

WHITEPAPER

Integrated COREP and FINREP Reporting: A Best Practice Framework

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Executive Summary

The scale and scope of changes in bank regulation show little sign of slowing. As Basel III becomes firmly entrenched within the European Union (EU), the next steps are the EU-wide adoption of consistent, integrated Common Reporting (COREP) and Financial Reporting (FINREP) by the European Banking Authority (EBA) and national regulators.

These reports, which encompass enterprise risk and balance sheet information, present significant challenges for EU-based banks because they require a wide range of data and calculations which are derived from a diverse range of siloed source systems. Furthermore, COREP and FINREP reports need to be consistent with each other, and all the other reports a bank will submit to its regulators and its other stakeholders.

This paper provides an overview of the COREP and FINREP reporting requirements, together with the challenges they present to bank management. It also proposes a framework, leveraging a centralized data platform that helps banks to deliver integrated, consistent COREP and FINREP reports to their supervisors, on time and cost effectively.

Background

The regulatory response to the recent banking crisis has continued to evolve as governments and regulators have sought to prevent a repeat of the cost and disruption involved. The EU and the EBA have been especially determined to ensure that a banking crisis of similar scale is not repeated. They have sought to enhance the requirements of Basel III, as well as ensure the early adoption of its provisions, under the EU's Capital Requirements Directive (CRD) IV.

COREP was introduced in 2006 by the Committee for European Banking Supervisors (CEBS). It provided a standardized reporting framework for reporting credit, market, operational and solvency reports¹ under Basel II to national supervisory authorities (NSAs) across the EU. The NSAs, in turn, reported their national results to CEBS. Since the introduction of COREP, CEBS was replaced by the EBA in 2011, and Basel II was replaced by Basel III, but the core requirements remain.

¹ The requirements for COREP Reports may also be extended to cover the leverage ratio, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) in due course.

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FINREP is a financial reporting framework, based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS). It covers a range of areas, including consolidated balance sheets (assets, liabilities, equities & minority interest) and consolidated income statements. It was first released in 2005, again under the auspices of CEBS, and now lies within the authority of the EBA.

Both COREP and FINREP utilize the eXtensible Business Reporting Language (XBRL) as the reporting format for all submissions. This enables the systematic reporting of complex banking results, which can be easily compared with other institutions and countries.

XBRL leverages a data point model, a taxonomy model and a validation model to provide a comprehensive reporting process. It allows the regulator to comprehensively capture and define the regulations in template form, ensuring that banks are able to validate and submit their submissions accurately, the first time.

The EBA's key driver for promoting XBRL is to provide consistent, fully validated reports. In due course, the plan is to leverage XBRL to provide comprehensive analytics about the European banking sector to the EBA to enhance its prudential management of banks in the EU.

The reporting model is that banks will report to their national regulators (level 1 reporting), with the national regulators compiling those reports and sending them to the EBA (level 2 reporting).

Individual regulators across Europe may still issue their own COREP and FINREP templates (consistent with the EBA's), based on their own reporting requirements, systems and their existing reporting processes. It means that instead of having a single unified reporting model, banks must wrestle with numerous (potentially evolving) requirements from all their regulators, as well as the significantly greater demands of the COREP and FINREP regulations. Furthermore, banks must ensure that their COREP and FINREP reports are consistent with other reports they submit to the regulators.

The EBA has mandated that COREP and FINREP will be used by all countries by January 1, 2014, with the first reporting date being 30 September 2014.

COREP & FINREP Reporting: The Challenges

While banks are familiar with regulatory reporting under Basel II, the scope and need for reconciled reporting under Basel III and COREP/FINREP has made regulatory reporting significantly more complex for risk, finance and compliance teams. The scale of reporting may also be significantly greater than banks were accustomed to previously. COREP contains 28,486 data points across 31 reports, and FINREP contains 6,682 data points across 32 reports (Source: EBA).

1. Data Consolidation

Accurate and consistent data management is core to integrated COREP and FINREP reporting, as well as broader Basel III regulatory compliance. The datasets that are used to calculate and populate COREP and FINREP reports are stored across a wide array of different source systems, in multiple formats, and with differing standards of data quality.

For many banks, the greatest challenge in developing a COREP & FINREP reporting infrastructure is understanding how to integrate a broad array of datasets into a single, coherent dataset, in a central repository. The dataset must include fully reconciled transaction level risk and finance data so it can deliver fully reconciled COREP and FINREP reports.

2. Cleansing and Auditing the Data

A consolidated dataset is only as good as the quality of its data. It is essential that all data is validated as it is imported into the central repository, to ensure that there are no errors, no missing data and that the quality of the data, such as its age, meets banks overall COREP and FINREP reporting requirements. This process should be repeated during the calculation and reporting stage as well.

