAS 39.9).

5 **Available-for-sale financial assets** – Non-derivative financial assets that are designated as available for sale or are not classified in the other categories.

Financial liabilities under FINREP are presented in three main categories: financial liabilities which the holder may trade (rather than retain to maturity); financial liabilities designated at fair value through profit and loss; and financial liabilities recorded at amortised cost. [20]

FINREP is composed of a set of tables which contain quantitative financial information divided into two sections designated as "core" and "non-core", respectively.[21] Financial information which under IFRS may be provided in the form of a disclosure note has also been integrated in the framework in the form of a table.

The core financial information consists of the minimum supervisory reporting requirement to be applied by credit institutions if and when required by their national supervisory authority to prepare consolidated prudential financial reporting under IAS/IFRS. This comprises the following tables:

Table 1.1 – Consolidated balance sheet statement (Statement of Financial Position) – Assets: As mentioned above, on the asset side of the consolidated balance sheet, financial instruments are presented following the portfolio approach (each portfolio is subsequently broken down by instrument). In addition, there are also entries for derivatives – hedge accounting, participations interests, fixed assets (tangible and intangible), tax assets and other minor items.

Table 1.2 – Consolidated balance sheet statement (Statement of Financial Position) – Liabilities: On the liability side of the consolidated balance sheet also, financial instruments are organised following the portfolio approach (each portfolio is subsequently broken down by instrument). In addition, there are also entries for derivatives – hedge accounting, provisions, tax liabilities and other minor items.

Table 1.3 – Consolidated balance sheet statement (Statement of Financial Position) – Equity: This refers to equity issued by the credit institution. The table is organised by instrument. A distinction is made between the different forms of equity, reserves, valuation adjustments, minority interests, and income attributable to the current year.

Table 2 – Consolidated income statement: This table shows income and expenses from continuing operations separately from discontinued operations. Items of income or expense from continuing operations are presented by type. Major headings are broken down with reference to the balance sheet categories of financial instruments. Gains (losses) on financial assets and liabilities are presented on a net basis on the face of the consolidated income statement. A breakdown of the net gains (losses) by category or by type of instrument is sometimes required in the case of the consolidated income statement. Income (expenses) from discontinued operations is disclosed as a net single amount.

FINREP also foresees the provision of non-core financial information (from Table 3 to Table 25). In general, the non-core tables provide additional details of the core tables and contribute to the standardisation of the data items that are more often reported to

20 Financial liabilities can also be included in the aggregated item "Liabilities included in disposal groups classified as held for sale" together with non-financial assets.

21 To have a complete overview of the tables and the related reference to IFRS, please see: http://eba.europa.eu/Supervisory-Reporting/FINER/FINREP-framework.aspx

European supervisory authorities and might also be useful for macroprudential analysis. In particular:

- **Tables 3 – Derivatives held for trading,** and **4 – Derivatives – Hedge accounting**, give additional details on **derivatives**;

- **Tables 5 – Breakdown of financial assets, 6 – Breakdown of loans and advances, 7 – Information on impairment and past due, 8 – Financial assets designated at fair value through profit or loss: credit risk information,** and **9 – Information on credit risk and impairment,** provide additional information on **financial assets**;

- **Table 10** provides additional information on **financial liabilities**;

- **Table 11** – **Information on fair value** provides additional information on **the use of fair value for financial instruments**;

- **Table 12 – Transfer of financial assets** includes information on **transfers of financial assets**;

- **Tables 13 – Tangible and intangible assets**, and **14 – Provisions** provide additional information on **selected items in Tables 1.1 and 1.2**;

- **Table 15 – Geographical breakdown of assets and liabilities by residence of the counterparty** includes a **geographical breakdown of selected balance sheet items**;

- **Table 16** includes additional information on **defined benefit plans and employee benefits**;

- **Table 17 – Loan commitments, financial guarantees and other commitments** includes information on **commitments and guarantees** in all forms;

- **Table 18 – Asset management, custody and other service functions** provides data on the services of this nature provided by the credit institution;

- **Tables 19 – Fee and commission income and expenses** and **20 – Breakdown of selected items of income statement** include a breakdown of **selected items in Table 2**;

- **Tables 21 – Statement of comprehensive income** and **22 – Statement of changes in equity** are based on IAS/IFRS **primary financial statements other than core templates** (the revised FINREP does not include a statement of cash flows);

- **Table 23 – Information on minority interests and unrealised gains and losses** includes information on minority interests within equity as well as **prudential filters** for linking the FINREP data with **the calculation of own funds**;

- **Table 24 – Related party disclosures** includes information on transactions and balances with **related parties**;

- **Table 25 – Scope of the group** provides information on **investments in subsidiaries, joint ventures and associates**.

Within the pre-defined format of non-core information, national authorities may require additional details consisting of a breakdown by a maximum of eight classes of economic sector, allowed in Tables 3, 4, 5, 6, 7, 9, 10, 17 and 20 (counterpart sector – see Section 2.3.3b).

From 2012 onwards, the reporting frequency may only be quarterly, semi-annual, or annual. National authorities are free to choose among these reporting frequencies for each table or sub-table. National authorities may require some tables (in both the core and non-core sections) to be reported at a lower frequency than others. They may define different reporting frequencies for different items relating to the core and non-core financial information. Reporting dates will be: 31 March, 30 June, 30 September, and 31 December. FINREP remittance dates remain a matter of national discretion within a corridor of 20 to 40 business days. Member States have the option to require reporting of audited data on top of the quarterly reporting, with a separate timetable depending on national Regulations regarding the publication of audited results.

2.3 THE LINKS BETWEEN THE TWO REPORTING FRAMEWORKS

This section compares various methodological aspects associated with the two reporting schemes. Four subsections describe the key similarities and differences between the two sets of requirements, concluding with a general assessment of comparability. Specifically, the subsections cover aspects regarding 1) the reporting population, 2) accounting, 3) breakdowns, and 4) the treatment of specific items. Annex 4 provides the basis for developing links between the two frameworks in a more systematic way. Indeed, this has been achieved with the relational database.

2.3.1 REPORTING POPULATION

Article 1 of the BSI Regulation (as amended by Regulation ECB/2011/12)[22] defines the reporting population for the compilation of the consolidated balance sheet of the MFI sector. The reporting population consists of MFIs resident in the territory of participating Member States. The definition of MFI is contained in the amended Article 1 as follows: "… *MFI means a resident undertaking that belongs to any of the following sectors: (i) central banks;*[23] *(ii) credit institutions as defined in Article 4(1) of Directive 2006/48/EC; (iii) other MFIs, i.e. (1) other resident financial institutions whose business is (i) to receive deposits or close substitutes for deposits from entities other than MFIs; and (ii) for their own account, at least in economic terms, to grant credits and/or make investments in securities; or (2) such electronic money institutions that are principally engaged in financial intermediation in the form of issuing electronic money; (iv) money market funds as defined in Article 1a."* The amended BSI Regulation says that MMFs are collective investment undertakings which, notably, "…*pursue the investment objective of maintaining a fund's principal and providing a return in line with the interest rates of money market instruments; invest in money market instruments which comply with the criteria for money market instruments set out in Directive 2009/65/EC…or deposits with credit institutions or, alternatively, ensure that the liquidity and valuation of the portfolio in which they invest is assessed on an equivalent basis; ensure that the money market instruments they invest in are of high quality…; ensure that their portfolio has a weighted average maturity of no more than 6 months and a weighted average life of no more than 12 months…*". They may not take direct or indirect exposure to equity or commodities, and must use derivatives only in line with their money market investment strategy. Any holdings of foreign currency instruments must be hedged; MMFs may use foreign exchange derivatives only for hedging purposes.

One important element in defining the reporting population in BSI statistics is the concept of residency: only institutions incorporated and located in the participating Member States (in the euro area), including subsidiaries of parent companies headquartered outside the euro area and branches of institutions with head offices outside the euro area, are part of the reporting population.[24]

In order to provide for a consistent application of the MFI definition, the ECB, in close cooperation with the national central banks, maintains for statistical purposes a list of MFIs

22 The amendments were necessitated by new EU legislation concerning MMFs and issuers of e-money.

23 As noted earlier, in the ESA 95 financial institutions classified as MFIs are divided into two subsectors, namely central banks (S.121) and "other MFIs" (S.122).

24 Subsidiaries are separately incorporated entities in which another entity has a majority or full participation, whereas branches are unincorporated entities (without independent legal status) totally owned by the parent.

resident in each participating Member State (and also in other EU countries, though MFIs established there are not bound by ECB statistical legislation) in accordance with the classification principles outlined above. To keep the reporting burden within reasonable limits, national central banks may exempt small MFIs from full reporting, provided that their combined contribution to the national MFI balance sheet in terms of stocks does not exceed 5%. Central banks may also grant further predefined derogations specifically to other credit institutions provided that their combined contribution to the national MFI balance sheet in terms of stocks exceeds neither 10% of the national MFI balance sheet nor 1% of the euro area MFI balance sheet (Article 8 of the BSI Regulation). The derogations for credit institutions apply without prejudice to the requirements for the calculation of minimum reserves, as all credit institutions are subject to minimum reserve requirements regardless of size. Apart from those which benefit from these derogations, all MFIs resident in the euro area must comply with the reporting requirements set out in the ECB's BSI Regulation.

The reporting population for FINREP purposes is slightly different. All EU credit institutions whose securities are listed on EU markets have been required to use IAS/IFRS for their consolidated financial statements since January 2005. In addition, Member States may also extend the application of IAS/IFRS to the consolidated financial statements of unlisted credit institutions and to the individual accounts of all credit institutions.[25] Hence, as FINREP defines an IAS/IFRS compliant supervisory reporting scheme, in theory all EU credit institutions and other supervised financial corporations may potentially be requested to report consolidated supervisory data using the FINREP framework. However, so far the practical implementation of FINREP has remained a matter of national discretion (for example, the date of implementation, the actual reporting population, the use of the core and non-core part and its frequency). This is a difference from the MFI balance sheet reporting, which is not a matter for national discretion (except in granting derogations as explained above). However, as mentioned above, some parts of FINREP may become mandatory from 2013, following the implementation of the (draft) CRD IV amendments. Annex 3 to this manual provides an overview of the current scope of application of IAS/IFRS and FINREP, for banks, in each EU country.

Following the recommendations of the European Parliament and of the European Council, in order for the necessary level of supervisory convergence and cooperation at the European Union level to be achieved and the stability of the financial system to be underpinned, the EBA is currently working on the development of uniform technical reporting standards for the European Union, with uniform formats, frequencies and dates of reporting for the competent authorities to apply from 31 December 2012. The reporting formats will be proportionate to the nature, scale and complexity of the credit institutions' activities, striking a balance between implementing a single set of harmonised rules and avoiding unduly complicated Regulation and enforcement. The use of the FINREP framework by national supervisory authorities is, however, strongly recommended in order for the harmonisation and reduction of the reporting burden to be achieved. No decision has yet been taken on the enforceability of the FINREP templates, although the draft CRD IV amendments[26] propose that the reporting of some financial information, drawn up in accordance with either the international accounting standards or national standards in accordance with the BAD, becomes uniform and mandatory. For banks without subsidiaries, this may imply the application of some FINREP templates at the solo level.

Conclusion: as a result of the Council/Commission initiative, it is expected that the number of credit institutions reporting FINREP

25 See the European Commission publication "Implementation of the IAS Regulation (1606/2002) in the EU and EEA (published for information purposes only)", of 25 February 2008, and Article 5 of the IAS Regulation.

26 See in particular Part III, Article 95 of the Proposal for a Regulation on prudential requirements for credit institutions and investment firms http://ec.europa.eu/internal_market/bank/docs/regcapital/CRD4_reform/20110720_Regulation_proposal_part3_en.pdf.

information will increase by 2012, increasing the overlap with the MFI population. Moreover, following the CRD IV amendments, the application of some FINREP templates may become mandatory in all EU countries, also for non-IFRS credit institutions and at the solo level.

2.3.2 ACCOUNTING ASPECTS

This subsection covers seven accounting aspects regarding: a) the consolidation scope in the different reporting frameworks, b) valuation criteria, c) time of recording, d) treatment of accrued interest, e) recognition and derecognition, f) netting (offsetting arrangements), and g) impairment of assets (basis of recording).

a) The scope of consolidation in the different reporting frameworks

This subsection deals with the differences in the scope of consolidation in the reporting requirements stemming from accounting, regulatory and statistical frameworks. As differences in the coverage of institutions included in group- and sector-level consolidation often have implications for the data, it is important to clarify the coverage in the different consolidation approaches, presented here in four parts. Part A recalls the consolidation approach in the ECB's monetary statistics and bank interest rates; Part B focuses on the supervisory and accounting reporting requirements; Part C presents the consolidation approaches followed in selected macroprudential datasets, such as the IMF's Financial Soundness Indicators (FSI), the ESCB's Consolidated Banking Data (CBD) and the BIS International Banking Statistics (IBS); the coverage of the consolidation perimeter of financial conglomerates is discussed in Part D.

A – Statistical consolidation

The scope of "consolidation" under the framework for monetary and interest rate statistics covered by ECB BSI/MIR Regulation refers only to solo accounts.

At the solo reporting level – or individual basis – credit institutions included in the MFI sector should report the business of all their banking offices (registered or head office, and/or branches) located in the same national territory ("host" principle). Parent companies classified as credit institutions may also be permitted to consolidate the business of their banking subsidiaries located in the same national territory in their statistical returns, provided – as should always be the case – that these subsidiaries are classified as MFIs.

Consolidation for statistical purposes is permitted neither in respect of subsidiaries which are not MFIs, nor in any circumstances across national boundaries. Thus, if an institution has branches located outside the national territory, the registered or head office must report positions with them on a gross basis as positions vis-à-vis non-residents – no consolidation is allowed. Similarly, all MFIs which are branches of a non-resident institution must report positions with the registered or head office or with other branches of the same institution located outside the country as positions vis-à-vis non-residents.[27]

B – Regulatory and accounting consolidation

Under the COREP (and if applied, FINREP) framework, supervisory data must be reported on a solo basis, including in the data the business of all banking offices (branches) without regard to the country in which they are located. This is an important difference from solo reporting under the BSI/MIR Regulation and in other macroeconomic statistics, where branches located abroad are considered to be separate institutional units in the host country.

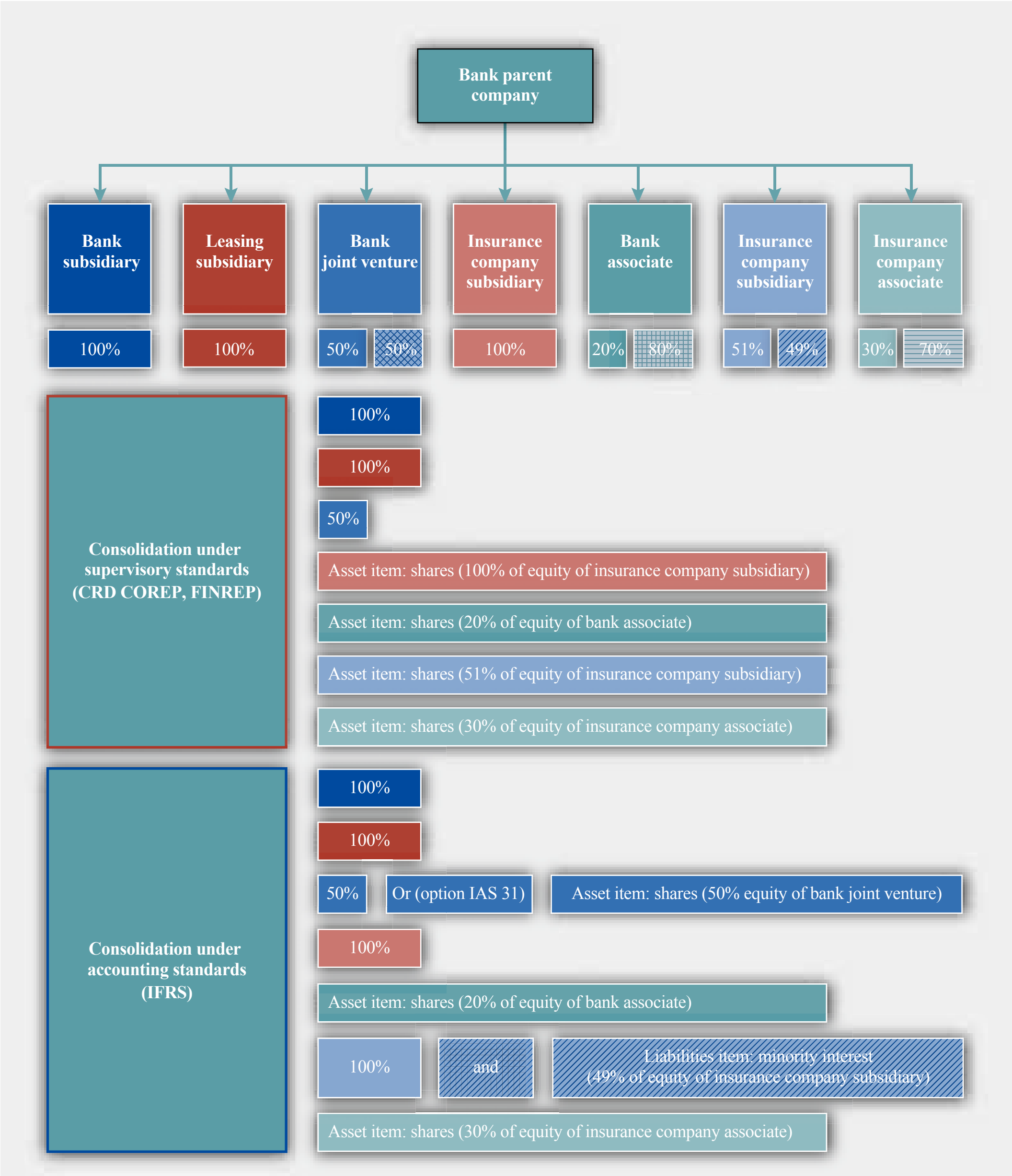
In addition to solo reporting, FINREP (and COREP) are also compiled at the consolidated group level. There are essentially two forms of group consolidation: 1) the scope defined by the CRD and 2) the IFRS scope. The FINREP (since its Rev. 2) and COREP frameworks have adopted the CRD approach to consolidation as a general rule for all the templates. However,

27 Institutions located in offshore financial centres are treated statistically as residents of the territories in which the centres are located.

a selected number of templates of the FINREP framework can be collected using the IFRS scope of consolidation as well. Chart 1 provides a schematic representation of the CRD and IFRS scope of consolidation.

The approach to consolidation foreseen in the CRD is defined in Article 133 (1). *"The competent authorities responsible for supervision on a consolidated basis shall, for the purposes of supervision, require full consolidation of all the credit institutions and financial institutions which are subsidiaries of a parent undertaking."* Article 134 (2) adds that the business of undertakings providing ancillary banking services and asset management

Chart 1 The scope of consolidation under the CRD and IFRS



companies should also be consolidated. In practice, for capital requirements purposes, parent credit institutions (or parent financial holding companies)[28] consolidate financial institutions (but not insurance undertakings, and not non-financial subsidiaries). However, supervisory authorities may require information about these subsidiaries when deemed relevant for the purpose of supervising subsidiaries which are credit institutions (Article 137 (1)), in particular in the context of Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate (see Part D below).

In addition, for prudential purposes and for the calculation of capital requirements, a credit institution may be required to consolidate the business of a subsidiary of an entity which is not itself included in the group consolidation – for example, an investment firm that is a subsidiary of an insurance corporation (not consolidated) within a group headed by a credit institution. In this case, the insurance corporation must be accounted for using the equity method (according to the parent credit institution's ownership share) while the investment firm must be fully consolidated.

The IFRS consolidation scope is defined in IAS 27 and IAS 31, which require parent entities to consolidate financial statements of all (resident and non-resident) subsidiaries. If, after acquisition, a subsidiary meets the criteria to be classified as held for sale in accordance with IFRS 5,[29] it must be accounted for in accordance with that standard.[30] IAS 27 elaborates further: a subsidiary should not be excluded from consolidation because its business is different from that of the parent. This means that financial corporations like insurance companies, and also non-financial corporations, must be consolidated.

The same approach applies to joint ventures (irrespective of the business) that according to IAS 31 are consolidated on the basis of the proportionate method. However, IAS 31 also provides for an alternative way of consolidating these entities, namely the equity method, under which joint ventures are accounted for according to the percentage of ownership by the holding company (investor), as in the case of associates.

C – THE SCOPE OF CONSOLIDATION IN SELECTED MACROPRUDENTIAL DATASETS

This part briefly reviews the consolidation approach followed in three macroprudential datasets: (i) the IMF's Financial Soundness Indicators (FSIs), (ii) the ESCB's Consolidated Banking Data (CBD), and (iii) the BIS's International Banking Statistics (IBS).

(i) The IMF's Financial Soundness Indicators

A crucial feature of the IMF's FSIs is the consolidation approach at both the group and sector levels. There are in fact different analytical approaches for different needs which are discussed in the FSI Compilation Guide. In particular, the domestically-controlled cross-border and cross-sector consolidation basis (DCCBS) encompasses the activity of a parent bank and all its branches and subsidiaries

28 According to Article 125(1) of the CRD, "if the parent of a credit institution is a financial holding company in a Member State or an EU parent financial holding company, supervision on a consolidated basis shall be exercised by the competent authority that authorised the credit institution." Article 126.(1), states that "if credit institutions authorised in two or more Member States have as their parent the same financial holding company in a Member State or the same EU parent financial holding company, supervision on a consolidated basis shall be exercised by the competent authorities of the credit institution authorised in the Member State in which the financial holding company was set up." In addition, still in accordance with the Article 126.(2) "where more than one credit institution authorised in the Community has as its parent the same financial holding company and none of these credit institutions has been authorised in the Member State in which the financial holding company was set up, supervision on a consolidated basis shall be exercised by the competent authority that authorised the credit institution with the largest balance sheet total, which is to be considered as the credit institution controlled by an EU parent financial holding company." Finally, in accordance with Article 126.(3) of the Directive 2006/48/EC, "in particular cases, the competent authorities may by common agreement waive the two criteria above if their application would be inappropriate, taking into account the credit institutions and the relative importance of their activities in different countries, and appoint a different competent authority to exercise supervision on a consolidated basis".

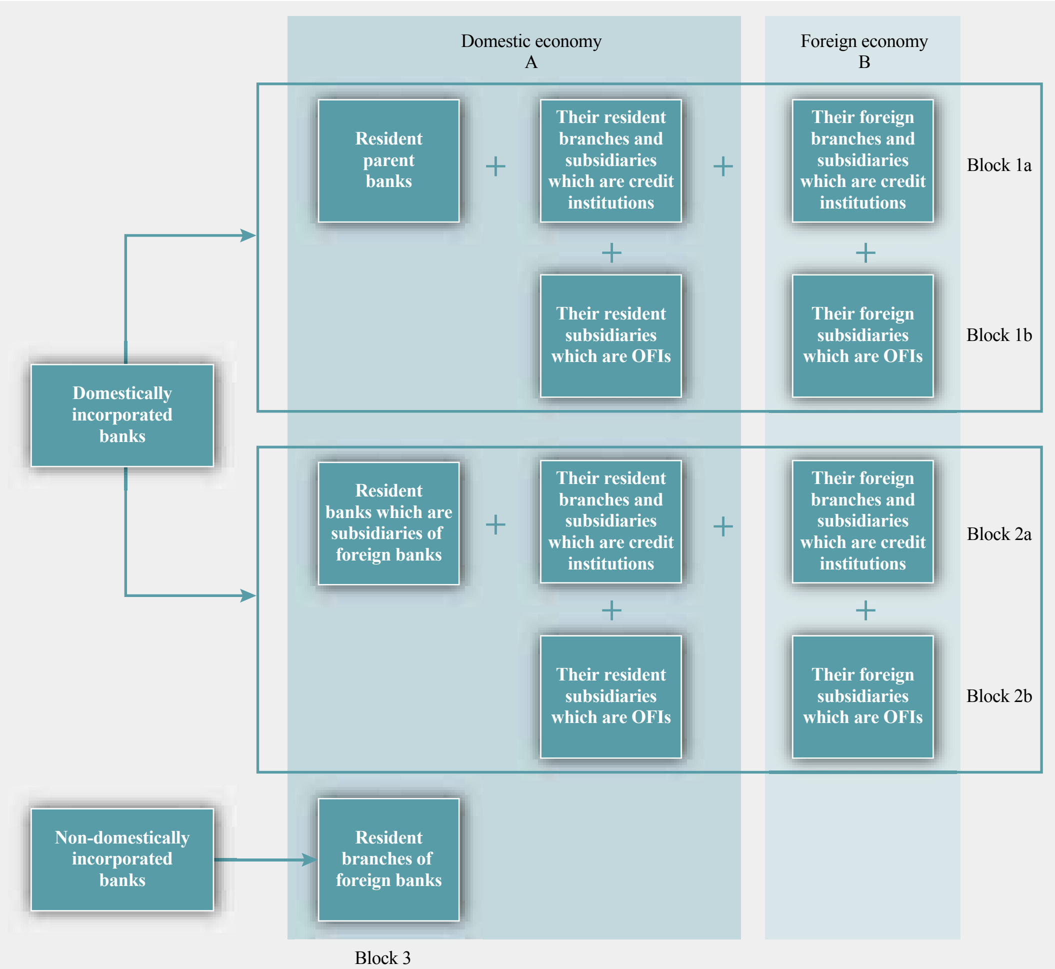
29 IFRS 5 deals with "non-current assets held for sale and discontinued operations".

30 The concept of control is crucial in the definition and is explained in detail in paragraphs 13-15 of IAS 27.

worldwide, as is the case with the supervisory perspective where the focus is the income and capital of the parent bank with its subsidiaries and the risks facing the global institution. The DCCBS also consolidates the business of diverse domestically-controlled financial institutions operating abroad or in different sectors, in line with the approach of the Basel Committee. The cross-border and cross-sector consolidation basis for all domestically incorporated (CBCSDI) deposit-takers may also be relevant for economies hosting significant foreign-controlled deposit-takers, since their business will be consolidated with that of the foreign parent. The IMF leaves the choice between DCCBS and CBCSDI to national discretion.

Other consolidation approaches for deposit-takers set out in the Guide are the domestic consolidation (DC) basis, the domestically-controlled cross-border consolidation basis (DCCB) and the foreign-controlled cross-border cross-sector consolidation basis (FCCBS) – see Chart 2.

Chart 2 Schematic representation of levels of consolidation



DC = block 3 + domestic side of blocks 1 and 2 (column A)
DCCB = block 1a (domestic and foreign)
DCCBS = block 1
FCCBS = block 2
CBCSDI = blocks 1 + 2

(ii) **The ESCB's consolidated banking data**

The CBD dataset consists of aggregated microprudential data on banks' profitability, balance sheets, asset quality, and solvency ratios in the 27 EU countries. The CBD have been collected annually since 2002 (and more recently semi-annually), five months after the year end. Data on EU domestic banks are reported by bank size (large, medium and small). Data are also separately reported for foreign-controlled banks active in EU countries, in particular branches and subsidiaries (further broken down by control by entities in other EU countries and in non-EU countries).

The CBD compiled by the ESCB follow in principle the consolidation approach of the EU Capital Requirements Directive (CRD) and are based on aggregated information on the banking systems of all EU Member States. In former issues of the ECB *Report on EU Banking Sector Stability*, data that comply with the International Financial Reporting Standards (IFRS) have been treated separately from data complying with local Generally Accepted Accounting Principles (GAAPs), since the conceptual differences between the accounting regimes were thought to be too substantial to render the aggregation of IFRS and non-IFRS data meaningful. In the more recent issues of the *Report* it has been decided to display both IFRS and non-IFRS items within the same country data.

The CBD are fully consolidated on a cross-border basis (data on branches and subsidiaries located outside the domestic market are consolidated with the data reported by the parent institution) and on a cross-sector basis (branches and subsidiaries of banks that can be classified as other financial institutions are included). Insurance companies, however, are not included.[31] In addition, information is provided on foreign-controlled institutions active in EU countries. The CBD therefore follow the CBCSDI approach, with a split between the DCCBS and the FCCBS. However, national approaches may differ due to the prevailing supervisory reporting frameworks.

(iii) **The BIS's International Banking Statistics**

There is a key distinction between the BIS locational and consolidated banking statistics. The quarterly locational statistics cover the "*aggregate international claims and liabilities of all banks resident in the 43 reporting countries broken down by instrument, currency, sector, country of residence of counterparty for all bank nationalities per reporting country (IBLR – International Banking Locational by Residence), and also by currency, residency type (residents/non-residents) and sector for individual nationality of reporting banks per reporting country (IBLN – International Banking Locational by Nationality). Both domestic and foreign-owned banking offices in the reporting countries report their positions on a gross basis (except for derivative contracts for which a master netting agreement is in place) and on an unconsolidated basis, including those vis-à-vis own affiliates, which is consistent with the principles of national accounts, money and banking, balance of payments and external debt statistics*." The locational statistics therefore follow the host country approach used in the ECB's MFI balance sheet statistics.

By contrast, the quarterly consolidated statistics cover the worldwide consolidated international financial claims of domestically-owned banks broken down by remaining maturity and sector of borrower. They indicate the nature and extent of consolidated foreign claims of banking groups headquartered in 30 major financial centres.[32]

The consolidation approach followed for compiling the BIS consolidated banking statistics is based on national implementation of BCBS (Basel Committee on Banking Supervision) supervisory standards, which have been transposed in the European Union via the CRD. A small number of national compilers follow a more comprehensive accounting

31 See:http://www.ecb.europa.eu/pub/pdf/other/eubankingsectorstability2009en.pdf.
32 For additional methodological information, see: http://www.bis.org/statistics/consstats.htm.

approach, in that they also include non-bank subsidiaries in their consolidated contribution. In other words, EU national compilers are currently free to choose between the IFRS and the CRD consolidation approaches. The consolidated banking statistics are collected on a group worldwide-consolidated basis, excluding inter-office positions and including the exposures of foreign offices (i.e. subsidiaries and branches). The BIS monitors consolidation approaches because reporting countries have a large degree of discretion in consolidating, which may affect data comparability across countries.

The consolidated banking data are available on two bases, immediate borrower basis and ultimate risk basis. The positions on an ultimate risk basis (the country of ultimate risk is defined as the country in which the guarantor of a financial claim resides and/or the country in which the head office of a legally dependent branch is located) provide information regarding on-balance sheet foreign claims as well as other potential exposures (on- and off-balance sheet) such as derivatives, guarantees and credit commitments, and are currently reported by 24 countries.

D – CONSOLIDATION WITHIN FINANCIAL CONGLOMERATES AS DEFINED IN THE EU DIRECTIVE

A financial conglomerate according to the EU Directive 2002/87/EC (Article 2) is a group headed by a regulated entity (a credit institution, insurance undertaking or investment firm), or a group where at least one of the subsidiaries in the group is a regulated entity, and at least one of the entities in the group is within the insurance sector and at least one is within the banking or investment services sector. A financial conglomerate – to qualify as such for prudential purposes – must have significant business in both the insurance and banking areas.[33]

From an accounting perspective, the applicable scope of consolidation is the IFRS framework if the financial conglomerate is a group which must prepare consolidated accounts in conformity with Articles 4 or 5 of Regulation (EC) No. 1606/2002.[34] Otherwise, the accounting Directive 83/349/EC applies. The latter Directive provides for the consolidation of all subsidiary undertakings.[35]

From a prudential perspective, Directive 2002/87/EC Article 6, requires supplementary capital adequacy to be calculated using one of the following four methods:

1) the accounting consolidation method (consistent with IFRS);

2) the deduction and aggregation method;

3) the book value/requirement deduction method;

4) a possible combination of the previous three methods.

The accounting consolidation method requires the supplementary capital adequacy needs of the regulated entities in a financial conglomerate to be based on the consolidated accounts.

The deduction and aggregation method requires the calculation to be based on the accounts of each of the entities in the group, with a sum of all the components and the deduction of the book value of the participations in other entities of the group (non-financial corporations).

The book value/requirement deduction method provides that the calculation must be carried out on the basis of the accounts of each of the entities in the group, starting with the parent undertaking or the entity at the head of the financial conglomerate, with the accounts of all the other entities then added.

Conclusion: the scope of consolidation of banks' branches and subsidiaries defined in the BSI and

33 See Directive 2002/87/EC Articles 2 and 3.
34 When securities issued by members of the group are admitted to trading on a regulated market of any Member State or the Member State permits or requires the group to prepare such consolidated accounting according to the IFRS framework.
35 See Article 3 of Directive 83/349/EC.

MIR Regulations differs from that of FINREP, COREP and Large Exposures. The BSI reporting is defined on the basis of the "host" residency principle on an individual basis, whereas COREP/Large Exposures on an individual basis (and FINREP, where applicable) follow the "home" basis. In addition, the FINREP and COREP/Large Exposures frameworks are also applied on a consolidated "group" basis using the CRD consolidation approach (for FINREP, the IFRS consolidation approach is also an option).

Different consolidation approaches are also used in various macroprudential datasets, depending on the risk perspective (see Part C above), for instance in the ESCB Consolidated Banking Statistics, the BIS International Banking Statistics, or the IMF Financial Soundness Indicators.

In the case of financial conglomerates, the provisions of the related directive are applied for regulatory purposes, while the applicable accounting standards are applied for financial reporting.

b) Valuation criteria

The accounting rules underlying the collection of MFI statistics for monetary policy purposes are defined in Article 7 of the BSI Regulation, which states that "*unless otherwise provided for in this Regulation, the accounting rules followed by MFIs for the purposes of reporting under this Regulation shall be those laid down in the national transposition of Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, as well as in any other international standards applicable. Deposit liabilities and loans shall be reported at the principal amount outstanding at the end of the month and on a gross basis. Write-downs as determined by the relevant accounting practices shall be excluded from this amount. Deposit liabilities and loans shall not be netted against any other assets or liabilities. Without prejudice to accounting practices and netting arrangements prevailing in Member States, all financial assets and liabilities shall be reported on a gross basis for statistical purposes. NCBs may allow the reporting of provisioned loans net of provisions and the reporting of purchased loans at the price agreed at the time of their acquisition, provided that such reporting practices are applied by all resident reporting agents and are necessary to maintain continuity in the statistical valuation of loans with the data reported for periods prior to January 2005*." To ensure that loans and deposits are reported monthly at nominal value, it is clearly stated in the BSI Regulation that accrued interest on loans (deposits) should be reported under remaining assets (liabilities).[36]

With the exception of loans and deposits, the BSI Regulation allows central banks to require credit institutions when reporting for statistical purposes to follow other international accounting standards, i.e. IAS/IFRS.[37] In that regard, the introduction of the IAS/IFRS and its use in the European Union in place of the national GAAPs (see Annex 3) have contributed to the harmonisation of the valuation rules and to strengthening the link between the requirements for statistical and for financial supervision in terms of valuation (fair value accounting or amortised cost), except for loans and deposits.[38] The BSI Manual[39] recommends MFIs to present asset and liability positions at current market values or to use a close equivalent to market values. As an exception to this rule, balance sheet items (a) currency in circulation, (b) deposits, (c) capital and reserves, (d) holdings of cash and (e) loans should be reported at nominal value. However, with the exception of loans and deposits, the ECB accepts that the data submitted by MFIs may follow national GAAPs, in particular because of the tight reporting

36 See Section 2.3.d for more details on the treatment of accruals.
37 National central banks may allow reporting net of loan provisions under certain conditions.
38 These valuation concepts may, however, be reconciled, as shown in Annex 2.
39 The ECB has published a manual on MFI balance sheet statistics (BSI Manual) with the aim of supporting the compilation of statistics in NCBs by providing a clear and consistent understanding of the statistical requirements contained in the BSI Regulation and MFM Guideline (ECB/2007/9 (recast) as amended), for the production of harmonised BSI statistics.

deadlines. In practice, the reference in the BSI Regulation to the national transpositions of the Banking Accounts Directive (national GAAPs), as well as to any other international accounting standards, allows various possibilities for the valuation of balance sheet items, with the exception of loans and deposits, as specified above. Generally, the valuation rules foreseen in the BAD are as follows:

- Trading portfolio (assets) – Member States may allow credit institutions to value this portfolio at purchase price, market price or the lower of the two (principle of prudence). In any case, the difference between the two methods should be disclosed by the credit institution;

- Financial fixed assets (participating interests, shares in affiliated undertakings and securities intended for use on a continuing basis in the normal course of an undertaking's activities) – they should be valued at purchase price. However, value adjustments may be made in respect of financial fixed assets, so that they are valued at the lower figure to be attributed to them at the balance sheet date. Member States may, however, require or permit debt securities (including fixed-income securities) held as financial fixed assets to be shown in the balance sheet at the amount repayable at maturity (nominal value);

- (Other) fixed assets (tangible and intangible) – in general, they should be valued at purchase price or production cost;

- Current assets (loans and advances, debt securities, shares and other variable-yield securities, which are neither held as financial fixed assets nor included in a trading portfolio) – they should be valued at purchase price without prejudice to any value adjustments to cater for the principle of prudence;

- Financial liabilities – Following Article 32 of the Fourth Council Directive (BAD), the items shown in the balance sheet should be valued at the price at which they were sold to the holder.[40]

The valuation rules prescribed for financial instruments by the IAS/IFRS are set out in IAS 39. This standard recognises the following rules for the main five portfolio categories:[41]

- Initial measurement (IAS 39.43) – When financial assets and liabilities are initially recognised, an entity must measure them at fair value, plus, in the case of financial assets or liabilities not at fair value through profit and loss, transaction costs that are directly attributed to the acquisition or issue of the financial assets and liabilities. In most cases, fair value at initial recognition means the acquisition costs, as these assets are usually bought in markets.

