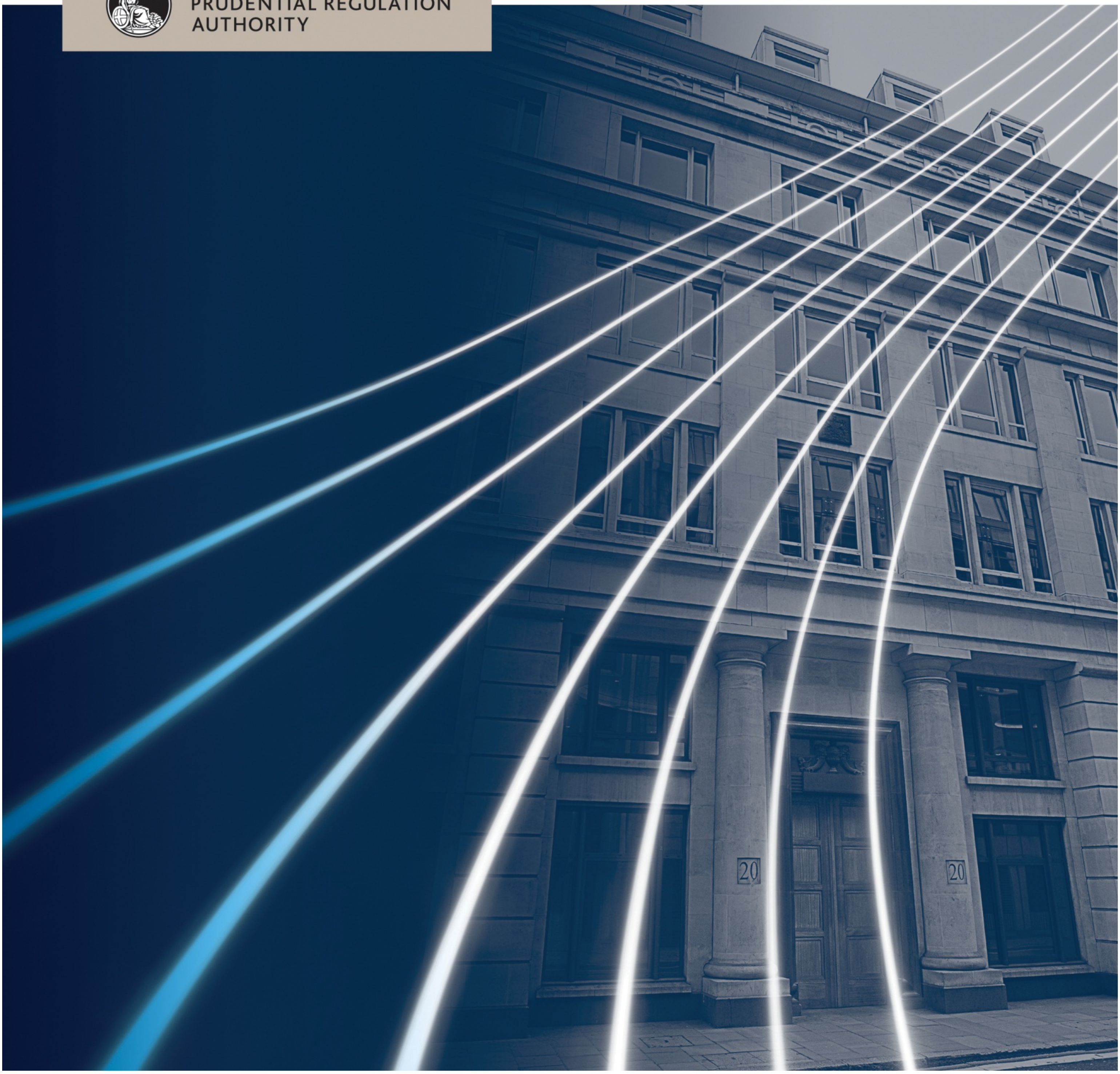
Policy Statement | PS18/17

IFRS 9: Changes to reporting requirements

July 2017

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



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1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback to responses to Consultation Paper (CP) 46/16 'IFRS 9: changes to reporting requirements' ('the CP').[1]

1.2 It sets out final rules intended to update regulatory reporting requirements, and expectations, in light of the introduction of International Financial Reporting Standard 9 (IFRS 9) from 1 January 2018.