The large number of sources that COREP and FINREP reports both draw upon demand an automated approach in highlighting any data quality issues. Being able to highlight issues easily, and then fix them quickly is essential if banks are going to be able to report accurately and on time.

The ability to audit these changes is central to maintaining the bank's data integrity standards. Whether a single cell is altered, or whether a comprehensive data patch is applied, auditors, security staff and regulators must be able to identify and manage changes applied, so the data maintains its integrity.

3. Consistent Calculation Processes

COREP and FINREP reports cover different areas. However they must share the same data source to ensure that banks fully and accurately report their risk and finance results as demanded by the regulations.

This provides a solid foundation that banks can use to power their calculation engines that will calculate their COREP and FINREP results.

However banks calculate their results for COREP and FINREP reports, their calculation engines need to be powerful and flexible to handle huge volumes of calculations based on the vast range of transactions they carry out. The formulas need to be fully captured and maintained as the regulations evolve.

These same engines should also calculate other Basel Pillar 1 and Pillar 3 reports, leveraging the same data and the appropriate formulas for these results. This ensures that the results are fully consistent across the broad range of reports that a bank must submit.

An additional complexity is that regulators in the US and EU are enhancing their stress testing regimes to enhance the forward looking nature of banking regulation. This can involve financial institutions providing more granular reports. For example in the UK, the Prudential Regulatory Authority's (PRA) Firm Data Submission Framework (FDSF) requires this level of detail, as does the US Comprehensive Capital Analysis and Review (CCAR) and Dodd-Frank Act Stress Testing (DFAST) frameworks. These provide a systemic perspective on individual institutions and banking sectors. These developments are an additional driver for taking a consolidated, integrated approach to managing data and calculations, so that banks can provide an aggregated view of their COREP, FINREP and Basel Pillar 1 and Pillar 3 reports.

4. Complex Reporting Requirements

In line with Pillar 1 reports, COREP and FINREP reports have consolidated and solo reporting requirements. This means that EU-headquartered banks need to report their group COREP results to their primary regulator, and individual country COREP results to the relevant regulators. FINREP reports are typically submitted on a consolidated basis, except where a solo entity issues its own securities. However an additional complexity is that the EBA mandates the collection of a core set of FINREP reports, while allowing national discretion over the collection of non-core reports, which varies from country to country.

Furthermore, each national regulator has wide latitude over how they draw up their COREP and FINREP templates. While the core taxonomy will remain consistent, there will be variation in how these results are submitted, the titles used in the returns (to accommodate language issues) and the sign off and feedback

procedures. Banks will need to manage and maintain these various templates and ensure their systems and processes are constantly up to date if they are to provide accurate, consistent results on time. The templates must support the XBRL models, as well as other electronic formats (Excel, XML, ASCII, Online) as required by each of the local regulators.

In parallel to this, COREP and FINREP reports must be consistent and aligned with other regulatory reports banks submit to their supervisors and stakeholders.

While the advent of COREP and FINREP reporting present significant challenges for institutions, there are a set of best practice principles that ensure that a bank can comply fully, cost effectively and on time.

A comprehensive listing of the reports covered by COREP and FINREP is at the end of this paper.

The Optimal Solution

1. Deploy a Centralized Data Platform

The significant growth in the scale of the reports banks must submit – COREP, FINREP, national regulatory reports, Pillar 3 reports, and stress testing – means that having the data needed to calculate the results spread across multiple silos is no longer realistic. A centralized data platform allows banks to have a single unified data source, to deliver accurate, consistent, results without disrupting the business. It should allow for the data to be cleansed, validated and patched if necessary, ensuring that the final calculations and reports are accurate and consistent.

Importing balance sheet information into the data platform ensures that the risk and finance data is fully reconciled at the transaction level. This provides a platform for fully integrated and reconciled COREP and FINREP reports.

As well as providing comprehensive COREP and FINREP reports, this type of centralized data approach can be leveraged further to encompass liquidity risk management, economic capital management and stress testing, to provide an end-to-end to enterprise risk management platform for a bank.

2. Leverage An Open Model

The data needed to populate COREP and FINREP reports will come from a wide range of source systems. The solution needs to be open and flexible so that any data type can be pulled from any system with a minimum of systems integration effort, to reduce time and cost. Moreover, the solution should be flexible enough to accommodate a modular approach to data management, calculation and reporting. Banks should be able to leverage their existing investment in technology, and add modules as needed to create the optimal solution to meet their needs. In a changing regulatory and business environment, flexibility should be at a premium.