- Subsequent measurement of financial assets (IAS 39.46) – All financial assets must be measured at fair value (including derivatives held for trading and used in hedge accounting), except for the categories "loans and receivables" and "held-to-maturity investments", which must be measured at amortised cost using the effective interest method.[42] Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured (and derivatives linked to these instruments) should be measured at cost. Financial assets designated as hedged items are measured according to hedge accounting requirements; as a result, in fair value hedges, the carrying amount of the hedged item must be adjusted by the amount of the gain or loss attributable to the hedge risk (IAS 39.89).

40 Council Directive 86/635/EEC (BAD) is silent on the valuation of financial liabilities.
41 See Section 2.2.2 for a description of the various portfolios. Financial instruments that must be classified as "held for sale" in accordance with IFRS 5 are measured applying IAS 39 measurement criteria.
42 To know more about the effective interest method, see IAS 39 Appendix A (AG5 – AG8).

- Subsequent measurement of financial liabilities (IAS 39.47) – All financial liabilities must be measured at amortised cost using the effective interest method, except for financial liabilities at fair value through profit and loss, to be measured at fair value, and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, which should be valued according to IAS 39.29-31. Financial liabilities designated as hedged items are measured according to hedge accounting requirements; as a result, in fair value hedges, the carrying amount of the hedged item must be adjusted by the amount of the gain or loss attributable to the hedge risk (IAS 39.89).

As regards the valuation of investments in associates (entities over which the investor has significant influence, e.g. 20% ownership, but which are neither subsidiaries nor joint ventures), IAS 28.13 requires the use of the so-called equity method for the consolidated statements, except when: (a) the investment meets the criteria to be classified as a non-current asset held for sale, or (b) the parent is not obliged to present consolidated financial statements. IAS 31.30 allows the use of either proportionate consolidation or the equity method when accounting for interests in jointly controlled entities in the consolidated financial statements. In the separate financial statements, investments in subsidiaries, associates and jointly controlled entities are measured either at cost or at fair value according to IAS 39.

Tangible assets are at recognition measured at cost. Subsequently, an entity must choose either the cost model or the revaluation model as its accounting policy for property, plant and equipment, and must choose between the fair value model and the cost model for investment property. According to the cost model, after recognition an asset must be carried at its cost less any accumulated depreciation and any accumulated impairment losses (IAS 16.30). In the revaluation model, after recognition, an asset whose fair value can be measured reliably must be carried at a revalued amount, which is at its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses (IAS 16.31). On the other hand, entities may choose to measure the investment property at fair value or at cost.

Intangible assets should initially be measured at cost, with the exception of intangible assets acquired in business combinations, e.g. mergers and acquisitions (at fair value) and goodwill (at cost, measured as the excess of the cost of the business combination over the acquirer's interest in the fair value of the identifiable assets, net of liabilities and contingent liabilities) (IFRS 3.51b).[43] Subsequently, entities may opt between the cost and the revaluation model.[44]

An entity should measure the IAS category of "non-current assets (or disposal groups) classified as held for sale" at the lower of its carrying amount and fair value less costs to sell. Non-current assets (or disposal groups) are classified as held for sale if their carrying amounts will be mainly recovered through a sale transaction rather than through continuing use (IFRS 5). Non-current assets (or disposal groups) generally arise from reorganisations or discontinued operations (e.g. a bank decides to abandon its consumer credit business and wants to sell it to another bank). Nevertheless, financial instruments that must be classified as "held for sale" in accordance with IFRS 5 are measured in accordance with IAS 39.

When first recorded, share capital repayable on demand (e.g. cooperative shares), which due to their contractual features (namely the ability of

43 In the last version of IFRS 3, pending endorsement by the European Union, the way in which goodwill is measured at the acquisition date has changed. According to IFRS 3.32 (January 2008), it must be measured as the excess of the amount paid at the time of the acquisition plus the amount of any non-controlling interest over the net fair value of the identifiable assets and liabilities. To have a complete overview of the *EU Commission "Regulations adopting IAS"*, see http://ec.europa.eu/internal_market/accounting/legal_framework/Regulations_adopting_ias_text_en.htm.

44 After initial recognition, goodwill should always be accounted for using the cost model.

the holder to claim redemption) are classified as financial liabilities, should be measured at fair value, which corresponds to not less than the maximum amount payable under the redemption provisions (IFRIC 2.10). The BSI Regulation requires "shares" of this kind to be treated statistically as deposits.

Although deposits should be recorded at nominal value in BSI statistics, the treatment of hybrid deposits (deposits with an embedded derivative) has so far represented a borderline case. The BSI manual has solved the problem by recommending a statistical classification linked with the IAS 39 approach, as followed in FINREP. The link with BSI statistics has been established as follows. Hybrid deposits are economically equivalent to the combination of a derivative contract and the pledging of a deposit as collateral. If the change in the price of the derivative is unfavourable for the depositor, part of the deposit will be used for a payment to the counterparty when the derivative contract is settled. This implies that the deposit represents cash collateral deposited in the bank and is freely available for on-lending in the same way as "margin deposits". Furthermore, while margins usually cover only the current price of the derivative (wholly or partially), the principal amount of deposits in hybrid contracts is usually well above this price. As "margin deposits" are classified as deposits in MFI balance sheets (BSI Regulation, Annex II part 2.9.c), hybrid deposits should follow the same approach for the sake of consistency.

In principle, according to IAS 39.11, hybrid deposits should be separated into a host contract (the deposit or loan) and the embedded derivative. However, IAS 39.11A allows the entire hybrid deposit to be designated as a financial instrument at fair value through profit or loss (FV option). So in FINREP both treatments are accepted. In the first case, when the hybrid deposit is separated, the host contract is classified as a non-derivative financial instrument (deposit or loan in FINREP) and the embedded derivative is classified separately as a derivative. In the second case, the entire hybrid deposit is classified as a financial instrument (deposit or loan in FINREP). It should be noted that, according to a recent fact-finding exercise, the amounts involved are rather small (although they may be relevant in some categories and countries). Moreover, the implication of bringing the statistical treatment closer to the accounting/supervisory treatment is that hybrid deposits could be recorded at fair value, rather than at nominal value, as is in principle required for statistical purposes according to the BSI Regulation. If the amounts become significant, they may need to be separately identified in order to avoid any distortion to the statistical aggregates.

Conclusion: with the major exception of loans and deposits, for which nominal value reporting is mandatory under the BSI Regulation (even though central banks may allow reporting net of loan provisions), the valuation rules prescribed for the remaining instruments in the BSI Regulation are flexible. In particular, for (holdings and issues of) securities, the non-binding recommendation for statistical reporting is to use market/fair values, irrespective of whether the securities are held for trading or until maturity. However, those held to maturity are likely to be measured at amortised cost, in accordance with IAS 39. In legal terms, institutions required or allowed to use IAS/IFRS and which report supervisory information on the basis of FINREP may use the same valuation concepts when reporting for BSI purposes, except for loans and deposits. For the latter instruments, some sort of reconciliation is possible between fair value or amortised cost and nominal value (see Annex 4.1).

c) Time of recording

This subsection explains the criteria regarding time of recording applied in both IFRS 9/IAS 39 (FINREP) and the BSI. The aim is to propose a common approach, as input to the forthcoming changes to IFRS 9/IAS 39.

The time of recording in IFRS 9/IAS 39 (FINREP) allows transactions in financial assets to be recorded either on the "trade date" or on the "settlement date". "Trade date" is defined as *"the date that an entity commits itself to purchase or sell an asset"* (IFRS 9.B3.1.5) and "settlement date" as "*the date that an asset is delivered to or by an entity"* (IFRS 9.B3.1.6). IFRS 9.B3.1.3 requires the chosen method to be "*applied consistently for all purchases and sales of financial assets that are classified in accordance with this IFRS"* (i.e. so-called IFRS 9 portfolios). The criteria in IFRS 9 have been carried forward from IAS 39 (the predecessor standard on financial instruments).

The option described above is kept in the FINREP Rev2 Guidelines. In particular, Chapter I.34 says that "*FINREP does not prescribe which method is to be used. Credit institutions are free to choose unless their national supervisory authority requires a particular method as a matter of national harmonisation. CEBS may reconsider this issue in the future if practical experience indicates that the choice has a significant impact on institutions' financial position or solvency*".

It should be noted that, for some transactions, the delivery is made on the "trade date". This is normally the case for transactions in equity instruments on regulated stock exchanges. For other transactions, the delivery is made on the "payment date". This is normally the case for transactions with debt instruments (i.e. loans and debt securities).

The BSI Regulation does not address explicitly the time of recording of the transactions. However, the BSI Manual recommends the recording on the delivery date, in line with IAS/IFRS. The Manual recognises that the trade date may be used if such a practice is followed in the accounting provisions, but if it leads to significant distortions with reference to the settlement date, the national central bank should make adjustments to remove such distortions.

The CRD does not regulate the time of recording of the transactions. However, it establishes capital requirements for "settlement risk" and "free deliveries" that shed light on the way in which financial instruments are transacted.

On the one hand, "free deliveries" are transactions in which delivery and payment are not simultaneous; they include both transactions in which the payment has been made before the delivery of the financial asset, and transactions in which the delivery has been made before receiving the payment.[45] On the other hand, "settlement risk" capital requirements relate to transactions in which the agreed price is not paid on the delivery due date. These capital requirements illustrate the importance of distinguishing between "trade date", "delivery date" and "payment date".

The capital treatment for "free deliveries" is basically established in the following table.

This means that, if the time of recording is the "trade date", a financial asset that is being acquired should be recorded but excluded from the exposures subject to capital charge until the first contractual payment or delivery leg.

45 Annex II, point 2 of the amended Capital Adequacy Directive (CAD), i.e. Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast). See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:177:0201:0201:EN:PDF

Table 1 Capital treatment for "free deliveries"

Transaction Type	Up to first contractual payment or delivery leg	From first contractual payment or delivery leg up to four days after second contractual payment or delivery leg	From five business days after second contractual payment or delivery leg until extinction of the transaction
Free delivery	No capital charge	Treat as an exposure	Deduct value transferred plus current positive exposure from own funds

On the other hand, if the time of recording is the "delivery date", no exposure would be recorded until the first leg, because that is when the exposure appears.

The current IFRS 9/IAS 39 (FINREP) criteria raise the following problems:

- Options introduce complexity and reduce comparability across entities.
- Ideally, the choice of the "time of recording" should depend on the terms of the transaction (i.e. when the ability to exercise the rights associated with the financial assets is received/transferred) instead of the measurement applied for the instrument (as currently happens).
- The approach chosen should depend on the terms of the transaction instead of the measurement applied for the instrument (as currently happens).

Conversely, the current MFI criteria recommend only one approach. For reconciliation purposes and to increase the data quality, thus it would be appropriate to follow the same approach in both MFI statistics and in FINREP.

Hence, to harmonise BSI statistics with the IFRS 9/IAS 39 (FINREP) criteria, the JEGR has proposed to its sponsors *to record transactions at the date at which the ability to exercise the rights associated with the financial assets transacted in is received/transferred ("delivery date")*. The new BSI Manual already reflects this proposal.

As illustrated in Table 2, the proposal is to select the most meaningful option from a financial point of view: a transaction is recorded when the reporting entity is able to exercise the associated rights.

In principle, the cost of this change would be limited, as many Large Banking Groups (LBGs) are already operating in this way – see Box 1.

Furthermore, for some transactions, the IFRS 9/IAS 39 "trade date" is also the "settlement date" and thus no option is available in practice. This change would also bring the accounting of "free deliveries" closer to the capital requirements Regulation because it would avoid the recording of "free deliveries" not subject to capital charge. This change could coincide with the implementation of IFRS 9.

Table 2 Type of instrument and time of recording

Type of instrument	BSI statistics	IFRS 9/IAS 39 (FINREP)	Proposal
Loans	**"Settlement date"** (settlement = payment)	"Trade date" or **"settlement date"** (settlement = delivery)	"Delivery date" (normally "payment date")
Of which: from deposits from foreign exchange transactions	**"Settlement date"** (settlement = payment) or "trade date"		"Delivery date" (normally "payment date")
Debt securities	**"Settlement date"** (settlement = payment) or "trade date"		"Delivery date" (normally "payment date")
Equity instruments	"Settlement date" (settlement = payment) or **"trade date"**		"Delivery date" (normally "trade date")

Box 1

SURVEY ON THE TIMING OF RECORDING

In order to assess the cost of a proposal to reconcile different approaches to the timing of recording, the JEGR checked the current practice of a sample of 33 large banking groups (LBGs) with headquarters in nine EU countries. This check is based on information contained in banks' published financial statements.

The outcome of the survey shows that the first, second and fourth proposals (regarding loans, foreign exchange deposits and equity instruments) are broadly in line with current practice, as the "delivery date" approach is followed by two thirds of these LBGs. It should be noted that only half of them disclose information on the treatment of transactions in foreign currency deposits. The practice followed in accounting for debt securities (third proposal) is more diverse, as only 50% of them follow the proposed approach. Detailed country replies are available upon request.

Type of instrument	Proposal	Positive replies	Negative replies	N/A or no replies	Total
Loans	"Delivery date" ("payment date")	23	6	4	33
o/w deposits fx transactions	"Delivery date" ("payment date")	10	6	17	33
Debt securities	"Delivery date" ("payment date")	16.5	16.5		33
Equity instruments	"Delivery date" ("trade date")	22	11		33

Conclusion: in order to reconcile the BSI and FINREP criteria, it is proposed to record transactions at the date in which the ability to exercise the rights associated with the financial assets transacted in is received/transferred ("delivery date"). This recommendation has already been included in the new BSI Manual.

d) Treatment of accrued interest

In statistical balance sheet reporting, MFIs must follow the general principle of accruals accounting, i.e. accrued interest should be subject to on-balance sheet recording as it accrues (accrual basis) rather than when it is actually paid or received (cash basis). To ensure the valuation of loans and deposits at nominal value, it is clearly stated in Annex II of the BSI Regulation that accrued interest on loans (deposits) should be reported under remaining assets (liabilities). Where interest accrued on balance sheet items other than loans and deposits should be recorded is less clear. The BSI Manual recommends recording accrued interest on a gross basis under "remaining assets/remaining liabilities", with the exception of accrued interest that is intrinsic to the market price, for example on deep-discounted and zero coupon bonds, which MFIs may include in the value of the securities (i.e. with the underlying instrument). The MFS Guideline[46] also requires national central banks to provide separate data on accrued interest where available. It may be worth noting that the preference of the ESA 95 is for accrued interest to be recorded with the financial instrument to which it relates (paragraph 5.130).

Although also requesting accrual accounting, the IAS/IFRS do not give a clear-cut answer on whether unpaid accrued interest should be accounted for in a separate "caption" of the balance sheet or be included in the financial instrument to which it relates.[47] In the revised FINREP framework, it was decided that unpaid

46 Guideline ECB/2007/9 as amended.
47 Implicitly leaving this decision to the credit institution.

accrued interest should be included in the category of financial instrument to which it relates (i.e. not in a separate "caption"). On the income statement, interest income and interest expenses relating to financial instruments held for trading and financial instruments designated at fair value through profit or loss may be reported either as part of interest income and expense ("clean pricing") or under net gains (losses) from these categories of instruments ("dirty pricing"). National supervisory authorities may permit or require credit institutions to report the amounts of interest income and interest expenses separately.

Conclusion: BSI and FINREP requirements are consistent as regards the need to record interest on an accruals basis, but differ in their requirement regarding the classification of accrued interest not yet paid. The BSI Regulation requires accrued interest on loans and deposits to be reported under remaining assets/liabilities, whereas in FINREP accrued interest is recorded with the underlying instrument. However, since the MFS Guideline requires accrued interest to be separately identified where available, the amounts can be reconciled with those recorded in FINREP.

e) Recognition and derecognition

The requirements concerning reporting of securitisations in the BSI Regulation (ECB/2008/32), and in complementary reporting by financial vehicle corporations (FVCs) under Regulation ECB/2008/30, are designed to prevent loans which are the subject of securitisations from dropping out of the recording, or being recorded twice, and – where they are removed from the balance sheet of the originating MFI – to ensure that relevant information about them subsequently is retained as it would have been if they had remained on the balance sheet of the originator.[48]

The BSI Regulation states how cases of securitisation should be recorded, rather than setting rules and specific approaches for recognition/derecognition. According to Regulation ECB/2008/32, for data up to November 2009, the general rules in Article 7 applied (i.e. the reference to the national transposition of Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, as well as in any other international standards). As a consequence, depending on national practices, the derecognition of assets was linked to the transfer of ownership or to the transfer of all the risks and rewards of ownership.

For data starting in December 2009, the BSI Regulation allows central banks to refer to either the IAS/IFRS approach or the local GAAPs when dealing with (de)recognition of assets, while specifying some reporting requirements for loan securitisations and other loan transfers. In particular the Regulation states that:

– "*derecognition means the removal of a loan or part thereof from the stocks (...), including its removal due to the application of a derogation referred to in Article 8(6)*" (Annex 1 Part 6);

– "*derogations may be granted in respect of the statistical reporting of loans that are disposed of by means of a securitisation. MFIs applying the IAS 39 or similar national accounting rules may be allowed by their NCB to exclude from the stocks (…) any loans disposed of by means of a securitisation in accordance with national practice, provided that this practice is applied by all resident MFIs*" (Article 8.6);

48 A brief explanation of why data on securitisation are necessary for monetary policy analysis may be helpful. In the absence of further information, removal of loans from the MFI balance sheet ("traditional" securitisation with derecognition) will give the impression that loans have been repaid, whereas in reality the borrower has experienced no withdrawal of credit. In traditional securitisation without derecognition, however, and in synthetic securitisation, the loans remain on the balance sheet of the originating MFI. Because the matter is rather complex (traditional securitisations with or without derecognition, synthetic securitisations, the partner FVC resident or not resident, the originating MFI continuing to administer the loans even if they are no longer on its balance sheet, or ceasing to administer them), the reporting requirements are complicated in detail, although their purpose is clear.

– *"loans disposed of during a warehousing phase in a securitisation (when the securitisation is not yet completed because securities or similar instruments have not yet been issued to investors) are treated as if they were already securitised"* (Annex 1 Part 6).

Moreover, the BSI Regulation requires the following separate statistical data in order to make a bridge between different national accounting practices:

– *net flows of loans securitised or otherwise transferred: transactions with impact on reported loan stocks calculated as disposal minus acquisitions;*

– *net flows of loans securitised or otherwise transferred: transactions without impact on reported loan stocks calculated as disposal minus acquisitions;*

– in the case of MFIs applying the IAS 39 or similar rules: *outstanding amounts of securitised loans not derecognised*.

Under IAS/IFRS, the (de)recognition rules are quite complex, as described in Box 2. Since the IAS/IFRS rules (specifically, IAS 39) state that, in case of partial transfer of risks/rewards, the securitised loans should not be derecognised, if these rules were applied in the statistical framework securitised loans would be booked both in the balance sheet of the originating MFI and in that of the purchasing FVC. To avoid double-counting, the BSI Regulation requires the separate identification of loans securitised via FVCs but which nevertheless remain on the MFI's balance sheet, together with the counterpart liability (which reflects the payment that the originating MFI will have received for the loans, despite retaining them on its balance sheet). National central banks may ask credit institutions to follow the same IAS 39-based approach as in FINREP for their statistical reporting, in order to reduce reporting costs.

FINREP Table 12 (Transfer of financial assets) provides information on the carrying amount of financial assets entirely recognised on the balance sheet, with assets securitised (but retained on the balance sheet) as an"of which" item. In particular, Table 12A is used to report transferred financial assets part or all of which do not qualify for derecognition (see IAS 39.15-37), and financial assets entirely derecognised for which the entity retains servicing rights. To provide a link with COREP, the table includes a column for financial assets that are derecognised for capital adequacy purposes. The associated liabilities should be reported in this template according to the portfolio in which the related transferred financial assets are included (not according to the portfolio in which they are included on the liability side). Table 12B includes the carrying amount of all financial assets pledged as collateral for liabilities or contingent liabilities by the reporting entity. It includes pledges made through the transfer of the financial asset involved when the transferee has the right to sell or repledge the collateral (see IAS 39.37(a)), such as in "repos", pledges made through transfers in which the transferee does not have the right to sell or repledge the collateral, such as in a securitisation, and other pledges that do not imply the transfer of collateral, such as issues of covered bonds.

This information is broken down by IFRS portfolio and by instruments. The data on securitised loans can therefore be linked with the BSI item "outstanding amount of securitised loans not derecognised". The only differences are 1) that no information on securitised loans for the IFRS portfolio "held to maturity" is separately available in FINREP and 2) the valuation, since FINREP data are net of valuation adjustments (specific allowances), while BSI data are supposedly reported gross of such adjustments, that is, at nominal value. The link between FINREP and BSI can be summarised as follows:

Box 2

IAS 39 RULES FOR THE (DE)RECOGNITION OF ASSETS/LIABILITIES

IAS 39 (paragraphs 14 to 42) describes in detail the conditions that should be fulfilled for recognition and derecognition of financial assets and liabilities. Due to the complexity of the conditions for derecognition of financial assets, IAS 39.AG36 provides an explanatory flow chart and the FINREP framework contains a table (Table 12) for collecting detailed information on transfers of financial assets.

In addition to the "regular way purchase or sale of a financial asset", which should be recognised and derecognised using the trading date or the settlement date (see Section 2.3.3), financial assets should be derecognised when the contractual rights to the cash flows from a financial asset expire or when the financial asset is deemed to be transferred, and the transfer qualifies for derecognition.

An institution is deemed to have transferred an asset if, and only if, it either: a) transfers the contractual rights to receive the cash flows arising from the financial asset, or b) retains the contractual rights to receive these cash flows, but assumes a contractual obligation to pay them to one or more recipients in an arrangement that meets certain conditions (specified in IAS 39.19).

The transfer of a financial asset qualifies for derecognition when substantially all the risks and rewards of owning it are also transferred. In this case, any financial assets or liabilities created or retained because of the transfer should be treated separately. If, however, substantially all the risks and rewards of ownership of a financial asset are retained, the entity must continue to recognise the financial asset in its balance sheet.[1] If the risks and rewards of ownership of a financial asset are neither transferred nor retained, the entity should derecognise the financial asset if it has not retained control over it and keep it in the balance sheet to the extent that it has not relinquished control (IAS 39.20.c).[2] When an entity continues to recognise a transferred financial asset, the entity also recognises an associated liability; the net carrying amount of the financial asset and the associated liability reflects the rights and obligations retained by the entity.

The rules presented in the previous paragraphs for derecognition of a financial asset under IAS may apply either to only a part of a financial asset (or group of financial assets) or to its entirety. It should apply to only a part of it if that part comprises: a) specifically identified cash flows (e.g. all interest cash flows), b) a fully proportionate (pro rata) share of the cash flows (e.g. 90% of all cash flows), or c) a fully proportionate (pro rata) share of specifically identified cash flows (e.g. 90% of all interest cash flows). In all other cases, the rules for derecognition apply to the financial asset (or group of financial assets) in its entirety.[3] Partial derecognition of financial assets under IAS 39 leads to a reduction of the outstanding nominal amount.

A financial liability (or a part of a financial liability) should be removed from the balance sheet when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled, or expires (IAS 39.39-42).

1 See IAS 39.21-22 for more details on how to evaluate the degree to which risks and rewards are transferred.
2 IAS 39.23 elaborates on the concept of control.
3 For example, when the rights to 90% of the cash flows from a group of receivables are transferred, but the entity provides a guarantee to compensate the buyer for any credit losses, the rules for derecognition should apply to the group of receivables in its entirety.

(a) FINREP, Table 12A, rows "loans and advances" (held for trading, designated at fair value through profit and loss, available for sale, loans and receivables), column "financial assets entirely recognised – original assets: of which securitisation".

(b) BSI, Table 5a, row 4 (Outstanding amounts of securitised loans not derecognised), columns (domestic, other participating countries and rest of the world – this being information on the residence status of the debtors).

In order to clarify the concept of securitisation included in the FINREP Guidelines (Table 12), the JEGR sent an implementation questionnaire to the EBA Secretariat.

Conclusion: For BSI data (de)recognition practice may now follow either the IAS/IFRS approach or local GAAPs. However, detailed statistical reporting requirements enable the data derived from the different accounting approaches to be bridged.

f) Netting (offsetting) arrangements

In terms of netting (offsetting) arrangements, Article 7 of the BSI Regulation states that without prejudice to the netting practices prevailing in the national GAAP, all financial assets and liabilities must be reported on a gross basis for monetary statistics purposes.

The BSI Manual states that the principle of gross reporting should be applied, in particular, to loans and deposits. Gross reporting means (for example) that a loan extended to a customer must not be offset against a deposit held by the same customer. Previous BSI guidance [49] stated that as an exception, loans/deposits could be presented in net terms if credit and debit balances had identical features, i.e. were vis-à-vis the same customer (resident in the same territory of the reporting MFI), were in the same currency, and the same original maturity, and the right of set-off was enforceable by law.[50] This condition was very restrictive and in practice permitted almost no netting. In the BSI Manual, this possibility of netting has been discarded; accordingly, netting of loans/deposits is never allowed. The only exception to the rule of gross recording concerns the treatment of holdings by an MFI of shares and debt securities which it has itself issued, where own holdings should be deducted from the amount outstanding.

As prescribed by IAS 32.42 [51] and consequently by FINREP, a financial asset and a financial liability are to be offset and the net amount presented in the balance sheet when, and only when, an entity: (a) currently has a legally enforceable right to set off the recognised amounts (i.e. same condition as hitherto in BSI statistics); and (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity must not offset the transferred asset and the associated liability. IAS 32.43 elaborates further: the presentation of financial assets and financial liabilities must be on a net basis when net recording reflects an entity's expected future cash flows from settling two or more separate financial instruments. In other circumstances, financial assets and financial liabilities are presented separately from each other consistently with their characteristics as resources or obligations of the entity. Upon fulfilment of the two criteria defined in IAS 32.42, an entity that undertakes a number of transactions in financial instruments with a single counterparty may enter into a "master netting arrangement" with that counterparty. Such an agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract (IAS 32.50).

49 In "Guidance notes to the Regulation ECB/2001/13 on the MFI balance sheet statistics".

50 Enforceable by law means that the set-off arrangement would be enforceable in the relevant national jurisdiction in case of default, liquidation or bankruptcy of the customer or liquidation of the reporting institution.

51 IAS 1.32-35 establishes as a general principle that assets and liabilities, and incomes and expenses, cannot be offset, unless allowed by another IFRS.

IAS 32.33 states that an entity which reacquires its own equity instruments ("treasury shares") must deduct them from equity issued and separately disclose them in financial statements. Along the same lines, IAS 39.AG 58 states that if an issuer of a debt instrument repurchases that instrument, the debt is extinguished even if the issuer is a market maker or intends to resell the instrument in the near future. This is the same as the treatment of "own holdings" in MFI balance sheet statistics.

When a bank securitises a loan through an FVC but does not derecognise the loan for accounting purposes, a new liability is recorded for the compensation received. If the bank buys securities issued by the FVC to finance the acquisition of the loans, under BSI rules the bank (MFI) must recognise these securities as an asset. IAS 39, on the other hand, requires the bank to offset the securities against the liability to avoid the duplication of assets. This treatment is different from the accounting treatment applied to the acquisition of own debt instruments as explained above.

Conclusion: The rules defined in the IAS/IFRS for balance sheet recognition on a gross basis are in line with the requirements for monetary statistics reporting, except in very limited circumstances (the right of set-off is enforceable by law) where net recording is allowed under FINREP.

g) Impairment of assets (basis of recording)

As mentioned in Section 2.3.3, the BSI Regulation requires loans to be recorded at nominal value gross of all related provisions (impairment losses or amounts recorded in allowance accounts). Thus, credit losses are generally not recorded through provisions or allowances. Central banks may, however, allow the reporting of loans net of provisions, provided that such reporting practice is applied by all resident reporting agents and is necessary to maintain continuity in the statistical valuation of loans with the data reported for periods prior to January 2005. Loans recorded gross of provisions should continue to be so recorded until the loans are written off or written down as partly or totally unrecoverable (impaired), at which point the loans are fully (written off) or partly (written down) removed from the balance sheet. As some countries may record loans net of specific provisions, while others record them at full value until written off or written down, there may be some discrepancies across countries arising from the timing of derecognition.

IAS 39.59 specifies the conditions for the identification of impaired assets and the recognition of impairment losses.[52] There must be objective evidence of impairment as a result of one or more (loss) events that occurred after the initial recognition of the asset, and that event (or events) must have an impact that can be reliably estimated. Several examples of loss events are provided in the standard: the breach of a contract, such as a default or delinquency in interest or principal payments, is the most common and evident.

For financial assets carried at amortised cost (i.e. loans and receivables or held-to-maturity investments), if there is objective evidence that an impairment loss has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is then reduced either directly or through use of an allowance account, and the amount of the loss must be recognised in profit and loss (IAS 39.63). In other words, the balance sheet values of loans and receivables are measured net of impairment losses, providing a proxy for market value. The impairment loss is deducted from the loan directly or through the use of an allowance account.

For financial assets measured at fair value through profit or loss, impairment losses are recognised implicitly in the fair value accounting.

52 In this context, impairment losses are equivalent to the amount of allowances and write downs and write offs, i.e. the amount eliminated from the balance sheet and recognised directly in profit or loss.

The accumulated credit losses implicit in changes in fair value must be disclosed in the annual accounts in the case of loans designated at fair value, and FINREP also requires that this amount be disclosed for financial assets classified in the trading category.

Conclusion: In the BSI reporting scheme, loans should be reported gross of all impairment allowances (though there are permitted exceptions), whereas in FINREP they are reported in the balance sheet net of the accumulated impairment losses. Hence, the two reporting frameworks may deviate as regards the recording of impaired loans, but reconciliation at the conceptual level is possible (see Section 2.3.3 and Annex 4).

2.3.3 BREAKDOWNS

This subsection covers the four main balance sheet breakdowns in BSI and FINREP, namely: a) residency and geographical breakdown, b) counterpart sector breakdown, c) maturity breakdown and d) instruments and products breakdown.

a) Residency and geographical breakdown

The compilation of monetary aggregates for the euro area requires MFIs to identify counterparties resident in the euro area who are in the money holding sectors (see Section 2.1.1). Thus MFIs resident in the euro area are required to report positions vis-à-vis other residents of the euro area broken down by sector.

The residency concept in the BSI Regulation follows the ESA 95, which in turn provides the methodological basis for the compilation of macroeconomic statistical aggregates based on the residency principle. In a nutshell, the residency principle is based on the concepts of economic territory and centre of economic interest. Generally, an institutional unit is deemed resident in an economic territory, which consists of a geographic territory administered by a government, when it engages and intends to continue engaging in economic activities and transactions on a significant scale in that territory. In essence, an institutional unit is a resident of the economy in which it is ordinarily located. The new statistical standards (the SNA 2008, ESA 2010, the 6th edition of the IMF's *Balance of Payments and International Investment Position Manual*) and the BSI Regulation, however, make clear that an entity is resident in the country in which it is registered or authorised, even in the absence of a physical presence there.

In BSI statistics, the breakdown by residence is: domestic, resident elsewhere in the euro area, and resident in the rest of the world (i.e., outside the euro area). Additionally, the Regulation requires country-by-country information on some positions with counterparties resident in EU countries.

In FINREP, the non-core information provides a geographical breakdown of assets and liabilities by residence of the counterparty as follows: domestic, resident elsewhere in the euro area, resident in other EU countries, and resident in the rest of the world.[53] The breakdown is required by instrument and portfolio but not by counterpart sector.

Conclusion: The residency concepts in the BSI Regulation and the FINREP Guidelines on geographical breakdown are consistent.

b) Counterpart sector breakdown

The ESA 95 groups institutional units resident in an economy (usually a country or a group of countries e.g. the euro area) into five mutually exclusive institutional sectors (non-financial corporations, financial corporations, general government, households and non-profit institutions serving households) based on their principal functions, behaviour and objectives. Financial corporations and general government are divided into sub-sectors. Non-residents of the economy

53 For clarity, "domestic" means the country of the national supervisory authority receiving the report. When debt securities issued by the reporting entity cannot be allocated by the geographical area of the residency of the holder without incurring undue costs they should, by convention, be classified geographically according to the residence of the market in which they are traded.

comprise the rest of the world, and transactions and positions of residents with them are recorded in the rest of the world column. The BSI Regulation follows this sectorisation, except that households and non-profit institutions serving households are merged. For purposes of monetary statistics, the distinction between money-issuing and money-holding sectors is critical – see Table 3.

The FINREP framework provides a standardised counterparty breakdown for the information reported in Tables 3, 4, 5, 6, 7, 9, 10, 17 and 20 as follows:

1) Loans and advances included in Tables 5.C, 5.E (loans and receivables), 6.A, 7, 9.B and 20.A are allocated to eight economic sectors (see Table 4 below on FINREP counterpart sector breakdown for loans and advances in selected templates);

2) Loans and advances included in Tables 5.B, 5.D, 5.E (held to maturity, where no product split is available) and 17 (which refers to loan commitments, financial guarantees and other commitments) are allocated to six counterpart sector classes (central banks, general governments, credit institutions, other financial corporations, corporate and retail);

3) Loans and advances by guarantees and collateral in Table 6.B are allocated to other financial corporations, non-financial corporations/corporate, non-financial corporations/retail, households/corporate and households/retail;

4) Derivatives included in Tables 3 and 4 are allocated to credit institutions, other financial corporations and a residual category ("rest") that should include central

Table 3 BSI counterpart sector breakdown[1]

Euro area residents (S.1)	
Monetary financial institutions (MFIs) (including money market funds) (S.121+S.122) – the money-issuing sector	
Non-MFIs (S.1, other than S.121+S.122)	
General government (S.13)	
Central government (S.1311)	
Other general government (S.1312+ S.1313+ S.1314)	The money-holding sectors
State government (S.1312)	
Local government (S.1313)	
Social security funds (S.1314)	
Other residents (S.123+S.124+S.125+S.11+S.14+S.15)	
Other financial intermediaries and financial auxiliaries (S.123+S.124)	
o/w Investment funds other than money market funds	
o/w Financial vehicle corporations	
o/w Central counterparties[2]	
Insurance corporations and pension funds (S.125)	
Non-financial corporations (S.11)	
Households and non-profit institutions serving households (S.14+S.15)	
o/w Sole proprietors and unincorporated partnerships	
Residents of the rest of the world (outside the euro area) (S.2)	
Banks	
Non-banks	
General government	
Other resident sectors	
Not allocated	

1) The distinction between money-issuing and money-holding sectors is not quite exact. In some countries, post office giro institutions classified as non-financial corporations (S.11) and central government (S.1311) have monetary liabilities, which are reported separately and added into the monetary aggregates. This point apart, central government is "money-neutral" – neither money-issuing nor money-holding – like the rest of the world.
2) These are non-monetary financial intermediaries (S.123) active in the interbank market.

banks, general governments, non-financial corporations (corporate and retail) and households (corporate and retail);

5) Debt securities held (Tables 5, 7, 9 and 20) and loans and advances included in the definition of cash equivalents (Table 5.A) are allocated to five economic sectors (central banks, general governments, credit institutions, other financial corporations and corporates);

6) Equity instruments breakdown ("of which") reported in Tables 5.B, 5.C, 5.D and 7: the breakdown is limited to credit institutions, other financial corporations and non-financial corporations;

7) Deposits: the breakdown in Table 10.A refers to six economic sector classes (central banks, general governments, credit institutions, other financial corporations, non-financial corporations and households).

It should be noted that the revised FINREP counterparty breakdown is based fundamentally on the nature of the direct counterparty, with an additional breakdown in the case of loans and advances to non-financial corporations and households of "corporate" and "retail" when they meet the CRD definition of this type of exposure class. FINREP revised Guidelines clearly define the standard counterparty breakdown with, in Annex 1, two correspondence tables to map economic sector allocations in FINREP to exposures classes in the CRD/COREP framework.

Table 4 The FINREP counterpart sector breakdown for loans and advances in selected templates

Central banks
General governments
Credit institutions
Other financial corporations
Non-financial corporations – Corporates
Non-financial corporations – Retail
Households – Corporates
Households – Retail

While some methodological differences exist between the counterpart sector breakdowns in the BSI and FINREP reporting schemes, Table 5 reconciles them. This bridging has

Table 5 Counterpart sector classes in BSI statistics, FINREP and CRD

	Counterpart sector classes		
BSI	Revised FINREP	Current FINREP	CRD exposure classes
MFIs – central banks	Central banks	Central banks	Central governments/central banks
Central government Other general government	General governments	Central governments Non-credit institutions	Central governments/central banks Institutions
MFIs – credit institutions MFIs – MMFs	Credit institutions Other financial corporations	Credit institutions Non-credit institutions	Institutions
Other resident sectors – OFIs	Other financial corporations	Non-credit institutions Corporates Retail	Institutions Corporates Retail
Other resident sectors – NFCs	Non-financial corporations – Corporates Non-financial corporations – Retail	Corporates Retail	Corporates Retail
Other resident sectors – households and NPISH [1]	Households – Corporates Households – Retail	Corporates Retail	Corporates Retail

1) Non-profit institutions serving households.

become easier under the revised FINREP, and past JEGR recommendations related to counterpart breakdown have allowed almost full reconciliation (the exception is the FINREP sector "Other financial corporations" which may include some MFIs along with entities that meet the BSI definition of OFIs).