1.3 This PS is relevant to UK banks and building societies. It is not relevant to PRA-designated UK investment firms, to UK branches of firms in other European Economic Area (EEA) countries and non-EEA countries, or to insurance firms. It should be read alongside the Regulatory Reporting Part of the PRA Rulebook.

1.4 In CP46/16, the PRA proposed that banks and building societies applying IFRS 9 would be required to report certain European Banking Authority (EBA) Financial Reporting (FINREP) templates instead of the current FSA015 'Sectoral information, including arrears and impairment' return, on both an individual and consolidated basis. Firms that already comply with full FINREP requirements on a consolidated basis would not be required to submit any additional data on a consolidated basis.

1.5 The PRA also proposed that certain firms that do not apply IFRS 9 should also report a small number of FINREP templates, to ensure that there is sufficient data available for peer analysis after the implementation of IFRS 9.

1.6 In Chapter 6 'Ring-fencing – residual reporting requirements for ring-fenced bodies' of CP2/17 'Occasional Consultation Paper',[2] the PRA proposed to apply the reporting requirements set out in CP46/16 to ring-fenced banks on a sub-consolidated basis. Feedback to responses to that CP will be provided in a separate policy statement in 2017 Q3.

1.7 This PS contains the final amendments to the Regulatory Reporting Part of the PRA Rulebook (Appendix 1) and final amendments to Supervisory Statement (SS) 34/15 'Guidelines for completing regulatory reports' (Appendix 2), which implements the proposals consulted on in the CP.

1.8 Where the final rules differ from the draft in the CP in a way which is, in the opinion of the PRA, significant, the Financial Services and Markets Act 2000 (FSMA)[3] requires the PRA to publish:

(a) details of the difference (and the PRA's response to representations made to it regarding those changes) together with a cost benefit analysis; and

(b) a statement setting out in the PRA's opinion whether or not the impact of the final rule on mutuals is significantly different to: the impact that the draft rule would have had on mutuals; or the impact that the final rule will have on other PRA-authorised firms.

1 December 2016: www.bankofengland.co.uk/pra/Pages/publications/cp/2016/cp4616.aspx
2 February 2017: www.bankofengland.co.uk/pra/Pages/publications/cp/2017/cp217.aspx.
3 Section 138J(5) and 138K(4).

1.9 Following consideration of respondents' comments, the PRA has made one material change to the rules as consulted on. The PRA has also made a minor change to take account of firms that are implementing IFRS 9 in advance of 1 January 2018. These changes are set out in Chapter 2.

Implementation

1.10 The amendments to the Regulatory Reporting Part of the PRA Rulebook and updates to SS34/15 set out in this PS will take effect from 1 January 2018. As set out in CP46/16, firms are required to submit their templates 30 business days after the end of their first reporting period. Firms should use the EBA taxonomy (initially version 2.7) to report their templates and submit their required templates in XBRL format via the Gabriel system.[1] Firms should adhere to the EBA filing rules and the validation rules that apply to the subset of templates required. The taxonomy packages, filing rules and validation rules are available on the EBA website.[2]

1.11 Further details on the implementation timeline are available in Chapter 2, including details on rule modifications and notifications available for firms that do not have an accounting year end of 31 December, and UK banks that plan to implement IFRS 9 in advance of 1 January 2018, specifically:

- a modification by consent process: to delay application of the new rules and new format reporting until the start of firms' financial year beginning in 2018; or to bring forward implementation of the requirements to the start of firms' financial year in 2017; and
- notification to the PRA to report on a schedule linked to firms' Accounting Reference Date.

1.12 The policy has been designed in the context of the current UK and EU regulatory framework. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including those arising once any new arrangements with the European Union take effect.

2 Feedback to responses

2.1 Before making any proposed rules or establishing its general policies and practices, the PRA is required by FSMA to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its response to them.[3]

2.2 The PRA received seven responses to the CP. Respondents were generally supportive of the proposals but did raise a number of specific issues and questions regarding the details of the templates. This chapter of the PS describes the most important issues raised by respondents and where the PRA has made changes. The responses are discussed below by the following topics: granularity of reporting templates; implementation timeline; and reporting on an individual or consolidated basis.

Granularity of reporting templates

2.3 In CP46/16, the PRA proposed that firms implementing IFRS 9 would be required to report a set of twelve FINREP templates if they have total assets of over £5 billion or a reduced set of six templates if they are under this £5 billion threshold.

