

Basel II: Implementation in Europe through COREP

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Agenda

- **Bussines case**
- **Implementation architecture**
- **Organization approach**

Defining a **COmmun **RE**porting 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 Recasted
European Directives 2000/12/CE and 93/6/EEC
released in July 2004**

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

www.c-eps.org

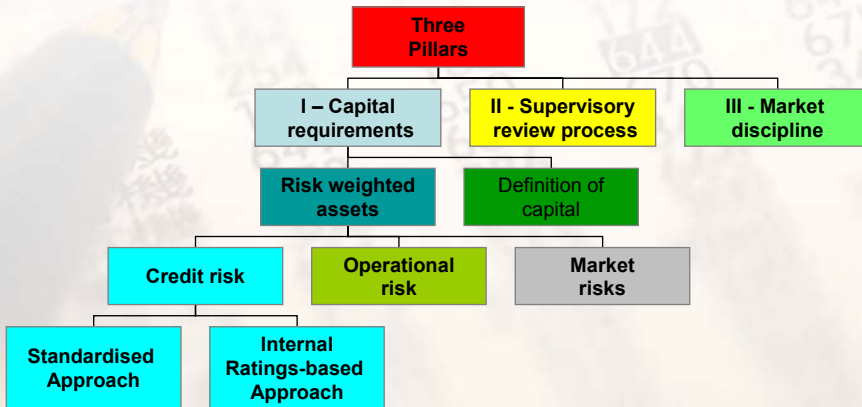
From Basel I to Basel II

Objectives of the new Basel capital accord :

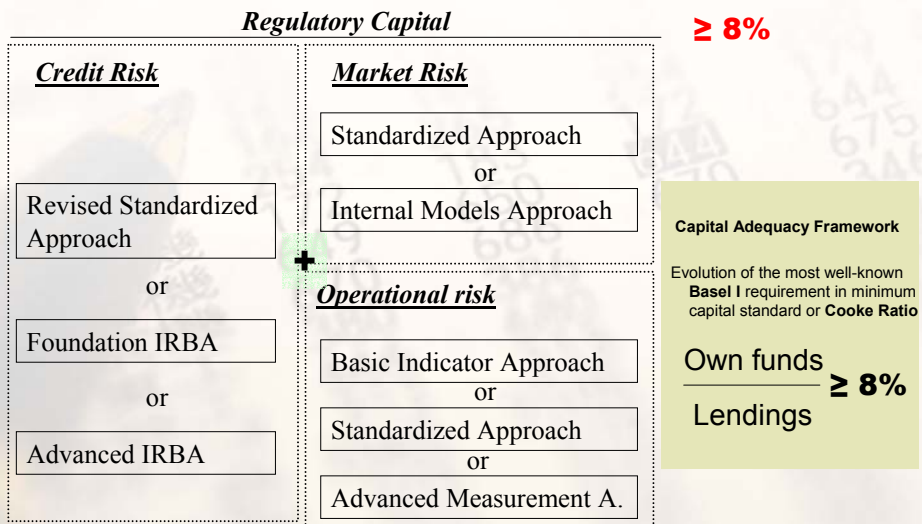
- Enhance the sensitivity of capital requirements to the degree of risk involved in banks' positions and activities
- Encourage banks to improve their risk measurement and management systems
- Increase the role of banking supervisors and the role of market discipline
- Constitute a more comprehensive 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

