Basel II: Implementation in Europe through COREP

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XBRL Spain. Manager

Agenda

• Business case
• Implementation architecture
• Organization approach
COREP

Defining a **C**ommon **R**E**P**orting framework around the solvency ratio for credit institutions and investment firms (*Basel II*) under the European Union Capital Requirements.

**Based on the proposal for the Recast**ed **E**uropean **D**irectives 2000/12/CE and 93/6/EEC released in July 2004

**Under the Authority of the Committee of European Banking Supervisors**

[www.c-ebs.org](http://www.c-ebs.org)

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From Basel I to Basel II

**Objectives of the new Basel capital accord :**

- Enhance the sensitivity of capital requirements to the degree of risk involved in banks’ positions and activities
- Encourage banks to improve their risk measurement and management systems
- Increase the role of banking supervisors and the role of market discipline
- Constitute a more comprehensive approach to addressing risks the banks are exposed to
- Promote safety and soundness in the financial system as well as competitive equality

**Same objectives, more advanced tools**
Structure of the New Basel II Accord

Three Pillars

I – Capital requirements
II - Supervisory review process
III - Market discipline

Risk weighted assets
Definition of capital

Credit risk
Operational risk
Market risks

Standardised Approach
Internal Ratings-based Approach

Pillar I: Minimum Capital Requirements

Regulatory Capital

Credit Risk
Revised Standardized Approach
or
Foundation IRBA
or
Advanced IRBA

Market Risk
Standardized Approach
or
Internal Models Approach

Operational risk
Basic Indicator Approach
or
Standardized Approach
or
Advanced Measurement A.

Capital Adequacy Framework
Evolution of the most well-known Basel I requirement in minimum capital standard or Cooke Ratio

Own funds ≥ 8%
Lendings ≥ 8%
2. Operational Risk

Credit, operational and market risks: Evolutionary path and capital incentives to move to the most advanced approach

- Increasing management standard
  - Standardised Approach
  - Foundation IRB Approach
  - Advanced IRB Approach
  - Credit risk modelling?
- Increasing capital charges
  - Basic Indicator Approach (BIA)
  - The Standardised Approach (TSA)
  - Advanced Measurement Approach (AMA)
  - Standardised Approach
  - Internal Models Approach

Pillar II: Supervisory Review Process

Pillar 2 is intended:

- to achieve a level of capital commensurate with a bank’s overall risk profile
- to encourage banks to develop and use better risk management techniques in monitoring and managing their risks

Only a limited impact on COREP
Pillar III: Market Discipline

- Pillar 3 is intended to provide investors with **reliable and timely information to understand a bank’s risk profile**
- Enhance role of market participants in encouraging banks to hold adequate levels of capital
- **Pre-condition for the use of some methodologies** (Internal ratings-based approaches, AMA)
- **Qualitative and quantitative disclosures** (information on methodology and key inputs, e.g. explanation of structure of internal rating system and PD, LGD assumptions, …)

**Will not be covered by COREP**

COREP concept: extension
### COREP Goals

#### Objectives & Principles

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Principles</th>
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<tr>
<td>A new ratio = a new challenge and a new opportunity</td>
<td>Flexibility</td>
</tr>
<tr>
<td>Reduce the regulatory reporting burden for International Groups</td>
<td>Consistency</td>
</tr>
<tr>
<td>A better co-operation between European Supervisors</td>
<td>Standardization</td>
</tr>
</tbody>
</table>

#### 3 • COREP: Principles

- **Flexibility**: each supervisor is allowed to choose the scope as well as the level of aggregation of information required; the framework will allow for flexibility also to accommodate for differences in the exercise of the national options foreseen in the Capital Requirements, for instance with reference to the treatment of small institutions;

- **Consistency**: the same concepts and terminology have been used as far as possible. Building a taxonomy helps;

- **Standardization**: the number of different templates has been minimized (business) and their representation has been formalized into XML/XBRL (computing).
3 • COREP: Flexibility Principle