3. Use Automated Calculations

The scale and scope of COREP and FINREP reports (now with over 35,000 data points), alongside other Basel III calculations, mean that manual, or even semi-automated calculations that banks might have used in the past are no longer feasible. Highly automated processes, leveraging built-in calculation formulas, should be used as widely as possible to meet the demands of accurate, consistent, auditable and timely results. The enhanced scale and scope of COREP and FINREP reporting means that maintaining the calculation formulas might best be outsourced to a third party, to maintain accuracy. Maintaining the

currency of formulas is a significant overhead for banks that can prove exceptionally costly if errors and oversights find their way into the calculation process.

Automated processes also ensure that revisions to the regulations can be effectively captured and seamlessly integrated into a bank's processes, without disrupting the business.

4. Automate COREP & FINREP Reporting

Alongside the automated data consolidation and the calculation of the results, the solution should also seamlessly integrate regulatory reporting, to create a comprehensive, automated and consistent end-to-end process. Automatically populating the reports, by leveraging built-in reporting templates, overcomes the significant challenges of reporting COREP and FINREP results. This approach also allows the straightforward updating of reports, as regulators' requirements develop.

These templates should cover all the various COREP and FINREP reports that national regulators require, covering both core and non-core reports, on both a group and solo basis.

The reporting solution must also be able to manage all other regulatory reports to ensure consistent results. These encompass Basel III Pillar 1 and 3 Reports, stress testing reports, national regulator reports, as well as potentially internal business reports. Again leveraging templates across all reports can enable banks to provide an accurate and consistent picture to all their regulators, in the most effective way.

This approach can also have significant benefits for the business. It can provide a bank's management with single, fully integrated, fully reconciled perspective of its risk and finance position. It can enable managers to make fully risk and finance informed strategic business decisions.

5. Utilize Drill Down Capabilities

The optimal solution also needs to have drill-down capabilities, allowing managers to drill down into the results to gain insight into the reports and the business. This capability allows banks to respond quickly to enquiries from regulators about their results, reducing the compliance overhead.

It also allows managers to quickly and easily drill down into the risk and finance details of the business, enhancing their insight into the business and helping them to generate strategic options for the business.

6. Comprehensive Change Workflow and Audit Capabilities

Consolidating data, calculating results and submitting COREP and FINREP reports is highly complex, often requiring changes and amendments as issues and errors are identified and fixed. The amendment process needs to be carefully controlled, so that a bank's management can be assured that what they formally submit is a true reflection of its position.

Central to this is having an automated change approval process that both controls and records who can make and approve changes. Automation ensures speed and accuracy, and can be leveraged to provide management control and audit capabilities to highlight what changes were made and on whose approval. This audit capability is now a requirement for many regulators.

Moody's Analytics Solutions for COREP and FINREP Reporting

Moody's Analytics offers an of products and services that enable banks to deliver comprehensive COREP and FINREP Reporting.

RiskFoundation™

The RiskFoundation platform provides a robust centralized platform that allows banks to consolidate all their critical data into a single platform, allowing them to calculate their COREP, FINREP and other Basel III regulatory capital results.

RiskAuthority™

The RiskAuthority solution leverages the RiskFoundation platform to calculate the critical results for COREP, as well as the broader results that Basel III requires for credit, liquidity, market, concentration and operational risk. It also covers the leverage ratio, the LCR and NSFR.

Regulatory Reporting Module

The regulatory reporting module provides built-in templates for COREP and FINREP reporting, allowing banks to quickly and easily deliver accurate results, cost effectively. Leveraging the RiskFoundation and RiskAuthority solutions, as well as external data sources, it seamlessly manages all aspects of COREP and FINREP reports, including group, solo, core and non-core reporting.

Enterprise Risk Solutions Services

To help banks address the complexities of delivering COREP and FINREP reporting, Moody's Analytics consultants can provide expert guidance to help banks review and refine their processes to ensure that their regulatory capital infrastructure can meet the needs of the business and the needs of the regulators. Consultants can also help with product implementation and training.

For more information about how Moody's Analytics can help you with Basel III, as well as COREP and FINREP Reporting, go to moodyanalytics.com.