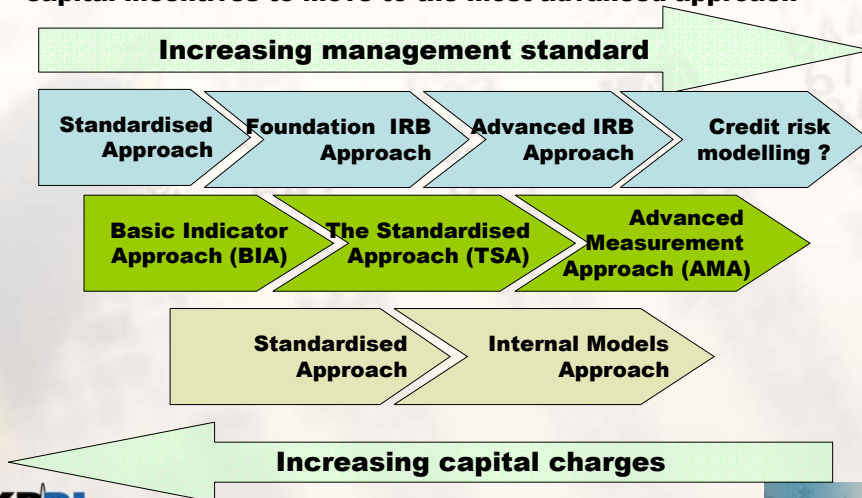


Pillar I: Minimum Capital Requirements



2 . Operational Risk

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

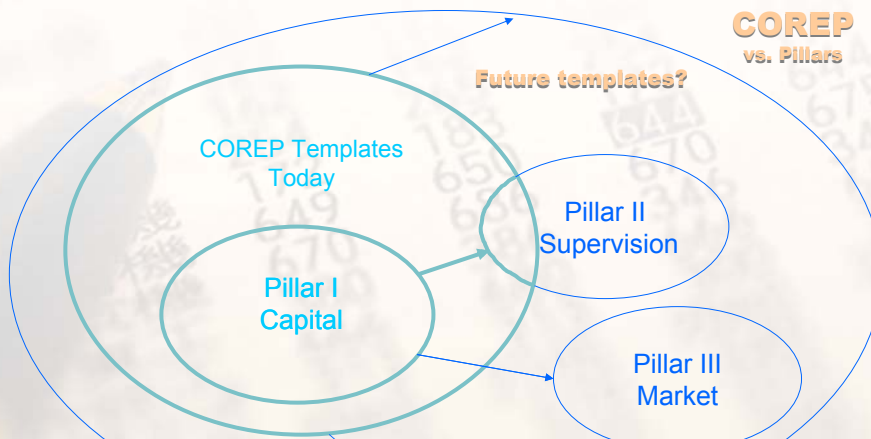
Only a limited impact on COREP

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



➔ Objectives & Principles

Objectives

- ➔ A new ratio = a new challenge and a new opportunity
- ➔ Reduce the regulatory reporting burden for International Groups
- ➔ A better co-operation between European Supervisors

Principles

- ➔ **Flexibility**
- ➔ **Consistency**
- ➔ **Standardization**

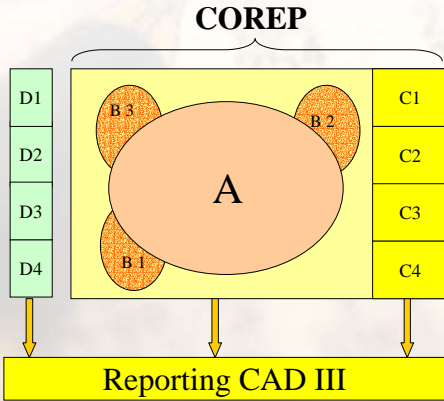
3 • COREP: Principles

- **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)



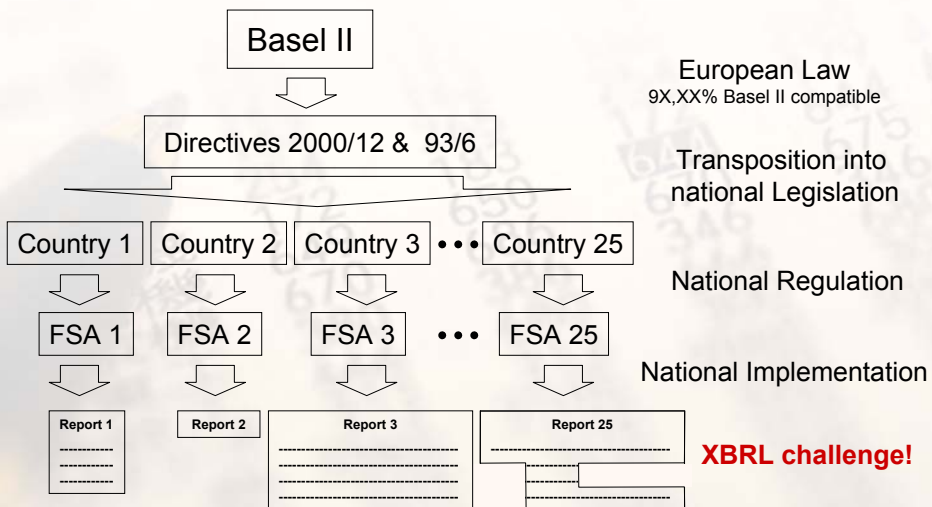
A: data needed by all Supervisors.

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...)