Table 5 also provides a reconciliation with the CRD exposure classes. It may be useful to explain that the CRD has two approaches to classifying exposure classes. In the Internal Ratings Based (IRB) approach, the banking exposures are classified in one of the "exposures classes" included in the last column of Table 5. In the standardised approach, in addition to these "classes", the exposures can also be assigned to the following items depending on the circumstances of the book entries: "secured on real estate property", "past due items", "regulatory high-risk categories", "covered bonds", "securitisation positions", "short-term claims on institutions and corporate", "CIU" and "other items". Each exposure (or part of them, where appropriate) must be assigned to only one of the exposure classes. This poses a difficulty for aggregations at the sector level, e.g. for macroprudential analysis purposes, because if, for instance, there is a need to assess the total amount of banks' exposures to the retail sector, the COREP data on exposures would exclude those that are recorded as "securitised on real estate property", "past due" and "securitisation positions", etc. A reconciliation is therefore necessary.

As noted earlier, whereas the BSI sector breakdown applies to the classification of units resident in the euro area (with a separate, less detailed, classification for non-euro area residents), the FINREP counterpart breakdown is used in the classification of all institutions with which the credit institution has positions (that is to say, a non-resident counterpart would be classified indistinguishably with similar resident counterparts).

In some countries, bridging the different counterpart sector breakdowns is important for the banking industry, since the management of these different datasets is considered costly for banks. In such countries, reconciling these different datasets is a significant element in reducing credit institutions' reporting burden. Conversely, in other countries, national authorities have developed different tools to overcome these difficulties.

Conclusion: The revised FINREP has removed most differences from the BSI in the definition of counterpart sectors. In particular, a bridging template for counterparty breakdowns allows reconciliation between the two reporting schemes for loans and for advances and deposits in selected templates. The CRD exposure classes have also been linked, but in practice a numerical reconciliation may be difficult to achieve, except for IRB banks. A reconciliation is therefore necessary, not least for the purpose of a consistent macroprudential analysis.

c) Maturity breakdown

The BSI Regulation requires a breakdown of positions mainly according to original maturity, i.e. the maturity at inception or at issue, with the exception of deposits redeemable at notice, where period of notice is the relevant maturity concept.[54] The original maturity cut-offs are considered to provide a good indication of the nature of the financial instrument and the intentions of the holder; the definitions of the various monetary aggregates are based partly on original maturity. The focus in the ESA 95 is on the original (rather than residual) maturity. On the liability side, the cut-offs for relevant deposits and debt securities issued are 1 and 2 years' maturity at issue or 3 months' notice (some deposits only). On the asset side, the cut-offs are 1 and 2 years' maturity at issue for holdings of debt securities and 1 and 5 years' original maturity for loans. The new BSI Regulation also requires breakdowns by remaining maturity (1, 2 years) and rate reset interval (12, 24 months) for euro-denominated loans to non-financial corporations and households.

54 Part 2 of Annex II of the BSI Regulation provides a definition of the maturity concepts used throughout the Regulation.

For the purpose of liquidity risk analysis, IFRS 7.39 requires credit institutions to disclose the remaining contractual maturities of liabilities. Credit institutions are free to decide on the time bands, but IFRS 7 (Appendix B) provides an example (up to 1 month, between 1 and 3 months, between 3 months and 1 year, between 1 and 5 years, over 5 years). This breakdown in appendix B of IFRS 7 is for guidance purposes only and is currently not foreseen in FINREP, although the draft CRD IV amendments request that EBA develop reporting standards for liquidity data to be in force from 2013. It is widely recognised that for financial supervision and financial stability analysis, residual maturity (i.e. remaining maturity at balance sheet date) is the relevant concept, as it provides a better framework for risk assessment. This is also the maturity concept used throughout the CRD for credit risk weighting.

Conclusion: BSI requirements specify the classification of financial assets and liabilities, mainly according to their original maturity, but for some breakdowns also according to residual maturity. FINREP has no requirements in terms of original or residual maturity breakdowns, although IFRS 7 requires institutions to disclose remaining (residual) contractual maturities of liabilities (but time bands are not standardised). Moreover, it is worth noting in that regard that the future FINEP may be expanded to cover liquidity data.

d) Instruments and products

One of the main elements in the definition of the euro area monetary aggregates and their counterparts is the selection of the MFI liabilities and assets (financial instruments). The various euro area monetary aggregates differ with regard to the degree of liquidity (assessed on the basis of the criteria of transferability, convertibility, price certainty and marketability) of the MFI liabilities they include. Hence, one of the main BSI requirements is the breakdown of MFI liabilities by instrument. The counterparts to broad money (M3) comprise the non-monetary liabilities of MFIs and their assets (also broken down by instrument), arranged in an analytically useful way.

IAS 39 requires financial assets and liabilities to be grouped in "portfolios", but without prescribing a rigid format for the disclosure. In particular, IFRS 7.8 allows credit institutions to report financial instruments by IAS 39 portfolios either in the balance sheet (as in FINREP) or in the notes. When IAS 39 portfolios are disclosed in the notes, IFRS 7.6 requires an analysis by class of financial instrument with sufficient information to permit reconciliation with the line items in the balance sheet. Thus, IFRS 7 allows a classification by class of financial instruments and the requirements applicable to determine these classes (IFRS 7.B1-B2) constrain the way in which financial instruments are presented in the balance sheet. Under FINREP, this constraint has been solved as follows: at the first level of the FINREP balance sheet, the information is organised by portfolio, and only at a second level are data broken down by financial instrument. Annex 4.3 provides in a tabular format the equivalence between the MFIs' main balance sheet items, as defined in the BSI Regulation, and the FINREP requirements.

FINREP Table 6.A introduces a "breakdown of loans and advances by product" – with detailed instructions in the Guidelines – that is currently referenced mainly to IFRS 7.IG 21.[55] Insofar as IAS/IFRS do not include definitions for all the items used,[56] this "breakdown of loans and advances by product" could also be linked to Annex II of the BSI Regulation (see Annex 4.2). Further links regarding the instrument "shares and other equity" are described in sub-section 2.3.16.

Conclusion: It is possible to set up a bridge between the instruments requested in the two

55 IFRS IG 7.21 states the following: "Paragraph 36 requires an entity to disclose information about its exposure to credit risk by class of financial instrument. Financial instruments in the same class share economic characteristics with respect to the risk being disclosed (in this case, credit risk). For example, an entity might determine that residential mortgages, unsecured consumer loans, and commercial loans each have different economic characteristics."

56 IAS/IFRS provides definitions only for two items, finance leases and reverse repurchase loans. However, the link between the revised FINREP framework and the MFI Regulation has become explicit.

reporting schemes despite some differences in their balance sheet structure. This bridging may be facilitated if the IAS/IFRS accounting flexibility is used to bring it as close to the BSI requirements as is considered appropriate, with the main exception of IAS categories "Non-current assets held for sale" and "Discontinued operations" (see sub-section 2.3.4.b below). Moreover, the FINREP Guidelines on breakdown by type of loan include a link to some statistical definitions.

2.3.4 TREATMENT OF SPECIFIC ITEMS

This sub-section covers the treatment of four specific items in BSI and FINREP, namely: a) collateral and guarantees, b) non-current assets held for sale and discontinued operations, c) preference shares (liabilities side) and d) shares and other equity (assets side).

a) Collateral and guarantees

For each type of loan to non-financial corporations (NFCs) and for loans to households (HHs) broken down by purpose (consumer credit, house purchase, and other lending), the BSI Regulation requires the amount secured by real estate collateral as defined in the CRD with an outstanding loan/collateral ratio of 1 or below 1 to be reported. Under FINREP, Table 6.A has a breakdown of loans and advances by product and the item "mortgage loans (real estate collateralised loans)" includes any loan formally backed by real estate collateral independently of its loan-to-value ratio.

In addition, Table 6.B provides information on the carrying amount of loans and advances backed by pledges of collateral (real estate and/or other assets) or by financial guarantees. The maximum collateral/guarantee that can be considered cannot exceed the amount of the related loan.[57] Collateralised "loans and advances" are broken down into mortgage loans (real estate collateralised loans: residential/commercial), other collateralised loans (cash/rest) and financial guarantees.

Conclusion: The BSI framework uses the CRD definition of real estate collateral with a loan-to-value ratio of 1 or below. In FINREP, mortgage loans include any real estate collateralised loans regardless of the loan-to-value ratio. BSI real estate collateralised loans are therefore a subset of FINREP mortgage loans.

b) Non-current assets held for sale and discontinued operations

In the BSI framework, loans and holdings of debt securities and equity instruments must be classified in the relevant instrument category whether or not they meet the criteria in IFRS 5 to be classified as "held for sale".

IFRS 5.38 requires an entity to present a non-current asset held for sale and the assets of a disposal group[58] separately from other assets in the balance sheet. The liabilities of a disposal group must also be presented separately from other liabilities in the balance sheet. In FINREP, non-current assets held for sale and the assets of a disposal group are presented together in a single line item; the liabilities of a disposal group are also presented together in another line item.

Conclusion: Bridging financial instruments in BSI and FINREP remains difficult owing to the IFRS presentation of non-current assets held for sale and assets of a disposal group in a single line item (including financial assets), together with the presentation of liabilities of a disposal group in another line item (including financial liabilities).

c) Preference shares (liabilities side)

The FINREP Guidelines and the BSI Regulation do not provide many details on the treatment of preference shares on the liabilities side of the balance sheet.

57 For example, if a loan of €1 million is covered by a pledge of securities with a fair value of €1.5 million, the maximum collateral that can be considered is €1 million.

58 A "disposal group" is a group of assets, possibly with some associated liabilities, which an entity intends to dispose of in a single transaction. The measurement basis required for non-current assets classified as held for sale is applied to the group as a whole, and any resulting impairment loss reduces the carrying amount of the non-current assets in the disposal group in the order of allocation required by IAS 36.

According to IAS 32, these instruments should be treated as debt or equity depending on certain criteria. In the BSI reporting, however, these instruments may be recorded as "capital and reserves". It is therefore useful to ensure a correct classification of these instruments in both reporting frameworks. If a different treatment is not justified, reconciliation may be possible. A preference share is a special type of share that may have any combination of features not possessed by common stocks. The following features are usually associated with preference shares:

- Preference in dividends;
- Preference in assets in the event of liquidation;
- Convertible into common stock;
- Callable at the option of the issuer;
- Non-voting.

A preference share can either be cumulative or non-cumulative: a cumulative preferred share requires that if a company fails to pay any dividend, or pays an amount below the stated rate, it must make up for it at a later stage.

The BSI Regulation defines capital and reserves as "*the amounts arising from the issue of equity capital ... representing for the holder property rights in the MFI and generally an entitlement to a share in its profits and to a share in its own funds in the event of liquidation*". No specific guidance on the treatment of preference shares is given. However, the term "equity capital" points towards Article 22 of Council Directive 86/635/EEC (so-called Bank Accounts Directive, or BAD), which makes no distinction between common shares and preference shares. This means that preference shares, irrespective of their different rights, may be regarded as part of the item "capital and reserves".

According to Article 22 of the BAD, "subscribed capital" comprises "*all amounts, regardless of their actual designations, which, in accordance with the legal structure of the institution concerned, are regarded under national law as equity capital*". Thus, in the BAD definition of subscribed capital adopted for BSI purposes, "capital and reserves" follows a legal approach focused on whether the instruments issued are regarded as capital under national law (without regarding the economic rights associated to then). This means that preference shares with economic rights that are different from those of the ordinary shares (i.e. non-discretionary remuneration, mandatory redemption or both) would be regarded as part of the item "capital and reserves", if so allowed or requested by national legislation.

In contrast to this legal approach, the second part of the BSI definition (representing an entitlement to a share in its profits and to a share in its own funds in the event of liquidation) indicates a need to perform an analysis of the economic right associated with these instruments. This approach is also hinted at in Annex II, Part 2.9.d) of the BSI Regulation, when it is established that shares issued are classified as "Deposits" instead of as "Capital and reserves" if "*there is a debtor-creditor economic relationship between the issuing MFI and the holder (regardless of any property rights in these shares)*". Thus, all instruments that entitle to a share in profits (i.e. with discretionary remuneration) and to a share in its own funds in the event of liquidation (i.e. non-mandatorily redeemable) would be BSI "capital and reserves". In this case, capital and reserves would follow an economic approach focused on the economic rights associated with the instruments (without regard for whether they are "capital" under national law). This means that only preference shares with rights that are similar to those of ordinary shares (i.e. discretionary remuneration and non-mandatory redemption) would be regarded as part of capital and reserves.

The FINREP guidelines do not explicitly treat the classification of *"preference shares"*. However, IAS 32 does.[59] In order to differentiate debt from equities, the IAS framework asserts (paragraph 16(a)): *"a critical feature in differentiating a financial liability from an equity instrument is the existence of a contractual obligation of one party to the financial instrument (the issuer) either to deliver cash or another financial asset to the other party (the holder) or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavourable to the issuer."*[60]

Referring to preference shares, AG 25 states: *"In determining whether a preference share is a financial liability or an equity instrument, an issuer assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability."*

The key distinction is between preference shares that are mandatorily redeemable and preference shares that are non-redeemable. The former are classified as a financial liability (paragraph 16A): *"a preference share that provides for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the issuer to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability."*[61]

Depending on their other features, preference shares that are non-redeemable may be classified either as a financial liability or as equity (AG 26): *"When preference shares are non-redeemable, the appropriate classification is determined by the other rights that attach to them. Classification is based on an assessment of the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. When distributions to holders of the preference shares, whether cumulative or non-cumulative, are at the discretion of the issuer, the shares are equity instruments."*

It is unclear, however, whether "distributions to holders" refers only to dividends or also to other benefits, and it is not clear how non-redeemable preference shares should be classified when dividend distribution is not discretionary.

The IAS 32 guidance regarding the classification of preferred shares, as applied in FINREP, may be summarised as follows:

1) Preference shares which are mandatorily redeemable → financial liability (debt)

2) Non-redeemable preference shares:

- distribution of dividends discretionary → equity
- distribution of dividends not discretionary → no clear-cut classification

However, when the IFRS refers to "distribution", this does not include only the distribution of dividends but also cases when the entity is being wound up and any assets remaining after the satisfaction of liabilities become distributable to shareholders.

Conclusion: in order to reconcile the definitions and treatment of preferred shares (issued), the BSI Manual and the FINREP Guidelines

59 For cases where IAS/IFRS and FINREP are not implemented at the national level or are partially implemented (e.g. solo reporting), the BAD is applied. In these cases, there may be misalignments of IFRS with national specific conditions, e.g. regarding national tax's Regulations or other national company law, which may include different treatment for prudential purposes or specific accounting treatment during national transposition of the BAD.

60 There are specific cases in the treatment (classification as liability or equity) of the following case when the mandatory redeemable preference shares can be convertible into common shares with a convertibility feature attached to them. In such cases some concerns can be raised about the classification of the redeemable preference shares as liability (non-equity) as long as the issuer of the preference shares may never redeem them (so there is some kind of issuer's discretion, and in such a case the proposed classification is as "equity").

61 According to AG25, a preferred share can be issued with various rights which an issuer should asses so as to classify the preferred share as financial liability or equity. Under such a reference system, "non-redeemable preferred shares" are not classified as a liability due to the fact that the future obligation to pay dividends is not certain (although it can be highly probable). Also, we should clarify cases in which there is an option for the issuer to redeem the shares for cash and it is highly likely that the option will be exercised, so it should be added that preference shares are classified as liabilities when the obligation arises, meaning the holder has an option to redeem the preference shares independent of the fact that it is not certain whether it will be redeemed for cash or a financial asset.

should provide an explicit explanation of the classification of these instruments. A possible reconciliation could be to amend the BSI Regulation or the BSI Manual to refer explicitly to the IAS 32 approach summarised in the table above. In parallel, FINREP should clarify the treatment of non-redeemable shares, whose distribution of dividends is not discretionary. Since this reconciliation may create breaks in the BSI series, this would require a prior consultation of users of such data.

d) Shares and other equity (assets side)

The purpose of this sub-section is to explore the links between the definition of "Shares and other equity" included in the BSI Regulation and the related definitions in the IAS/IFRS, FINREP, and the Capital Requirements Directive (CRD).

In the BSI Regulation, "shares and other equity" are instruments representing property rights, which are rights to a share in the profits of the issuer and in its own funds in the event of liquidation. The BSI Regulation distinguishes between "shares and other equity" and "MMF shares/units" on the basis of the issuer of the instruments and their nature – MMF shares/units, which are included in M3 if in the hands of the money-holding sectors, are in effect money market instruments held at one remove. Holdings of instruments that do not represent property rights and are not MMF shares/units should be classified either as BSI "Securities other than shares" or as BSI "Loans" (as "holdings of non-negotiable securities"), depending on whether or not they are negotiable. It should also be kept in mind that, according to the BSI Regulation, short positions in "shares and other equity" (and in securities other than shares) should be subtracted from the total amount in this instrument category to avoid double counting.

In the CRD (Article 86), the following definition of "equity exposures" applies: *"(a) non-debt exposure conveying a subordinated, residual claim on the asset or income of the issuer; and (b) debt exposures the economic substance of which is similar to the exposures specified in point (a)*". This definition applies to banks using the IRB approach. For the standard approach, the term "Equity exposures" is used but not defined.

In IAS/IFRS, an "equity instrument" is defined as "*any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities*" (IAS 32.11). IFRS 9 Appendix A says that the definition of "equity instruments" is the one included in IAS 32.11. In the latest amendments made in IFRS 3 (*Improvements to IFRS* issued in May 2010), the distinction is introduced between "equity instruments" that are present "ownership" instruments and equity instruments that are not. Present "ownership" instruments "*entitle their holder to a proportionate share of the entity's net asset in the event of liquidation*" (IFRS 3.19). This item includes instruments such as ordinary shares, cooperative shares and undated non-cumulative preferred shares. The equity instruments that are not present "ownership" instruments include instruments such as preferred shares that guarantee the redemption of the nominal amount in the event of liquidation (see IFRS 3.IE44A-IE44E). In IAS/IFRS, there are holdings of "property rights" that represent liabilities (as opposed to equity) for the issuer. For example, certain cooperative shares included in the FINREP item "Share capital repayable on demand" are financial liabilities for the issuer but represent property rights for the holder. IFRIC 2.9 provides that, when a cooperative has the right to refuse redemption of its shares to prevent its capital falling below a certain level, the amount of shares in excess this predefined level must be classified as liabilities, while its minimum level of shares are classified as equity.

In FINREP, holdings of "equity instruments" are: i) separately presented as a breakdown item of each IAS 39 portfolio, ii) presented in "investments in entities accounted for using the equity method" and iii) included, with other assets, in "Non-current assets and disposal groups classified as held for sale".

Following the IAS 32 definition, the FINREP category "Equity instruments" held i) includes instruments that are not "ownership" instruments but are equity for the issuer, and ii) excludes those "property right" instruments that are liabilities for the issuer.

When reconciling FINREP and BSI data, it should be borne in mind that in FINREP, as the focus is on individual banking groups rather than on contributions to meaningful aggregates, short positions in equity instruments are presented, following IAS/IFRS, on the liability side (i.e. they are not subtracted from the total amount of equity instruments as in BSI "Shares and other equity").

Conclusion: The IFRS definition of "equity instruments" excludes those "property right" instruments that are liabilities for the issuer (e.g. certain cooperative shares). The CRD definition of "equity exposures" includes debt exposures the economic substance of which is similar to that of residual claims on the assets or income of the issuer. It can be assumed that the BSI definition of "shares and other equity" comprises only instruments that are classified as equity for the issuer. In particular, the CRD definition of "equity exposures" and the BSI definition of "shares and other equity" may be equivalent. If "equity instruments" that are not "ownership" instruments are not significant, the FINREP definition of "Equity instruments" may be equivalent to BSI "Shares and other equity".

2.4 FLOWS (TRANSACTIONS) DATA

As already mentioned, the ECB requirements for MFI balance sheet statistics refer not only to a balance sheet in terms of stocks, but require certain additional information to enable flows (transactions) to be calculated and used for computing growth rates.

The ECB opted for calculating transactions by taking the difference between end-period stocks and then identifying and removing those effects that do not arise from transactions, the "other changes" or "adjustments".[62] To compile transactions in accordance with this approach, the ECB requires extensive "adjustment" information.

"Other changes" are grouped into three main categories: "reclassifications and other adjustments", "revaluation adjustments" and "exchange rate changes". The first category comprises all changes in the balance sheet (stocks) which result from statistical reclassifications: 1) inclusion or exclusion of MFIs if the business was transferred into/out of the MFI sector; 2) reclassification of assets or liabilities (by maturity, sector, residence of the counterparty or instrument), some of which may be necessitated by reporting errors that have been corrected only over a limited time range; and, 3) effects of changes in structure (mergers, acquisitions). The "revaluation adjustments" category is made up of two parts: 1) the impact of write-offs or write-downs of loans, and 2) the impact of fluctuations in the market price of the outstanding stock of marketable securities held or issued. The "exchange rate changes" category comprises any change in the stock position due to the impact of exchange rate movements on assets and liabilities denominated in foreign currency.

National central banks compile and send to the ECB data on "reclassifications and other adjustments" on the basis of Guideline ECB/2007/9 using various (non-harmonised) data sources, such as supervisory information, ad hoc enquiries and information on joiners and leavers of the MFI reporting population. The ECB calculates a standard "exchange rate adjustment" using currency proportions derived from a quarterly breakdown of assets and liabilities into major currencies (Table 4 in the BSI reporting scheme). "Revaluation adjustments" are compiled by national central banks from data reported by MFIs in Table 1A of the BSI Regulation. This table covers

62 Transactions are defined as the net acquisition of financial assets or the net incurrence of liabilities.

(as a minimum) both the write-offs/write-downs of loans and "price revaluations" in respect of holdings of securities. Central banks may, however, collect data in addition to the minimum requirement.

The compilation of transactions data following this approach (adjusted differences of stocks) is influenced by some of the methodological aspects discussed under Section 2.3. In terms of reporting population, mergers, acquisitions and divisions of two or more MFIs, and mergers, acquisitions and divisions when one of the institutions is not an MFI usually give rise to "reclassifications" and "revaluations", which should be properly accounted for and reported.

Transactions should be measured at the value at which assets are acquired or disposed of and liabilities are created, liquidated or exchanged. While providing a good approximation, in practice BSI statistics do not fully conform to the notion of transactions in the ESA 95. Accrued interest is another concept influencing the compilation of transactions. According to international statistical standards, accrued interest over the period should be treated as a transaction in the underlying instrument, as if the interest had been paid out and promptly reinvested in the instrument. However, as explained above, in BSI statistics, transactions in loans and deposits exclude interest that is receivable (on loans) or payable (on deposits) but has not yet been received or paid, since accrued interest on loans/deposits is to be recorded under "remaining assets" or "remaining liabilities" as appropriate. This consideration also applies to debt securities for which accrued interest is not intrinsic to the market price (see also Section 2.3.2b).

The BSI Regulation also requires loans to be recorded gross of all related provisions (impairment losses or amounts recorded in allowance accounts), with the exception of countries where loans net of provisions are reported by all resident reporting agents and/or are necessary to maintain continuity in the statistical valuation of loans with the data reported for periods prior to January 2005. The adjustment in respect of "write-offs/write-downs" is reported in order to remove from the flows statistics the impact of changes in the value of loans recorded on the balance sheet that are caused by the application of write-offs/write-downs of loans.[63] This adjustment should also reflect the changes in the level of loan-loss provisions if a national central bank decides that the outstanding stocks should be recorded net of provisions. If the loans are written off as a result of the option to record loans net of specific provisions, some discrepancies in terms of timing of derecognition may exist.

Transactions data, as defined in the international statistical standards and in BSI statistics, are not collected in FINREP. However, FINREP includes flows data in the context of the consolidated income statement (Table 2) and in some of the tables detailing the balance sheet information or the income statement.

In the case of the income statement, these data relate to income and expense flows generated on financial and non-financial assets and liabilities during the accounting year. Depending on the accounting entry, these data are presented on a gross basis (e.g. interest income and expenses) or on a net basis (e.g. net gains on financial assets and liabilities held for trading). Some of the flows collected in the income statement have a direct link to selected "adjustment" items requested for BSI statistics.

Generally, the BSI concept of "price revaluations", which are collected in Table 1A, is recorded in the following FINREP income statement items and related breakdowns in Template 20[64]: "Gains (losses) on financial assets and liabilities held for trading, net", "Gains (losses) on financial assets and liabilities designated at fair value through profit or loss, net", "Gains (losses) from hedge accounting, net" and "Gains (losses) on derecognition of

63 As this would make it appear that credit had been withdrawn.
64 These income statement items may, however, also incorporate interest and dividend income, depending on the country and reporting institution.

assets other than held for sale, net", and the FINREP statement of comprehensive income item (Table 21) "Available-for-sale financial assets".[65] The FINREP item "Exchange differences, net" should broadly correspond to the "exchange rate adjustment", as calculated by the ECB using BSI stock data. Impairment losses on loans and advances, which correspond to the sum of the impairment losses on "Available-for-sale financial assets – loans and advances", "Loans and receivables" (excluding debt securities which can be traded in secondary markets – even only sporadically) and "Held-to-maturity investments – loans and advances" should in the long run be consistent with the amount of "write-offs/write-downs" reported in Table 1A of the BSI reporting framework.

The FINREP framework also foresees the transmission of flows data in some of the tables detailing the balance sheet information. This applies to Table 12 on provisions and Table 9.B on movements in allowances. The first table requests information on "opening balance", "additions" and "disposals", and "closing balance", while the second records changes in the allowances for credit losses and impairment of equity instruments.

Conclusion: As outlined above, although FINREP does not require explicit revaluation adjustments, there are substantial similarities between the two reporting schemes with regard to requirements for flows (transactions).

65 The latter item includes "Valuation gains (losses) taken to equity" net of amounts "Transferred to profit or loss". It may also include a component for exchange rate adjustment.

3 STATISTICAL BALANCE SHEET-COREP/LARGE EXPOSURES

This chapter follows a similar approach to the previous one on BSI-FINREP, this time identifying links between the BSI and COREP/Large Exposures (LE) reporting requirements. However, since most methodological aspects (e.g. on the reporting population, accounting rules, counterpart sector breakdown, etc.) are the same, these aspects have not been repeated in this chapter (see Annex 2 for an overview). However, it should be noted that some of these methodological aspects are less stringent, for instance the consolidation approach, as COREP is requested not only at the consolidated level (like FINREP) but also at the solo level (like BSI, although with the inclusion of foreign branches). Moreover, following a recent amendment of the CRD, the implementation of COREP/LE is mandatory in all EU countries, unlike FINREP. [1]

This bridging exercise has focused on current COREP (Rev. 3) and LE templates, bearing in mind that the templates will be amended again by mid-2012 to take account of the development of the CRD IV amendments. This chapter compares the BSI instrument breakdown with the COREP/LE templates. COREP consists of four sets of templates aimed at providing a reporting format for the Basel II Pillar 1 capital requirements, based on the CRD. They were first applied in 2007 or early 2008.

In order to improve the convergence of the supervisory reporting frameworks in the financial sector and to promote harmonisation of supervisory reporting and convergence in supervisory practices, COREP covers consolidated, sub-consolidated and solo reporting of the capital requirements and own funds based on the CRD Directive.

As described in sections 3.1 to 3.4, the following COREP (sub-)templates can be bridged with the BSI requirements (see details in Annex 5): credit risk including securitisation (7 sub-templates),[2] market risk (8 sub-templates),[3] and own funds (1 template). The operational risk (OPR) template could not be bridged; nevertheless, a separate analysis has been undertaken (see Annex 6).

The LE template can also be linked with BSI requirements, as described in section 3.5.

3.1 CREDIT RISK (INCLUDING SECURITISATION)

The BSI items on the assets side find an equivalent in the COREP template on credit risk if the assets belong to the "banking book", and to the COREP template on market risk if the assets (securities) belong to the "trading book" (see section 3.2). Assets that are deducted from own funds (see section 3.3) are not subject to additional capital requirements.

In the COREP tables, the reporting items are classified in different "exposure classes", which have some links to the BSI counterpart sector breakdowns. COREP items are recorded under several valuation metrics; the link with the BSI metrics refers to the original exposure pre conversion factors (i.e. risk mitigations),[4] as part of one or more exposure classes. The latter vary depending on whether the bank follows the "standardised approach" or an "IRB approach". The detailed bridging can be found in Annex 5. The bridging is mainly made at an analytical level. For instance, the BSI item "loans" is split in accordance with statistical definitions into sub-components (loans to households, convenience and extended credit card credit, revolving loans and overdrafts, syndicated loans, etc.), which are then bridged with the COREP equivalent.

1 However, some FINREP templates may soon become EBA binding technical standards.
2 The sub-template CR TB SETT has no links with the BSI.
3 The sub-templates MKR IM and MKR IM Details have no links with the BSI.
4 For the classification of exposures into the different exposure classes, COREP has adopted a sequential approach fully consistent with the CRD. The original exposure, pre conversion factors, is first allocated to the corresponding exposure class. In a second phase, the exposures can be redistributed due to the application of credit risk mitigation (CRM) techniques with substitution effects on the exposure (e.g. guarantees, credit derivatives, financial collateral simple method) via Inflows and Outflows.

For traditional securitisation,[5] the link between BSI items and securitised exposures reported in the COREP Rev. 2 securitisation templates (i.e. exposures arising from securitisation schemes) applies only for those transactions which meet the criterion of significant credit risk transfer according to CRD.[6] However, this constraint has been relaxed in the COREP Rev. 3 amendments (see below).

In particular, COREP Rev. 2 requires data on both traditional and synthetic securitisations, but not on other loan transfers. Specifically, the SEC SA and SEC IRB templates require information on total exposures towards securitisation schemes, but only for the banking book and those transactions which meet the criterion of significant credit risk transfer according to CRD. It is worth noting that with reference to both the criterion of significant credit risk transfer and the treatment of securitisation positions in the trading book, the CRD III amendments will bring substantial changes compared with the current situation (see below).

Furthermore, the template SEC Details provides a list of individual securitisation transactions (ISIN-by-ISIN) in which the bank is involved as either originator or sponsor. For these data, the potential links between the securitised exposures (i.e. the exposures that have been originated) and the BSI items will be strengthened, since in the context of the streamlining activity for COREP the template SEC Details will include also the securitisations which do not meet the criterion of significant credit risk transfer.

As recommended earlier by the JEGR, the BSI Manual explains the relationship between the concepts of loan securitisation in the statistical and supervisory frameworks in the expectation that they will be applied by reporting agents in a consistent manner.[7] The MFI statistical data requirements seek to identify securitisation transactions undertaken by credit institutions involving the sale of loans to financial vehicle corporations (FVCs).[8] In other words, credit institutions are required to report for statistical purposes only amounts relating to traditional securitisations. This is because the main interest for monetary analysis is to correct for loans removed from MFIs' balance sheets.[9] Conversely, in the supervisory framework, credit institutions are required, in accordance with the Capital Requirements Directive (CRD), to disclose both traditional and synthetic securitisations involving loans originated by them, as the focus is on the credit risk transfer, and they must disclose synthetic securitisations even if undertaken without a securitisation vehicle. Although supervisory requirements cover all securitisation transactions, while the MFI data only covers those with SSPEs or FVCs, the difference between the two may be captured under the "other loan transfers", which are also reported under the MFI data. If such is the case, the coverage would be analogous.

5 In a traditional securitisation, assets are sold (divested) off the balance sheet.

6 The original exposure will correspond to the Exposure Value for Counterparty Credit Risk calculated according to the methods laid down in Annex III parts 3, 4, 5, 6 and 7 of Directive 2006/48/EC.In the case of master netting agreements covering repurchase transactions and/or securities or commodities lending or borrowing transactions, and/or other capital market driven transactions subject to Annex VIII of Directive 2006/48/EC, the effect of Funded Credit Protection in the form of master netting agreements as under Annex VIII part 3 point 22 of Directive 2006/48/EC should be included.

7 The aim is to reconcile the concepts of securitisation, not the actual figures reported under the two frameworks. The figures may also differ due to the scope of consolidation and valuation rules.

8 In defining securitisation transactions, the BSI Regulation refers to Article 4 of the Directive 2006/48/EC (the basis for COREP) as well as to the FVC Regulation: "'securitisation' means a transaction which is either: (a) a traditional securitisation as defined in Article 4 of Directive 2006/48/EC; and/or (b) a securitisation as defined in Article 1 of Regulation (EC) No 24/2009 (ECB/2008/30), which involves the disposal of the loans being securitised to an FVC". FVCs are not the same as securitisation special purpose entities (SSPEs). SSPE is the term used in the context of the Capital Requirements Directive (2006/48/EC), which is the EU transposition of the Basel II Accord, while FVCs are defined in the ECB Regulation addressed to them (ECB/2008/30). Essentially, EU credit institutions will apply the FVC definition only for entities resident in the European Union/euro area, while they apply the SSPE definition to any securitisation entities, regardless of their residence. Moreover, while FVCs may perform securitisation as a secondary activity (e.g. as in Portugal), SSPEs are required to limit their activity to securitisation. Some entities in Portugal may meet the FVC definition but not the SSPE definition.

9 Under the Regulation on MFI balance sheet statistics, MFIs also report deposit liabilities to FVCs and holdings of securities issued by FVCs, so that all aspects of securitisation operations are covered.

Table 7 Coverage of loan securitisation in Regulation ECB/2008/32 and Directive 2006/48/EC

Requirements	Coverage	Use of SSPE/FVC	Tranching	Credit risk transfer
Regulation ECB/2008/32 – insofar as it affects credit institutions	Traditional securitisations	Securitisations undertaken with an SSPE/FVC 1)	Tranched **and non-tranched** securitisations	Not a criterion
Directive 2006/48/EC – credit institutions	Traditional **and synthetic** securitisations	Securitisations undertaken with **or without** an SSPE	Tranched securitisations	Securitisation exposures with significant credit risk transfer are excluded
Relative scope (greater than or equal to)	ECB/2008/32 < Directive 2006/48/EC	ECB/2008/32 < Directive 2006/48/EC	ECB/2008/32 > Directive 2006/48/EC	ECB/2008/32 > Directive 2006/48/EC

1) In addition to loan securitisation, the ECB Regulation also covers other loan transfers.

A further difference between the two approaches is that, under the supervisory securitisation approach, certain conditions should be met in order for securitisation exposures to be eligible for exemption from capital requirements. In particular, a "significant" transfer of risk must take place. Moreover, in the CRD, the tranching of the exposures is an essential eligibility criterion. Such eligibility conditions are not considered in the statistical reporting, with the implication that MFI balance sheet statistics may comprise securitisation transactions that are not tranched and/or whose risk is not significantly transferred, and thus not covered under the supervisory requirements. Table 7 summarises the links between the concepts of loan securitisation applied in the MFI statistical framework and in the CRD, which the JEGR has verified for a representative sample of banks.

Setting out the requirements like this may help credit institutions to report consistently in the two frameworks, which may reduce compliance costs and help central banks and supervisors to investigate discrepancies and rectify mistakes.[10]

Further scope for reconciliation arises from the latest (Rev. 3) COREP templates, which implement the changes arising from the CRD III amendments to the capital requirements framework. Most of these amendments affect the securitisation templates. In particular, two amendments are relevant for the bridging:

1) a new template on market risk relating to securitisations (MKR SEC) has been added in the COREP set. The assessment mentioned above of the relationship between securitised assets in COREP and BSI statistics thus now applies not only to the banking book (credit risk), but also to the trading book (market risk);

2) the scope of application of the SEC details has also been extended to the securitisations which do not meet the criterion of significant credit risk transfer. Indeed, SEC details now cover so-called self-securitisations, which do not involve a credit risk transfer.[11] This implies that the assessment presented above of the relationship between securitised assets in COREP and in BSI statistics now applies to all securitisation schemes, including securitisation schemes that do not meet the

10 The statistical concept of securitisation is also reflected in the FVC Regulation. The following definition of FVC is currently applied for statistical purposes. "FVC" means an undertaking: (a) which is organised to carry out one or more securitisation transactions; and (b) which issues, or may issue, securities and/or which holds, or may hold, assets underlying the issue of securities that are offered for sale to the public or sold on the basis of private placements; and (c) which is constituted pursuant to national or Community law under: (i) contract law (as a common fund managed by management companies); (ii) trust law; (iii) company law (as a public limited company); or (iv) any other similar mechanism; The following are not included in the definition of FVC: – MFIs within the meaning of Annex I to Regulation (EC) No 2423/2001 of the European Central Bank of 22 November 2001 concerning the consolidated balance sheet of the monetary financial institutions sector (ECB/2001/13); and – IFs within the meaning of Article 1 to Regulation (EC) No 958/2007 of the European Central Bank of 27 July 2007 concerning statistics on the assets and liabilities of investment funds (ECB/2007/8).

11 Self-securitisation by banks has been developing since 2008 in order to create asset-backed securities to be used as eligible assets collateralising liquidity provided by central banks.

criterion of significant credit risk transfer set out in the CRD.