**Flexibility**

3 levels of flexibility (A, B & C)

- **A**: data needed by all Supervisors.
- **B**: specific to a country or a group of countries but integrated in the dictionary of common data.
- **C**: data specific to a country or sector (leasing…). To be integrated when possible.
- **D**: data outside COREP (credit register…)

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3 • COREP: Flexibility Principle

**Basel II**

- Directives 2000/12 & 93/6

- Country 1
  - FSA 1
  - Report 1
- Country 2
  - FSA 2
  - Report 2
- Country 3
  - FSA 3
  - Report 3
- Country 25
  - FSA 25
  - Report 25

**European Law**

9X% Basel II compatible

**Transposition into national Legislation**

**National Regulation**

**National Implementation**

**XBRL challenge!**
2004: 1st initiative around a European Prudential Common Reporting

- 1st Quarter: CEBS set up the COREP Working Group
- 25 participating Countries
- Driving principles defined: Commonality & Flexibility
- Based on the proposal for the Recasted European Directives 2000/12/CE and 93/6/EEC released in July 2004
- 1st Draft issued in December 2004

2005: Iterative Process with the Industry

- 25 templates released for consultation in January 2005
  www.c-ebs.org/Consultation_papers/consultationpapers.htm
- 25+ responses received by the end of April
  - Positive welcome of the initiative
  - But proposed framework deemed too complex and too detailed
- May / June 2005: COREP Technical Working Group
  - Objective: Simplify and reduce the framework
  - Cost / Benefit analysis to retain what is essential for the Supervisors
- New Reduced Framework to be validated by CEBS (Work in Progress)
5. Possible Development

Basel Committee
- COREP project has been presented to the Basel Committee;
- CPLG (Core Principle Liaison Group) and especially non G10 countries have shown a strong interest;
- Still at an early stage in their grasp of XBRL implication.

FINREPs (Financial Reporting in IFRS)
- Join working group: COFINREP
- Use of common terminologies and definitions where possible
- Capitalisation on COREP XBRL experience to develop the taxonomy
- In some countries, COREP and FINREP are a unique IT development:

Business case: XBRL use on COREP
### Proprietary vs. Standard

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<tr>
<th>Proprietary</th>
<th>Standard</th>
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<tr>
<td>✓ Past</td>
<td>✓ Future</td>
</tr>
<tr>
<td>✓ Well know</td>
<td>✓ New technology</td>
</tr>
<tr>
<td>✓ Local</td>
<td>✓ Interoperability</td>
</tr>
<tr>
<td>✓ Isolation</td>
<td>✓ Cooperation</td>
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<tr>
<td>✓ Cost repetition</td>
<td>✓ Economies of scale</td>
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### Opportunity window

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<th>2004</th>
<th>2005</th>
<th>2006</th>
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**Too early**
- Establishing:
- CEBS
- XBRL EU

**Too late**
- Operational:
  - Basel II
  - IFRS/IAS
  - ***
### COREP concept: template

**Template:** STANDARDISED APPROACH; CAPITAL REQUIREMENTS

**Exposure class:** Regional governments and local authorities

| Exposure type: Off-balance sheet items |
|-----------------|-----------------|-----------------|-----------------|-----------------|
| Measure | Measure | Measure | Measure |
| Original credit (or counterparty view) | Exposure P&L (credit conversion factor) | Value adjustments and provisions associated with the original exposure | Exposure net of value adjustments and provisions | Fully adjusted exposure value (E) |
| Dimension 2 | Dimension 1 | |
| Risk Weights | 1 | 2 | 3 | 4 |
| TOTAL | 1111111.11 | 222222.22 | 333333.33 | 444444.44 |
| 6% | 666666.66 | 888888.88 | 999999.99 | 1111111.11 |

*Dimension 3:
- All the dimensions are optional!