3 • COREP: Flexibility Principle



4 • COREP: Progress Report



➔ **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



4 • COREP: Progress Report



➔ **2005 : Iterative Process with the Industry**

- 25 templates released for consultation in January 2005
www.c-eps.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

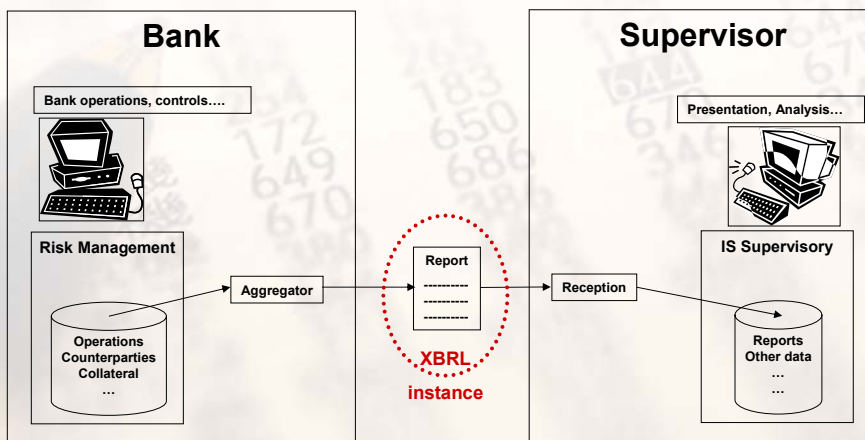
- COREP project has been presented to the Basel Committee;
- CPLG (Core Principle Liaison Group) and especially non G10 countries have shown a strong interest;
- Still at an early stage in their grasp of XBRL implication.

FINREP (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:

COFINREP

Business case: XBRL use on COREP



Proprietary vs. Standard

Proprietary

- ✓ Past
- ✓ Well know
- ✓ Local
- ✓ Isolation
- ✓ Cost repetition

Standard

- ✓ Future
- ✓ New technology
- ✓ Interoperability
- ✓ Cooperation
- ✓ Economies of scale

Opportunity window

2002 2003 2004 2005 2006 2007 2008

Too late

Operational:
Basel II
IFRS/IAS
...

Too early

Establishing:
CEBS
XBRL EU
...

COREP concept: template

[Back to the Case sheet](#)

SA

Template: STANDARDISED APPROACH: CAPITAL REQUIREMENTS

Exposure class: Regional governments and local authorities Dimension 2

Exposure type: Off-balance sheet items Dimension 1

RISK WEIGHTS	Measure	Measure	Measure	Measure
	ORIGINAL CREDIT & COUNTERPARTY RISK EXPOSURE PRE CREDIT CONVERSION FACTOR	VALUE ADJUSTMENTS AND PROVISIONS ASSOCIATED WITH THE ORIGINAL EXPOSURE (-)	EXPOSURE NET OF VALUE ADJUSTMENTS AND PROVISIONS	FULLY ADJUSTED EXPOSURE VALUE (E TM)
	1	2	3=1-2	4
TOTAL	111111,11	222222,22	333333,33	444444,44
0%	555555,55	666666,66	777777,77	888888,88
of which: past due				
without credit assessment by a nominated ECAI				

Dimension 3 (points to 0% row)

Dimension 4 (points to of which: past due row)

XBRL Extensible Business Reporting Language

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CEBS

COREP concept: Data Matrix

All the dimensions are optional!

EXPOSURE TYPES

EXPOSURE CLASSES

Data Matrix		Data List						
		Exposure Types	Exposure Classes	Risk Weights	SA Specific Exposure	Obligor Grade	2.5YearsMaturity	Equity Exposure
SA	Template							
	Capital Requirements	1	2	3	4			
	CRM Techniques	1	2					
	Capital Requirements	1	2			3		
IRB	Slotting Criteria & Equity		1	3			2	
	Simple Risk Weight		1	2				
	Memorandum Items	1	2			3		
			1	3			2	
			1	2				
	Equity PD/LGD		1			3		2
Equity Internal Models		1						
CRM Techniques	1	2						