These two amendments to the SEC templates allow the relationship with BSI statistics to be better specified. Indeed, COREP requires a distinction between three different types of bank involvement in securitisations: as investor, originator (of the securitised loans), or sponsor (arranging the deal, finding investors, and if necessary supporting the securitisation in case of difficulties). A relationship with BSI statistics is generally possible only for the first two types (investor and originator). In fact, securitisations in which banks act purely as sponsors, i.e. they do not subscribe to any security issued by the FVC, have in most cases no reflection in BSI statistics (however, when the sponsor subscribes to securities issued by the FVC, the relationship with BSI holds). BSI statistics provide information on securitisation where the bank acts as a servicer, so that the subsequent history of the securitised loans can be traced, but this may not coincide with the role of sponsor.[12] Moreover, as noted above, in the context of the streamlining activity of COREP,[13] it has been decided to extend the scope of application of the SEC details to include also securitisations which do not meet the criterion of significant credit risk transfer, with the consequence that the SEC details template will cover also the so-called self-securitisations.[14] This implies that the above-mentioned general assessment of the relation between securitised assets in COREP and in BSI statistics will apply to all securitisation schemes, i.e. also to securitisation schemes that do not meet this criterion set out in the CRD.

Specifically, the link between BSI and COREP can be identified for the following reporting cells:

1) From the investor and sponsor side:

   a) BSI Table 1, row 3 (holdings of securities other than shares), column FVCs (domestic and other participating countries, i.e. resident located elsewhere in the euro area), i.e. the credit institution's holdings of securities issued by euro area resident FVCs;

   b) COREP SEC (SA+IRB) + MKR (SEC): securitisation type: traditional, rows investor and sponsor: on-balance sheet items, columns securitisations positions – original exposure pre conversion factors, i.e. the credit institution's holdings of securities issued by securitisation vehicles for which the credit institution acts as a sponsor or investor only (i.e. not as an originator).

2) From the loan originator side:

2.1) in the case of derecognition of the securitised assets:

Same link as for point 1, row originator for the COREP templates, i.e. it includes the credit institution's holdings of securities issued by a securitisation vehicle for which the credit institution acts as an originator.

2.2) in the case of non-derecognition of the securitised assets:

   a) BSI Table 5a, row 4 (Outstanding amounts of securitised loans not

12 COREP includes information on securitisations arranged by a credit institution as sponsor, because a capital charge is applied to cover the reputational risk of a sponsor called upon to intervene in case of difficulties.

13 The streamlining of COREP is being carried out in accordance with Art. 74(2) of Directive 2006/48/EC (as amended by Art. 9(21) of Directive 2010/78/EU of 24 November 2010), which states that "In order to ensure uniform conditions of application of this Directive, for the communication of those calculations by credit institutions, the competent authorities shall apply, from 31 December 2012, uniform formats, frequencies and dates of reporting". According to the new provisions as laid down by the "Proposal for a Regulation of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms" published by the European Commission on 20 July 2011, the deadline for EBA to develop draft implementing technical standards to specify the uniform formats, frequencies and dates of reporting and the IT solutions has been moved to 1 January 2013.

14 Self-securitisation by banks has been developing since 2008 in order to create asset-backed securities to be used as eligible assets for collateralising liquidity provided by central banks.

derecognised), columns (domestic, other participating countries and rest of the world), i.e. the credit institution's holdings of loans which continue to be recorded on the balance sheet but have been securitised;

b) COREP SEC Details, column 3 Securitisation Type (traditional), column 4 Role of the institution (originator) and column 7 Securitised exposure (total amount), i.e. the credit institution's holdings of loans which continue to be recorded on the balance sheet but have been securitised.[15]

Under case 2.1, another link can be considered:

a) BSI Table 1, row 3 (securities other than shares), column FVCs (domestic and other participating countries) i.e. the credit institution's holdings of securities issued by euro area resident FVCs;

b) COREP SEC Details, columns 3 Securitisation type (traditional), 4 Role of the institution (originator) and columns from 16 to 21 (securitisation positions: original exposure pre conversion factors – on-balance sheet items), i.e. the credit institution's holdings of securities issued by a securitisation vehicle for which the credit institution acts as an originator, broken down by seniority of the securities.

A further link regarding synthetic securitisation may be possible with FVC statistics.

Conclusion: there is significant overlap between the BSI requirements and COREP template for credit risk and market risk. The link refers to the original exposure pre-conversion factors. For securitised assets, the link applies both for cases where the reporting agent is the originator of the securitised loans and for those where it holds securities issued by the SSPE/FVC.

3.2 MARKET RISK

With respect to market risk, the bridging between the BSI instruments and the COREP items is only possible for the standardised approach. A similar bridging for the advanced approaches (internal models) is not possible, because each bank chooses different parameters. Market risk is calculated on the trading book of credit institutions. The trading book of an institution consists of all positions in financial instruments (and commodities) held either with the intention of trading them or in order to hedge other elements of the trading book, and which are either free of any restrictive covenants on their tradability or are able to be hedged. Capital requirements are calculated as a percentage of the net position in a set of instruments. In calculating the net position, positions in derivative instruments may be treated as positions in the underlying securities.

The BSI items which find an equivalent in the COREP market risk tables other than foreign exchange risk are "securities other than shares", "money market fund shares/units" and "shares and other equity".[16] The link with the BSI items refers to long positions (column 1) associated with the specific risk component (the risk attached to the issuer of the security). The detailed bridging can be found in Annex 5.

In addition to the capital requirements regarding the position risk, the positions in securities other than shares and in money market fund shares/units – together with the positions in loans – are subject to capital requirements for foreign exchange risk. In this case, the link with the BSI item refers to positions in foreign currencies.

Conclusion: three BSI items ("securities other than shares", "money market fund shares/units" and "shares and other equity") can be linked

15 It should be noted that COREP information includes securitisations of loans and other instruments, while BSI includes only loans.

16 With regard to financial derivatives, they are treated in the COREP template on credit risk in the context of the counterpart risk.

to their COREP equivalents in the market risk template (standard approach only), in particular for assets belonging to the trading book. The link refers to the long positions associated to the specific risk component. Another link with BSI items concerns capital requirements regarding the position risk.

3.3 OWN FUNDS

COREP templates regarding own funds have significant links with BSI requirements. The BSI items which find an equivalent in the own funds template are the following: "capital and reserves", "deposits", "debt securities issued", "loans" and "securities other than shares". In order to compute the relevant supervisory capital aggregates (Tier 1, Tier 2, and Tier 3) and own funds deductions, some of the COREP items should be added, while others should be subtracted. Importantly, because the COREP template on own funds is bridged to a certain extent with the FINREP Table 1.3 (statement of financial position), this COREP template is indirectly linked to BSI also via FINREP. The detailed results of this bridging exercise can be found in Annex 5.

Conclusion: there is a significant degree of overlap between the BSI requirements and COREP templates for own funds. The link refers to several items which need to be added or subtracted in order to derive the relevant supervisory capital aggregates and own funds deductions. A further indirect link is also available via FINREP.

3.4 OPERATIONAL RISK

There are no links between the BSI and the COREP template on operational risk. Under one of the three approaches to calculating operational risk requirements (the standardised approach), the items included in the COREP template (breakdown by business line) refer to items in the income statement: there is a link between items in the income statement reported under FINREP/COREP and the MFI statistical requirements, but it is weak and applies only for MFI interest rates – see Chapter 4. Annex 6 presents the approaches to operational risk and explains the results of this part of the bridging exercise.

Conclusion: While there are no links at all between the COREP template on operational risk and the BSI requirements, there are some weak links with MFI interest rate requirements.

3.5 LARGE EXPOSURES

This section focuses on the potential bridging in respect of those features which relate specifically to the large exposures (LE) templates focusing on their coverage and instrument categories.

The LE templates and related guidelines have been developed by the EBA, to satisfy the LE regime required by the CRD. The LE templates/guidelines will be included in the COREP framework so as to ensure a unified European reporting system. Thereafter, large exposures reporting will be based on the same standards

Large Exposures : Reporting templates

Indentification of counterparty			Exposure value before CRM							
			Exposure before risk provisioning							
Code	Institution	Name	Total	Of which: Assets	Of which: Derivatives	Of which: Off-balance sheet	Of which Indirect exposures	(-) Value adjustments and provisions	Total exposure before CRM	Of which Banking book
LE 1.1	LE 1.2	LE 1.3	LE 1.4	LE 1.5	LE 1.6	LE 1.7	LE 1.8	LE 1.9	LE 1.10	LE 1.11

Reporting Template 2

Indentification of Group of Connected Clients					
Code (group)	Code (individual)	Institution	Name	Exposure before CRM	Exposure value after exemptions and weighting
LE 2.1	LE 2.2	LE 2.3	LE 2.4	LE 2.5	LE 2.6

(i.e. frequency, remittance dates, formats and platform) as the other COREP data. The LE regime is applied from 31 December 2010. Until end-2012, there will be a two-year period during which common LE reporting will not be available under the binding COREP. Throughout this period, the EBA recommends that national supervisors incorporate the large exposures reporting set out in these guidelines into their national reporting system.

Information on LE must be reported at least twice a year. As the LE tables will be integrated into the COREP framework, the remittance dates and the frequency of reporting agreed will need to be consistent with COREP (COREP sets a general upper limit of quarterly reporting as the maximum from 2012). The scope of reporting is rather broad. Indeed, information about all large exposures, i.e. exposures that equal or exceed 10% of own funds, must be reported to the competent authorities, "including large exposures exempted from the application of Article 111(1)" (e.g. intra-group exposures, holdings of sovereign debt, etc.). The two templates used for the LE reporting are reproduced below.

In order to bridge the LE reporting requirements with other reporting requirements, a first important consideration is that MFI balance sheet statistics include all on-balance sheet exposures but no off-balance sheet exposures. The LE templates cover both.

The LE templates can be partially linked to the COREP CR templates, as LE covers both "banking book" and "trading book" exposures, while the COREP CR covers only the "banking book"; moreover, not all exposures are reported in the LE but (naturally) only those that are "large" in accordance with the limits set out in the CRD. These differences (and similarities) in coverage are summarised in Tables 8 and 9.

The LE template provides an instrument breakdown, with the total exposure before risk provisioning broken down into four categories: "assets", "derivatives", "off-balance sheet", and "indirect exposures". This breakdown is fairly similar to that of the COREP CR templates.[17]

17 In addition, as the LE data are used for the purposes of calculating the capital ratios in the CR template, the link between LE and COREP CR works, as it refers to the same capital requirements.

Type of credit protection						Exposure value after CRM				
% of own funds before CRM	% of own funds before CRM BB	(-) Unfunded credit protection	(-) funded credit protection	(-) Real estate	Exposure value after CRM	(-) Article 113(3) (-) (4) exemptions if applicable	Exposure value after application of exemptions of applicable	Of which Banking book	% of own funds total	% of own funds BB
LE 1.12	LE 1.13	LE 1.14	LE 1.15	LE 1.16	LE 1.17	LE 1.18	LE 1.19	LE 1.20	LE 1.21	LE 1.22

Table 8 Differences in coverage between LE, BSI and COREP CR

Differences	Relations
BSI does not cover off-balance sheet items	LE = COREP CR > BSI
COREP CR does not cover the trading book	LE = BSI > COREP CR
LE covers only large exposures	BSI = COREP CR > LE

Table 9 summarises the relationship between the two templates. The definitions of items "assets", "off-balance sheet items" and "derivatives" are equivalent.

As mentioned above, the MFI balance sheet includes only on-balance sheet exposures. Regarding the three categories other than "off-balance sheet", the links with BSI can be described as follows.

"Assets" (column LE 1.5) – This variable comprises assets referred to in Article 74 of Directive 2006/48/EC and Article 29 of Directive 2006/49/EC which are not included in any other category. The balance sheet value should be reported before value adjustments and provisions. Annex 4.3 of this manual provides a list of items to be included on the assets side. However, the absence of a further breakdown of assets by instrument means that a closer correspondence with individual BSI items is not possible, implying that the EBA template cannot be linked in any direct way to security-by-security or loan-by-loan data collections.

"Derivatives" (column LE 1.6) – This variable comprises derivative instruments subject to Annex III of the CRD. The exposure corresponds to the counterparty credit risk calculated according to the methods laid down in Annex III of Directive 2006/48/EC before value adjustments and provisions. This manual describes the items to be included in the assets side.

"Indirect exposures" (column LE 1.8) – According to Article 117 of Directive 2006/48/EC, a credit institution may use the substitution approach to identify the ultimate risk of large exposures where an exposure to a client is guaranteed by a third party, or secured by collateral issued by a third party. Such indirect exposures are included in the framework of regular reporting, as the overall exposure with regard to a client (or group of connected clients) has to be counted towards the large exposures limit. This approach is consistent with the approach taken in the BIS's International Banking Statistics for the determination of ultimate risks on a consolidated basis. There is no equivalent concept in BSI statistics.

Conclusion: The link between BSI and LE-COREP at the instrument level applies only to "assets" and "derivatives". A further indirect link with BSI statistics applies, since large exposures are calculated as a percentage of own

Table 9 Table of equivalence between instrument categories in the LE and COREP CR templates

LE template		COREP CR template
Assets	=	On-balance sheet items
Off-balance sheet	=	Off-balance sheet items
		Securities financing transactions and long settlement transactions
Derivatives	=	Derivatives
		From contractual cross product netting
Indirect exposures		

funds, and the latter is linked to several BSI items ("capital and reserves", "deposits", "debt securities issued", "loans" and "securities other than shares"), as explained earlier.[18]

As mentioned above, one of the reasons the LE templates can only partially be linked to the COREP CR templates is that the latter cover only the banking book. This also weakens the link with BSI statistics. This link could be reinforced if the COREP market risk templates (covering the trading book) were to include an instrument breakdown similar to that in the COREP CR templates, thus ensuring that all exposures are covered. This extension does not seem burdensome because entities need the breakdown by type of exposure of the trading book to prepare their balance sheet and to report LE data. The EBA are considering this suggestion.

3.6 OVERALL ASSESSMENT

The links between the BSI reporting requirements and the COREP templates are fairly important. This is all the more true because COREP is requested not only at the consolidated level (like FINREP), but also at the solo level (like BSI, although with the inclusion of foreign branches). Moreover, following a recent amendment of the CRD, the implementation of COREP is mandatory in all EU countries, as the BSI is in the euro area, and unlike FINREP.

The links between the COREP reporting templates and the BSI requirements are particularly important with respect to credit risk (banking book), market risk (trading book, but only for the standardised approach), and own funds. However, no link could be found for the template on operational risk. These links have been implemented to a large extent in the relational database, on the basis of the detailed guidance described in Annex 5.

18 The on-balance sheet item "Assets" in the COREP credit risk templates is described as *"Assets referred to in article 74 of Directive 2006/48/EC not included in any other category"*.

4 MFI INTEREST RATES-COREP/FINREP

This chapter covers the relationship between COREP/FINREP and MFI interest rate statistics (MIR). As mentioned in the introduction, MIR covers information about interest rates paid and charged by MFIs on deposits and loans denominated in euro in their business with households and non-financial corporations in the euro area.[1] The concepts, definitions and valuation rules used for MIR are almost identical to those in the BSI Regulation.

While the bridging between FINREP and the BSI statistics is relatively straightforward, since both schemes collect balance sheet information based to a large extent on the IAS/IFRS (see Chapter 2), that between the MIR scheme and COREP/FINREP is largely restricted to identifying common features in definitions and sector/instrument classifications, already done in the BSI-FINREP bridging. Nevertheless, Annex 2 provides a summary of key differences between COREP/FINREP and MIR.

The following sections describe the MIR framework and the features it shares with COREP/FINREP.

4.1 THE MAIN FEATURES AND STRUCTURE OF MFI INTEREST RATES

The MIR reporting population is a sub-set of the BSI population since it comprises (within the MFI sector) only resident credit institutions and a few other institutions which take deposits from and/or grant loans to households and/or non-financial corporations resident in the same area. It excludes central banks and money market funds (MMFs). This means the MIR reporting population substantially coincides with that of FINREP and COREP, but is smaller than that for BSI statistics. Central banks may require all institutions within the population to report, or select a sample.

MIR statistics are needed to analyse the transmission of the Eurosystem's monetary policy initiatives to the euro area economy. Since MFIs are by far the largest group of financial intermediaries in the euro area, how the rates which they pay and charge respond to changes in the terms of the Eurosystem's refinancing operations is of the greatest importance. MIR statistics also contribute to the analysis of structural developments in the banking and financial system and to financial stability issues.

The MIR business coverage includes both outstanding amounts and new business but excludes bad loans and loans for debt restructuring at rates below market conditions. "New business" means any new agreement between the household or non-financial corporation and the reporting agent: new agreements are all financial contracts specifying, for the first time, the interest rate on a deposit or loan, and all new negotiations of existing deposits and loans.

MIR interest rates are the weighted averages of annualised agreed rates (AAR), which exclude charges; for housing loans and consumer loans, the annualised percentage rate of charge (APRC), including fees, commissions, etc., is also collected. In the case of rates on outstanding amounts, the MIR Regulation (ECB/2001/18, as amended by ECB/2009/7) allows two different calculation methods: a) an end-period snapshot, or b) implicit rates (interest paid or charged in the period divided by the relevant average amount deposited or lent out).

MFI interest rate statistics provide detailed monthly information on numerous categories of new deposit and loan business and outstanding amounts:[2]

1 The legal requirements for MFI interest rate statistics are laid down in the Regulation ECB/2001/18, which defines the statistical standards according to which monetary financial institutions must report their interest rate statistics. This Regulation is complemented by the Manual on MFI interest rate statistics, which further clarifies and illustrates the statistical requirements. Regulation ECB/2001/18 was amended by Regulation ECB/2009/7, which provides for a number of improvements to the reporting scheme.

2 Details can be found in: http://www.ecb.europa.eu/stats/money/interest/interest/html/index.en.html.

a) Outstanding amounts:

- deposits from households with agreed maturity up to 2 years and over 2 years;
- deposits from non-financial corporations with agreed maturity up to 2 years and over 2 years;
- loans to households for house purchase and for consumer credit and other loans (up to 1 year, 1-5 years, over 5 years);
- loans to non-financial corporations broken down by original maturity (up to 1 year, 1-5 years and over 5 years);

b) New business – deposits:

- separate category for repos;
- households: overnight, with agreed maturity, redeemable at notice;
- non-financial corporations: overnight, with agreed maturity;
- different (more detailed) maturity breakdowns from outstanding amounts;

c) New business – loans:

- households: overdrafts, for consumption, for house purchase, for other purposes;
- non-financial corporations: overdrafts, other loans up to €0.25 million, other loans over €0.25 million and up to €1 million, other loans over €1 million;
- concept of "initial period of initial interest rate fixation", with three to four categories for households and six categories for non-financial corporations.

d) Additionally, the Regulation requires interest rate data on convenience and extended credit card credit, loans to sole proprietors, and collateralised loans (real estate collateral).

4.2 THE LINKS BETWEEN COREP AND MFI INTEREST RATES

As mentioned in Chapter 3, COREP comprises four sets of templates. For each set, the subsections below provide an analysis of the links with the MIR requirements.

4.2.1 OWN FUNDS TEMPLATES

This set of COREP templates contains information about the Pillar 1 solvency ratio, both numerator (own funds) and denominator (capital requirements); moreover, it provides, for affiliated entities or subgroups, the capital requirements for each risk category, the own funds for solvency purposes and the resulting surplus or deficit of own funds.

There is no link between this set of templates and MIR requirements (as interest rate statistics do not deal with capital and reserves). More detailed breakdowns for the different risk types can be found in the respective templates (see below).

4.2.2 CREDIT RISK TEMPLATES

There are two versions of credit risk templates: one for exposures subject to the standardised approach (SA) and one for exposures under the internal rating-based approach (IRB). In general, small and medium-sized institutions use the SA approach; bigger institutions may have the resources to develop their own models and gain approval as IRB institutions.

SA institutions have at most to fill in Templates (1) CR SA, (4) CR SEC SA, (6) CR SEC Details and (7) CR CB SETT, while IRB institutions could be asked to fill in Templates (2) CR IRB, (3) CR EQU IRB, (5) CR SEC IRB, (6) CR SEC Details and (7) CR TB SETT.

1) *CR SA template*: this template is to be filled in for each exposure class according to CRD Article 79 (SA), or alternatively, CRD Article 86 (IRB) for institutions applying the SA only to part of their exposures. The most interesting information regarding this COREP template concerns real estate

exposures to the retail sector (in relation to the latest update of the MFI Regulations). Indeed, MIR and COREP have definitions of real estate collateral in common; the proposal to bridge those definitions has already been mentioned.

2) *CR IRB*. This template, applicable to IRB institutions, requests aggregated information on the input parameters that are used for calculating risk-weighted exposures (exposure values, LGD (loss given default), etc.) and on the amount and type of credit risk mitigation techniques used. As for the CR SA template, the most interesting information from the template (in terms of a link with MIR) concerns collateral in the form of real estate.

3) *CR EQU IRB*. The template concerning exposure relating to equity assets has no links with the MIR requirements.

4) *CR SEC SA*. This template covers aggregated information on all current exposures arising from securitisations, irrespective of who holds the positions. National supervisors can decide to request the template filled in for all securitisation types as a total or separately for traditional and synthetic securitisation. Beyond the considerations made in Chapter 2 regarding the statistical and supervisory concepts of securitisation, there is no link between this template and the MIR Regulation which does not cover securitised loans unless they have not been derecognised, and so remain on the balance sheet.

5) *CR SEC IRB*. This template follows the same structure as the previous template but applies the IRB methodology to securitisation positions. There is no link with the MIR Regulation.

6) *CR SEC Details*. This template covers the same securitisation items as reported under either CR SEC SA or CR SEC IRB, but on a deal-by-deal basis. Securitisations of assets originated by the reporting institution and operations sponsored by it are covered. There is no direct link with the MIR Regulation.

7) *CR TB SETT*. This template requests information on unsettled transactions in the trading book and banking book[3] and related capital requirements for settlement risk. There is no link with the MIR Regulation.

4.2.3 MARKET RISK TEMPLATES

The COREP market risk templates are based on the trading portfolio. None of the six market risk templates contains a link with the MIR requirements.

4.2.4 OPERATIONAL RISK TEMPLATES

The COREP operational risk (OPR) templates are based on the information required under Annex X of Directive 2006/48/EC. The information is collected through three sub-templates.

There is no link between the capital requirements related to operational risk and MIR requirements, although for some business lines under one of the templates (that concerning the Alternative Standardised Approach (ASA)), the total nominal amount of loans and advances is needed. For the other templates, there are no links with the MIR requirements.

4.3 THE LINKS BETWEEN FINREP AND MFI INTEREST RATES

The structure of FINREP is described in Chapter 2. The focus here is on the links with MIR.

4.3.1 ACTUAL REPORTING POPULATION

As mentioned above, the MIR reporting population substantially overlaps with that of FINREP and COREP; it is narrower than that for BSI statistics.

3 This is part of the information requested in COREP rev 3.

4.3.2 COLLECTED DATA TYPES

The types of data collected within the MIR framework cover both interest rates and business volumes (new business and outstanding amounts). It is important to recall that an annualised agreed rate (AAR) or a narrowly defined effective rate (NDER) are collected for all loans, and in addition, an annualised percentage rate of charge (APRC) is collected for housing loans and consumer loans. In the case of rates on outstanding amounts, the Regulation allows two calculation methods:

- a snapshot of end-period observations,

- implicit rates, calculated as the flow of interest during the reference month divided by the average stock of related deposits or loans in the month, based preferably on daily, and at least on weekly, amounts. In contrast to end-month observations, the MFI interest rates on outstanding amounts compiled as monthly averages include contracts that were outstanding at some time during the month, but are no longer outstanding at the end of the month. The second calculation method implies the possible use of profit and loss data if at least weekly balance sheets are available.

In FINREP, no interest rate information is collected. However, implicit rates could be calculated using profit and loss information, if the second calculation method, as above, is used. Using profit and loss data for the calculation of implicit interest requires the MIR classifications to be available also in profit and loss data. More specifically, flows of interest payable from deposits and interest receivable from loans would have to have been classified by MIR sectors, instruments, period of notice and original maturity.

Even then, the instruments might not be properly matched with the MIR instruments. For example, the calculation of implicit interest rates would require classifications for profit and loss items in FINREP similar to those in MIR. FINREP contains no information on new business in the sense used in MIR. Other cost elements included in the APRC cannot be identified in FINREP.

4.3.3 INSTRUMENTS

The instruments in MIR statistics are basically the same as in BSI statistics.

The exception concerns bad loans and loans for debt restructuring at rates below market conditions, which are excluded in the calculation of MIR interest rates. Nevertheless, the weights applied in MIR statistics do not exclude bad loans, since they are included indistinguishably in the BSI statistics (unless they have been written off, or the national central bank allows loans to be reported net of provisions). The MIR Regulation refers to the BSI Regulation definition of bad loans, namely "*loans in respect of which repayment is overdue or otherwise identified as being impaired, partially or totally, in accordance with the definition of default in Directive 2006/48/EC*". FINREP provides data exclusively on past due and impaired loans that are not measured at fair value through profit and loss. The CRD definition of "default" is slightly different from the accounting definition of "impaired assets" plus "past due but not impaired assets (over 90 days)" used for FINREP purpose, because a financial asset must be qualified as in "default" when it is considered that the debtor is unlikely to pay it in full "*without recourse by the credit institution to actions such as realising security*".

Under IAS 39, an impaired loan is deemed to be in default if the period of "recourse actions such as realising security" has passed 90 days. The classification of an impaired loan in accordance with IAS 39 is necessary to record an impairment loss. This difference concerns only loans that are not more than 90 days past due.

FINREP instrument categories partly overlap with those in MIR (see Chapter 2). In the core tables, the main instruments deposits and loans and advances can be found. For deposits, FINREP offers a direct reference to the definition in the BSI Regulation. A more detailed breakdown by product can be found in Table 10.A for deposits (current accounts/overnight deposits, deposits with agreed maturity, deposits redeemable at notice, repurchase agreements). The BSI instrument category "loans" has a link with the corresponding FINREP instrument "loans and advances". FINREP offers in Table 6.A a match with the BSI definition of loans except those included in the "other" category (advances that cannot be classified as "loans" according to the ECB Regulation). Nevertheless, FINREP does not provide the detailed classification of those loans and deposits represented as "held for sale".

For the differences in valuation method and the treatment of accrued interest, see Chapter 2.

Much as for BSI statistics (see section 2.3.3), a possible link between MIR and FINREP arises in respect of the treatment of hybrid deposits (deposits with an embedded derivative).[4] The MIR Regulation explicitly deals with the treatment of hybrid deposits with a "guaranteed minimum return". The treatment of certain hybrid deposits without a guaranteed minimum return is described in the Manual on MFI interest rate statistics (October 2003), which questions whether hybrid deposits without a guaranteed minimum return should be classified as "deposits" in BSI statistics. In the absence of further guidance, the opportunity arises to establish a link between BSI/MIR and the IAS 39 approach as followed in FINREP. Thus, in IAS/IFRS, to separate the hybrid contract, the entity estimates the fair value of the embedded derivative; the initial carrying amount of the host contract is then the residual amount after subtracting the fair value of the derivative from the amount received or paid (see IAS 39.AG28).[5] To accrue interest in the financial instrument, IAS 39 allows the credit institution to calculate an implicit rate for the host contract (the discount rate that equates the amount to be received or paid at maturity with the initial carrying amount of the host contract). This rate (if equal to or higher than 0%) could be used in MIR for new business and outstanding amounts when end-period observations are used. When outstanding amounts refer to period averages, this rate has already been used for the accrual of interest payable/receivable and the host contract is included in the stock of deposits or loans.

In the second case, where the hybrid deposit is not segregated and the entity does not calculate an implicit rate for the host contract, there is no separate accrual of interest for the host contract (interest is reported together with other gains or losses). In this case, the rate used in MIR new business could be 0%. This convention seems appropriate, as the segregation of the hybrid instrument would have drawbacks (e.g. it could be a complex contract and the separation would not result in reliable information).

The information on the interest rate for each hybrid contract is not separately reported in FINREP, but it should be available because it is necessary for both IAS/IFRS financial statements and FINREP templates.

4.3.4 SECTOR AND RESIDENCY OF COUNTERPARTIES

As discussed in Chapter 2, a reconciliation of counterparty sectors is possible. However, the FINREP counterparty breakdown applies to domestic and foreign residents, whereas the MIR is confined to domestic and other euro area residents. In particular, FINREP provides in Table 15 a geographical breakdown of assets and liabilities by residence of the counterparty, with four columns: Domestic, Other EMU countries, Other EU countries and Rest of the world. Consequently, FINREP provides data on domestic and other euro area countries as in MIR statistics.

4.3.5 BREAKDOWN BY INTEREST RATE FIXATION, PERIOD OF NOTICE, ORIGINAL MATURITY

MIR requires a breakdown by original maturity, period of notice, or initial period of fixation,

4 According to MIR amending Regulation (ECB/2009/7), Annex II, Part 6, paragraph 83, "(..) a deposit with an agreed maturity to which a fixed interest rate is being applied and an embedded derivative with a return that is linked to the performance of a defined stock exchange index or a bilateral exchange rate (…)".

5 The derivative does not generate interest; changes in its value are recorded as holding gains or losses.

according to the type of instrument and whether the MFI interest rate refers to outstanding amounts or to new business.

In particular, new business in loans should be reported by period of interest rate fixation instead of original maturity. The period of interest rate fixation is the period determined at the start of a contract during which the interest rate cannot change. The initial period of fixation may be shorter than or equal to the original maturity of the loan. The new BSI Regulation introduces the concept of interest rate reset, similar to interest rate fixation but applied to outstanding amounts, not new business (which is not reported in BSI statistics). No similar concept can be found in FINREP. The same applies to the breakdown by period of notice.

Finally, the MIR breakdown by original maturity corresponds to the one defined in BSI statistics. However, as discussed in Chapter 2, FINREP does not require data on original or residual maturity.

4.3.6 SIZE OF INDIVIDUAL LOANS

For new business in the category “other loans to non-financial corporations”, the MIR framework introduces a further breakdown by size of loan as a proxy for the size of the borrowing company (the idea being that larger companies are in a stronger negotiating position and can achieve better conditions than smaller firms). FINREP requires no information on size of loan.

4.4 CONCLUSIONS

The links between the MIR reporting requirements and the FINREP/COREP templates are rather weak. Although the reporting population is broadly the same, the different objectives of the two frameworks limit their common features to the definitions and sector/instrument classifications. The data requirements differ substantially. Nevertheless, some links between COREP/FINREP and MIR are recorded in the relational database.

The links between COREP and MIR in particular are limited. The most interesting area lies with collateral and guarantees in the credit risk templates. As far as the links between FINREP and MIR are concerned, the two areas with potential synergy concern the treatment of hybrid deposits and the link between profit and loss account data and MIR. Regarding hybrid deposits, the implicit interest rate calculated for the deposit under IAS 39 could be reused for MIR statistics.

Regarding the link between profit and loss account data and MIR, whereas most national central banks calculate interest rates on outstanding amounts as end-period snapshots, the MIR Regulation does allow interest rates to be calculated implicitly, where the numerator could be extracted from profit and loss accounts, and hence from FINREP data. Using profit and loss data for the calculation of implicit interest essentially requires that the MIR classifications are available also in the FINREP template on the income statement, i.e. interest payable from deposits and interest receivable from loans should be classified by MIR sectors, instruments, periods of notice and original maturity.

GLOSSARY

Alternative Standardised Approach (ASA): The Alternative Standardised Approach (ASA) is a special variant of the Standardised Approach in which an alternative indicator is used to calculate the capital requirement for the retail and commercial banking business lines.

Annualised Agreed Rate (AAR): The annualised agreed rate (AAR) is an interest rate for a deposit or loan calculated on an annual basis and quoted as an annual percentage.

Annualised Percentage Rate of Charge (APRC): The annual percentage rate of charge (APRC) consists of the total costs of the loan for the consumer. The total costs comprise an interest rate component (which is identical to the narrowly defined effective rate) and a component for all other costs related to the loan. This includes, for instance, the costs for enquiries, administration, document preparation, guarantees, and credit insurance.

Banking Accounts Directive (BAD): Council Directive of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions (86/635/EEC). It applies to most credit institutions (i.e. banks) and other financial institutions, with a few national exceptions. BAD describes a standard balance sheet layout, in which assets and liabilities are presented in decreasing order of liquidity, and two standard profit-and-loss account layouts (vertical and horizontal). Also it sets out valuation rules for certain financial assets.

Basel III (International regulatory framework for banks): Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision to strengthen the Regulation, supervision and risk management of the banking sector. These measures aim to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, to improve risk management and governance, and to strengthen banks' transparency and disclosures. The reforms concern bank-level, or microprudential, Regulation, which will help raise the resilience of individual banking institutions both to periods of stress, and to macroprudential, system-wide risks that can build up across the banking sector, as well as to the procyclical amplification of these risks over time. These two approaches to supervision are complementary, as greater resilience at the individual bank level reduces the risk of system-wide shocks.

Capital Requirement Directive (CRD): This refers to both Directive 2006/48/EC and Directive 2006/49/EC, regarding liquidity standards, definition of capital, leverage ratio, counterparty credit risk, and counter-cyclical measures, including through-the-cycle provisioning for expected credit losses, systemically important financial institutions and single rule book in banking. On 20 July 2011, the European Commission adopted a legislative package to strengthen the Regulation of the banking sector (CRD IV). The proposal replaces the current Capital Requirements Directives (2006/48 and 2006/49) with a Directive and a Regulation, and constitutes another major step towards creating a sounder and safer financial system.

Collective Investment Undertakings (CIUs): See Undertakings for Collective Investment in Transferable Securities.

Common Reporting (COREP): To achieve a high level of harmonisation and strong convergence in regular supervisory reporting requirements, the EBA issued guidelines on prudential reporting with the aim of developing a supervisory reporting framework based on common formats. The Guidelines on Common Reporting cover consolidated, sub-consolidated and solo reporting.

Consolidated Banking Data (CBD): These data contain information on the profitability, balance sheets and solvency of EU banks, and refer to all EU Member States. The banks are divided into three size groups: small, medium-sized and large. In addition, the data provide information on foreign-controlled institutions active in EU countries. The statistics are based on annual and semi-annual data. The Consolidated Banking Data are based on the pooling of relevant aggregated information provided by the member organisations of the ESCB's Financial Stability Committee (FSC).

Counterparty credit risk: The counterparty credit risk is defined as the risk that the counterparty to a transaction could default before the transaction is finally settled. An economic loss occurs if the transactions or portfolio of transactions with the counterparty have a positive economic value at the time of default. Unlike a firm's exposure to credit risk through a loan, where the exposure to credit risk is unilateral and only the lending bank faces the risk of loss, the counterparty credit risk creates a bilateral risk of loss: the market value of the transaction can be positive or negative to either counterparty to the transaction.

Credit institution: Any institution covered by the definition contained in Article 4(1) of Directive 2006/48/EC (recast). Accordingly, a credit institution is *"(i) an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account; or (ii) an electronic money institution within the meaning of Directive 2000/46/EC"*.

Credit Risk (CR): This acronym is used for a number of COREP templates on credit risk, which provide detailed information on the distribution of the exposure values according to the different risk weights or by exposure types.

Cross-Border and Cross-Sector Consolidation Basis for All Domestically Incorporated (CBCSDI): It includes the data of domestically incorporated, domestically controlled entities in the sector, and of domestically incorporated subsidiaries of foreign entities classified in the same sector, along with the data of these domestically incorporated entities' branches and subsidiaries, which can be either domestic or foreign residents, including the data of such subsidiaries in other sectors.

Derecognition: Derecognition means the removal of a loan or part thereof from the balance sheet. IAS 39 (paragraphs 14 to 42) describes in detail the conditions that should be fulfilled for recognition and derecognition of financial assets and liabilities. Due to the complexity of the conditions for derecognition of financial assets, IAS 39. AG36 provides an explanatory flow chart, and the FINREP framework contains a table (Table 12) for collecting detailed information on transfers of financial assets.

Domestic Consolidation (DC) basis: It includes the data of resident entities along with those of their branches and subsidiaries in the same sector that are resident in the domestic economy.

Domestically Controlled Cross-Border and Cross-Sector Consolidation Basis (DCCBS): It includes the data of domestically incorporated, domestically controlled entities in the sector, their branches (domestic and foreign), and all their subsidiaries (domestic and foreign) that are classified in the same sector, as well as in other sectors.

Domestically-Controlled Cross-Border Consolidation Basis (DCCB): It includes the data of domestically incorporated, domestically controlled entities in the sector, along with the data of their branches (domestic and foreign) and of all their subsidiaries (domestic and foreign) that are classified in the same sector.

European Banking Authority (EBA): The EBA was established on 1 January 2011 and has taken over all existing and continuing tasks and responsibilities of the Committee of European Banking Supervisors (CEBS).

European System of Accounts 1995 (ESA 95): A system of uniform statistical definitions and classifications aimed at achieving a harmonised quantitative description of the economies of the EU Member States. The ESA 95, implementation of which began in accordance with Council Regulation (EC) No 2223/96 in the course of 1999, is the European Union's current version of the internationally used System of National Accounts (SNA93). The ESA 95 is planned to be replaced by ESA 2010, which is consistent with the SNA 2008, in 2014.

European System of Central Banks (ESCB): The ESCB is the central banking system of the European Union. It comprises the ECB and the national central banks of all EU Member States.

European Systemic Risk Board (ESRB): The European Systemic Risk Board (ESRB) is an independent EU body responsible for the macro-prudential oversight of the financial system within the European Union. Located in Frankfurt am Main, its secretariat is provided by the ECB. The ESRB, which is part of the European System of Financial Supervisors, contributes to the prevention or mitigation of systemic risks to financial stability in the Union that arise from developments within the financial system. It takes into account macroeconomic developments, so as to avoid periods of widespread financial distress. The ESRB also contributes to the smooth functioning of the internal market and thereby ensures a sustainable contribution of the financial sector to economic growth.

Eurosystem: The central banking system of the euro area, comprising the ECB and the national central banks of the EU Member States whose currency is the euro.