1 www.fca.org.uk/firms/gabriel.
2 www.eba.europa.eu/risk-analysis-and-data/reporting-frameworks/reporting-framework-2.7
3 Section 2N.

2.4 Respondents sought to clarify the purpose of reporting all of the templates, particularly templates F18, F19, F20.4, F20.7, as the volume and granularity of data that firms submit will be much greater under these proposals.

2.5 The PRA does not propose to change or remove any of the templates from the reporting requirements. Replacing FSA015 with these FINREP templates is necessary to ensure that supervisors are able to obtain at least the same breadth and depth of data under IFRS 9 as they currently obtain from FSA015.

2.6 The methodological changes involved in IFRS 9 (eg the three-stage impairment methodology) make it necessary to expand the granularity of data. Providing supervisors with more granular data will help them to analyse better the impact of IFRS 9 on firms' balance sheets. The FINREP templates are broken down to align to the new method of classification of financial instruments to provide easily accessible data. Additionally, the country-by-country breakdowns in template F20.4 and F20.7 are an important enhancement to supervision of non-domestic exposures as compared to the FSA015. As set out in the CP, using the existing FINREP templates has the benefits of consistency in reporting approach and the ready availability of relevant data from IFRS 9 compliant systems.

Implementation timeline

2.7 In the CP, the PRA proposed a requirement for firms to implement all relevant templates from the start of accounting years beginning on or after 1 January 2018.

2.8 Some respondents requested that the PRA delay the implementation timeline for some or all templates to ease the burden of the implementation. IFRS 9 comes into force on 1 January 2018 and firms will start using the new standard from the start of their new accounting year beginning on or after that date. Moving to IFRS 9 will have an effect on firms' financial position and it is important that supervisors have adequate data to monitor this as soon as IFRS 9 comes into force. The PRA therefore does not propose to delay the implementation of any of the templates.

2.9 Firms that do not have an accounting year end of 31 December can apply for a rule modification via the modification by consent process. This will enable these firms to delay application of the new rules and new format reporting until the start of their financial year beginning in 2018. This approach will enable alignment with the start date of the new accounting standard IFRS 9 for affected firms. The application form for the rule modification is available on the PRA section of the Bank of England website.[1]

2.10 The CP proposed that the templates would be scheduled on a calendar-quarter reporting basis. Firms that do not have an accounting year end of 31 December and wish to report on a schedule linked to their Accounting Reference Date can notify the PRA via the form available on the PRA section of the Bank of England website.[2]

2.11 The PRA is aware that some UK banks plan to implement IFRS 9 in advance of 1 January 2018 because they are subsidiaries of non-UK banks based in jurisdictions that will implement the new accounting standard before that date. The PRA will also allow such firms to apply for a rule modification, via the modification by consent process, which will enable them to bring forward implementation of the requirements to the start of their financial year in

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1 Modification form in relation to paragraph 2.9: www.bankofengland.co.uk/pra/Pages/authorisations/waivers/waiversbyconsent.aspx.

2 Form in relation to paragraph 2.10: www.bankofengland.co.uk/pra/Pages/regulatorydata/crdfirms.aspx.

2017. These firms will also be able to apply to report on a schedule linked to their accounting year, rather than calendar quarters. Firms seeking the rule modification should contact the PRA directly.[1]

Reporting on an individual and consolidated basis

2.12 In the CP, the PRA proposed the requirement for all firms to report templates on both an individual and a consolidated basis.

2.13 Respondents sought to clarify whether this data is necessary for supervision in all cases as they find it burdensome to prepare reports at both consolidated and individual level. Respondents questioned the additional value provided by individual level data in cases where consolidated level figures are also available.

2.14 As noted in the CP, a key element of the PRA's wider data strategy is a review of all the PRA's data requirements that are applicable to regulated firms. Future work to review credit risk data requirements may identify additional breakdowns of data related to expected credit losses that would be required by supervisors in the longer term. Future reviews of data needs in other areas may identify additional data related to IFRS 9 requirements that will also be necessary for supervision in due course. If other data needs are identified, the resulting reporting proposals will be subject to consultation as usual.

