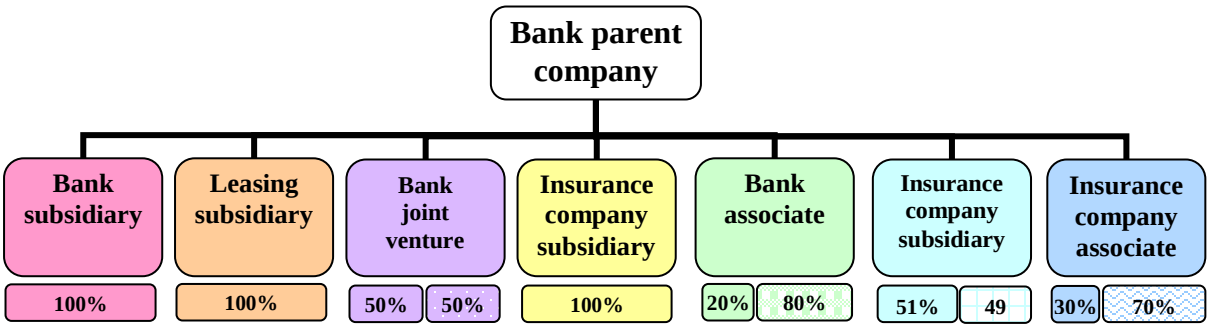
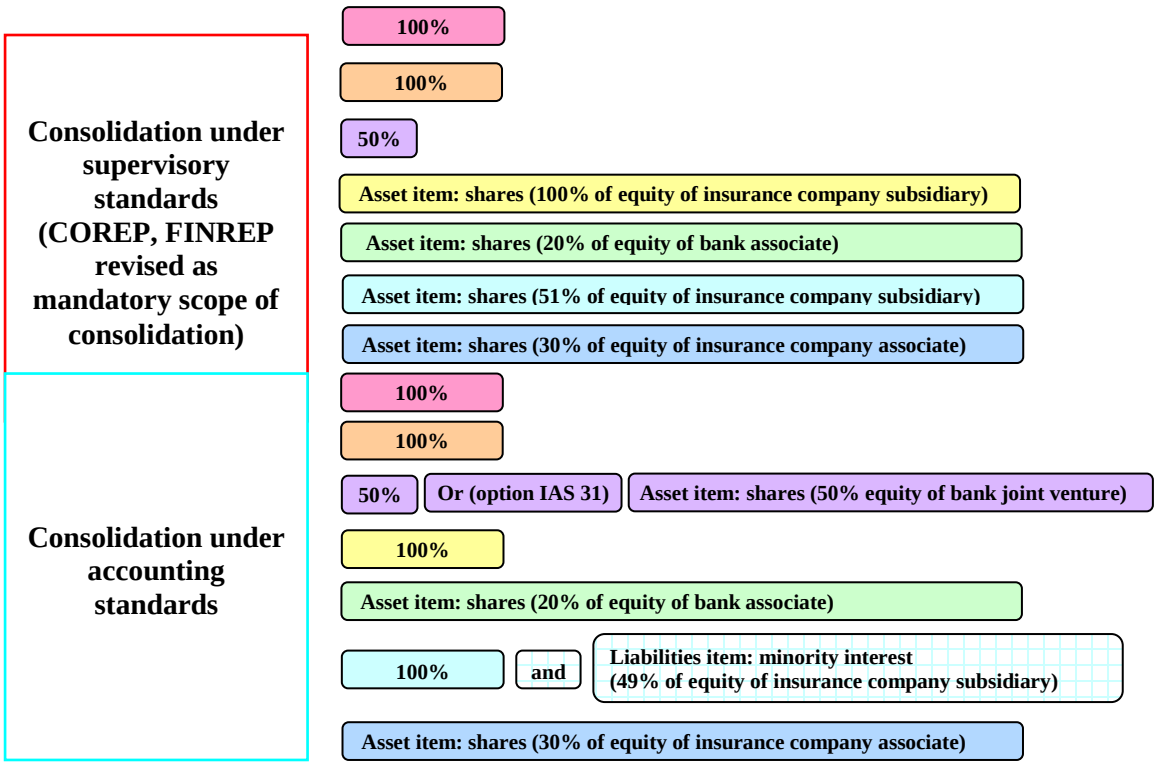
F.A.Q. – Differences between statistical and supervisory reporting

1) Which group consolidation approach should banks use for statistical, supervisory and financial reporting purposes?

For statistical purposes, banks must not consolidate across national boundaries or across economic sectors. They must report on a "solo" host country basis.

Consolidated data are, however, required for supervisory and financial reporting purposes. There are essentially two forms of group consolidation: 1) the scope defined by the Capital Requirements Directive (CRD) (supervisory reporting) and 2) the IFRS scope (financial reporting). The diagram below provides a schematic representation of the CRD and IFRS approaches to consolidation.