Fair value accounting (FVA): A valuation principle that stipulates the use of either a market price, where it exists, or an estimation of a market price as the present value of expected cash flows to establish the balance sheet value of financial instruments.

Financial Reporting (FINREP): To achieve a high level of harmonisation and strong convergence in regular supervisory reporting requirements, guidelines on supervisory reporting have been developed with the aim of setting up a supervisory reporting model with common data definitions. The Guidelines on Financial Reporting cover consolidated and sub-consolidated financial reporting for supervisory purposes based on IAS/IFRS as endorsed by the European Union.

Financial Soundness Indicators (FSIs): The Financial Soundness Indicators (FSIs) have been developed by the IMF, together with the international community, with the aim of supporting macro-prudential analysis and assessing the strengths and vulnerabilities of financial systems.

Financial Stability Committee (FSC): The FSC assists the decision-making bodies of the ECB in the fulfilment of its tasks in the field of prudential supervision of credit institutions and the stability of the financial system, as laid down in Article 127.5 of the Treaty on the Functioning of the European Union and the ESCB Statute.

Financial Vehicle Corporation (FVC): An undertaking constituted under national or Community law and whose principal activity is to carry out securitisation transactions. FVCs are insulated from the risk of bankruptcy or any other default of the originator. FVCs may issue securities, securitisation fund units, other debt instruments and/or financial derivatives. They may legally or economically own assets underlying the issue of securities, securitisation fund units, other debt instruments and/or financial derivatives that are offered for sale to the public or sold on the basis of private placements.

Generally Accepted Accounting Principles (GAAP): Accounting requirements for business enterprises in the United States, established by the Financial Accounting Standards Board (FASB), predecessor organisations and others.

Held-to-Maturity (HTM) instruments: HTM is a category of financial assets as defined by Paragraph 9 of IAS 39. This standard identifies and defines four categories of financial assets: (i) those held at fair value through profit or loss; (ii) held-to-maturity investments; (iii) loans and receivables; and (iv) available-for-sale financial assets. Held-to-maturity must be measured at amortised cost using the effective interest method.

IAS consolidation scope (IAS 27): This Standard must be applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent. It must also be applied in accounting for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by local Regulations, to present separate financial statements.

Internal Ratings Based (IRB) approach: The IRB approach of the Basel Capital Accord provides a single framework by which a given set of risk components or “inputs” are translated into minimum capital requirements. The framework allows for both a foundation method and more advanced methodologies. In the foundation method, banks estimate the probability of default associated with each borrower, and the bank supervisors supply the other inputs. In the advanced methodology, a bank with a sufficiently developed internal capital allocation process is permitted to supply other necessary inputs as well.

International Accounting Standards (IAS): International Accounting Standards (IAS) were developed by the International Accounting Standards Committee (IASC) with the purpose of establishing a single set of global accounting standards. See also International Financial Reporting Standards (IFRS) below.

International Banking Statistics (IBS): The BIS compiles both locational banking statistics and consolidated banking statistics. The locational banking statistics present quarterly data on international financial claims and liabilities of bank offices resident in the reporting countries. In this system, positions are recorded on a gross (unconsolidated) basis, which is consistent with the principles of national accounts, balance of payments and external debt statistics. The consolidated banking statistics present quarterly data on banks’ international financial claims. The data are collected on a worldwide consolidated basis with inter-office positions netted out.

International Financial Reporting Standards (IFRS): IFRS is the new title for the International Accounts Standards (IAS), the body of standards in effect since end-March 2004 and applicable from the beginning of 2005.

Large and complex banking group (LCBG): A banking group whose size and nature of business is such that its failure or inability to operate would probably have adverse implications for financial intermediation, the smooth functioning of financial markets or other financial institutions operating within the financial system.

Large Exposures (LE): The EBA has developed common reporting templates and guidelines in relation to large exposures reporting, which will be included in the COREP framework so as to ensure a unified European reporting system. Thereafter, large exposures reporting will be based on the same standards (i.e. frequency, remittance dates, formats and platform) as the other COREP data.

Market Risk (MR): Market risk is defined as the risk of losses in on- and off-balance-sheet positions arising from movements in market prices. The risks subject to this requirement are those concerning interest rate-related instruments and equities in the trading book, and foreign exchange risk and commodities risk throughout the bank.

MFI interest rate statistics (MIR): MIR cover those interest rates that credit institutions and a few other institutions apply to euro-denominated deposits from and loans to households and non-financial corporations resident in the euro area. These harmonised statistics are used for the analysis of monetary developments and the monetary transmission mechanism as well as for the monitoring of financial stability.

Monetary financial institution (MFI): A "monetary financial institution" (MFI) means a resident undertaking that belongs to any of the following sectors: (i) central banks; (ii) credit institutions as defined in Article 4(1) of Directive 2006/48/EC; (iii) other MFIs, i.e. (1) other financial institutions whose business is (i) to receive deposits and/or close substitutes for deposits from entities other than MFIs; and (ii) for their own account, at least in economic terms, to grant credits and/or make investments in securities; or (2) such electronic money institutions that are principally engaged in financial intermediation in the form of issuing electronic money; (iv) money market funds (MMFs) as defined in Article 1a.

Money Market Fund (MMF): A collective investment undertaking (CIU) which fulfils the MFI definition. The detailed criteria which a financial institution must meet for classification as an MMF are set out in Regulation ECB/2011/12, Article 1.2.

Narrowly Defined Effective Rate (NDER): The narrowly defined effective rate (NDER) reflects the annual costs of a loan in terms of the size of the loan, possible disagios, maturity and interest settlements. This makes it possible to compare the costs of loans with identical periods of interest rate fixation. Unlike the annual percentage rate of charge (see above), no other costs related to the loan are taken into account. The NDER is the interest rate which, on an annual basis, equalises the present value of all commitments (deposits or loans, payments or repayments, interest payments), future or existing, agreed between the bank and the household or non-financial corporation.

Operational risk (OR): Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Other financial intermediary (OFI): A financial corporation or quasi-corporation engaged mainly in financial intermediation but which is not an MFI, insurance corporation or pension fund. The category includes investment funds other than MMFs (some of which may provide venture capital), entities engaged primarily in long-term financing, such as corporations engaged in financial leasing, financial vehicle corporations created to be holders of securitised assets, financial holding corporations, dealers in securities and derivatives (when dealing for their own account), and development capital companies.

Preference shares: Preference shares are securities that pay a fixed rate of dividend and have a mandatory redemption feature at a future date. Alternatively, they may not have a fixed maturity, and the issuer does not have a contractual obligation to make any payment.

Securitisation: Securitisation means a transaction or scheme whereby an asset or pool of assets is transferred to an entity that is separate from the originator and is created for or serves the purpose of the securitisation, and/or the credit risk of an asset or pool of assets, or part thereof, is transferred to the investors in the securities, securitisation fund units, other debt instruments and/or financial derivatives issued by an entity that is separate from the originator and is created for or serves the purpose of the securitisation.

Settlement date: The date on which a transaction is settled. The settlement might take place on the same day as the trade (same-day settlement), or one or several days after the trade (the settlement date is specified as the trade date (T) + the settlement lag).

Standardised Approach (SA): The standardised approach is the simplest of the three broad approaches to measuring credit risk. The other two approaches are based on banks' internal rating systems. The standardised approach aligns regulatory capital requirements with the key elements of banking risk by introducing a wide differentiation of risk weights and a wide recognition of credit risk mitigation techniques, while avoiding excessive complexity.

Statistics Committee (STC): An ESCB Committee of heads of statistics departments in EU central banks. The STC assists the ECB in all aspects of statistical work needed to support the performance of the ESCB's tasks.

System of National Accounts (SNA): The System of National Accounts (SNA) is the internationally agreed standard set of recommendations on how to compile measures of economic activity, broken down by economic sector of the entities undertaking the activity. The SNA comprises a coherent, consistent and integrated set of economic and financial accounts in the context of a set of internationally agreed concepts, definitions, classifications and accounting rules. The SNA provides an overview of economic processes, recording how production is distributed among resident consumers, businesses, government and entities abroad. It shows how income originating in production, modified by taxes and transfers, flows to these groups, how they allocate these flows to consumption, saving and investment, and their borrowing and lending transactions. The SNA also provides for balance sheets and accounts reconciling changes in balance sheets with transactions in the intervening period. The ESA is an adaptation of the SNA mandatory in the European Union.

Undertakings for Collective Investment in Transferable Securities (UCITS): The UCITS Directive creates a harmonised framework for investment funds. It specifies the core features of their operations and the financial products they offer, such as risk diversification, redemption of units on the request of unit-holders, regular valuation, and oversight by a depositary. It further clarifies the application of the definition of transferable securities to closed-end funds and certain structured financial instruments.

ANNEXES

LIST OF ANNEXES

1 MOST RELEVANT LEGAL ACTS

1.1 ACCOUNTING (CONSOLIDATED APPLICABLE TEXT FOR EU DIRECTIVES)

- 78/660/EEC – Fourth Council Directive of 25 July 1978 based on Article 54(3) (g) of the Treaty on the annual accounts of certain types of companies – link
- 86/635/EEC – Council Directive of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions – link
- Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards – link
- Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community (ESA 95) – link
- Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council – link

AMENDMENTS (STARTING FROM THE MOST RECENT):

– Commission Regulation (EC) No 839/2009 of 15 September 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 39 – link

– Commission Regulation (EC) No 824/2009 of 9 September 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 39 and International Financial Reporting Standard (IFRS) 7 – link

– Commission Regulation (EC) No 636/2009 of 22 July 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Interpretations Committee's (IFRIC) Interpretation 15 – link

– Commission Regulation (EC) No 495/2009 of 3 June 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 3 – link

– Commission Regulation (EC) No 494/2009 of 3 June 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 27– link

– Commission Regulation (EC) No 460/2009 of 4 June 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation

(EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 16 – link

- Commission Regulation (EC) No 254/2009 of 25 March 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 12 – link

- Commission Regulation (EC) No 70/2009 of 23 January 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards Improvements to International Financial Reporting Standards (IFRS) – link

- Commission Regulation (EC) No 69/2009 of 23 January 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards amendments to International Financial Reporting Standard (IFRS) 1 and International Accounting Standard (IAS) 27– link

- Commission Regulation (EC) No 53/2009 of 21 January 2009 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 32 and IAS 1 – link

- Commission Regulation (EC) No 1274/2008 of 17 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 1 – link

- Commission Regulation (EC) No 1263/2008 of 16 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 14 – link

- Commission Regulation (EC) No 1262/2008 of 16 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 13 – link

- Commission Regulation (EC) No 1261/2008 of 16 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 2 – link

- Commission Regulation (EC) No 1260/2008 of 10 December 2008 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 23 – link

1.2 CAPITAL REQUIREMENTS DIRECTIVES

- Directive 2010/78/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Supervisory Authority (European Banking Authority), the European Supervisory Authority (European Insurance and Occupational Pensions Authority) and the European Supervisory Authority (European Securities and Markets Authority) – link

- Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies (CRD III) – link

- Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management (CRD II) – link

- Commission Directive 2009/83/EC of 27 July 2009 amending certain Annexes to Directive 2006/48/EC of the European Parliament and of the Council as regards technical provisions concerning risk management – link

- Commission Directive 2009/27/EC of 7 April 2009 amending certain Annexes to Directive 2006/49/EC of the European Parliament and of the Council as regards technical provisions concerning risk management – link

- Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) (CRD – Basel II) – link

- Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast) – link

1.3 FINANCIAL CONGLOMERATES DIRECTIVE

- Directive No 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate, and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council – link

1.4 STATISTICAL

- Regulation (EC) No 63/2002 of the European Central Bank of 20 December 2001 concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non-financial corporations (ECB/2001/18) – link

- Regulation (EC) No 25/2009 of the European Central Bank of 19 December 2008 concerning the balance sheet of the monetary financial institutions sector (Recast) (ECB/2008/32) – link

- Regulation (EC) No 24/2009 of the European Central Bank of 19 December 2008 concerning statistics on the assets and liabilities of financial vehicle corporations engaged in securitisation transactions (ECB/2008/30) – link

- Regulation (EC) No 290/2009 of the European Central Bank of 31 March 2009 amending Regulation (EC) No 63/2002 (ECB/2001/18) concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non-financial corporations (ECB/2009/7) – link

- Regulation of the ECB (EU) No 883/2011 of 25 August 2011 amending Regulation (EC) No 25/2009 concerning the balance sheet of the monetary financial institutions sector (ECB/2008/32) (ECB/2011/12)OJ L 228, 3.9.2011, p. 13

- Decision of the ECB of 6 March 2009 concerning derogations that may be granted under Regulation (EC) No 958/2007 concerning statistics on the assets and liabilities of investment funds (ECB/2007/8) (ECB/2009/4) – link

- Guideline of the ECB of 19 December 2008 amending Guideline ECB/2007/9 on monetary, financial institutions and markets statistics (recast) (ECB/2008/31) – link

- Guidance Notes to the Regulation ECB/2001/13 on the MFI balance sheet statistics – link

1.5 REPORTING TEMPLATES

- BSI reporting template – please refer to link 1 under statistical legal acts

- MIR reporting template – please refer to link 3 under statistical legal acts

- FINREP reporting template – link

- COREP reporting templates – CR, MKR, OR, CA

- COREPrev2 reporting templates – CR, MKR, OR, CA

- COREPrev3 reporting templates – CR, MKR, OR, CA-GSD

- Common reporting of Large Exposure – link

Issue	MFI interest rate requirements (MIR)	MFI balance sheet requirements (BSI)	FINREP (IFRS) approach
Reporting population	All resident credit institutions and all other institutions (within MFI sector) which take deposits from and/or grant loans to households and/or non-financial corporations resident in the participating member state comprise the potential reporting population. The potential reporting population does not include money market funds or central banks. Data can be collected either from a census or, most often, from a sample of the potential reporting population.	Monetary financial institutions (MFIs), comprising central banks, resident credit institutions as defined in Community Law and all other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs, and, for their own account, to grant credits and/or make investments in securities. It includes, in particular, money market funds (MMFs) and issuers of electronic money.	Credit institutions that, according to national supervisory rules, are required or allowed to use IAS/IFRS in the preparation of their consolidated financial reports. As a minimum, all EU credit institutions whose securities are admitted to trading on a regulated market (listed) are required to use IAS/IFRS for their consolidated financial statements according to Regulation EC 1606/2002.
Consolidation scope	MFIs should consolidate (report) the business of all their offices (head office and/or branches) located within the same national territory ("host" principle, i.e. only the business of resident MFIs, excluding foreign branches, is reported).	MFIs should consolidate (report) the business of all their offices (registered or head office and/or branches) located within the same national territory. No consolidation for statistical purposes is permitted across national boundaries. The BSI reporting is defined on the basis of the so-called "host" principle, i.e. only the business of resident MFIs is reported.	From 2012 onwards, the consolidation scope is the Capital Requirements Directive for all the templates (it means that credit institutions and other financial institutions are fully consolidated while insurance companies and non-financial companies – if any – are be accounted for using the equity method). In addition, national supervisory authorities may collect a limited set of templates using the IFRS consolidation scope (all subsidiary institutions). FINREP follows the "home' basis reporting concept, i.e. resident groups should report the business of non-resident branches and subsidiaries (consolidated accounting). National supervisory authorities may also decide to apply FINREP for solo reporting purposes, taking local specificities into account.
Data model	NCBs must define and implement the reporting arrangements to be followed by the actual reporting population in accordance with national characteristics. The NCBs must ensure that these reporting arrangements provide the statistical information required by MIR Regulation.	NCBs must define and implement the reporting arrangements to be followed by the actual reporting population in accordance with national characteristics. NCBs must ensure that these reporting arrangements provide the statistical information required by BSI Regulation.	CEBS highly recommends the use of FINREP, although the framework is not mandatory. FINREP is a "Maximum Data Model", which sets explicit minimum and maximum reporting requirements based on a common set of data definitions. Supervisors may neither modify the templates based on national need, nor require additional information that exceeds the proposed maximum. FINREP includes core templates (balance sheet and income statement) and non-core templates. When FINREP is applied, all core information must be reported as a minimum.

COREP (CRD/CAD) approach	Key similarities and differences between COREP, FINREP and MIR	Key similarities and differences between BSI and FINREP
EU credit institutions, investment firms and financial intermediaries subject to the Directives 2006/48 (CRD) and 2006/49 (CAD). As a minimum, all EU credit institutions and investment firms.	Substantial overlap between the populations: credit institutions. MMFs (and some other MFIs) are not obliged to use COREP. Other non-MFI financial institutions, as well as investment firms, may be requested to use COREP by supervisory authorities. Non-MFIs like investment funds and other OFIs do not report MIR.	Substantial overlap between the two populations: credit institutions. MMFs and some other MFIs are not obliged to use IAS/IFRS in the preparation of their unconsolidated accounts. Other non-MFI financial institutions may be requested to use FINREP by supervisory authorities.
The application of the framework on a solo or consolidated basis is currently a matter of national discretion. However, from 2012 a uniform COREP for all countries will become compulsory for solo and consolidated reporting. COREP follows the "home" basis reporting concept like FINREP, i.e. resident intermediaries or groups should also report the business of non-resident branches and subsidiaries.	MIR "host" basis reporting versus COREP and FINREP "home" basis reporting. Differences, in particular as regards the consolidation of non-resident branches (on a solo basis) and of domestic and foreign subsidiaries (on a consolidated basis).	BSI "host" basis reporting versus FINREP "home" basis reporting. Differences, in particular as regards the consolidation of non-resident branches and of domestic and foreign subsidiaries, except when FINREP is required for solo and on a host approach basis.
COREP formats will be uniform from 2012 for solo and consolidated reporting.		

Issue	MFI interest rate requirements (MIR)	MFI balance sheet requirements (BSI)	FINREP (IFRS) approach
Main valuation criteria	Nominal amount (value) of loans and deposits in new business and outstanding amounts.	Market or fair valuation of financial instruments is recommended, except for loans and deposits, where nominal amounts outstanding at the end of the month are mandatory. Despite this recommendation, the BSI Regulation is rather flexible as regards the valuation method, making a general reference to Council Directive 86/635/EEC and any other international standards applicable (e.g. International Accounting Standards / International Financial Reporting Standards as endorsed by the European Union).	In FINREP, the valuation criteria are the IAS/IFRS measurement criteria. In particular, financial assets (including loans) and financial liabilities (including deposits) are recognised initially at fair value plus, in the case of financial assets or liabilities not at fair value through profit and loss, transaction costs that are directly attributed to the acquisition or issue of the financial assets and liabilities. Subsequently, all financial assets are to be measured at fair value, except for some items (e.g. the portfolios "loans and receivables" and "held-to-maturity"), which are measured at amortised cost using the effective interest method. In general, all financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities at fair value through profit and loss, which are measured at fair value.
Time of recording	Contract date for new business. For outstanding amounts, the same rules as for BSI apply, i.e. settlement date preferred but contract also allowed provided that it does not cause significant distortions.	Transactions should be recorded at the settlement date (i.e. the date on which the payment is made).	Either trading date or settlement date accounting, provided that the chosen method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets.
Treatment of accrued interest	No such concept in MIR new business. In MIR outstanding amounts, all interest rates are considered in the calculation of the interest rate regardless of whether they are only accrued or also paid. Nevertheless, the outstanding amount used in the weighting of the interest rates is the nominal amount (i.e. without taking into account the accrued interest).	Accrued interest should be subject to on-balance sheet recording as it accrues (accrual basis). Accrued interest on loans/deposits should be classified, on a gross basis under "remaining assets"/"remaining liabilities".	Accrual accounting is also required in the FINREP framework. Accrued interest not yet due should be reported with the underlying instrument in the balance sheet, i.e. should follow "dirty price" accounting. In the income statement, in the case of a financial instrument at fair value through profit and loss, accrued interest income and expenses may be reported either as part of interest income/expenses ("clean price") or together with other gains and losses (under the "dirty" approach).
Recognition and derecognition	These concepts have no relevance in MIR new business. In MIR outstanding amounts, BSI criteria are followed.	Loans (assets) should be derecognised only when they expire or all risks and rewards of ownership are transferred. Generally, financial derivatives are recognised on balance sheet at their fair value if MFIs follow IAS/IFRS (or National GAAPs are consistent with IAS/IFRS) for their individual accounts; otherwise, they are recorded off-balance sheet.	Financial assets should be derecognised when the contractual rights to the cash flows from a financial asset expire or when the financial asset is deemed to be transferred and that transfer qualifies for derecognition (IAS 39, paragraphs 15-37).

COREP (CRD/CAD) approach	Key similarities and differences between COREP, FINREP and MIR	Key similarities and differences between BSI and FINREP
In COREP, for financial assets, subject to capital requirements for credit risk, the original exposure amount (i.e. the financial statement value, IAS/IFRS or national GAAPS, gross of value adjustments and provisions) and the "value adjustments and provisions associated with the original exposure" must be reported independently of the approach used. The rest of the assets are reported at their accounting value (art. 74 of the CRD). Financial assets subject to capital requirements for market risk are reported at their financial statement value.	In MIR, the amount to be considered for the loans and deposits is the nominal; meanwhile in FINREP it is the financial statement amount (amortised cost or fair value), and in COREP the original exposure amount and the related adjustments have to be reported.	In FINREP and BSI it is possible to use the same valuation concepts, except for loans and deposits. In the BSI reporting scheme, loans and deposits should be reported at nominal value, whereas in FINREP these are generally recorded at amortised cost and could in certain restricted cases be recorded at fair value.
The same method as the one adopted in the financial statement (for intermediaries adopting IAS/IFRS, either trading date or settlement date, provided that the chosen method is applied consistently for all purchases and sales of financial assets that belong to the same category of financial assets).	The methods may be consistent if settlement date is applied in FINREP/COREP, or deviate if reporting institutions adopt trading date for FINREP/COREP purposes.	The methods may be consistent if settlement date is applied in FINREP, or deviate if reporting institutions adopt trading date for FINREP purposes.
The same method as the one adopted in the financial statements (for intermediaries adopting IAS/IFRS, accrued interest should be reported with the underlying instrument in the balance sheet).	No direct link, as MIR here follows the BSI "clean price" principle while COREP and FINREP follow the "dirty price" principle (i.e. accrued interest should be reported with the underlying instrument in the balance sheet). [Not sure how relevant – MIR is about interest rates, not amounts of interest]	For both purposes, the principle of accruals accounting should be applied. The two reporting schemes differ, though, as regards the balance sheet allocation of accrued interest: – BSI requires the reporting of accrued interest of loans and deposits under remaining assets/liabilities, i.e. follows "clean price" accounting for the underlying instrument. The rest of the financial instruments can be reported using the financial statements amount. – FINREP requires the transmission of accrued interest of all financial instruments with the underlying instrument in the balance sheet ("dirty price" accounting).
The same method as the one adopted in the financial statement (for banks adopting IAS/IFRS, financial assets should be derecognised when the contractual rights to the cash flows from a financial asset expire or when the financial asset is deemed to be transferred and that transfer qualifies for derecognition). For securitisation transactions, specific rules apply for the derecognition of the assets (the derecognition applies if a significant part of the credit risk is transferred).	For outstanding amounts, rules for recognition and derecognition of financial assets and liabilities will be the same (if all risks and rewards have been fully transferred).	Rules for recognition and derecognition of assets are quite similar for BSI and FINREP, including financial derivatives and securitised loans (if all risks and rewards have been fully transferred). There are some deviations for partial transfer of risks and rewards, which have been addressed when developing MFI and FVC securitisation statistics.

Issue	MFI interest rate requirements (MIR)	MFI balance sheet requirements (BSI)	FINREP (IFRS) approach
Netting (offsetting) arrangements	Gross recording should be applied. Netting is only applicable to outstanding amounts which are taken from BSI. In BSI, for deposits and loans, net recording is permitted under restrictive conditions (same customer, currency and original maturity, enforceability by law).	Gross reporting should be applied, in particular, to loans and deposits.	A financial asset may be offset against a liability and the net amount presented in the balance sheet when, and only when, an entity: (a) currently has a legally enforceable right to set off the recognised amounts; and (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.
Treatment of impaired assets (basis of recording)	Bad loans, defined as "the total amount of loans in respect of which repayment is overdue or otherwise identified as being impaired, partially or totally, in accordance with the definition of default in Directive 2006/48/EC", are excluded from MIR.	BSI Regulation requires loans to be recorded at the principal amount. This implies that they must be reported gross of all related provisions (impairment losses or amounts recorded in allowance accounts), except credit losses recorded as write-offs. NCBs may, however, allow the reporting of loans net of provisions, provided that such reporting practice is applied by all resident reporting agents and are necessary to maintain continuity in the statistical valuation of loans with the data reported for periods prior to January 2005.	Assets should be reported net of impairment losses. Either implicitly in the fair value accounting or, for assets valued at amortised cost, by reducing the balance sheet amount directly or using an allowance account. In the non-core tables of FINREP, there is information on the allowances accounts, for loans not measured at fair value through profit or loss, and on the credit losses implicit in fair value changes, for loans measured at fair value through profit or loss.
Residency breakdown	Residency covers only domestic and euro area (as a whole) residents.	BSI statistics require the following breakdown by residence of the counterparty: domestic, residents in other EMU countries, rest of the world, and not allocated (cash, fixed assets, debt securities issued, capital and reserve, remaining liabilities). Additionally, it requires data "country by country" for some financial assets and financial liabilities when the counterparties are residents in EU countries.	In FINREP, the on-core Table 15 provides the following geographical breakdown of assets and liabilities by residence of the counterparty: domestic, EMU countries, other EU countries, and the rest of the world. FINREP provides conventional criteria for the allocation of all assets and liabilities that must be classified as not allocated in BSI Regulation. The breakdown is required by instruments and portfolios, but not by sector of the counterparty.

COREP (CRD/CAD) approach	Key similarities and differences between COREP, FINREP and MIR	Key similarities and differences between BSI and FINREP
The same offsets as the one considered in the financial statement. For IAS/IFRS, a financial asset may be offset against a liability and the net amount presented in the balance sheet when, and only when, an entity: (a) currently has a legally enforceable right to set off the recognised amounts; (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Furthermore, master netting agreements covering repurchase transactions and/or securities or commodities lending or borrowing transactions and/or other capital market-driven transactions subject to annex VIII of CRD are considered.	The netting principles are identical except for cross-border transactions (netted under FINREP/COREP, gross under MIR), but this is not relevant because BSI applies the "host" principle, and potentially for master netting agreements covering repurchase transactions and/or securities or commodities lending.	The netting principles are practically identical, except that BSI establishes as additional criteria on the IAS/IFRS for offsetting credits and debits. Furthermore, in FINREP, netting is possible among cross-border transactions, but this is not relevant because BSI applies the "host" principle.
In COREP, for financial assets subject to credit risk capital requirements, the original exposure amount (the financial statement value – IAS/IFRS or national GAAP – gross of value adjustments and provisions) and the "value adjustments and provisions associated with the original exposure" must be reported independently of the approach used. CRD includes a definition of "default" loans for the IRB approach. For the standardised approach, there are definitions of "past due" (amounts overdue more than 90 days) and items belonging to regulatory high risk categories (this category can include impaired loans other than overdue more than 90 days).	The definitions of bad loans in MIR and default loans in COREP are the same. Nevertheless, the definition of "default" in COREP applies only to loans subject to credit risk under the IRB approach, and many institutions apply the standardised approach. Additionally, the definition of "default" is slightly different than the accounting definition of "impaired assets" plus "past due but not impaired assets (over 90 days)", because a financial asset must be qualified as in "default" when it is considered that the obligor is unlikely to pay it in full "without recourse by the credit institution to actions such as realising security", meanwhile for classifying a loan as impaired in FINREP it is necessary to have an impairment loss after considering the security. This difference is limited to those loans that are not past due over 90 days.	In the BSI reporting scheme, loans should in principle be reported gross of all impairment allowances, although reporting net of specific impairments is implicitly permitted only when it had been [??] used for periods prior to January 2005. In FINREP, they should be reported net of those allowances. The bridging is possible at the loans level taking into account that in FINREP the allowances reported in non-core tables for loans not measured at fair value through profit or loss and as proxy the cumulative change in the fair values attributable to changes in credit risk. Nevertheless, the bridging at the products level is limited to loans measured at amortised cost within the FINREP package.
	MIR and FINREP residency breakdowns are consistent.	BSI and FINREP residency breakdowns are consistent.

Issue	MFI interest rate requirements (MIR)	MFI balance sheet requirements (BSI)	FINREP (IFRS) approach
Counterpart sector breakdown	The classification of institutions into sectors follows the equivalent ESA 95 concepts. MIR covers only households (including NPISH) and non-financial corporations.	The residency concept and the classification of institutions into sectors follow, as far as possible, the equivalent ESA 95 concepts. Institutional units resident in an economy (usually a country or a group of countries, e.g. the euro area) are grouped into five mutually exclusive institutional sectors, plus a number of subsectors, based on their principal functions, behaviour and objectives. Additionally, the economic relationships between residents and non-residents of that economy are recognised in the rest of the world sector. Following the recent BSI update, the separate reporting of certain positions vis-à-vis a central counterparty and sole proprietors has been implemented in BSI.	The counterparty breakdown has been revised in order to facilitate the bridging with the Capital Requirements Directive (Art. 79 and 86) and the classification adopted by the BSI Regulation. The economic sector allocation is based exclusively on the nature of the direct counterparty. The FINREP framework provides a standardised counterparty breakdown in which financial information is broken down into eight economic sector allocation classes. The economic sector allocation is based on the nature of the direct counterparty, with an additional breakdown – in the case of loans held for non-financial corporations and households – of those that meet the CRD definitions of corporates and retail.
Original and residual maturity breakdown	On outstanding amounts and new business, MIR requires the breakdown of loans and deposits by original maturity at inception or at issue. MIR also requires the classification of loans in the new business statistics on the basis of their initial rate fixation period.	For loans, deposits and debt securities, a breakdown by original maturity is required, i.e. the maturity at inception or at issue, with the exception of deposits redeemable at notice, where the notice period is the relevant maturity concept. Following the recent BSI update, new breakdowns by remaining maturity [1, 2 years] and rate reset interval [12, 24 months] are requested.	FINREP has no reporting requirements on the maturity of the financial instruments, but IFRS 7 requires disclosure by residual maturity.
Instrument breakdown	Separate identification of deposits (overnight, with agreed maturity, redeemable at notice and repo) and loans (for consumption, for house purchases, for other purposes for households; by type of product – e.g. extended credit card – and by size of loan for non-financial corporations). In MIR, a given loan may only be included in one category.	Separate identification on the assets side of the following: Cash/loans/securities other than shares/MMF shares/units/shares and other equity/fixed assets/remaining assets. Separate identification on the liabilities side of the following: currency/deposits/MMF shares & units/debt securities issued/capital and reserves/remaining liabilities. BSI requires an additional breakdown of the deposits by type of product: overnight, deposits with agreed maturity, redeemable at notice and repos. Following the recent BSI update, new subcategories are requested: overdrafts, syndicated loans, convenience credit card credit and extended credit card credit, e-money, debt securities issued with nominal capital certainty at redemption in the currency of denomination below 100%, transferable deposits.	FINREP breakdown by type of instruments: Assets: cash/loans and advances/debt securities/equity instruments/derivatives held for trading /derivatives for hedging activity/tangible assets/intangible assets/investments in entities accounted for using the equity method/tax assets/assets under insurance and reinsurance contracts/other assets. Liabilities: deposits/debt securities issued/other financial liabilities/short positions/derivatives held for trading/derivatives for hedging activity/provisions/tax liabilities/liabilities under insurance and reinsurance contracts/other liabilities/share capital repayable on demand. FINREP includes, in a non-core template, an additional breakdown of the deposits by type of product: overnight, deposits with agreed maturity, redeemable at notice and repos. FINREP requires a “breakdown of loans and advances by product” whose definitions refer to IFRS 7.IG 211, and a link to ECB Regulation has been included in the revised Guidelines (par. 4.3).

COREP (CRD/CAD) approach	Key similarities and differences between COREP, FINREP and MIR	Key similarities and differences between BSI and FINREP
COREP classifies the assets subject to credit risk capital requirements among different "exposure classes" that are regulated by the Capital Requirements Directive (in particular, under Articles 79 and 86). The exposure classes are a mix between counterpart sector and instrument breakdowns. They generally specify a sector of counterpart for debt instruments (debt securities and loans and advances) but rather an instrument breakdown for equity and other assets. Nevertheless, in the standardised approach, debt instruments that meet some criteria must be included in specific exposure classed independently of the counterparty sector (e.g. past due, items belonging to the regulatory high risk category, and so on).	In the MIR framework, units resident in an economy are grouped into two institutional sectors. In the COREP counterpart breakdown, units are grouped into exposure classes on the basis of their risk profile, without regard to their residency. This is particularly relevant as regards the distinction between non-financial corporations and households. In non-core templates of FINREP, loans and deposits are classified into different sectors, among them financial corporations and households.	In the BSI (ESA 95) framework, units resident in an economy are grouped into five mutually exclusive institutional sectors based on their principal functions, behaviour and objectives. In the FINREP counterpart breakdown, sectors are grouped into eight classes on the basis of their economic nature. With the revised FINREP, reconciliation between the two reporting schemes is feasible. The main difference is that in FINREP the "other financial corporations" sector could include investment firms that meet the BSI definition of MFIs.
Under the maturity-base approach of the standardised approach, debt instruments in the trading book are classified on the basis of their residual maturity.	MIR requires breakdown on original maturity and initial rate fixation. COREP and FINREP do not require the original maturity and initial rate fixation period.	BSI requires original maturity, residual maturity, and rate reset interval breakdowns. FINREP has no reporting requirements.
For assets, COREP tables on credit risk do not require specification of the type of asset to be reported in the heading "On-balance sheet items", but this item must include the following type of instruments: "Debt instruments" (debt securities and loans and advances) for tables that provide data on the exposure classes (in both SA and IRB approaches): Government, (and central banks), institutions, corporate and retail. "Equity instruments", in table CR EQU IRB. For own funds: eligible capital (paid up capital, other instruments eligible as capital, etc.), eligible reserves, funds for general banking risks, other country-specific original own funds, additional own funds. COREP does not include definitions of deposits and loans, although it shall be assumed that they are the same as those used for FINREP (as prudential data stem from the accounting framework – both IAS/IFRS and accounting directive regulations). In COREP, a given loan may only be included once for the calculation of capital requirements (in an exposure class for credit risk or in a table for market risk).	The definition of deposits and their breakdown by type of product are the same in FINREP as in BSI/MIR. FINREP includes, in Table 6.A (non-core), a breakdown of loans and advances by product whose definitions allow full bridging with the BSI definition of loans (see Annex 4.3 of the BSI-FINREP bridging report). COREP does not include definitions of deposits and loans, although it stems from the accounting framework. In the BSI/MIR Regulations, loans are broken down both by product and by purpose. In MIR, a given loan may only be included in one category. In COREP, a given loan may only be included once for the calculation of capital requirements. In FINREP, a "loan" or "advance" must only be reported in one of the categories of the breakdown by product.	FINREP contains a breakdown between equity instruments/debt securities/loans and advances/etc. This breakdown has a clear bridging with the MFI first-level breakdown loans/securities other than shares/shares and other equity/etc. Among other things, the bridging makes it possible to clarify the statistical classification of certain accounting entries specified in FINREP. Nevertheless, in FINREP there is a lack of data on the type of instruments classified in the financial statements under the specific categories of assets and liabilities "held for sale" in accordance with IFRS 5 (see comment on this issue).

Issue	MFI interest rate requirements (MIR)	MFI balance sheet requirements (BSI)	FINREP (IFRS) approach
Collateral/ guarantees received	For some types of new loans to NFCs and HHs. MIR Regulations request the identification of the amount and interest rate relating to those secured by collateral (real estate or other collateral) and/or guarantees that meet some criteria. More specifically, the new Regulation states that "for the purpose of MFI interest rate statistics, the breakdown of loans according to collateral/ guarantees includes the total amount of new business loans which are collateralised using the "funded credit protection technique" as defined in Article 4(31) and Annex VIII, Part 1, Sections 6-25 of Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast) and/or guaranteed using the "unfunded credit protection technique" as defined in Article 4(32) and Annex VIII, Part 1, Sections 29-26 of Directive 2006/48/EC, in such a way that the value of the collateral and/or guarantee is higher than or equal to the total amount of the loan."	BSI requires a breakdown of loans that meet specific criteria according to real estate collateral. More specifically, this breakdown includes loans which are real estate collateralised in accordance with VIII, Part 1, Sections 13-19 of Directive 2006/48/EC, *with an outstanding loan/collateral ratio of 1 or below 1*. If these rules are not applied by the reporting agent, the determination of the loans to be included in this breakdown is based on the approach chosen to comply with capital requirements.	In FINREP, there is a breakdown by type of "loan and advances" which takes into account the type of collateral received in Table 6.A. (real estate and other collateral). Loans must be classified as collateralised independently of their loan-to-value. FINREP does not refer directly to the CRD. Thus, mortgage loans (real estate collateralised) and other collateralised loans could include collateralised loans that are not eligible for capital requirements purposes. Additionally, FINREP includes, in Table 17, the notional of all guarantees received, regardless of whether they meet the CRD criteria for being eligible for solvency purposes, or are not guaranteeing loans. Furthermore, FINREP Table 6.B provides a breakdown of loans by collateral and guarantees for reporting the maximum collateral/guarantee that can be considered.
Securitisation and other transfers	In MIR there are no specific information requirements for securitisations and other transfers. Derecognition rules are the same as in BSI.	New BSI regulations require the reporting of specific tables with data on transferred loans, with distinction between traditional securitisations and other transfers. The data to be provided are net flows of loans transferred during the period, outstanding amounts of securitised loans not derecognised, and outstanding amounts of loans serviced in a securitisation broken down by sector and residence of the counterparty. BSI does not require data on synthetic securitisations.	The revised FINREP framework has information about securitisation and other types of transfer of financial assets in the non-core Table 12 "Transfer of financial assets". Within this table, there is– for each IAS 39 portfolio – a breakdown by type of transfer (securitisation, repurchase agreement and rest) and by product (except for HTM and IFRS 5 – "held for sale") disclosing the total amount of original assets not derecognised that has been securitised (and the associated liabilities). Additionally, there is data on the total amount of financial assets entirely derecognised, for which the entity retains servicing rights and amounts derecognised exclusively for capital purposes. FINREP does not provide a definition of 'securitisation', although it can be assumed that the CRD definition of traditional securitisation applies. FINREP does not require data on synthetic securitisations. Nevertheless, Table 17 provides data on guarantees received (including derivatives) and Table 6.b provides data on the maximum collateral/guarantee that can be considered.