### COREP concept: Data Matrix

**All the dimensions are optional!**

<table>
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<tr>
<th>Data Matrix</th>
<th>ExPOSURE TYPES</th>
<th>EXPOSURE CLASSES</th>
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<td>Equity Risk</td>
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*STANDARD APPROACH CAPITAL REQUIREMENTS*
COREP concept: extension

- Custom report
- Large report
- Medium report
- Small report
- Large report super set of reports

COREP implementation: Banks

XBRL reports can be used for Basel II as well as for IFRS
XBRL reports are also useful interchanging information between supervisors

- Basel II Bank “1”
- IFRS
- Banking Supervisor country “A”
- Bank “2”
- Banking Supervisor country “B”
COREP implementation: Banks

Multiple implementation approaches:

- Small banks may use Application Service Provider -ASP- model, outsourcing technical complexity.
- Banks may report all to all the Supervisors: Basel II & IFRS, Banking & Stock Exchange,…
- International Banks may reduce supervisory burden when reporting to different countries.

COREP implementation: Model

Supervisor

Bank

Operations, Counterparties, Collateral...

Risk Management

Errors

Internet

Supervision

Reports, Other data...

Taxonomy

XBRL

Report

XBRL

Errors

XBRL
COREP implementation: Model

Bank
- Risk Management
- Operations Counterparties Collateral

Supervisor
- IS Supervisory
- Reports Other data

Internet
- COREP XBRL (Europe)
- COREP XBRL (National)
- COREP XBRL Implementation

Bank operations, controls...

Errors

Presentation, Analysis...

File Transfer (National)

COREP XBRL core

Errors

Core model for explanatory purposes only

Joint venture
- CEBS
- XBRL
- Banks
**COREP project: Acknowledgments**
(kick-off workshop, February 2005)

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**COREP project: Test cases flow**

1. COLLABORATING INSTITUTIONS
2. COLLABORATING INSTITUTIONS
3. COLLABORATING INSTITUTIONS
4. COLLABORATING INSTITUTIONS
5. COLLABORATING INSTITUTIONS

Anonymous Information:
- test@corep.info
- Doc File
- Mapper
- XBRL printout
- XBRL Instance
- Public Repository
- Anonymous Comments
- Non compliant test cases
COREP project: goals

**Deliverables**

- **Initial COREP XBRL taxonomy**  ✓ 2005-05-13
  - To be updated following business changes

- **Set of non-confidential test cases**  ✓ Project  X Banks
  - To be populated when Banks decide to participate

- **Basic collaborative environment**  ✓ corep.info
  - To be improved if helping COREP implementation

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**COREP Next steps: Releases**

<table>
<thead>
<tr>
<th>Steering Committee</th>
<th>Dimensions: Public draft</th>
<th>Vendors involvement</th>
<th>European Workshop</th>
<th>Dimensions: Approved</th>
<th>COREP: Published</th>
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<td>05-06-03</td>
<td>05-07-19</td>
<td>05-08-26</td>
<td>05-09-15</td>
<td>05-11-07</td>
<td>1Q 2005</td>
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- Release 0.5
- Release 0.6
- Release 0.7
- **Release 1.0**
COREP project: team

Basic collaborative environment

- Multinational project team
  - 50 participants from 12 countries on kick-off workshop
- Different skills
  - Supervisor – business
  - Supervisor – IT experts
  - XBRL practitioners
  - Banks, consultants & providers
  - University
- Extensive use of Internet tools
  - Website www.corep.info
  - E-mail list & repository on Yahoo Group
  - Conference call

COREP Next steps: Options

Challenge

The real challenge is not the initial design of the taxonomy; a group of enthusiastic people is ready to carry out this job, as it has been demonstrated.

The real challenge is to locally implement a nice design into a fruitful pan-European system.

The long term challenge is to leverage Basel II XBRL implementation in other regions.
Thanks - Obrigado - Merci - Gracias
Danke - Grazie - Ευχαριστίες - Спасибо

Pieter Bruegel
The Tower of Babel. 1563