Appendix 1: EBA COREP Reports

Report Name	Description	Risk Type
25 Reports		
CA1	Reports on the elements of bank capital (Own Funds)	Own Funds
CA2	Report on capital requirements	Own Fund Requirements
CA3	Report on capital ratios	Capital Ratios
CA4	Report on memorandum items	Memorandum Items
CA5	Report on traditional provisions	Transitional Provisions
GS	Report on capital requirements on consolidated level	Group Solvency/Own Fund/All Risk
CR SA	Report on counterparty risk and free deliveries exposures based on standardized approach by SA exposure class	Credit Risk
CR IRB	Report on counterparty credit risk and free deliveries exposures based on IRB approach by IRB exposure classes	Credit Risk
CR GB	Report on geographical breakdown of financial exposures subject to credit risk	Credit Risk
CR EQU	IRB Report on equity exposures based on IRB approach	Credit Risk
CR SETT	Report of settlement risk exposures for unsettled transactions	Credit Risk
CR SEC SA	Report on credit risk on securitization exposures when using standardized approach	Credit Risk
CR SEC IRB	IRB Report on credit risk on securitization exposures when using IRB approach	Credit Risk
CR SEC Details	Details Report on detailed information on securitizations by originators and sponsors	Credit Risk
CVA	Report on credit valuation adjustment	Credit Risk
MKR SA TDI	Report on capital requirement based on standardized approach for position risk on traded debt instruments	Market Risk (Interest Rate Risk)
MKR SA SEC	Report on capital requirement based on standardized approach for specific risk in securitizations Basel III	Market Risk (Specific Risk in Securitizations)
MKR SA CTP	Report on capital requirement based on standardized approach for specific risk in correlation trading portfolio	Market Risk (Specific Risk in CTP)
MKR SA EQU	Report on capital requirement based on standardized approach for position risk on equities	Market Risk (Equity)
MKR SA FX	Report on capital requirement for foreign exchange risk	Market Risk (Foreign Exchange)
MKR SA COM	Report on capital requirement for commodity risk	Market Risk (Commodities)
MKR IM	Report on the capital requirement for price risk, foreign exchange and commodity risk when using internal models	Market Risk (Internal Models)
OPR	Report on capital requirement for operational risk	Operational Risk
OPR Loss	Details Report on capital requirement for operational risk- loss details	Operational Risk

Appendix 2: EBA FINREP Reports

Report	Description	Area
Core Information – 5 Reports		
1	Balance Sheet Statement (Statement of Financial Position)	Balance Sheet
1.1	Balance Sheet Statements: Assets	Assets
1.2	Balance Sheet Statements: Liabilities	Liabilities
1.3	Balance Sheet Statement: Equity	Own Funds
2	Statement of Profit or Loss	Profit & Loss
Non-core Information – 28 Reports		
3	Statement of Comprehensive Income	Profit & Loss & Own Funds
4	Breakdown of Financial Assets by Instrument and by Counterparty Sector	Assets
5	Breakdown of Loans and Advances by Product	Assets
6	Breakdown of Loans and Advances to Non-financial Corporations by NACE Codes	Assets
7	Financial Assets subject to Impairment that are Past Due or Impaired	Assets
8	Breakdown of Financial Liabilities	Liabilities
9	Loan Commitments, Financial Guarantees and Other Commitments	Off-balance Sheet
10	Derivatives: Trading	Assets & Liabilities
11	Derivatives: Hedge Accounting	Assets & Liabilities
12	Movements in Allowances for Credit Losses and Impairment of Equity Instruments	Assets
13	Collateral and Guarantees Received	Off-balance Sheet
14	Fair Value Hierarchy: Financial Instruments at Fair Value	Assets & Liabilities
15	Derecognition and Financial Liabilities Associated with Transferred Financial Assets	Assets & Liabilities
16	Breakdown of Selected Statement of Profit or Loss Items	Profit & Loss
17	Reconciliation between Accounting and CRR Scope of Consolidation: Balance Sheet	Assets; Liabilities; Own Funds & Off-balance Sheet
18	Performing and Non-performing Exposures (1)	Assets
19	Forborne Exposures (1)	Assets
20	Geographical Breakdown	Assets; Liabilities; Profit & Loss & Off-balance Sheet
21	Tangible and Intangible Assets: Assets Subject to Operating Lease	Assets
22	Asset Management, Custody and Other Service Functions	Profit & Loss; Off-balance Sheet
23	Off-balance Sheet Activities: Interests in Unconsolidated Structured Entities	Off Balance Sheet
24	Related Parties	Assets; Liabilities & Profit & Loss
25	Group Structure	Own Funds
26	Fair Value	Assets & Liabilities

Report	Description	Area
27	Tangible and Intangible Assets: Carrying Amount by Measurement Method	Assets
28	Provisions	Liabilities
29	Defined Benefit Plans and Employee Benefits	Assets & Liabilities
30	Breakdown of Selected Items of Statement of Profit or Loss	Profit & Loss
31	Statement of Changes in Equity	Own Funds

(1) Templates F 18.00 and F 19.00 still not finalized by EBA.

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