COREP (CRD/CAD) approach	Key similarities and differences between COREP, FINREP and MIR	Key similarities and differences between BSI and FINREP
According to the CRD: a) for intermediaries adopting the standardised approach, for credit risk, some exposures secured by mortgages on residential property or commercial real estate represent a specific exposure class (Annex VI, part 1, points 45-60 of Directive 2006/48/EC); b) for intermediaries adopting the SA or the FIRB approach, some real estate and other collateral constitute a specific type of funded credit protection (defined in annex VIII, part 1, points 6-25 and subject to the minimum requirements laid down in annex VIII, part 2, point 14 of Directive 2006/48/EC); c) for intermediaries adopting the AIRB approach, specific requirements for the recognition of some real estate in estimating own LGDs are provided for (annex VIII, part 3, points 73-86 of Directive 2006/48/EC).	In general terms, the MIR framework and the COREP refer to common definitions of collateral and guarantees. More specifically, the new Regulation says "If an MFI applies a system different from the 'standardised approach' as defined in Directive 2006/48/EC for supervisory purposes, it may also apply the same in the reporting of loans included under this breakdown". Divergences between the two frameworks can arise with respect to the following aspects: a) A divergence could emerge if the collateral was not considered eligible for capital purposes according to Annex VIII, Part 2, point 8 (minimum requirements, e.g. in terms of legal certainty and monitoring of property values). b) the MIR Regulation requires that the value of the collateral and/or guarantee is higher than or equal to the total amount of the loan; the CRD provides for with different impacts on the LGD, depending on the value of the ratio C/E (collateral/exposures) with respect to the thresholds C* and C** (Annex VIII, Part 3, points 62-72). FINREP classifies loans as real estate collateralised or other collateralised loans when they are collateralised with that type of collateral, and the collateral independently meets: (i) the CRD criteria to be eligible for solvency purposes and (ii) the loan to value. Additionally, FINREP considers any guarantee received by the loans.	BSI framework uses the CRD definition of real estate collateral with a loan to value of 1 or below 1; meanwhile, in FINREP, mortgage loans include any real estate collateralised loans independently of the loan to value.
According to art. 4, point 36 of CRD, "securitisation" means a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranched, having the following characteristics: (a) payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; and (b) the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme. According to art. 4, point 37 of CRD, "traditional securitisation" means a securitisation involving the economic transfer of the exposures being securitised to a securitisation special purpose entity which issues securities. This is accomplished by the transfer of ownership of the securitised exposures from the originator credit institution or through sub-participation… According to art. 4, point 38 of CRD, "synthetic securitisation" means a securitisation where the tranching is achieved by the use of credit derivatives or guarantees, and the pool of exposures is not removed from the balance sheet of the originator credit institution.	There is no link between MIR, COREP and FINREP on data on securitisations and other transfers of loans.	BSI and FINREP require data on traditional securitisations and other transfers of loans. COREP requires data on traditional and synthetic securitisations, but not on other transfers of loans. FINREP does not provide a definition of securitisation, although it can be assumed that the CRD definition for traditional securitisations applies. This assumption could be clarified in the FINREP framework.

Issue	MFI interest rate requirements (MIR)	MFI balance sheet requirements (BSI)	FINREP (IFRS) approach
Bad debt loans	As mentioned above, bad loans, defined in BSI regulation as "the total amount of loans in respect of which repayment is overdue or otherwise identified as being impaired, partially or totally, in accordance with the definition of default in Directive 2006/48/EC", are excluded from MIR.	BSI Regulation includes the definition of "bad debt loans that have not yet been repaid or written off" used in MFI interest rate requirements (MIR). Nevertheless, BSI does not require separated data on "bad debt loans".	The definition of impairment on financial assets ("loans and advances", "debt securities" and "equity instruments") measured at amortised cost is reported in IAS 39, paragraphs 58-70. FINREP provides information on past due and impaired loans in Table 7. NB: The ED "Financial Instruments: Amortised Cost and Impairment" reports a clear definition of "non-performing" financial assets (Appendix A): "The status of a financial assets that is more than 90 days past due or is considered uncollectible". This proposed definition – if retained – could match with the COREP framework and thus with ECB regulations. FINREP does not require the amount of past due or impaired loans measured at fair value with changes through profit or loss (although, non-core Tables 5.B and C provide the "amount of cumulative change in the fair values attributable to changes in credit risk"; this amount is different than the total amount of the impaired loan).
Non-current assets and disposal groups classified as held for sale and Liabilities included in disposal groups classified as held for sale	In MIR, loans and deposits must be included in the statistics independently of whether they meet the criteria to be classified as "held for sale" in accordance to IFRS 5.	In BSI, loans, debt securities held, equity instruments, deposits and debt securities issued must be classified in the relevant instrument independently of whether they meet the criteria to be classified as "held for sale" in accordance with IFRS 5.	In FINREP, non-current assets and disposal groups classified as held for sale, as well as the associated liabilities, are to be recognised separately from other items of assets and liabilities on the balance sheet (classification according to IFRS 5 provisions). Nevertheless, FINREP does not provide a breakdown of this items by type of instrument (e.g., there is not data on loans, debt securities held, equity instruments, deposits and debt securities issued classified as "held for sale").

1) IFRS IG 7.21 states the following: "*Paragraph 36 requires an entity to disclose information about its exposure to credit risk by class of financial instrument. Financial instruments in the same class share economic characteristics with respect to the risk being disclosed (in this case, credit risk). For example, an entity might determine that residential mortgages, unsecured consumer loans, and commercial loans each have different economic characteristics*."

COREP (CRD/CAD) approach	Key similarities and differences between COREP, FINREP and MIR	Key similarities and differences between BSI and FINREP
According to art. 4, point 44 of CRD, "securitisation special purpose entity (SSPE)" means a corporation trust or other entity, other than a credit institution, organised for carrying on a securitisation or securitisations, the activities of which are limited to those appropriate to accomplishing that objective, the structure of which is intended to isolate the obligations of the SSPE from those of the originator credit institution, and the holders of the beneficial interests in which have the right to pledge or exchange those interests without restriction.		
For banks adopting the standardised approach, for credit risk, the following exposure classes include "bad debt loans": "past due items" (amounts overdue more than 90 days, see annex VI, part 1, points 61-65 of CRD) and "items belonging to regulatory high-risk categories", which can include impaired loans other than past due; see annex VI, part 1, points 66-67 of CRD). For banks adopting the IRB approaches for credit risk, this is the applicable definition of default (annex VII, part 4, points 44-48). For loans subject to market risk, COREP does not require data on past due, impairment or default.	The current definition of bad loans used in MIR matches the definition of default used in the COREP framework and in the CRD for capital requirements for credit risk under the IRB approaches. This definition is not used in COREP for the other loans. FINREP provides data exclusively on past due and impaired loans that are not measured at fair value through profit and loss. The CRD definition of "default" is slightly different from the accounting definition of "impaired assets" plus "past due but not impaired assets (over 90 days)", because a financial asset must be qualified as in "default" when it is considered that the obligor is unlikely to pay it in full "without recourse by the credit institution to actions such as realising security"; meanwhile, for classifying a loan as impaired in accordance with IAS 39, it is necessary to have an impairment loss after considering the security.	See previous comment on MIR.
In COREP, the loans, debt securities and equity instruments held must be classified in the relevant exposure class for the calculation of the capital requirements for credit risk (or in the relevant market risk table) independently of whether they are classified as "held for sale" in the financial statements. The same is true of the debt instruments held or issued that must be included in the calculation of capital requirements for market risk.	In MIR and COREP, instruments must be classified in the relevant instrument or exposure class (or market risk table), although they are classified in FINREP as "held for sale" in accordance with IFRS 5. FINREP does not provide a breakdown by type of instrument of "held-for-sale" assets and liabilities. The separate identification of the two items stemming from IFRS 5 provisions creates difficulties for bridging financial instruments in MIR/BSI/COREP and FINREP unless this framework includes a breakdown by instrument similar to the ones available for financial assets and financial liabilities in the IAS 39 portfolios.	See comment on MIR.

3 SCOPE OF APPLICATION OF IAS/IFRS, FINREP AND COREP, FOR BANKS, BY EU COUNTRY

Country	IAS/IFRS for solo b/s of listed corp.? 1)	IAS/IFRS for solo b/s of unlisted corp.? 1)	IAS/IFRS for cons. b/s of unlisted corp.? 1)	Use of Finrep (core/non-core) 2)	Use of Corep (CA/GS/CR/MR/OP) 3)	IAS impact on the CBD? 4)
AT	No	No	Permitted	●/◖	●/●/◖/◖/◖	Partial
BE	No	No	Yes, required	●/●	●/●/◖/◖/◖	Yes
BG	Yes, required	Yes, required	Yes, required	●/●	●/●/●/●/●	Yes
CY	Yes, required	Yes, required	Yes, required	○/○ 5)	●/●/●/●/●	Yes
CZ	Yes, required	No	Yes, permitted	●/◖	◖/○/◖/◖/◖	Yes
DK	Yes, permitted	Yes, permitted	Yes, permitted	○/○ 6)	○/○/◖/○/◖	Yes
EE	Yes, required	Yes, required	Yes, required	●/○	●/○/ ◖/◖/◖	Yes
FI	Yes, required 7)	Yes, permitted	Yes, permitted	○/○ 8)	◖/○/◖/◖/●	Yes
FR	No	No	Yes, permitted	●/◖	◖/◖/◖/◖/◖	Yes
DE	No	No	Yes, permitted	○/○	●/○/◖/◖/◖	Partial
GR	Yes, required	Some, permitted	Some, permitted	●/○	●/○/●/●/◖	Yes
HU	No	No	No	○/○	●/●/●/●/●	No
IE	Yes, permitted	Yes, permitted	Yes, permitted	●/◖	●/○/●/●/●	Yes
IT	Yes, required	Yes, required	Yes, required	◖/◖	◖/◖/◖/◖/◖	Yes
LV	Yes, required	Yes, required	Yes, required	◖/○	●/○/◖/◖/◖	Partial
LT	Yes, required	Yes, required	Yes, required	●/● 9)	●/●/●/●/●	Yes
LU	Yes, required	Yes, required	Yes, required	●/◖	◖/○/◖/◖/◖	Yes
MT	Yes, required	Yes, required	Yes, required	○/○	◖/●/◖/○/●	Yes
NL	Yes, permitted	Yes, permitted	Yes, permitted	●/◖	●/●/●/●/◖	Partial
PL	Yes, permitted	Some, permitted	Yes, required	●/◖	●/●/●/●/●	Yes
PT	Yes, required	Some, permitted	Yes, required	○/○	●/○/◖/◖/●	Yes
RO	No	No	Yes, required	●/○	◖/●/◖/◖/●	Yes
SK	Yes, required	Yes, required	Yes, required	●/◖	◖/○/◖/◖/◖	Yes
SI	Yes, permitted	Yes, required	Yes, required	◖/○	◖/○/●/●/◖	Yes
ES	Yes, required 9)	Yes, required 9)	Yes, required 9)	●/◖ 10)	●/●/◖/◖/●	Yes
SE	No	No	Yes, permitted	●/?	●/○/◖/◖/◖	Yes
UK	Yes, permitted	Yes, permitted	Yes, permitted	○/○	●/○/◖/◖/◖	Yes

1) Source: EU Commission, updated as at 25/02/2008 (http://ec.europa.eu/internal_market/accounting/docs/ias/ias-use-of-options_en.pdf).
2) Source: CEBS (http://www.c-ebs.org/sd/spreadsheets/rules/FinRep.xls) and JEGR members ● = fully used; ◖ = partially used; ○ = not applied.
3) Source: CEBS (http://www.c-ebs.org/sd/spreadsheets/rules/CoRep.xls). CA = Capital Adequacy; GS = Group Solvency; CR = Credit Risk; MR = Market Risk; OR = Operational Risk.
4) This shows the impact of the different use of IAS on consolidated banking data (CBD). Source: ECB, EU banking sector stability report, September 2010 (http://www.ecb.europa.eu/pub/pdf/other/eubankingsectorstability201009en.pdf). As at end-2009, the total assets of IFRS and non-IFRS reporting EU banks in the Consolidated Banking Data (CBD) were €37.2 trillion, while the total assets of "non-IFRS and non-portfolio reporting IFRS banks" were €3.2 trillion.
5) While the CEBS tables are silent on the Cypriot situation for Finrep, information has been obtained by the WGMFS member from the Banking Supervision Division of the CBC.
6) Denmark does not use IFRS for prudential purpose according to the CEBS website (http://www.c-ebs.org/Supervisory-Disclosure/Rules-and-guidance.aspx).
7) In the case where consolidated annual accounts are not required to be drawn up.
8) Finland will implement FINREP from 2013 (core+partially non-core templates).
9) It was decided in Lithuania not to implement FINREP rev 2 just for one year due to the costly IT system changes and additional burdens on the Lithuanian banks, parent institutions of which will not implement FINREP rev 2 on 1 January 2012. Lithuania will continue using the present valid version of FINREP until FINREP rev 3 is drawn up.
10) In Spain, IAS/IFRS are not directly applied, but the legal text regulating accountancy of banks (issued by Banco de Espana) is in line with IAS/IFRS, although with some differences on some concrete points.

4 BRIDGING THE MFI BALANCE SHEETS REQUIREMENTS WITH FINREP EQUIVALENTS

4.1 RECONCILIATION BETWEEN VALUATION METHODS FOR LOANS AND DEPOSITS

A reconciliation between the nominal value (requested for statistical purposes) and the fair value and amortised cost (requested for supervisory purposes) is provided below.[1]

Nominal value	=	fair value
	+/-	impairment losses/reversal of[2]
	-	accrued interest
	+/-	fair value measurement (included embedded derivatives[3])
	-/+	premiums/discounts in the acquisition or origination
	+	origination fees[4]
	-	transaction costs
Nominal value	=	amortised cost
	+/-	impairment losses/reversal of
	-	accrued interest
	+/-	fair value hedge accounting in hedge items[5]
	-/+	premiums/discounts in the acquisition or origination
	+	origination fees[6]
	-	transaction costs

Regarding items needed to reconcile the nominal amount of loans and deposits with their carrying amount in IAS/IFRS, Regulation ECB/2008/32 establishes that "accrued interest" is included in "Remaining assets" ("Remaining liabilities"), and "impairment losses" in "Capital and reserves". The Regulation does not specify how the other items (fair value measurements, premiums/discounts in the acquisition or origination, etc.) should be classified in the BSI scheme. For the purpose of its classification system, the JEGR assumes that these balances are recorded under "Capital and reserves". The JEGR also recommends that the forthcoming update of the MFI guidance notes includes a clarification on this matter.

4.2 BRIDGING BETWEEN LOANS AND ADVANCES (FINREP) AND LOANS (BSI REGULATION)

The bridging below compares the definitions and measurement criteria used in FINREP Guidelines related to "loans and advances" with the definitions and measurement criteria used in BSI regulation related to "loans".

1) Definition of "loans and advances" (FINREP) and "loans" (BSI regulation)

In accordance with FINREP definitions, the instrument "loan" in BSI is equal to the instrument "loans and advances" of FINREP, except those "advances that cannot be classified as 'loans' according to the ECB Regulation".[7] Consequently, FINREP includes a product breakdown in Table 6.A that reports a specific item for the advances that cannot be classified as loans ("Loans and advances – Other").

1 The sign of the items relate to assets.
2 Only applicable to loans included in the available-for-sale category.
3 Applicable only for hybrid instruments included in the categories of financial instruments at fair value through profit and loss. Other embedded derivatives are separated from the host contracts (IAS39.11) and separately presented in FINREP in the items "derivatives held for trading" or "derivatives – hedge accounting".
4 When they are an integral part of the effective interest rate of the financial instrument, according to IAS 18 (Appendix 14.a (i)).
5 In fair value hedges, the carrying amount of the hedged item must be adjusted by the amount of the gain or loss attributable to the hedge risk (IAS 39.89).
6 When they are an integral part of the effective interest rate of the financial instrument, according to IAS 18 (Appendix 14.a (i)).
7 These advances are to be classified as "Remaining assets" in BSI.

FINREP Guidelines state that debt instruments held that meet the definition of loans in accordance with the ECB Regulation cannot be classified as debt securities even if classified as securities from a "legal perspective" (see par. 33 of Chapter II).

FINREP provides data on all loans and advances, except when they are classified as "Non-current assets and disposal groups classified as held for sale" in accordance with IFRS 5, because no breakdown is available for this aggregated item in the revised framework.

FINREP Table 10.A includes the item "Short positions – Loans and advances" that – although it is very rare to have short positions on loans – should be deducted from loans and advances to reconcile the two definitions.

2) Breakdown on the basis of their characteristics

Both FINREP and BSI Regulation include breakdowns of loans on the basis of their characteristics. FINREP provides a breakdown of "loans and advances" in Table 6.A on the basis of a mix of the following characteristics/attributes: collateral, type of product, counterpart and purpose.

To avoid overlapping in the classification of a single loan, FINREP Guidelines establish a hierarchy for the different attributes. Loans are to be classified according to the collateral: if they are collateralised, they must be allocated in accordance with the type and way in which the collateral is reported ("mortgage loans", "other collateralised loans", "finance leases" or "reverse repurchase loans").

Non-collateralised loans granted on the basis of bills or other documents that give the right to receive the proceeds of transactions for the sale of goods or provision of services must be classified as "trade receivables".

The other loans are to be classified according to the purpose: if granted for consumption, they are to be classified as "consumer credit"; otherwise, they must be classified according to maturity ("on demand" or "other term loans").

FINREP also includes, as a memorandum item, the amount of the "collateralised credit for consumption", which reports the loans given with this purpose classified as collateralised. Nevertheless, FINREP does not include information on loans for consumption that are classified as "trade receivables" (e.g. some cases of factoring without recourse when the obligor is a household).

The BSI Regulation classifies the loans on the basis of the same FINREP attributes, except for the origin of the loan (i.e. if they are "trade receivables"). Nevertheless, in the BSI Regulation, the classification in the different attributes is pure; thus, for BSI purposes, a given loan could be included simultaneously in several BSI items (e.g. it could be reported in both real estate collateral and revolving credits).

Some BSI Regulation definitions are not used for FINREP (Syndicated loans, Holdings of non-negotiable securities, Traded loans and loans granted on a trust basis), and some FINREP definitions are not used for BSI Regulation (trade receivables).

Table 1 provides a comparison between the definitions included in both frameworks to help reporting agents in the bridging between BSI statistical and FINREP items. This table states that there is a possible need for improvements in the following definitions included in FINREP:

a) The item "on demand (call) and short notice (current account)" should identify "short notice" loans with "current accounts"; meanwhile, in the BSI Regulation both types of loans are different. "Current accounts" are "Overnight deposits" in the BSI framework, and "Short notice" loans can be identified with the "deposits redeemable at notice" of the BSI Regulation. The latter should be classified as "other term loans" in FINREP, as they are available (in term of maturity) after a period of time from the notice. In addition, FINREP does not define the "short" term, although IFRS defines the "short" term as up to 12 months (but this definition should not be retained for this item).

b) The item "Other term loans" also includes "interbank deposits (transferable or not)", while the BSI Regulation states that "transferable" deposits are "those deposits within the category 'overnight deposits' which are directly transferable on demand to make payments to other economic agents by commonly used means of payment". Consequently, the reference in FINREP to "transferable or not" related to term loans should be dropped, because all term deposits are not transferable.

3) Classification on the basis of loan status: "impaired" (FINREP) and "bad debt" (BSI Regulation)

The BSI Regulation defines "bad debt loans" as "the total amount of loans in respect of which repayment is overdue or otherwise identified as being impaired, partially or totally, in accordance with the definition of default in Directive 2006/48/EC". This Directive defines "default" on loans – for banks using the IRB approach for credit risk capital requirements – when:

1. the credit institution considers that the obligor is unlikely to pay its obligations without recourse by the credit institution to actions such as realising security (if held); or

2. the obligor is past due more than 90 days on any material credit obligation to the credit institution.

The BSI definition of "bad debt loans" applies to all loans disregarding the portfolio in which they are classified in the financial statements or how they are treated for solvency purposes. BSI Regulation does not require specific data on "bad debt loans"; nevertheless, the BSI definition is used for the MIR statistics, where bad loans are not included in the weighted average interest rates.

FINREP does not include any information on the amount past due or on the impaired loans measured at fair value with changes through profit or loss (although Tables 5.B and C provide the "amount of cumulative change in the fair values attributable to changes in credit risk").

Nevertheless, FINREP provides a link with the statistical concept of "bad debt loans" in Table 7 – 'Information on impairment and past due' for loans and advances classified in the IAS 39 categories of available-for-sale, loans and receivables and held-to-maturity, because this table includes a breakdown of 'loans and advances' from a credit risk point of view. The relevant information is included in the columns "past due but not impaired (over 90 days)", "net carrying amount of the impaired assets" plus their allowances ("specific allowances for individually assessed financial assets", "specific allowances for collectively assessed financial assets" and "collective allowances for incurred but not reported losses").

In FINREP, loans and advances are classified as “impaired” according to IAS 39 provisions.

The Capital Requirements Directive definition of “default” is slightly different from the definition of “impaired assets” plus “past due but not impaired assets (over 90 days)”, because a financial asset must be qualified as in “default” when it is considered that the obligor is unlikely to pay it in full “without recourse by the credit institution to actions such as realising security”; meanwhile, for classifying a loan as impaired, it is necessary to have an impairment loss after considering the security.

Table 1 Definitions of FINREP Guidelines for loans and advances and of BSI Regulation for loans

Revised FINREP. Table 6.A Loans and advances by product		BSI Regulation. II Part 2. Instrument categories. Loans	
Breakdown	Guidelines for implementation: definitions	Breakdown	Definitions
On demand [call] and short notice [current account]	Includes balances receivable on demand, at short notice, and similar balances (e.g. loans that are overnight deposits for the borrower), regardless of their legal form.	Loans *that are* Overnight deposits *(for the borrower)*	*[Note: the BSI regulation establishes the definition of* Deposits *for the borrower (see liability category 9) but this definition applies also for the lender* (*see asset category 2.e).]* Deposits and loans. (…) The ESA 95 distinguishes between “loans” and “deposits” on the basis of the party that takes the initiative (if this is the borrower, then it constitutes a loan, but if this is the lender, then it constitutes a deposit). Overnight Deposits. Deposits which are convertible into currency and/or which are transferable on demand by cheque, banker’s order, debit entry or similar means, without significant delay, restriction or penalty. This item includes: – balances (interest-bearing or not) which are immediately convertible into currency on demand or by close of business on the day following that on which the demand was made, without any significant penalty or restriction, but which are not transferable, – balances (interest-bearing or not) representing prepaid amounts in the context of “hardware-based” or “software-based” e-money (e.g. prepaid cards), – loans to be repaid by close of business on the day following that on which the loan was granted. *[Note: FINREP includes balances “at short notice”, but it does not specify what time must be considered as “short” for this purposes. In this bridging, deposits redeemable at notice are included among other term loans.]*
	This item also includes “overdrafts” that are debit balances on current account balances.	Overdrafts	Overdrafts are debit balances on current accounts. (…) They exclude loans provided through credit cards.
Other term loans	Includes debit balances under non-collateralised transactions with contractually fixed maturities or terms that are not included in other items.		*[Note: In FINREP,* Other term loans *is the residual category. To be included in this item loans must not qualify to be classified in other items (in particular* Mortgage loans, Other collateralised loans or Consumer credit)*.]*

Table 1 Definitions of FINREP Guidelines for loans and advances and of BSI Regulation for loans (cont'd)

Revised FINREP. Table 6.A Loans and advances by product		BSI Regulation. II Part 2. Instrument categories. Loans	
Breakdown	**Guidelines for implementation: definitions**	**Breakdown**	**Definitions**
Other term loans	*N/A*	Revolving loans that are not collateralised	*[Note: BSI Regulation requires data on all "revolving loans", but this is a type of product that can be collateralised. In FINREP, when these types of loans are collateralised, they must be classified as "mortgage loans" or "other collateralised loans" depending on the collateral.]* Revolving loans are loans that have all the following features: 1) the borrower may use or withdraw funds up to a pre-approved credit limit without giving prior notice to the lender; 2) the amount of available credit can increase and decrease as funds are borrowed and repaid; 3) the credit may be used repeatedly; 4) there is no obligation to make regular repayment of funds. Revolving loans include the amounts obtained through a line of credit and not yet repaid (outstanding amounts). A line of credit is an agreement between a lender and borrower that allows a borrower to take advances, during a defined period and up to a certain limit, and repay the advances at his discretion before a defined date. (…) Revolving loans (…) exclude loans provided through credit cards. The total amount owed by the borrower is to be reported, irrespective of whether it is within or beyond any limit agreed beforehand between the lender and the borrower with regard to size and/or maximum period of the loan.
	This category also includes interbank deposits, whether transferable or not, and other fixed-term financial support.	Loans *that are* Deposits with agreed maturity *and* Deposits redeemable at notice *(for the borrower)*	*[Note: FINREP includes balances "at short notice" but it does not define the "short term". The bridge deposits redeemable at notice are included among other term loans.]* *[Note: BSI Regulation establishes that "transferable" deposits are exclusively "those deposits within the category 'overnight deposits' which are directly transferable on demand to make payments to other economic agents by commonly used means of payment". Consequently, the reference in FINREP to "transferable or not" related to term loans should be dropped because all term deposits are non-transferable.* *[Note: BSI Regulation establishes the definition of* Deposits *for the borrower (see liability category 9), but this definition applies also for the lender (see asset category 2.e).]* Deposits with agreed maturity. Non-transferable deposits which cannot be converted into currency before an agreed fixed term or that can only be converted into currency before that agreed term provided the holder is charged some kind of penalty. This item also includes administratively regulated savings deposits where the maturity related criterion is not relevant (…). Although deposits with agreed maturity may feature the possibility of earlier redemption after prior notification, or may be redeemable on demand subject to certain penalties, these features are not considered to be relevant for classification purposes.

Table 1 Definitions of FINREP Guidelines for loans and advances and of BSI Regulation for loans (cont'd)

Revised FINREP. Table 6.A Loans and advances by product		BSI Regulation. II Part 2. Instrument categories. Loans	
Breakdown	**Guidelines for implementation: definitions**	**Breakdown**	**Definitions**
			Deposits redeemable at notice. Non-transferable deposits without any agreed maturity which cannot be converted into currency without a period of prior notice before the expiry of which the conversion into currency is not possible or possible only with a penalty. They include deposits which, although perhaps legally withdrawable on demand, would be subject to penalties and restrictions according to national practice (…), and investment accounts without period of notice or agreed maturity, but which contain restrictive drawing provisions.
	"Subordinated loans" (loans that provide a subsidiary claim on the issuing institution which can be exercised only after all claims with a higher status have been satisfied) and	Subordinated debt in the form of deposits or loans	*[Note: the BSI Regulation includes this definition, but it does not require specific data on this type of loans.]* Subordinated debt instruments provide a subsidiary claim on the issuing institution that can only be exercised after all claims with a higher status (e.g. deposits/loans) have been satisfied, giving them some of the characteristics of "shares and other equity". For statistical purposes, subordinated debt is to be classified as either "loans" or "securities other than shares" according to the nature of the financial instrument.
	"project finance" (loans that are recovered solely from the income of the projects financed by them).	*N/A*	
Mortgage loans (Real estate collateralized loans)	Includes loans formally backed by real estate collateral.	Loans with Real estate collateral	For the purpose of this reporting scheme, the breakdown of loans according to real estate collateral includes the total amount of outstanding loans which are collateralised in accordance with VIII, Part 1, Sections 13-19 of Directive 2006/48/EC, with an outstanding loan/collateral ratio of 1 or below 1. If these rules are not applied by the reporting agent, the determination of the loans to be included in this breakdown is based on the approach chosen to comply with capital requirements.
		N/A	[Note: FINREP does not refer directly to Directive 2006/48/EC. Thus, the item Mortgage loans includes any real estate collateralised loan disregarding its loan-to-value-ratio.]
Other collateralised loans	Includes loans formally backed by collateral other than "real estate collateralised loans", "finance leases" and "reverse repurchase loans" (e.g. pledges of securities, cash, or other collateral).	*N/A*	[Note: the BSI Regulation does not include a definition and does not require specific data on this type of loan, but the MIR Regulation requires data on other collateralised loans that meet some criteria to be eligible for prudential purposes.]
Trade receivables	Includes loans to other debtors granted on the basis of bills or other documents that give the right to receive the proceeds of transactions for the sale of goods or provision of services. This item includes all factoring transactions (both with and without recourse).	*N/A*	

Table 1 Definitions of FINREP Guidelines for loans and advances and of BSI Regulation for loans (cont'd)

Revised FINREP. Table 6.A Loans and advances by product		BSI Regulation. II Part 2. Instrument categories. Loans	
Breakdown	**Guidelines for implementation: definitions**	**Breakdown**	**Definitions**
Finance leases	Includes the carrying amount of finance lease receivables as defined in IAS 17.	Financial leases granted to third parties	*[Note: the BSI regulation includes this definition, but it does not require specific data.]* Financial leases are contracts whereby the legal owner of a durable good ("lessor") lends these assets to a third party ("lessee") for most if not all of the economic lifetime of the assets, in exchange for instalments covering the cost of the good plus an imputed interest charge. The lessee is in fact assumed to receive all of the benefits to be derived from the use of the good and to incur the costs and risks associated with ownership. For statistical purposes, financial leases are treated as loans from the lessor to the lessee (enabling the lessee to purchase the durable good). The assets (durable goods) which have been lent to the lessee are not recorded anywhere on the MFI's balance sheet.
Reverse repurchase loans	Includes finance granted in exchange for securities bought under repurchase agreements or borrowed under securities lending agreements.	Claims under reverse repos or securities borrowing against cash collateral	Counterpart of cash paid out in exchange for securities purchased by reporting agents, or securities borrowing against cash collateral, see liability item 9.4.
Consumer credit	Includes "credit for consumption" (loans granted mainly for the personal consumption of goods and services) that are not collateralised,	Credit for consumption	*[Note: In FINREP, the item* Credit for consumption *does not include those loans that qualify to be classified as FINREP* Mortgage loans or Other collateralised loans. *These loans are classified in the memorandum item* "collateralised credit for consumption". *Additionally, the item* Credit for consumption *does not include the loans that meet the definition of* "trade receivables", *although their purpose is credit for consumption (e.g. some factoring transactions without recourse). In the BSI Regulation*, Credit for consumption *includes all loans granted for this purpose.]* Credit for consumption (loans granted for the purpose of mainly personal use in the consumption of goods and services). Credit for consumption granted to sole proprietors/unincorporated partnerships is comprised in this category if the reporting MFI knows that the loan is predominantly used for personal consumption purposes.
	as well as credit granted to "retail", "non-financial corporates", and "other financial corporations" using delayed debit cards or credit cards (ECB Regulation).	Credit card debt	*[Note: In FINREP,* Credit card debt *includes credit granted to "retail", "non-financial corporations", and "other financial corporations". In the BSI Regulation, information on* Credit card debt *is required only for credit granted to "households" or" non-financial corporations".]*

Table 1 Definitions of FINREP Guidelines for loans and advances and of BSI Regulation for loans (cont'd)

Revised FINREP. Table 6.A Loans and advances by product		BSI Regulation. II Part 2. Instrument categories. Loans	
Breakdown	Guidelines for implementation: definitions	Breakdown	Definitions
			For the purpose of this Regulation, this category comprises credit granted to households or non-financial corporations either via delayed debit cards (i.e. cards providing convenience credit as defined below) or via credit cards (i.e. cards providing convenience credit and extended credit). Credit card debt is recorded on dedicated card accounts and therefore not evident on current or overdraft accounts. Convenience credit is defined as the credit granted at an interest rate of 0% in the period between the payment transaction(s) effectuated with the card during one billing cycle and the date at which the debit balances from this specific billing cycle become due. Extended credit is defined as the credit granted after the due date(s) of the previous billing cycle(s) has/have passed, i.e. debit amounts on the card account that have not been settled when this was first possible, for which an interest rate or tiered interest rates usually greater than 0% are charged. Often minimum instalments per month have to be made, to at least partially repay extended credit. The counterpart to these forms of credit is the entity liable to eventually repay the amounts outstanding in accordance with the contractual agreement, which coincides with the cardholder in the case of privately used cards, but not in the case of company cards.
N/A	*[Note: the FINREP breakdown of* loans *does not include the item "syndicated loan"; they are included under the item "Other term loans" or other items when feasible (e.g. collateralised loans).*	Syndicated loans (single loan agreements, in which several institutions participate as lenders)	Syndicated loans only cover cases where the borrower knows, from the loan contract, that the loan is made by several lenders. For statistical purposes, only amounts actually disbursed by lenders (rather than total credit lines) are regarded as syndicated loans. The syndicated loan is usually arranged and coordinated by one institution (often called the "lead manager") and is actually made by various participants in the syndicate. Participants, including the lead manager, all report their share of the loan vis-à-vis the borrower (i.e. not vis-à-vis the lead manager) in their balance sheet assets.
N/A	*[Note: in the FINREP framework, debt instruments that meet the definition of loans in accordance with the BSI Regulation cannot be classified as debt securities even though they are securities from a legal point of view.*	Holding of non-negotiable securities	*[Note: the BSI Regulation includes this definition, but it does not require specific data.]* Holdings of securities other than shares and other equity which are not negotiable and cannot be traded on secondary markets, see also "traded loans".
N/A	*[Note: FINREP does not include data on these loans, which continue to be recognised according to the product by which they are represented (e.g. mortgage loan, finance lease, etc.).]*	Traded loans	*[Note: the BSI regulation includes this definition, but it does not require specific data.]* Loans that have *de facto* become negotiable are to be classified under the asset item "loans" provided they continue to be evidenced by a single document and are, as a general rule, only traded occasionally.

Table 1 Definitions of FINREP Guidelines for loans and advances and of BSI Regulation for loans (cont'd)

Revised FINREP. Table 6.A Loans and advances by product		BSI Regulation. II Part 2. Instrument categories. Loans	
Breakdown	**Guidelines for implementation: definitions**	**Breakdown**	**Definitions**
Other	Includes advances that cannot be classified as "loans" according to the ECB Regulation, such as gross amounts receivable in respect of suspense items (e.g. funds that are awaiting investment, transfer, or settlement) and transit items (e.g. cheques and other forms of payment that have been sent for collection).	*Part of* Remaining assets *(including* gross amounts receivable in respect of suspense items, gross amounts receivable in respect of transit items *and* Amounts receivable not related to the main MFI business)	*[Note: these amounts are not BIS* loans*; they are FINREP* advances.*]* The item "remaining assets" is the residual item on the asset side of the balance sheet, defined as "assets not included elsewhere". NCBs may require the reporting of specific sub-positions included in this item. Remaining assets may include: (…) b) gross amounts receivable in respect of suspense items Suspense items are asset balances held in the MFI balance sheet which are not booked in the name of customers but which nevertheless relate to customers' funds (e.g. funds that are awaiting investment, transfer or settlement). c) gross amounts receivable in respect of transit items Transit items represent funds (usually belonging to customers) that are in the course of being transmitted between MFIs. Items include cheques and other forms of payment that have been sent for collection to other MFIs. (…) f) amounts receivable not related to the main MFI business

N/A: not applicable (there is no clarification about the item in the framework notwithstanding the fact that it is included)

4.3 BRIDGING THE BSI REQUIREMENTS WITH FINREP EQUIVALENT

3) Bridging the BSI and FINREP instrument breakdowns

This table describes the coverage of the instrument from the side of the BSI and lists the best matching FINREP items (from Tables 1.1 to 1.3 and other non-core tables). This exercise is complicated by the differences in the structure of the two reporting schemes, as well as by the low level of instrument detail in the FINREP balance sheet. The JEGR has developed a relational database in MS Access in order to formalise this bridging.

Table 2 Assets

BSI requirement	FINREP "equivalent"
Cash	
Holdings of euro and foreign banknotes and coins in circulation that are commonly used to make payments.	The item "Cash on hand" of Table 1.1 should be considered.
Loans	
Funds lent by reporting agents to borrowers, which are not evidenced by documents or are represented by a single document (even if it has become negotiable). It also includes assets in the form of deposits. It particularly includes: • Loans to households for all purposes (e.g. house purchase, consumer, etc.);	The following items should be added: • Loans and advances: Total (Table 6.A); • Loans and advances (amount not separately available in FINREP) included in "Non-current assets and disposal groups classified as held for sale".