For supervisory purposes, the FINREP and COREP frameworks apply. The FINREP and COREP frameworks have adopted the CRD approach to consolidation as a general rule for all templates (however, a selected number of templates of the FINREP framework can also be completed using the IFRS scope of consolidation). For financial reporting purposes, banking groups must compile accounts on the basis of the IFRS scope of consolidation.

These different practices make a large difference to the data for credit institutions with foreign branches/subsidiaries, or resident non-banking subsidiaries. The diagram shows, for instance, that if a bank owns 100% of an insurance company (the case shown in yellow), in the supervisory report it records only its holdings of shares issued by the subsidiary. In the accounting report, on the other hand, the bank makes a full consolidation of the assets and liabilities of its subsidiary. If a bank owns a smaller share of an insurance company, e.g. 51% (light blue case), the supervisory report follows the same approach as before (this time, showing a shareholding of 51%). In the accounting reports, the bank again makes a full consolidation (as if it owned 100% of the insurance company) but this time records a liability to other shareholders in respect of the remaining 49%.

2) Why do statistical and supervisory reporting requirements have a different categorisation of counterparties e.g. why is “retail” different from “households”?

The categorisation essentially depends on the (statistical, accounting and supervisory) international standards underlying each reporting framework.

Statistical returns provide a standardised counterparty breakdown for the information reported. These standards define sectors (e.g. households, non-financial corporations, financial corporations, government) as groups of entities displaying similar economic behaviour and are used in all international and European statistical standards. These sector definitions are important for monetary analysis, and must fit the sector classifications used in other economic and financial statistics.

Supervisory returns use a different categorisation, which however can be reconciled with the statistical classification (see table 5 in the bridging manual). The FINREP sectors are central banks, general governments, credit institutions, other financial corporations, non-financial corporations (split into corporates and non-financial corporations) and households (split into corporates and retail). COREP requires information on exposure classes. There are two possible categorisations of exposure classes under, respectively, the standardised approach (SA) and the internal ratings based approach (IRB); the choice between these approaches depends on the credit risk framework adopted by a bank under Pillar 1 (minimum capital requirements). Both categorisations and the underlying data definitions stem from the Capital Requirements Directive.

The bridging manual provides a reconciliation between the sector categories in MFI statistics, FINREP and the COREP IRB approach. A reconciliation with the COREP SA approach is more difficult, as the SA exposure classes comprise not only sectors of counterparts but also certain instruments. For instance, exposures towards the “retail” sector exclude positions which have been previous allocated to other exposure classes, such as “securitised on real estate property”, “past due”, “securitisation positions”, etc.

3) Why do the statistical and FINREP frameworks use different definitions of loans?

In this case, too, the different definitions originate from the international and European standards underlying the reporting frameworks.

The statistical definition of "loans" follows the international and European statistical standards: loans are financial assets that are created when creditors lend funds directly to debtors; they may be evidenced by non-negotiable documents, or the lender may receive no document evidencing the transaction**.** Items 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) are not "loans" for the purposes of the statistical standards, but fall into a different instrument class, "other accounts receivable". Such items are recorded as "remaining assets" in MFI balance sheet reporting.

The FINREP definition of "loans and advances" is in line with international accounting standards (IAS/IFRS), which include receivables in the form of suspense and transit items. Annex 4.2 of the bridging manual provides a detailed reconciliation between the two definitions.

4) Why may certain preference shares be classified as debt for statistical purposes but as shares for supervisory purposes?

Neither the MFI balance sheet nor the FINREP framework contain explicit provisions regarding the definition and treatment of preferred shares issued by the reporting institution. Under IAS/IFRS, which is the basis for FINREP, redeemable shares can be classified as equity or debt. 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**

In order to reconcile the definitions and treatment of preferred shares, the ECB's *Manual on MFI balance sheet statistics* and the FINREP Guidelines would have to be amended so as to refer explicitly to the IAS 32 approach summarised in the table. However, since this reconciliation might create breaks in the MFI balance sheet series, such an amendment would require users of the data to be consulted.

5) Why are loans and deposits recorded at nominal value for statistical purposes, i.e. without valuation adjustments and interest accruals?

The international and European statistical standards require loans and deposits to be reported as the amount which the debtor is obliged to repay the creditor, which is the nominal amount unless the item has been written down or written off as partially or wholly irrecoverable. (Exceptionally, however, central banks may allow reporting net of loan provisions.) The statistical standards require interest to be accrued. In MFI balance sheet statistics, accrued interest is recorded in remaining assets/liabilities rather than with the instrument to which it relates, with the consequence that the monetary aggregates and MFI lending do not include imputed amounts.

For supervisory purposes it is the risk taken by the individual bank that matters, so loans (and deposits) are recorded net of valuation adjustments. Reconciliation is possible between the fair value or amortised cost reported for supervisory purposes and the nominal value required in statistical reporting (see Annex 4.1 of the bridging manual). 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, which in FINREP is recorded with the underlying instrument (as indeed is the preference of the ESA 95). Nevertheless, reconciliation often remains possible because central banks may require accrued interest to be separately identified in remaining assets/liabilities reported under the MFI balance sheet Regulation.