2.15 The PRA has considered firms' comments on the burden of reporting at both consolidated and individual level in the context of the longer-term work on the PRA's wider data strategy, and in the context of firms' comments on the implementation timeline, discussed above. The PRA recognises that, unlike for some other reporting such as COREP, which is used to monitor compliance with requirements at a solo level, the templates in question will be used to monitor risk. For some firms the numbers reported at the consolidated level may not differ significantly from the numbers reported at the individual level for a certain group entity. In this case, it would mean that the risk in the group is concentrated in one entity, and so additional data would be of limited benefit. The PRA has amended the final rules so that in such cases where individual reporting would be of little supervisory benefit, the firm in question would only have to report at the consolidated level.

2.16 The PRA has amended the final rules so that firms will be exempt from reporting at the individual level if one entity in the group contributes more than 95% of consolidated assets in the banking group (calculated as that individual entity's total assets, less any intragroup assets they hold). Firms wishing to benefit from the exemption must notify the PRA via the form available on the PRA section of the Bank of England website.[2]

2.17 Firms will also be able to apply for a waiver from reporting at the individual level if one entity in the group contributes 90 to 95% of consolidated assets in the banking group (calculated as in paragraph 2.16).[3] In these cases, supervisors will make a qualitative assessment about the alignment of the business models of the individual entity and the group to determine whether it is appropriate to only collect consolidated data.

2.18 The PRA considers that the benefit to firms of this change outweighs the cost to supervisors of not having individual-level data in those cases. Relieving firms of the burden of additional reports will save management time spent on additional control and governance

1 Contact details in relation to paragraph 2.11: PRA Authorisations – Authorisations Division, Prudential Regulation Authority, 20 Moorgate, London, EC2R 6DA or PRA-Waivers@bankofengland.co.uk.
2 Form in relation to paragraph 2.16: www.bankofengland.co.uk/pra/Pages/regulatorydata/formscrdfirms.aspx.
3 Form in relation to paragraph 2.17: www.bankofengland.co.uk/pra/Pages/authorisations/waivers/default.aspx.

processes. It is also likely to reduce the implementation costs for those firms, but the PRA does not consider that this will significantly reduce the overall cost of the requirements in this PS.

2.19 Mutuals are as likely as other firms to benefit from this change. The PRA does not think that mutuals will be disadvantaged by the final rules or that the costs of reporting are disproportionate for mutuals compared to other firms.

2.20 Due to the particular supervisory need for more detailed regulatory data for firms in groups subject to ring-fencing, the exemption does not apply to these firms, and they will not be able to apply for a waiver from any of their sub-consolidated or individual reporting requirements under this PS. When the PRA publishes final rules regarding the application of IFRS 9 reporting requirements to ring-fenced banks on a sub-consolidated basis, as consulted on in CP2/17 and outlined in paragraph 1.6, the PRA will also amend the rules to specify that the exemption does not apply for firms in groups subject to ring-fencing.

2.21 The PRA will continue to keep the rule exemption and waiver under review.

2.22 This amendment only applies to the changes in reporting requirements related to IFRS 9 that are outlined in this PS and does not change how firms should report any other PRA reporting requirements or firms' mandatory FINREP reporting. The PRA does not grant waivers from individual level reporting for any other reporting requirements and is not considering waivers in any other area of reporting.

Government economic policy

2.23 On 8 March 2017, the Treasury made recommendations to the Prudential Regulation Committee ('Committee') about aspects of the Government's economic policy to which the Committee should have regard when considering how to advance the objectives of the PRA and apply the regulatory principles set out in FSMA. The PRA has considered the impact of the final rules on the Government's economic policy objective to achieve strong, sustainable and balanced growth, and that price and financial stability are prerequisites to achieving this objective. The PRA considers that the final rules in this PS, which are designed to ensure appropriate supervision and oversight, and promote the safety and soundness of individual firms, support the financial stability prerequisite of the Government's economic policy objectives.

2.24 The PRA considers that the competition aspect is of particular relevance to the final rules. The PRA considers that relieving firms with simpler group structures of the burden of reporting at the individual level will not adversely impact their competitiveness. The PRA considers that the rules are consistent with its secondary objective in facilitating effective competition.

Appendices

1	**PRA Rulebook: CRR FIRMS: IFRS 9 REGULATORY REPORTING INSTRUMENT 2017, available at: www.bankofengland.co.uk/pra/Pages/publications/ps/2017/ps1817.aspx**
2	**Supervisory Statement 34/15 'Guidelines for completing regulatory reports' UPDATE, available at: www.bankofengland.co.uk/pra/Pages/publications/ss/2017/ss3415update4.aspx**