Table 2 Assets (cont'd)

BSI requirement	FINREP "equivalent"
• Credit card debt; • Revolving loans and overdrafts; • Syndicated loans; • Deposits with credit institutions; • Financial leases, which are lease contracts where the lessee incurs the costs and risks associated with the ownership of the good. The durable good which has been lent to the lessee should not be recorded in the MFI balance sheet. This kind of lease contract should be recorded as the provision of a loan for the acquisition of a good by the lessee; • Bad debt loans in respect of which repayment is overdue or identified as being impaired; • Non-negotiable securities, i.e. securities that cannot be traded in secondary markets; • Traded loans; • Subordinated debt in the form of loans and deposits; • Claims under reverse repos or securities borrowed against collateral, i.e. the counterpart cash paid out in exchange for securities purchased by reporting agents.	The following item of Table 6.A should be subtracted: • "Type of loans and advances – Other". This item includes advances that cannot be classified as "loans" according to ECB/2008/32 (disregarding IAS 39 classes of financial asset). The following amount should be subtracted: • The difference between the carrying amount of the loans and their principal amount outstanding. **Notes:** 1) FINREP "Loans and receivables – loans and advances" does not include BSI "securities other than shares" because debt securities which can be traded in secondary markets (even only sporadically) shall be classified as "debt securities" (and never as "loans and advances"). 2) Table 6.A of FINREP provides a breakdown of "all" loans and advances by product, except those classified as "Non-current assets and disposal groups classified as held for sale". This means this table includes loans and advances reported under "Demand deposits and cash equivalents" and under all IAS 39 portfolios. 3) "Loans and advances" include financial assets that do not meet the definition of loans according to ECB Regulations (e.g. gross amounts receivable in respect of suspense and transit items). These financial assets that are included in the breakdown of loans and advances by product of Table 6.A of FINREP in the item "Other" should be classified under the category "remaining assets" of BSI. 4) FINREP includes in Table 10. A an item for "short positions – Loans and advances" (rare to have in practice). 5) As for the reconciliation between the principal amount of loans and their carrying amount according to IAS/IFRS, Regulation ECB/2008/32 establishes that "accrued interest incomes" (recorded together with the underlying instrument within FINREP) shall be included in "Remaining assets", while "impairment losses" shall be recorded in "Capital and reserves". The BSI scheme does not clarify the classification of other items (fair value measurements, premiums/discounts in the acquisition or origination, etc.). For the purpose of its classification system, the JEGR assumes that these balances are recorded under the item "Capital and reserves". The JEGR also recommends that the forthcoming update of the MFI guidance notes includes a clarification on this matter. 6) FINREP includes the following data on "impairment losses (allowances)" and "cumulative change in the fair values attributable to changes in the credit risk" that must be included under "Capital and reserves" in BSI: • Breakdown of demand deposits and cash equivalents – Loans and advances" (table 5.A). The amount of cumulative allowances for impairment losses is not available, although the expectation is that there is not impairment for these loans (because of the inclusion within the concept of "cash equivalents"). • "Financial assets held for trading – loans and advances". The amount of cumulative change in the fair values attributable to changes in the credit risk is available in Table 5.B; • "Financial assets designated at fair value through profit or loss – loans and advances". The amount of cumulative change in the fair values attributable to changes in the credit risk is available in Table 5.C. • "Available-for-sale financial assets – loans and advances". The amount of accumulated impairment (allowances) is available in Table 5.D;

Table 2 Assets (cont'd)

BSI requirement	FINREP "equivalent"
	• "Loans and receivables: loans and advances". The amount of allowances is available in Table 5.E; • "Held-to-maturity investments – loans and advances". The amount of allowances is not available in Table 5.E because there is not a breakdown between loans and advances and debt securities, but it can be derived from table 7 in which there is the total allowances for loans and advances.
Securities other than shares	
Holdings of securities other than shares or other equity (debt securities), which are negotiable and usually traded on secondary markets or can be offset in the market, and which do not grant the holder any ownership rights over the issuing institution. This includes: • Holdings of securities which give the holder the unconditional right to a fixed or contractually determined income in the form of coupon payments and/or a stated fixed sum at a specified date (or dates) or starting from a date defined at the time of issue; • Negotiable loans that have been restructured into a large number of identical documents and can be traded on secondary markets; • Subordinated debt in the form of debt securities; • Debt securities lent out under securities lending operations should remain on the original owner's balance sheet; • Convertible bonds, as long as they have not been converted. Where separable from the underlying bond, the conversion option should be regarded as a separate financial asset (derivative); • "Short selling" – the sale of a financial asset not currently held on-balance sheet – should be recorded as a negative position in debt securities. This treatment is designed to avoid duplications.	The following items of Tables 1.1 and 5.A should be added (consistent with the definition of "debt securities"): • "Demand deposits and cash equivalents – debt securities" (table 5.A); • "Financial assets held for trading – debt securities" (Table 1.1 or 5.B); • "Financial assets designated at fair value through profit or loss – debt securities" (table 1.1 or 5.C); • "Available-for-sale financial assets – debt securities" (Table 1.1 or 5.D); • "Loans and receivables – debt securities" (Table 1.1 or 5.E); • "Held-to-maturity investments – debt securities" (Table 1.1); • Debt securities included in "Non-current assets and disposal groups classified as held for sale" (Table 1.1). This amount is not separately available in FINREP. The following items of Table 1.2 should be subtracted: "Financial liabilities held for trading – short positions" – Debt securities. • Table 10 includes a distinction (not included in Table 1.2) between "Short positions – In equity instruments" and "Short positions – In fixed income instruments". Note: When an entity securitises a loan through an FVC but does not derecognise the loan for accounting purposes, a new liability in the form of a deposit is recognised for the consideration received. When the entity buys securities issued by the FVC, according to BSI rules, this entity has to recognise these securities as an asset; meanwhile, in accordance with IAS 39, it should offset the liability to avoid the duplication of assets. Thus, the treatment in the BSI rules is different from the treatment applied in FINREP, where these securities are not recognised in the asset side but subtracted in the liability side previously recognised for the consideration received.
Money market fund shares/units	
Holdings of shares/units issued by MMFs. MMFs are CIU whose shares/units are, in terms of liquidity, close substitutes for deposits and which primarily invest in money market instruments and/or in MMF shares/units and/or in other transferable debt instruments with a residual maturity of up to and including one year, and/or in bank deposits, and/or which pursue a rate of return that approaches the interest rates of money market instruments.	Parts of the following items of Tables 1.1 and 5.A should be added (only those parts issued by MMFs): • "Demand deposits and cash equivalents – equity instruments" issued by MMFs (table 5.A); • "Financial assets held for trading – equity instruments" (Table 1.1 or 5.B) issued by MMFs; • "Financial assets designated at fair value through profit or loss – equity instruments" (Table 1.1 or 5.C) issued by MMFs; • "Available-for-sale financial assets – equity instruments" (Table 1.1 or 5.D) issued by MMFs; • "Investments in entities accounted for using the equity method" (Table 1.1) issued by MMFs (rare case in practice); • Equity instruments issued by MMFs included in "Non-current assets and disposal groups classified as held for sale" (Table 1.1). This amount is not separately available in FINREP.

Table 2 Assets (cont'd)

BSI requirement	FINREP "equivalent"
	The following items of Table 10.A should be subtracted: • "Financial liabilities held for trading – short positions". Equity instruments issued by MMFs. Note: Those parts of "equity instruments" issued by MMFs are not separately available in FINREP.
Shares and other equity	
Holdings of securities which represent property rights in corporations or quasi-corporations. These securities generally entitle the holders to a share in the profits of corporations or quasi-corporations and to a share in their own funds in the event of liquidation. Mutual fund shares (other than MMF shares/units) are included here. "Short selling" positions in shares and other equity should be subtracted.	Parts of the following items of Tables 1.1 and 5.A should be added (except parts regarding MMFs): • "Demand deposits and cash equivalents – equity instruments" excluding shares/units issued by MMFs (Table 5.A); • "Financial assets held for trading – equity instruments" (Table 1.1 or 5.B), excluding shares/units issued by MMFs; • "Financial assets designated at fair value through profit or loss – equity instruments" (Table 1.1 or 5.C), excluding shares/units issued by MMFs; • "Available-for-sale financial assets – equity instruments" (Table 1.1 or 5.D), excluding shares/units issued by MMFs; • "Investments in entities accounted for using the equity method" (i.e. investments in associates, subsidiaries and joint ventures) (Table 1.1 or 5.E); • Equity instruments included in "Non-current assets and disposal groups classified as held for sale". This item is not separately available in FINREP. The following items of Table 10.A should be subtracted: "Financial liabilities held for trading – short positions". Equity instruments (excluding shares/units issued by MMFs).
Fixed assets	
This consists of non-financial assets, tangible or intangible, which are intended to be used repeatedly for more than one year by reporting agents. They include land and buildings occupied by the MFIs, as well as equipment, software and other infrastructure.	The following items of Table 1.1 should be added: • "Tangible assets"; • "Intangible assets". Note: Tangible and intangible assets classified under "Non-current assets and disposal groups classified as held for sale" should not be classified as fixed assets, but instead as remaining assets, due to their non-current nature (i.e. to be sold within one year).
Remaining assets	
This item is regarded as the residual item on the asset side of the balance sheet, defined as 'assets not included elsewhere'. It generally includes: • Financial derivative positions with gross positive market values; • Gross amounts receivable in respect of suspense and transit items; • Accrued interest receivable on loans and assets in the form of deposits; • Dividends to be received; • Amounts receivable not related to the core business. Note: Contingent assets (contingencies), i.e. instruments which are contingent or conditional on the occurrence of uncertain future events, should not be recorded in the balance sheet, but instead off-balance sheet. They are for example guarantees, commitments, administered and trust loans.	The following items of Table 1.1 should be added: • "Financial assets held for trading – derivatives held for trading"; • "Derivatives – Hedge accounting"; • "Tax assets"; • "Other assets"; • All non-financial "Non-current assets and disposal groups classified as held for sale" except loans, deposit assets, debt securities and equity. These amounts are not separately available in FINREP. The following item of Table 6.A should be added: • "Loans and advances – Other". Notes: (1) The item "Loans and advances – Other" includes advances that cannot be classified as "loans" according to ECB/2008/32. Financial assets included under "Loans and advances" that do not meet the definition of loans from the ECB Regulation (e.g. amounts receivable not related to the core business, dividends to be received and amounts receivable in respect of suspense and transit items) should be classified under the category "remaining assets".

Table 2 Assets (cont'd)

BSI requirement	FINREP "equivalent"
	(2) "Remaining assets" should include all non-financial "Non-current assets and disposal groups classified as held for sale", as they are intended to be sold within one year, as well as financial assets included in "Non-current assets and disposal groups classified as held for sale" which are not classified elsewhere (i.e. all except loans, debt securities and equity instruments that must be classified in the relevant BSI instrument).
Of which: financial derivatives	
Financial derivative instruments that have a market value should be subject to on-balance sheet recording. They have a market value when they are traded on organised markets or in circumstances in which they can be regularly offset on non-organised over-the-counter markets. Derivatives should be recorded on a gross basis; therefore, derivative contracts with gross positive market values should be recorded on the asset side. **Note**: Notional amounts should not be entered as on-balance sheet items.	The following items of Table 1.1 should be added: • "Financial assets held for trading – derivatives held for trading"; • "Derivatives – Hedge accounting"; • Derivatives included in "Non-current assets and disposal groups classified as held for sale". This amount is not separately available in FINREP.
Of which: accrued interest	
Accrued interest on the category "loans", i.e. interest that is receivable on the balance sheet reporting date, but which is not due to be received until a future date, is to be classified on a gross basis under this category. Accrued interest is to be excluded from the loan to which it relates, which should be valued at the nominal amount outstanding on the reporting date.	In FINREP, accrued interest is recorded together with the underlying instrument.

Table 2 Liabilities

BSI requirement	FINREP "equivalent"
Deposits	
Amounts owed to creditors by reporting agents, other than those arising from the issue of negotiable securities. This category also covers loans as liabilities of MFIs. Non-negotiable debt instruments issued by reporting agents are generally to be classified in this category. Instruments may be referred to as being "non-negotiable" in the sense that there are restrictions to the transfer of legal ownership of the instrument, which means that they cannot be marketed or, although technically negotiable, they cannot be traded owing to the absence of an organised market. Non-negotiable instruments issued by reporting agents that subsequently become negotiable and that can be traded on secondary markets should be reclassified in the category "debt securities"; syndicated loans received by MFIs fall under this category.	The following items of Table 1.2 should be added: • "Financial liabilities held for trading – deposits"; • "Financial liabilities designated at fair value through profit and loss – deposits"; • "Financial liabilities measured at amortised cost – deposits"; • Deposits and loans as liabilities of MFIs included in "Liabilities included in disposal groups classified as held for sale". This amount is not separately available in FINREP. • Part of "Share capital repayable on demand" (if no significant penalties apply). **Note:** This instrument should be classified in "Overnight deposits" in BSI. The following amount should be subtracted: • The difference between the carrying amount of the deposits and their principal amount outstanding.

Table 2 Liabilities (cont'd)

BSI requirement	FINREP "equivalent"
Margin deposits (margins) made under derivative contracts should be classified in this category, where they represent cash collateral deposited with MFIs and where they remain in the ownership of the depositor and are repayable to the depositor when the contract is closed out. On the basis of current market practice, it is also suggested that margins received by the reporting agent should only be classified as deposits to the extent that the MFI is provided with funds that are freely available for on-lending. Where a part of the margin received by the MFI has to be passed to another derivatives market participant (e.g. the clearing house), only that part which remains at the disposal of the MFI should in principle be classified as deposits. The complexities of current market practice may make it difficult to identify those margins that are truly repayable, because different types of margin are placed indistinguishably within the same account, or those margins that provide the MFI with resources for on-lending. In these cases, it is acceptable to classify these margins under the category "remaining liabilities" or as deposits, according to national practice; "earmarked balances related to e.g. leasing contracts" are classified as deposits under "deposits with agreed maturity" or "deposits redeemable at notice", depending on the maturity/provisions of the underlying contract. For the purposes of the reporting scheme, this category is further broken down into: • Overnight deposits - Deposits which are convertible into currency and/or which are transferable on demand by cheque, banker's order, debit entry or similar means, without significant delay, restriction or penalty. Balances representing prepaid amounts in the context of electronic money issued by MFIs, either in the form of "hardware based" e-money (e.g. prepaid cards) or "software based" e-money, are included under this item. This item excludes non-transferable deposits which are technically withdrawable on demand but which are subject to significant penalties. • (of which Transferable deposits) - Transferable deposits are those deposits within the overnight deposits category, which are directly transferable on demand to make payments to other economic agents by commonly used means of payment, such as credit transfer and direct debit, possibly also by credit or debit card, e-money transactions, cheques, or similar means, without significant delay, restriction or penalty. Deposits that can only be used for cash withdrawal and/or deposits from which funds can only be withdrawn or transferred through another account of the same owner are not to be included as transferable deposits." • Deposits with agreed maturity – Non-transferable deposits which cannot be converted into currency before an agreed fixed term or that can only be converted into currency before that agreed term provided the holder is charged some kind of penalty. This item also includes administratively regulated savings deposits where the maturity-related criterion is not relevant. Financial products with roll-over provisions must be classified according to the earliest maturity. Although deposits with agreed maturity may feature the possibility of earlier redemption after prior notification, or may be redeemable on demand subject to certain penalties, these features are not considered to be relevant for classification purposes.	Financial liabilities held for trading, designated at fair value through profit and loss and measured at amortised cost, except those classified as "held for sale", are further broken down by type of deposit (overnight deposits, deposits with agreed maturity, deposits redeemable at notice and other deposits), as specified in Regulation ECB/2008/32, in Table 10.A. Note: (1) When available, accrued interest expenses on deposits and loans taken should be removed from this category and classified on a "gross basis" under the category "remaining liabilities" in the ECB Regulation. However, in FINREP, accrued interest expense is recorded together with the underlying instrument. (2) When an entity securitises a loan through a FVC but does not derecognise the loan for accounting purposes, a new liability in the form of a deposit is recognised for the consideration received. When the entity buys securities issued by the FVC, according to BSI rules, this entity has to recognise these securities as an asset; meanwhile, in accordance with IAS 39, it should offset the liability to avoid the duplication of assets. Thus, the treatment in the BSI rules is different than the treatment applied in FINREP, where these securities are not recognised in the asset side but subtracted in the liability side previously recognised for the consideration received. (3) As for the reconciliation between the principal amount of deposits and their carrying amount in IAS/IFRS, Regulation ECB/2008/32 establishes that "accrued interest expenses" must be included in "Remaining liabilities". The Regulation does not specify how the other items (fair value measurements, premiums/discounts on origination, etc.) should be classified in the BSI scheme. For the purpose of its classification system, the JEGR assumes that these balances are recorded under "Capital and reserves". The JEGR also recommends that the forthcoming update of the MFI guidance notes includes a clarification on this matter. (4) In FINREP, embedded derivatives included in hybrid instruments are separated from the host contracts (IAS 39.11) and recognised under items "derivatives held for trading" or "derivatives – hedge accounting". Only hybrid instruments included in the categories at fair value through profit or loss are not segregated from the host contracts.

Table 2 Liabilities (cont'd)

BSI requirement	FINREP "equivalent"
• Deposits redeemable at notice – Non-transferable deposits without any agreed maturity which cannot be converted into currency without a period of prior notice, before the term of which the conversion into cash is not possible or possible only with a penalty. They include deposits which, although perhaps legally withdrawable on demand, would be subject to penalties and restrictions according to national practice, and investment accounts without period of notice or agreed maturity, but which contain restrictive drawing provisions. • Repos – Counterpart of cash received in exchange for securities/gold sold by reporting agents at a given price under a firm commitment to repurchase the same (or similar) securities/gold at a fixed price on a specified future date. Amounts received by reporting agents in exchange for securities/gold transferred to a third party ("temporary acquirer") are to be classified here where there is a firm commitment to reverse the operation and not merely an option to do so (e.g. repurchase agreements, bond lending against cash collateral and sale/buy-back agreement). This implies that reporting agents retain effective (economic) ownership of the underlying securities/gold during the operation. In this respect, the transfer of legal ownership is not the relevant feature for determining the treatment of repo-like operations. Where the temporary acquirer sells the securities received by way of a repo operation, this sale must be recorded as an outright transaction in securities/gold and entered in the balance sheet of the temporary acquirer as a negative position in the securities/gold portfolio.	
Money market fund shares/units	
Shares/units issued by MMFs. MMFs are CIUs whose shares/units are, in terms of liquidity, close substitutes for deposits and which primarily invest in money market instruments and/or in MMF shares/units and/or in other transferable debt instruments with a residual maturity of up to and including one year, and/or in bank deposits, and/or which pursue a rate of return that approaches the interest rates of money market instruments. (A fuller definition is contained in Regulation ECB/2011/12.)	• *N/A* (MMFs are beyond the scope of FINREP)
Debt securities issued	
Securities other than shares (debt securities) issued by reporting agents, which are negotiable and usually traded on secondary markets or can be offset in the market, and which do not grant the holder any ownership rights over the issuing institution. This includes: • Securities that give the holder the unconditional right to a fixed or contractually determined income in the form of coupon payments and/or a stated fixed sum at a specified date (or dates) or starting from a date defined at the time of issue; • Non-negotiable (debt) instruments that have subsequently become negotiable should be reclassified as "debt securities"; • Subordinated debt in the form of debt securities; • Convertible bonds, as long as they have not been converted. Where separable from the underlying bond, the conversion option should be regarded as a separate financial liability (derivative or equity); • "Short selling" should be recorded as a negative position in debt securities (assets) and not as a liability. • Hybrid instruments, which are combined instruments that contain embedded derivatives that cannot be separated from the host contracts (which are negotiable debt securities).	The following items of Table 1.2 should be added: • "Financial liabilities held for trading – debt securities issued"; • "Financial liabilities designated at fair value through profit or loss – debt securities issued"; • "Financial liabilities measured at amortised cost – debt securities issued"; • Debt securities issued included in "Liabilities included in disposal groups classified as held for sale". This amount is not separately available in FINREP. The following items of Table 1.2 should be subtracted: • Debt securities issued that, according to their legal form, are capital but do not meet the IFRS/IAS definition of equity (e.g. a preferred share that pays a dividend when the entity posts profits) included in "Financial liabilities measured at amortised cost" and "Financial liabilities designated at fair value through profit or loss". This amount is not separately disclosed in FINREP.

Table 2 Liabilities (cont'd)

BSI requirement	FINREP "equivalent"
For the purposes of the BSI reporting scheme, a further breakdown is provided for "Of which debt securities up to two years and nominal capital guarantee below 100%" – Hybrid instruments issued by MFIs of original maturity of up to two years and which at maturity may have a contractual redemption value in the issuing currency lower than the amount originally invested due to their combination of debt and derivative components. This redemption value may be linked to the development of an underlying reference asset, asset price or other reference indicator over the maturity of the instrument. Examples of such instruments include, but are not limited to, discount certificates and reverse convertible securities	Notes: (1) According to IAS 39.42-AG58, when an entity repurchases part of a debt security issued, this part shall be subtracted from the total amount of debt securities issued (it is not recognised as a financial asset) in any case without regarding the intention of the issuer (even when it intends to resell it in the near term). Similarly, the MFI Guidance Notes state that own holdings should be netted out (unless gross recording is required by local accounting rules). (2) In FINREP, embedded derivatives in hybrid instruments are separated from the host contracts (IAS 39.11) and recognised under items "derivatives held for trading" or "derivatives – hedge accounting". Only hybrid instruments included in the categories at fair value through profit or loss are not segregated from the host contracts.
Capital and reserves	
This category comprises the amounts arising from the issue of equity capital by reporting agents to shareholders or other proprietors, representing for the holder property rights in the MFI and generally an entitlement to a share in its profits and to a share in its own funds in the event of liquidation. Funds arising from non-distributed benefits or funds set aside by reporting agents in anticipation of likely future payments and obligations are also included. It particularly includes: • Equity capital; • Non-distributed benefits or funds; • Specific and general provisions against loans, securities and other types of assets (may be recorded according to the accounting rules).	The following items of Table 1.1 should be subtracted: • "Fair value changes of the hedged items in portfolio hedge of interest rate risk". This includes valuation adjustments that are recognized in income from the current period or reserves (those generated in previous periods). The following items of Table 1.2 should be added: • Debt securities that, according to their legal form, are capital but do not meet the IFRS/IAS definition of equity (e.g. a preferred share that pays a dividend when the entity posts profits) included in "Financial liabilities measured at amortised cost" and "Financial liabilities designated at fair value through profit or loss". This amount is not separately disclosed in FINREP; • "Fair value changes of the hedged items in portfolio hedge of interest rate risk". This includes valuation adjustments that are recognised in income from the current period or reserves (those generated in previous periods); • Part of "Share capital repayable on demand" (if significant penalties apply). The following items of Table 1.3 should be added: • "Issued capital"; • "Share premium"; • "Other equity"; • "Revaluation reserves and other valuation differences"; • "Reserves"; • "Profit (loss) attributable to equity holders of the parent". The following items of Table 1.3 should be subtracted: • "Treasury shares", i.e. own equity are not recognised as financial assets, but instead deducted from equity; • "Interim dividends". Parts of the following items of Table 7 should be added (referring to available-for-sale, loans and receivables and held-to-maturity): • "Loans and advances – Specific allowances for individually assessed financial assets" (excluding "Loans and advances" that do not meet the ECB definition of loans); • "Loans and advances – Specific allowances for collectively assessed financial assets" (excluding "Loans and advances" that do not meet the ECB definition of loans); • "Loans and advances – Allowances for incurred but not reported losses on financial assets" (excluding "Loans and advances" that do not meet the ECB definition of loans).

Table 2 Liabilities (cont'd)

BSI requirement	FINREP "equivalent"
	The following items of Tables 5.B and 5.C should be added (reference to financial assets held for trading and financial assets designated at fair value through profit or loss): • "Loans and advances – Amount of cumulative change in the fair values attributable to changes in credit risk". The following amount should be added: • The difference between the gross carrying amount (i.e. before credit risk allowances) of the loans and the carrying amount of the deposits (excluding accrued interest receivable or payable) and the principal amount outstanding (i.e. fair value measurements, premiums/discounts in the acquisition or origination and rest of valuation adjustments should be added). Notes: (1) According to IAS 32.33 and to the MFI Guidance notes, when an entity repurchases its own shares, these shares should be subtracted from equity (they are not recognised as a financial asset). (2) In FINREP, the amounts of impairment losses for "loans and advances" classified as "Available-For-Sale", "Loan and receivables" and "Held-to-maturity investments" are included in tables 5.D, 5.E and 7. Tables 5.B and 5.C (which refer to "held for trading" and "designated at fair value through profit or loss") include the amount of accumulated losses due to credit risk (a "proxy" for impairment losses) for "loans and advances". The amount of accumulated losses due to credit risk related to (potentially) impaired "loans and advances" would be equivalent to the amount of impairment losses for the total of "loans and advances" included in IAS 39 classes at fair value through profit or loss. FINREP does not include information to make a distinction between "loans and advances" impaired and not impaired (for such classes). Information about impairment (or accumulated losses due to credit risk) is not separately available for "loans and advances" classified as "Non-current assets and disposal groups classified as held for sale". (3) As for the reconciliation between the principal amount of loans and deposits with their carrying amount in IAS/IFRS, Regulation ECB/2008/32 establishes that "accrued interest" incomes (expenses) are included in "Remaining assets" ("Remaining liabilities") and "impairment losses" in "Capital and reserves". The Regulation does not specify how the other items (fair value measurements, premiums/discounts in the acquisition or origination, etc.) should be classified in the BSI scheme. For the purposes of its classification system, the JEGR assumes that these balances are recorded under "Capital and reserves".
Remaining liabilities	
This item is regarded as the residual item on the liability side of the balance sheet, defined as "liabilities not included elsewhere". It generally includes: • Financial derivative positions with gross negative market values; • Gross amounts payable in respect of suspense and transit items; • Accrued interest payable on deposits and liabilities in the form of loans; • Dividends to be paid; • Provisions representing liabilities against third parties (pensions, restructuring, etc.); • Net positions arising from securities lending without cash collateral; • Amounts payable not related to the core business.	The following items of Table 1.2 should be added: • "Financial liabilities held for trading – derivatives held for trading"; • "Financial liabilities held for trading – other financial liabilities held for trading"; • "Financial liabilities designated at fair value through profit and loss – other financial liabilities"; • "Financial liabilities measured at amortised cost – other financial liabilities"; • "Derivatives – Hedge accounting"; • "Provisions"; • "Tax liabilities"; • "Other liabilities";

Table 2 Liabilities (cont'd)

BSI requirement	FINREP "equivalent"
Note: Contingent liabilities (contingencies), i.e. instruments which are contingent or conditional on the occurrence of uncertain future events, should not be recorded in the balance sheet, but instead off-balance sheet. These include, for example, guarantees, commitments, administered and trust loans. *Note: Under IAS/IFRS, financial guarantees given and certain loan commitments given are recorded on-balance sheet [IAS 39.47.(c)-(d)]. In FINREP Table 1.2, these financial liabilities are included in "other financial liabilities" or, when doubtful, in "Provisions – Loan commitments and guarantees". The treatment in BSI statistics, in accordance with ESA95, is to record such guarantees and commitments off-balance sheet.*	• "Liabilities included in disposal groups classified as held for sale", except deposits and debt securities issued that must be classified in the relevant instrument. This amount is not separately available in FINREP.
Of which: financial derivatives	
Financial derivative instruments that have a market value should be subject to on-balance sheet recording. They have a market value when they are traded on organised markets or in circumstances in which they can be regularly offset on non-organised over-the-counter markets. Derivatives should be recorded on a gross basis; therefore, derivative contracts with gross negative market values should be recorded on the liability side. Note: Notional amounts should not be entered as on-balance sheet items.	The following items of Table 1.2 should be added: • "Financial liabilities held for trading – derivatives held for trading"; • "Derivatives – Hedge accounting"; • Derivatives included in "Liabilities included in disposal groups classified as held for sale". This amount is not separately available in FINREP.
Of which: accrued interest	
Accrued interest expenses on "deposits", i.e. interest payable at the reporting date, but not due to be paid until a future date, must be classified on a gross basis under this category. Accrued interest is to be excluded from the deposit to which it relates, which should be valued at the nominal amount outstanding at reporting date.	In FINREP, accrued interest is recorded together with the underlying instrument.

5 BRIDGING THE MFI BALANCE SHEETS REQUIREMENTS WITH COREP EQUIVALENT (EXCEPT OPERATIONAL RISK)

CASH

	COREP "equivalent"		
	Credit risk		Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach
Holdings of euro and foreign banknotes and coins in circulation that are commonly used to make payments.	- Column 1 "original exposure pre conversion factors" - Rows: "on-balance sheet items" - Exposure classes: "other items" for the part referred to as cash in hand.(CRD Annex VI part I point 84)	- Template: CR IRB - Column 2 "original exposure pre conversion factors" - Rows: "on-balance sheet items"	- N.A.

1) This column describes the BSI instruments' coverage and lists the best matching COREP items for the tables on Market Risk – standard approach. This exercise is complicated by the differences in the structure of the two reporting schemes. A similar bridging for the advanced approaches is not possible. Market risk is calculated on the trading book of credit institutions. The trading book of an institution consists of all positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book and which are either free of any restrictive covenants on their tradability or able to be hedged. Positions held with trading intent are those held intentionally for short-term resale and/or with the intention of benefiting from actual or expected short-term price differences between buying and selling prices or from other price or interest rate variations. Capital requirements are calculated as a % of the net position in a set of instruments. The excess of an institution's long (short) positions over its short (long) positions in the same equity, debt and convertible issues and identical financial futures, options, warrants and covered warrants represents its net position in each of those different instruments. In calculating the net position, the competent authorities allow positions in derivative instruments to be treated as positions in the underlying securities.

COREP "equivalent"			
Credit risk		Market risk[1]	Own funds
Securitisation		Standard Approach	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)	(MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
- N.A.	- N.A.	- N.A.	- N.A.

LOANS

	COREP "equivalent"		
	Credit risk		Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach
• Funds lent by reporting agents to borrowers, which are not evidenced by documents or are represented by a single document (even if it has become negotiable). It also includes assets in the form of deposits. It particularly includes:	- Column 1 "original exposure pre conversion factors" - Rows: a) "on-balance sheet items" b) "SFT and LST transactions" (for the part referred to as reverse repos) c) part of the row "cross-product netting" (for reverse repos, even if they cannot be separately identified). In the case of netting agreements, the reported amount in column 1 conforms to the net value. **Note:** COREP does not include a definition of loans, although it could be assumed that this definition is the same as in FINREP. **Note:** COREP does not require specific data on this type of instrument.	- Template: CR IRB; for non-negotiable securities CR EQU IRB - Column 2 "original exposure pre conversion factors" for all BSI items; for further information on the value of the real estate as collateral (loans collateralised by real estate and leases), see also column 17 "real estate". In the case of netting agreements, the reported amount in column 2 conforms to the net value. - Rows: a) "on-balance sheet items" b) "SFT and LST transactions" (for the part referred to as reverse repos) c) part of the row "cross-product netting" (for reverse repos, even if they cannot be separately identified) **Note:** COREP does not include a definition of loans although it could be assumed that this definition is the same than in FINREP. **Note:** COREP does not require specific data on this type of instrument.	- Column 5 "original exposure pre conversion factors" - Rows: "on-balance sheet items" (part) - Traditional and synthetic securitisations

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach (MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)		
- Column 5 "original exposure pre conversion factors" - Rows: "on-balance sheet items" (part) - Traditional and synthetic securitisations	- Column 7 "securitisation exposures originated – total amount" - Traditional (for those securitisations for which, according to IAS/IFRS or Local GAAP, securitised exposures are not derecognised by the BSI, but that meet the criterion of significant credit risk transfer according to CRD) and synthetic securitisations - Only for originators **Note:** In BSI, the financial assets are derecognised when all risks and rewards of the ownership are transferred. The reconciliation of BSI requirements with this template of COREP arises when there are loans not derecognised in BSI that meet the securitisation criteria of the CRD. **Note:** In BSI, Tables 5a) and 5b) require data on securitisations and other loan transfers. The data are on outstanding amounts of securitised loans not derecognised, on outstanding amounts of loans serviced in securitizations, and on net flows of loans securitised (or otherwise transferred). The link between these BSI tables and COREP has not been explored.	Loans are only subject to capital requirements for market risk in terms of foreign exchange risk. If the sum of an institution's overall net foreign exchange position and its net gold position exceeds 2% of its total own funds, it must multiply the sum of its net foreign exchange position and its net gold position by 8% in order to calculate its own funds requirement against foreign exchange risk. A two-stage calculation must be used for capital requirements for foreign exchange risk. Firstly, the institution's net open position in each currency (including the reporting currency) and in gold is calculated. Secondly, net short and long positions in each currency other than the reporting currency and the net long or short position in gold are converted at spot rates into the reporting currency. They must then be summed separately to form the total of the net short positions and the total of the net long positions respectively. The higher of these two totals is the institution's overall net foreign exchange position. The competent authorities may allow institutions to remove positions in any currency which is subject to a legally binding intergovernmental agreement to limit its variation relative to other currencies covered by the same agreement. Unmatched positions in those currencies must be treated in the same way as other currencies.	1.3.2. Subordinated claims and other items in other credit and financial institutions in which holdings exceed 10% of their capital (for the part referred to as loans). 1.3.3. Excess on limit for holdings, subordinated claims and other items in credit and financial institutions in which holdings are up to 10% of their capital (for the part referred to as loans). 1.3.5 Other instruments held in respect of insurance undertakings, reinsurance undertakings and insurance holding companies in which a participation is maintained (for the part referred to as loans). 1.3.7 Certain securitisation exposures not included in risk-weighted assets (for the part referred to as loans).

5 BRIDGING THE MFI BALANCE SHEETS REQUIREMENTS WITH COREP EQUIVALENT (EXCEPT OPERATIONAL RISK) (cont'd)

LOANS (cont'd)

BSI requirement	COREP "equivalent" – Credit risk: Standard Approach (CR SA)	COREP "equivalent" – Credit risk: IRB Approach (CR IRB and CR EQU IRB)	COREP "equivalent" – Securitisation: Standard Approach
Detailed bridging with BSI items: (BSI asks for specific information on the following types of loans) **Note**: In the BSI regulation, a given loan can be included in more than one definition (e.g, the amount of a loan can be included in the definitions of syndicated loans, revolving loans and collateralised by real estate).	**Detailed bridging with BSI items:** **Note:** In COREP, the amount of a given loan only can be included in an exposure class (e.g the amount of a real estate collateralised loan to a household classified as a bad loan should be included once in the relevant "exposure class").	**Detailed bridging with BSI items:**	**Detailed bridging with BSI items:**
• Convenience and extended credit card credit;	• Rows: "on-balance sheet items" (part). Exposure classes: "corporates" (including "short-term claims"), "retail" and "past due" . **Note:** COREP does not require specific data on these types of loans.	• Rows: "on-balance sheet items" (part). Exposure classes: "corporates", "retail". **Note:** COREP does not require specific data on these types of loans.	• N.A.
• Revolving loans and overdrafts;	• Rows: "on-balance sheet items" (part). Exposure classes: all exposures, excluding "covered bonds", "CIUs", and "other items". **Note:** COREP does not require specific data on these types of loans.	• Rows: "on-balance sheet items" (part). Exposure classes: all exposures, excluded "other non-credit-obligation assets". **Note:** COREP does not require specific data on these types of loans.	• Traditional sec. (liquidity facilities)
• Syndicated loans;	• Rows: "on-balance sheet items" (part). Exposure classes: all exposures, excluding "retail", "covered bonds", "CIUs" and "other items". **Note:** COREP does not require specific data on these types of loans.	• Rows: "on-balance sheet items" (part). Exposure classes: all exposures, excluding "retail" and "other non-credit-obligation assets". **Note:** COREP does not require specific data on these types of loans.	• N.A.

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)	(MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
Detailed bridging with BSI items:	**Detailed bridging with BSI items:**	**The link with the BSI item refers to the positions in non-reporting currencies.** The following items of table MKR SA FX should be added: TOTAL POSITIONS IN NON-REPORTING CURRENCIES 1. Currencies in the second stage of EMU 2. Currencies subject to intergovernmental agreements 3. Currencies closely correlated 4. All other currencies 5. Gold	
• N.A.	• Traditional and synthetic sec.		
• Traditional sec. (liquidity facilities)	• Traditional and synthetic sec.		
• N.A.	• Traditional and synthetic sec.		