6) Why is the statistical reporting population (monetary financial institutions) different from the supervisory one (credit institutions)?

The MFI balance sheet statistics were designed primarily for the compilation of monetary statistics. The reporting population therefore consists of institutions with liabilities (deposits or close substitutes for deposits) included in the ECB's monetary aggregates. This is a broader group than credit institutions, since it includes (notably) central banks, money market funds and issuers of electronic money which are not credit institutions. All credit institutions are however MFIs.

COREP covers all EU credit institutions and investment firms. For FINREP, the reporting population comprises all EU credit institutions which, according to national supervisory rules, are required or allowed to use IAS/IFRS in the preparation of their consolidated financial reports.

7) Which are the differences between the concepts of financial vehicle corporations (used in monetary statistics) and securitisation special purpose entities (used for supervisory purposes)?

Financial vehicle corporations (FVCs) are the usual counterparts of credit institutions in traditional securitisation transactions. For statistical purposes, FVCs are defined in the ECB regulation addressed to these entities (ECB/2008/30). Under this definition, only FVCs resident in the EU/euro area are considered (for which a register of FVCs exists and is maintained by the ESCB). For statistics purposes, securitisation transactions must not represent the entities' only – or even their principal – activity. The aim of such a definition is to capture, through complementary reporting by credit institutions and FVCs and to the extent possible, all transactions which are of close interest for monetary policy purposes.

'Securitisation special purpose entity' (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. Under this definition, entities both resident and not resident in the EU/euro area are considered. Furthermore, the CRD requires that SSPE activities are limited to those appropriate to accomplishing the securitisation objectives (for instance, some entities in Portugal may meet the FVC definition but not the SSPE definition). Unlike the statistical definition, the aim of the described definition is to focus on risks to which credit institutions are exposed, rather than to track bank lending activity.

8) Why do supervisory and statistical requirements apply different concepts of maturity (residual vs. original)?

For supervisory purposes, information on the residual maturity of assets and liabilities is important to monitoring risks concerning maturity mismatches. It should be noted, however, that FINREP has no specific requirements for original or residual maturity breakdowns, although IFRS 7 requires institutions to disclose remaining or residual maturities of liabilities, without however specifying standard time bands.

For statistical purposes the emphasis is on original maturity, which is considered to indicate 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, and original maturity (rather than residual) is required under the international and European statistical standards. It might be noted, however, that MFI balance sheet requirements do contain some requirements for residual maturity, as well as some according to the interest rate reset period, because residual maturity and reset period are relevant to the MFI interest rate statistics complemented by the balance sheet statistics.

9) Why are the statistical and supervisory definitions of bad loans different?

"Bad loans" are not recorded separately in MFI balance sheet statistics. As noted under Question 5, loans are (broadly speaking) recorded at nominal value on the statistical balance sheet until written down or written off. Bad loans and loans for debt restructuring at rates below market conditions are excluded from the calculation of MFI interest rates, one main purpose of which is to trace the transmission of Eurosystem monetary policy initiatives to the euro area economy through market-determined interest rates. The MFI interest rate Regulation defines bad loans as "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" (the Capital Requirements Directive, CRD). 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 purposes, 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. Therefore, the difference between the statistical and supervisory definitions of bad loans only has practical implications for loans that are not more than 90 days past due.

10) Why are loans granted by French banks to counterparties resident in Monaco treated as loans to residents for statistical purposes, but as loans to non-residents for supervisory purposes?

For practical reasons, Monaco is treated statistically as part of France (as Vatican City and San Marino are treated as part of Italy). MFI balance sheet statistics are only one part of a wide range of economic and financial statistics in which it is not feasible to separate out transactions and positions with these enclaves, which in effect are part of the single currency area. In the more restricted supervisory data, Monaco counterparties are considered subject to a different country risk.

11) Why does the scope of the JEGR classification system exclude reporting requirements from other international organisations (e.g. BIS, FSB, IMF)?

The JEGR sponsors are the ECB and the EBA. For this reason, the classification system covers only datasets "owned" by the sponsors, namely ECB MFI statistics (BSI and MIR) and EBA reporting standards (FINREP, COREP and LE). Credit institutions, however, are subject to additional reporting requirements. For instance:

- National statistical requirements beyond BSI and MIR,
- National supervisory requirements beyond FINREP, COREP and Large Exposures,
- Public disclosure requirements (Pillar 3, Transparency Directive, etc.),
- Requirements from other international organisations (BIS, IMF, FSB, OECD, etc.).

In the future, the JEGR classification system may cover the macro- and micro-prudential data requirements from ESRB and EBA, to the extent that they are factored in ECB statistical Regulations or EBA reporting standards.