LOANS (cont'd)

	COREP "equivalent"		
	Credit risk		Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach
• loans collateralised by real estate to households	• Rows: "on-balance sheet items" (part). Exposure classes: "real-estate" (when the loan-to-value is equal or lower than the established for inclusion as "real estate") and "corporate" and "retail" (when the loan-to-value is higher than the established for inclusion as "real estate"). **Note:** In BSI, the definition of "real estate" is the same as in COREP, but the loan-to value can be up to 1.	• Rows: "on-balance sheet items" (part). Exposure classes: "retail" (for the part referred to as real-estate that meets the CRD criteria to be included in this class).	• N.A.
Bad debt loans that have not yet been repaid or written off. The total amount of loans in respect of which repayment is overdue or otherwise identified as being impaired, partially or totally, in accordance with the definition of default in Directive 2006/48/EC". **Note:** BSI does not require data on the amount of bad loans. This definition is only issued for the MIR requirements.	• Rows: "on-balance sheet items". Exposure classes: "past due items", for the part referred to as loans (see Annex 1 for more detailed comments). **Note:** The BSI definition of bad loans is the same as the CRD definition.	• Rows: "on-balance sheet items". Exposure classes: all exposures, for the part referred to as defaulted loans (PD in column 1 = 100%).	• Traditional sec.
• Subordinated debt in the form of loans and deposits; **Note:** BSI does not require specific data on these types of loans.	• Rows: "on-balance sheet items" (part). Exposure classes: all exposure classes, for the part referred to as subordinated loans (excluding "covered bonds", "CIUs" and "other items"). For those claims towards credit and financial institutions and insurers which are deducted by own funds, see CA template (cells 1.3.2, 1.3.3, 1.3.5) for the part referred to as loans.	• Rows: "on-balance sheet items" (part). Exposure classes: all exposure classes, for the part referred to as subordinated loans (excluding "other non-credit-obligation assets"). For those claims towards credit and financial institutions and insurers which are deducted by own funds, see CA template (cells 1.3.2, 1.3.3, 1.3.5) for the part referred to as loans.	• Traditional sec.

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)	(MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
• N.A.	• Traditional and synthetic sec.		
• Traditional sec.	• Traditional and synthetic sec.		
• Traditional sec.	• Traditional and synthetic sec.		

LOANS (cont'd)

	COREP "equivalent"		
	Credit risk		Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach
• Claims under reverse repos, i.e. the counterpart paid out in exchange for securities purchased by reporting agents.	• Rows: "SFT and LST" (for the part referred to as reverse repos), part of the row "cross product netting" (for reverse repos, even if they cannot be separately identified). Exposure classes: all exposure classes (excluding "real-estate", "covered bonds", "CIUs", "other items"). **Note:** COREP does not require specific data on these types of loans.	• Rows: "SFT and LST" (for the part referred to as reverse repos), part of the row "cross product netting" (for reverse repos, even if they can't be separately identified). Exposure classes: all exposure classes (excluding "retail-real estate", "retail-qualifying revolving", "other non-credit-obligation assets"). **Note:** COREP does not require specific data on these types of loans.	• N.A.

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)	(MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
• N.A.	• N.A.		

SECURITIES OTHER THAN SHARES

	COREP "equivalent"		
	Credit risk		Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach
Holdings of securities other than shares or other equity (debt securities) which are negotiable and usually traded on secondary markets or can be offset in the market, and which do not grant the holder any ownership rights over the issuing institution.	- Column 1 "original exposure pre conversion factors" - Rows: "on-balance sheet items" - Exposure classes: all exposure classes, for the part referred to negotiable securities (excluded "retail", "real estate", "other items"). - For those securities belonging to the trading book, see MKR template. Note: COREP does not include a definition of debt securities although it could be assumed that this definition is the same as in FINREP. Note: COREP does not require specific data on this type of instrument.	- Template: CR IRB - Column 2 "original exposure pre conversion factors" - Rows: "on-balance sheet items" - Exposure classes: all exposure classes, for the part referred to as negotiable securities (excluding "retail", "other non-credit-obligation assets"). - For those securities belonging to the trading book, see MKR template. Note: COREP does not include a definition of debt securities, although it could be assumed that this definition is the same as in FINREP. Note: COREP does not require specific data on this type of instrument.	- Column 5 "original exposure pre conversion factors" - Rows: "on-balance sheet items" (part) - Traditional and synthetic securitisations
Detailed bridging with BSI items:	Detailed bridging with BSI items:	Detailed bridging with BSI items:	Detailed bridging with BSI items:
• Subordinated debt in the form of debt securities; Note: The BSI does not require specific data on this type of debt security.	• As above. For those securities issued by credit and financial institutions and insurers which are deducted by own funds, see CA template (cells 1.3.2, 1.3.3, 1.3.5) – for the part referred to as securities.	• As above. For those securities issued by credit and financial institutions and insurers which are deducted by own funds, see CA template (cells 1.3.2, 1.3.3, 1.3.5) – for the part referred to as securities.	• Traditional and synthetic sec.
• "Short selling" – the sale of a financial asset not currently held on-balance sheet – should be recorded as a negative position in debt securities. This is a reference to the (non-binding) Guidance Notes.	• In COREP, the short selling of securities is not deducted from the securities held by the entity.	• In COREP, the short selling of securities is not deducted from the securities held by the entity.	• N.A.

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)	(MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
- Column 5 "original exposure pre conversion factors" - Rows: "on-balance sheet items" (part) - Traditional and synthetic securitisations	- Column 7 "securitisation exposures originated – total amount" - Traditional (for those securitisations for which, according to IAS/IFRS or Local GAAP, securitised exposures are not derecognised by the BSI, but that meet the criterion of significant credit risk transfer according to CRD) and synthetic securitisations - Only for originators	The position risk on a traded debt instrument (or debt derivative) should be divided into two components in order to calculate the capital required against it. The first is its specific risk component – this is the risk of a price change in the instrument concerned due to factors related to its issuer or, in the case of a derivative, the issuer of the underlying instrument. The second component covers its general risk – this is the risk of a price change in the instrument due (in the case of a traded debt instrument or debt derivative) to a change in the level of interest rates.	1.3.2. Subordinated claims and other items in other credit and financial institutions in which holdings exceed 10% of their capital (for the part referred to as securities). 1.3.3 Excess on limit for holdings, subordinated claims and other items in credit and financial institutions in which holdings are up to 10% of their capital (for the part referred to as securities). 1.3.5 Other instruments held in respect of insurance undertakings, reinsurance undertakings and insurance holding companies in which a participation is maintained (for the part referred to as securities). 1.3.7 Certain securitisation exposures not included in risk-weighted assets (for the part referred to securities).
Detailed bridging with BSI items: • Traditional and synthetic sec. • N.A.	**Detailed bridging with BSI items:** • Traditional and synthetic sec. • N.A.	**The link with the BSI item refers to the position risk.** The following items of table MKR SA TDI should be added: TRADED DEBT INSTRUMENTS IN TRADING BOOK [positions risk value] 1. General risk. Maturity-based approach or 2. General risk. Duration-based approach 3. Specific risk 4. Particular alternative approach for position risk in CIUs	

5 BRIDGING THE BSI REQUIREMENTS WITH COREP EQUIVALENT (EXCEPT OPERATIONAL RISK) (cont'd)

SECURITIES OTHER THAN SHARES (cont'd)

	COREP "equivalent"		
	Credit risk		
			Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)	(MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
		General risk: Maturity-based approach The procedure for calculating capital requirements against general risk involves two basic steps. First, all positions must be weighted according to maturity (residual or interest rate reset interval), in order to compute the amount of capital required against them. Second, allowance is made for this requirement to be reduced when a weighted position is held alongside an opposite weighted position within the same maturity band. A reduction in the requirement is also allowed when the opposite weighted positions fall into different maturity bands, with the size of this reduction depending both on whether the two positions fall into the same zone (maturity bands are grouped into three zones) or not, and on the particular zones they fall into. The institution must assign its net positions to the appropriate maturity bands. It does so on the basis of residual maturity in the case of fixed-rate instruments and on the basis of the period until the interest rate is next set in the case of instruments on which the interest rate is variable before final maturity. Net positions will be weighted for the maturity band in question. It then works out the sum of the weighted long positions and the sum of the weighted short positions in each maturity band. The amount of the former which are matched by the latter in a given maturity band is the matched weighted	

5 BRIDGING THE BSI REQUIREMENTS WITH COREP EQUIVALENT (EXCEPT OPERATIONAL RISK) (cont'd)

SECURITIES OTHER THAN SHARES (cont'd)

	COREP "equivalent"		
	Credit risk		
			Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach (MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)		
		position in that band, while the residual long or short position is the unmatched weighted position for the same band. The total of the matched weighted positions in all bands is then be calculated. **General risk: Duration-based approach** The competent authorities may allow institutions in general or on an individual basis to use a system for calculating the capital requirement for the general risk on traded debt instruments which reflects duration. **Specific risk** This risk is calculated on a different basis for each issuer and therefore it has no link with the BSI breakdown by counterparties. However, to the extent that security-by-security (*) reporting arrangements are in place, a relatively easy link could be established. **Particular approach for position risk in CIUs** Positions in CIUs, incl. MMF shares/units, are subject to a capital requirement for position risk (specific and general). Where the institution is aware of the underlying investments of the CIU on a daily basis, i.e. if the institution can look through to those underlying investments in order to calculate the capital requirements for position risk (general and specific) for those positions. If the look-through is not possible, banks pay a fixed capital requirement. Under this approach, positions in CIUs are treated as positions in the underlying investments of the CIU. Netting is permitted between positions in the underlying investments of the CIU and other positions held by the institution.	

5 BRIDGING THE BSI REQUIREMENTS WITH COREP EQUIVALENT (EXCEPT OPERATIONAL RISK) (cont'd)

SECURITIES OTHER THAN SHARES (cont'd)

	COREP "equivalent"		
	Credit risk		
			Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)	(MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
		Note: In BSI requirements, the positions in CIU are included in the items Money Market Fund Shares/units or Shares and other equity. **In addition to the above-mentioned capital requirements regarding the position risk, the positions in securities other than shares and money market fund shares units is subject to two further capital requirements:** **1) for Foreign Exchange Risk** (see explanation below, under BSI item "loan") **2) for Settlement/Delivery Risk** **The link with the BSI item refers to the balance sheet values**. The following items of table CR TB SETT should be added: 1. TOTAL UNSETTLED TRANSACTIONS IN THE TRADING BOOK (balance sheet values) 1.1. Transactions unsettled up to 4 days 1.2. Transactions unsettled between 5 and 15 days 1.3. Transactions unsettled between 16 and 30 days 1.4. Transactions unsettled between 31 and 45 days 1.5. Transactions unsettled for 46 days or more (*) Note: In accordance with the BSI Regulation, *"where this may reduce the reporting burden on credit institutions and support the development of enhanced statistics, NCBs are encouraged to promote security-by-security reporting arrangements for the collection of the statistical information on MFIs' securities portfolios required by this Regulation."*	

MONEY MARKET FUND SHARES/UNITS

	COREP "equivalent"		
	Credit risk		
			Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach
Holdings of shares/units issued by MMFs (see Section 4.1). MMFs are CIUs whose shares/units are, in terms of liquidity, close substitutes for deposits and which primarily invest in money market instruments and/or in MMF shares/units and/or in other transferable debt instruments with a residual maturity of up to and including one year, and/or in bank deposits, and/or which pursue a rate of return that approaches the interest rates of money market instruments. (Regulation ECB/2011/12 provides a fuller definition.)	- Column 1 "original exposure pre conversion factors" - Rows: "on-balance sheet items" - Exposure classes: collective investment undertakings (CIUs), for the part referred to as MMFs. - For those MMFs belonging to the trading book, see MKR template.	- Template: CR IRB - Column 2 "original exposure pre conversion factors" - Rows: "on-balance sheet items" - Exposure classes: "all exposure classes, for the part referred to as MMFs (excludinf "retail", "other non-credit-obligation assets"). - For those MMFs belonging to the trading book, see MKR template.	- N.A.

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach (MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)		
- N.A.	- N.A.	As above for securities other than shares	1.3.1 Holdings in other credit and financial institutions amounting to more than 10% of their capital (for the part referred to as MMF)

SHARES AND OTHER EQUITY

	COREP "equivalent"		
	Credit risk		Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach
Holdings of securities which represent property rights in corporations or quasi-corporations. These securities generally entitle the holders to a share in the profits of corporations or quasi-corporations and to a share in their own funds in the event of liquidation. Mutual fund shares (other than MMF shares/units) are included here.	- Column 1 "original exposure pre conversion factors" - Rows: "on-balance sheet items" - Exposure classes: "institutions" and "other items" (both for the part referred to as shares) - For those shares belonging to the trading book, see MKR template. - For those shares issued by credit and financial institutions and insurers which are deducted by own funds, see CA template (cells 1.3.1, 1.3.3, 1.3.4, 1.3.5) – for the part referred to as shares. **Note:** COREP does not include a definition of equity securities, although it could be assumed that this definition is the same as in FINREP. **Note:** COREP does not require specific data on this type of instrument.	- Template: CR EQU IRB. - Column 2 "original exposure pre conversion factors". - Rows: "on-balance sheet items". - For those shares belonging to the trading book, see MKR template. - For those shares issued by credit and financial institutions and insurances which are deducted by own funds, see CA template (cells 1.3.1, 1.3.3, 1.3.4, 1.3.5) – for the part referred to as shares. **Note:** COREP does not include a definition of equity securities, although it could be assumed that this definition is the same as in FINREP. **Note:** COREP does not require specific data on this type of instrument. In COREP, the short selling of securities is not deducted of the securities held by the entity.	- N.A.
"Short selling" positions in shares and other equity should be subtracted.	• In COREP, the short selling of securities is not deducted of the securities held by the entity.		

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)	(MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
- N.A.	- N.A.	The position risk on equity (or equity derivative) is divided into two components in order to calculate the capital required against it. The first is its specific risk component – this is the risk of a price change in the instrument concerned due to factors related to its issuer or, in the case of a derivative, the issuer of the underlying instrument. The second component covers its general risk – this is the risk of a price change in the instrument due (in the case of an equity or equity derivative) to a broad equity market movement unrelated to any specific attributes of individual securities. The institution must sum all its net long positions and all its net short positions. The sum of the two figures is its overall gross position. The difference between them is its overall net position. **Specific risk.** The institution must sum all its net long positions and all its net short positions. It multiplies its overall gross position in order to calculate its capital requirement against specific risk. **General risk.** Its capital requirement against general risk is its overall net position. Stock-index futures may be broken down into positions in each of their constituent equities. These positions may be treated as underlying positions in the equities in question, and may, subject to the approval of the competent authorities, be netted against opposite positions in the underlying equities themselves.	1.3.1 Holdings in other credit and financial institutions amounting to more than 10% of their capital (for the part not referred to as MMF). 1.3.4 Participations held in insurance undertakings, reinsurance undertakings and insurance holding companies. 1.3.9 Qualified participating interest in non-financial institutions. 1.7.2 Participations in insurance undertakings.

SHARES AND OTHER EQUITY (cont'd)

	COREP "equivalent"		
	Credit risk		
			Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)	(MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
		By derogation, stock-index futures which are exchange traded and – in the opinion of the competent authorities – represent broadly diversified indices attract a capital requirement against general risk of 8%, but no capital requirement against specific risk. If a stock-index future is not broken down into its underlying positions, it must be treated as if it were an individual equity. **The link with the BSI item refers to the position risk.** The following items of table MKR SA EQU should be added: EQUITIES IN TRADING BOOK (positions risk value) 1. General risk 2. Specific risk 3. Particular approach for position risk in CIUs* **Particular approach for position risk in CIUs** Positions in CIUs are subject to a capital requirement for position risk (specific and general). Where the institution is aware of the underlying investments of the CIU on a daily basis, the institution may look through to those underlying investments in order to calculate the capital requirements for position risk (general and specific) for those positions. Under this approach, positions in CIUs are treated as positions in the underlying investments of the CIU. Netting is permitted between positions in the underlying investments of the CIU and other positions held by the institution.	

SHARES AND OTHER EQUITY (cont'd)

	COREP "equivalent"		
	Credit risk		
			Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach (MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)		
		In addition to the above-mentioned capital requirements regarding the position risk, the positions in securities other than shares and money market fund shares/units are subject to two further capital requirements: **1) for Foreign Exchange Risk;** (see explanation below, under BSI item "loan") **2) for Settlement/Delivery Risk.** **The link with the BSI item refers to the balance sheet value.** The following items of table CR TB SETT should be added (balance sheet values): 1. TOTAL UNSETTLED TRANSACTIONS IN THE TRADING BOOK 1.1. Transactions unsettled up to 4 days 1.2. Transactions unsettled between 5 and 15 days 1.3. Transactions unsettled between 16 and 30 days 1.4. Transactions unsettled between 31 and 45 days 1.5. Transactions unsettled for 46 days or more.	

FIXED ASSETS

	COREP "equivalent"		
	Credit risk		Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach
This consists of non-financial assets, tangible or intangible, which are intended to be used repeatedly for more than one year by reporting agents. They include land and buildings occupied by the MFIs, as well as equipment, software and other infrastructure.	- Column 1 "original exposure pre conversion factors" - Rows: "on-balance sheet items" - Exposure classes: "other items" for the part referred to as tangible assets. For the intangible assets which are deducted from own funds, see CA-template cells 1.1.5.1	- Template: CR IRB - Column 2 "original exposure pre conversion factors" - Rows: "on-balance sheet items" - Exposure classes: "other non-credit-obligation assets" for the part referred to as tangible assets For the intangible assets which are deducted from own funds, see CA-template cells 1.1.5.1	- N.A.

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach (MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)		
- N.A.	- N.A.	- N.A.	1.1.5.1. Intangible assets

REMAINING ASSETS

	COREP "equivalent"		
	Credit risk		Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach
This item is regarded as the residual item on the asset side of the balance sheet, defined as 'assets not included elsewhere'. It generally includes: • Financial derivative positions with gross positive market values; • Gross amounts receivable in respect of suspense and transit items; • Accrued interest receivable on loans and assets in the form of deposits; • Dividends to be received; • Amounts receivable not related to the core business; **Note:** Contingent assets (contingencies), i.e. instruments which are contingent or conditional on the occurrence of uncertain future events, should not be recorded in the balance sheet, but instead off-balance sheet. They include, for example, guarantees, commitments, administered and trust loans.	- Column 1 "original exposure pre conversion factors" - Rows: a) "on-balance sheet items" (part) b) "SFT and LST" (for the part not referred to as reverse repos) c) derivatives (if netting agreements are applied, only the net value is reported in column 1.) d) part of the row "cross product netting" (not the one referred to as reverse repos, even if they can't be separately identified) (exposures are reported after netting in column 1) - Exposure classes: all exposures, excluding "real estate", "covered bonds", "CIUs", "past due".	- Template: CR IRB - Column 2 "original exposure pre conversion factors" - Rows: a) "on-balance sheet items" (part) b) "SFT and LST" (for the part not referred to as reverse repos) c) derivatives (if netting agreements are applied, only the net value is reported in column 1.) d) part of the row "cross product netting" (not the one referred to as reverse repos, even if they cannot be separately identified) (exposures are reported after netting in column 1) - Exposure classes: all exposures, excluding "retail-real estate".	- Column 5 "original exposure pre conversion factors" - Rows: "off-balance sheet and derivatives" (for the part referred to as derivatives) - Traditional securitisation

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)	(MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
- Column 5 "original exposure pre conversion factors" - Rows: "off-balance sheet and derivatives" (for the part referred to as derivatives) - Traditional securitisation	- N.A.	Each position in commodities or commodity derivatives must be expressed in terms of the standard unit of measurement. The spot price in each commodity must be expressed in the reporting currency. Positions in gold or gold derivatives are considered as being subject to foreign exchange risk. The excess of an institution's long (short) positions over its short (long) positions in the same commodity and identical commodity futures, options and warrants is its net position in each commodity. Options on commodities or on commodity derivatives are treated as if they were positions equal in value to the amount of the underlying to which the option refers. The latter positions may be netted off against any offsetting positions in the identical underlying commodity or commodity derivative. The following items of table MKR SA COM should be added: **TOTAL POSITION IN COMMODITIES** 1. Maturity ladder approach 2. Extended maturity ladder approach 3. Simplified approach: All positions **Maturity ladder approach** The institution must use a separate maturity ladder for each commodity. All positions in that commodity and all positions which are regarded as positions in the same commodity must be assigned to the appropriate maturity bands. Physical stocks must be assigned to the first maturity band.	1.3.2. Subordinated claims and other items in other credit and financial institutions in which holdings exceed 10% of their capital (for the part referred to as accrued interest of loans) 1.3.3. Excess on limit for holdings, subordinated claims and other items in credit and financial institutions in which holdings are up to 10% of their capital (for the part referred to as accrued interest of loans) 1.3.5 Other instruments held in respect of insurance undertakings, reinsurance undertakings and insurance holding companies in which a participation is maintained (for the part referred to as accrued interest of loans) 1.3.7 Certain securitisation exposures not included in risk-weighted assets (for the part referred to as accrued interest of loans)

5 BRIDGING THE BSI REQUIREMENTS WITH COREP EQUIVALENT (EXCEPT OPERATIONAL RISK) (cont'd)

REMAINING ASSETS (cont'd)

	COREP "equivalent"		
	Credit risk		
			Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)	(MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
		Competent authorities may allow positions in the same commodity to be offset and assigned to the appropriate maturity bands on a net basis for the following: positions in contracts maturing on the same date; and positions in contracts maturing within 10 days of each other if the contracts are traded on markets which have daily delivery dates. The institution then calculates the sum of the long positions and the sum of the short positions in each maturity band. The amount of the former (latter) which are matched by the latter (former) in a given maturity band are the matched positions in that band, while the residual long or short position is the unmatched position for the same band. **Simplified approach** The institution's capital requirement for each commodity can be calculated as the sum of: 15% of the net position, long or short, multiplied by the spot price for the commodity; 3% of the gross position, long plus short, multiplied by the spot price for the commodity. **Extended Maturity ladder approach** Competent authorities may authorise institutions to use the minimum spread when they: • undertake significant commodities business; • have a diversified commodities portfolio. **In addition to the above-mentioned capital requirements regarding the position risk, the positions in commodities and financial derivatives are subject to two further capital requirements:**	

5 BRIDGING THE BSI REQUIREMENTS WITH COREP EQUIVALENT (EXCEPT OPERATIONAL RISK) (cont'd)

REMAINING ASSETS (cont'd)

	COREP "equivalent"		
	Credit risk		
			Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach (MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)		
		1) for Foreign Exchange Risk; (see explanation below, under BSI item "loan") **2) for Settlement/Delivery Risk.** **The link with the BSI item refers to the balance sheet values**. The following items of table CR TB SETT should be added (balance sheet values): 1. TOTAL UNSETTLED TRANSACTIONS IN THE TRADING BOOK 1.1. Transactions unsettled up to 4 days 1.2. Transactions unsettled between 5 and 15 days 1.3. Transactions unsettled between 16 and 30 days 1.4. Transactions unsettled between 31 and 45 days 1.5. Transactions unsettled for 46 days or more	

OF WHICH: FINANCIAL DERIVATIVES

<table>
<tr><th rowspan="4">BSI requirement</th><th colspan="3">COREP "equivalent"</th></tr>
<tr><th colspan="3">Credit risk</th></tr>
<tr><th rowspan="2">Standard Approach (CR SA)</th><th rowspan="2">IRB Approach
(CR IRB and CR EQU IRB)</th><th>Securitisation</th></tr>
<tr><th>Standard Approach</th></tr>
<tr><td>Financial derivative instruments that have a market value should be subject to on-balance-sheet recording. They have a market value when they are traded on organised markets or in circumstances in which they can be regularly offset on non-organised over-the-counter markets. Derivatives should be recorded on a gross basis; therefore, derivative contracts with gross positive market values should be recorded on the asset side.

Note: Notional amounts should not be entered as on-balance sheet items.</td><td>- Rows:
a) derivatives (if netting agreements are applied, only the net value is reported in column 1.)
b) part of the row "cross-product netting" (for the part referred to as derivatives, even if they cannot be separately identified); exposures are reported after netting in column 1.
- Exposure classes: all exposures, excluding "real estate", "covered bonds", "CIUs", "past due".

Note: In COREP, the relevant amount for derivatives is the notional amount; meanwhile, for BSI the relevant amount is the fair value.</td><td>- Template: CR IRB
- Rows:
a) derivatives (if netting agreements are applied, only the net value is reported in column 1.)
b) part of the row "cross-product netting" (for the part referred to derivatives, even if they cannot be separately identified); exposures are reported after netting in column 1.
- Exposure classes: all exposures, excluding "retail-real estate", "other non-credit-obligation assets".

Note: In COREP, the relevant amount for derivatives is the notional amount; meanwhile, for BSI the relevant amount is the fair value.</td><td>- Column 5 "original exposure pre conversion factors"
- Rows: "off-balance sheet and derivatives" (for the part referred to as derivatives)</td></tr>
</table>

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach (MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)		
- Column 5 "original exposure pre conversion factors" - Rows: "off-balance sheet and derivatives" (for the part referred to as derivatives)	- N.A.	As above for remaining assets **Note:** In COREP, the relevant amount for derivatives is the notional amount; meanwhile, for BSI the relevant amount is the fair value.	

OF WHICH: ACCRUED INTEREST

	COREP "equivalent"		
	Credit risk		
			Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach
Accrued interest on the category "loans", i.e. interest that is receivable on the balance sheet reporting date, but which is not due to be received until a future date, is to be classified on a gross basis under this category. Accrued interest is to be excluded from the loan to which it relates, which should be valued at the nominal amount outstanding on the reporting date.	N.A. In COREP, accrued interests are reported together with the principal.	N.A. In COREP, accrued interest is reported together with the principal.	N.A. In COREP, accrued interest is reported together with the principal.

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach (MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)		
N.A. In COREP, accrued interest is reported together with the principal.	N.A. In COREP, accrued interest is reported together with the principal.		As above for Remaining assets

DEPOSITS

	COREP "equivalent"		
	Credit risk		
			Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach
Amounts owed to creditors by reporting agents, other than those arising from the issue of negotiable securities. This category also covers loans as liabilities of MFIs. Non-negotiable debt instruments issued by reporting agents are generally to be classified in this category. Instruments may be referred to as being "non-negotiable" in the sense that there are restrictions on the transfer of legal ownership of the instrument, which means that they cannot be marketed or, although technically negotiable, they cannot be traded owing to the absence of an organised market. Non-negotiable instruments issued by reporting agents that subsequently become negotiable and that can be traded on secondary markets should be reclassified in the category "debt securities"; syndicated loans received by MFIs fall into this category. This category includes subordinated debt issued by the entity in the form of deposits or loans.			

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)	(MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
			• 1.1.4.1a Hybrid instruments • 1.1.4.1a.01 Hybrid instruments that must be converted during emergency situations • 1.1.4.1a.02 Hybrid instruments (undated, without incentive to redeem) • 1.1.4.1a.03 Hybrid instruments (dated or incentive to redeem) • 1.1.4.1a.04 Grandfathered hybrid instruments without incentive to redeem subject to limit • 1.1.4.1a.05 Grandfathered hybrid instruments with incentive to redeem subject to limit • 1.2.2.3 Subordinated loan capital (for the part referred to as deposits) • 1.2.2.4 Country-specific Supplementary Additional Own Funds (for the part referred to as deposits) • 1.6.3. Short-term subordinated loan capital (for the part referred to as deposits) **Note:** COREP does not include a definition of deposits, although it could be assumed that this definition is the same as in FINREP. **Note:** COREP does not require specific data on this type of instrument.

DEBT SECURITIES ISSUED

BSI requirement	COREP "equivalent"		
	Credit risk		
			Securitisation
	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach
Securities other than shares (debt securities) issued by reporting agents, which are negotiable and usually traded on secondary markets or can be offset in the market, and which do not grant the holder any ownership rights over the issuing institution. The category in particular includes: • Securities that give the holder the unconditional right to a fixed or contractually determined income in the form of coupon payments and/or a stated fixed sum at a specified date (or dates) or starting from a date defined at the time of issue; • Non-negotiable (debt) instruments that have subsequently become negotiable and should be reclassified as "debt securities"; • Subordinated debt in the form of debt securities; • Debt securities with nominal capital certainty at redemption below 100%; • Convertible bonds as long as they have not been converted. Where separable from the underlying bond, the conversion option should be regarded as a separate financial liability (derivative or equity); • Hybrid instruments (combined instruments that contain embedded derivatives when their non-derivative host contract, from which the derivative is inseparable, has the form of negotiable debt security)			

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach (MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)		
			• 1.1.4.1a Hybrid instruments • 1.1.4.1a.01 Hybrid instruments that must be converted during emergency situations • 1.1.4.1a.02 Hybrid instruments (undated, without incentive to redeem) • 1.1.4.1a.03 Hybrid instruments (dated or incentive to redeem) • 1.1.4.1a.04 Grandfathered hybrid instruments without incentive to redeem subject to limit • 1.1.4.1a.05 Grandfathered hybrid instruments with incentive to redeem subject to limit • 1.1.1.4 Other Instruments eligible as capital (for the part referred to debt securities issued, e.g. "Share capital repayable on demand", if significant penalties apply) • 1.1.4. Other and country-specific Original Own Funds: Other (when its nature is not capital) • 1.2.1.6 Securities of indeterminate duration and other instruments 1.2.2.2. Fixed-term cumulative preferential shares • 1.2.2.3 Subordinated loan capital (for the part referred to as debt securities issued) • 1.2.2.4 Country-specific Supplementary Additional Own Funds (for the part referred to as debt securities issued) • 1.6.3. Short-term subordinated loan capital (for the part referred to as debt securities issued)

DEBT SECURITIES ISSUED (cont'd)

	COREP "equivalent"		
	Credit risk		
			Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach
For the purpose of the BSI reporting scheme, a further breakdown is provided for "Of which debt securities up to two years and nominal capital guarantee below 100%" – Hybrid instruments issued by MFIs of original maturity of up to two years and which at maturity may have a contractual redemption value in the issuing currency lower than the amount originally invested due to their combination of debt and derivative components. This redemption value may be linked to the development of an underlying reference asset, asset price or other reference indicator over the maturity of the instrument. Examples of such instruments include, but are not limited to, discount certificates and reverse convertible securities			

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)	(MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
			Note: COREP does not include a definition of debt securities, although it could be assumed that this definition is the same as in FINREP. **Note:** COREP does not require specific data on this type of instrument.

CAPITAL AND RESERVES

	COREP "equivalent"		
	Credit risk		
			Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach
This category comprises the amounts arising from the issue of equity capital by reporting agents to shareholders or other proprietors, representing for the holder property rights in the MFI and generally an entitlement to a share in its profits and to a share in its own funds in the event of liquidation. Funds arising from non-distributed benefits or funds set aside by reporting agents in anticipation of likely future payments and obligations are also included. The category in particular includes: • Equity capital; • Non-distributed benefits or funds; • Specific and general provisions against loans, securities and other types of assets (may be recorded according to the accounting rules).			

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)	(MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	Solvency Ratio Overview (CA)
			The following items of Table CA should be added: • 1.1.1.1 Paid-up capital; • 1.1.1.3. Share premium; • 1.1.1.4 Other Instruments eligible as capital (for the part referred to as instruments classified as capital and reserves, e.g. "Share capital repayable on demand", if no significant penalties apply); • 1.1.2.1 Reserves; • 1.1.2.6 Valuation differences eligible as original own funds + 1.1.2.6.02, 1.1.2.6.04, 1.1.2.6.06, 1.1.2.6.08, 1.1.2.6.10, 1.1.2.6.12, 1.1.2.6.14, 1.1.2.6.16, adjustments made to valuation differences; • 1.1.2.3.01 Income (positive) form current year + 1.1.2.4a.01 Income from current year when it is unaudited + 1.1.2.4b.01 (-) Income (negative) from current year; • 1.1.3 Funds for general banking risks; • 1.1.4.1. Other country-specific Original Own Funds: non-innovative instruments subjects to limit (when its nature is capital); • 1.1.4.2. Other country-specific Original Own Funds: Innovative instruments subjects to limit (when its nature is capital); • 1.1.4.4 Other country-specific Original Own Funds: Other (when its nature is capital); • 1.2.1.3. Revaluation reserves;

CAPITAL AND RESERVES (cont'd)

	COREP "equivalent"		
	Credit risk		
			Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach (MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)		Solvency Ratio Overview (CA)
			• 1.2.1.4 Value adjustments for credit risk positions in standardised approach (for the part referred to as loans); • 1.2.1.5 Other items; • 1.2.1.7 IRB Provision excess. The following items of Table CA should be subtracted: • 1.1.1.2 Own shares Note: The addition and subtraction of the items listed above is not equal to "Capital and Reserves". The following amounts should be added: - Unpaid capital that has been called up. This amount is not available in COREP; - Equity components of compound financial instruments. This amount is not available in COREP; - Specific and general provisions against loans, securities and other types of assets (not included in 1.2.1.7 above). These amounts are not available in COREP; - Fair value changes of the hedged items in portfolio hedge of interest rate risk when they lead to the recognition of a liability. This amount could have positive or negative sign and is not available in COREP. The following amounts should be subtracted: - Fair value changes of the hedged items in portfolio hedge of interest rate risk when they lead to the recognition of an asset. This amount could have positive or negative sign and is not available in COREP.

CAPITAL AND RESERVES (cont'd)

	COREP "equivalent"		
	Credit risk		
			Securitisation
BSI requirement	Standard Approach (CR SA)	IRB Approach (CR IRB and CR EQU IRB)	Standard Approach

COREP "equivalent"			
Credit risk		Market risk	Own funds
Securitisation		Standard Approach (MKR SA TDI, MKR SA EQU, MKR SA FX and MKR SA COM)	
IRB Approach (CR SEC IRB)	Detailed information (CR SEC Details)		Solvency Ratio Overview (CA)
			The BSI Regulation does not specify how to classify valuation adjustments made in loan/deposits other than "accrued interest" and "impairment losses" (fair value measurements, premiums/ discounts in the acquisition or origination, etc.). For the purpose of its classification system, the JEGR assumes that these amounts are also recorded under "Capital and reserves". These amounts are not available in COREP.

6 ASSESSMENT OF THE LINKS BETWEEN BSI REQUIREMENTS WITH COREP EQUIVALENT (OPERATIONAL RISK)

According to Basel 2, operational risk is a significant risk faced by credit institutions requiring coverage by own funds. It means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. There are three alternative approaches to the calculation of operational risk requirements incorporating different levels of risk-sensitivity and requiring different degrees of sophistication. The table below provides an assessment of the link with BSI statistics for each of these three approaches. In all cases, the (provisional) conclusion is that there are no direct links between the two frameworks.

BSI	COREP		
	Operational risk		
	Basic Indicator Approach	**Standardised Approach**	**Advanced Measurement Approaches**
	The capital requirement for operational risk under the Basic Indicator Approach is equal to 15% of the relevant indicator. The relevant indicator is the average over three years of the sum of net interest income and net non-interest income. The three-year average is calculated on the basis of the last three twelve-monthly observations at the end of the financial year. When audited figures are not available, business estimates may be used. Based on the accounting categories for the profit and loss account of credit institutions under Article 27 of Directive 86/635/EEC, the relevant indicator is to be expressed as the sum of the elements listed below. Each element must be included in the sum with its positive or negative sign. **1. Interest receivable and similar income.** **2. Interest payable and similar charges.** **3. Income from shares and other variable/fixed-yield securities.** **4. Commissions/fees receivable.** **5. Commissions/fees payable.** **6. Net profit or net loss on financial operations.** **7. Other operating income.**	Under the Standardised Approach, credit institutions divide their activities into a number of business lines. Business line are: 1. Corporate finance 2. Trading and sales 3. Retail brokerage 4. Commercial banking 5. Retail banking 6. Payment and settlement 7. Agency services 8. Asset management 9. Corporate items For each business line, credit institutions must calculate a capital requirement for operational risk as a certain percentage of a relevant indicator, expressed in terms of Gross Income. (Table 2 Consolidated Income Statement – continuing operations). The capital requirement for operational risk under the Standardised Approach is the sum of the capital requirements for operational risk across all individual business lines. All activities must be mapped into the business lines in a mutually exclusive and jointly exhaustive manner. Credit institutions must have a well-documented assessment and management system for operational risk with clear responsibilities assigned for this system. They must identify their exposures to operational risk and track relevant operational risk data, including material loss data.	Credit institutions may use Advanced Measurement Approaches based on their own operational risk measurement systems, provided that the competent authority expressly approves the use of the models concerned for calculating the own funds requirement. In practice this may occur very rarely. In order to get approval, credit institutions must have in place regular reporting procedures of operational risk exposures and loss experience. Credit institutions calculate their capital requirement as comprising both expected loss and unexpected loss, unless they can demonstrate that expected loss is adequately captured in their internal business practices. The operational risk measurement system of a credit institution must have certain key elements. These elements must include the use of 1) internal data, 2) external data, 3) scenario analysis and 4) factors reflecting the business environment and internal control systems. A credit institution needs to have a well documented approach for weighting the use of these four elements in its overall operational risk measurement system. External data (2nd factor), i.e. operational risk data produced by other credit institutions, are hardly comparable – for this reason, a bank should use scaling techniques in order to adapt its own data frequency distribution with the external data.

BSI	COREP		
	Operational risk		
	Basic Indicator Approach	Standardised Approach	Advanced Measurement Approaches
			Correlations in operational risk losses across individual operational risk estimates may be recognised only if credit institutions can demonstrate to the satisfaction of the competent authorities that their systems for measuring correlations are sound, implemented with integrity, and take into account the uncertainty surrounding any such correlation estimates, particularly in periods of stress. The credit institution must validate its correlation assumptions using appropriate quantitative and qualitative techniques. Credit institutions must be able to recognise the impact of insurance and other risk transfer mechanisms where the credit institution can demonstrate to the satisfaction of the competent authorities that a noticeable risk-mitigating effect is achieved.
	Conclusions		
	The item included in the COREP template regarding the operational risk for the basic approach does not have corresponding items in BSI reporting. **Not applicable**	The items included in the COREP template regarding the operational risk for the standardised approach (breakdown by business line) do not have corresponding items in BSI reporting (breakdown by instruments). **N.B.:** Since business lines refer to items of the income statement (rather than to balance sheet items), there is no possibility for a reconciliation of certain business lines with BSI items. **Not applicable**	The item included in the COREP template regarding the operational risk for the advanced approaches does not have corresponding items in BSI reporting. **Not applicable**

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