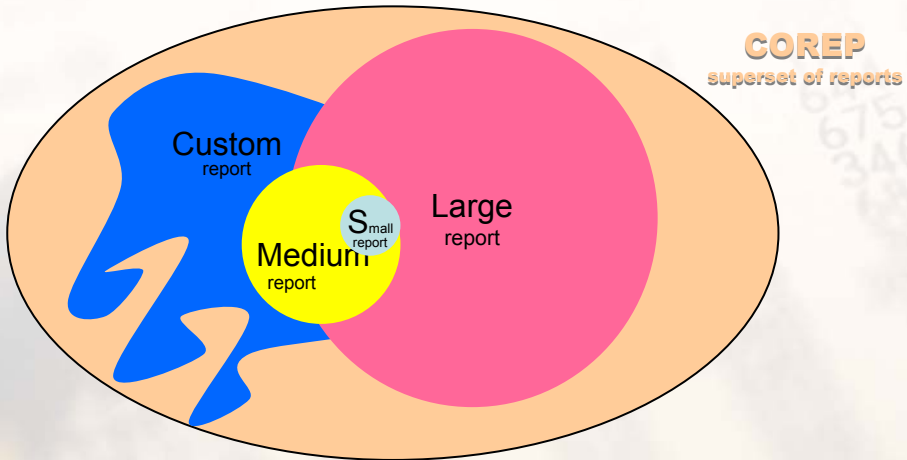
STANDARD APPROACH CAPITAL REQUIREMENTS

XBRL Extensible Business Reporting Language

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CEBS

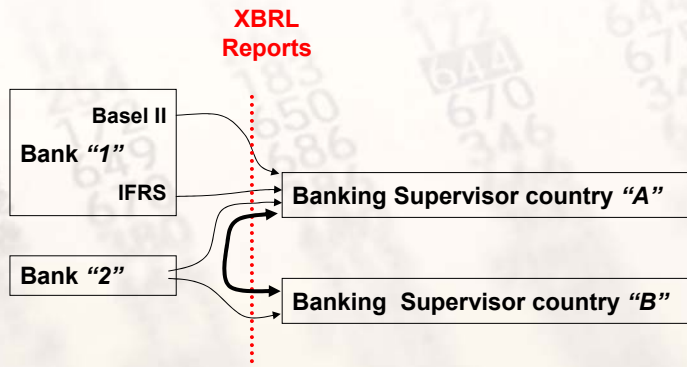
COREP concept: extension



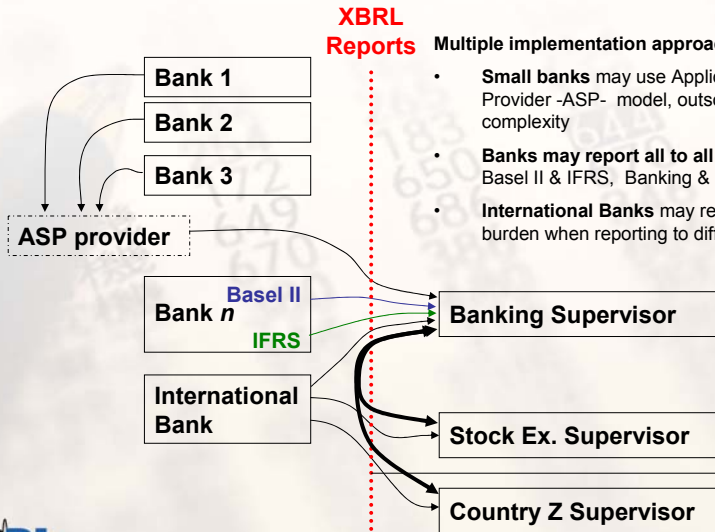
COREP implementation: Banks

XBRL reports can be used for Basel II as well as for IFRS

XBRL reports are also useful interchanging information between supervisors

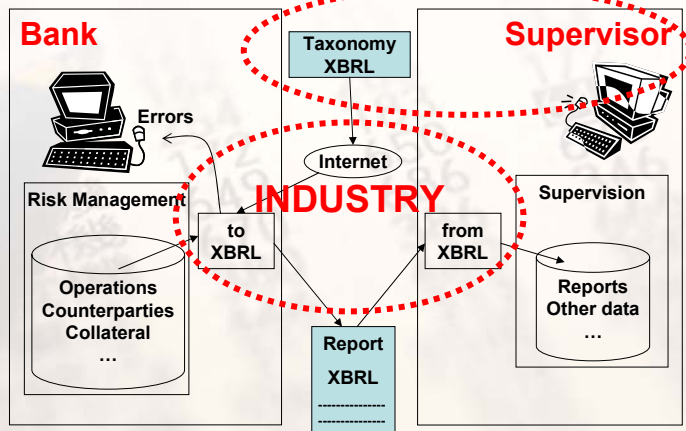


COREP implementation: Banks



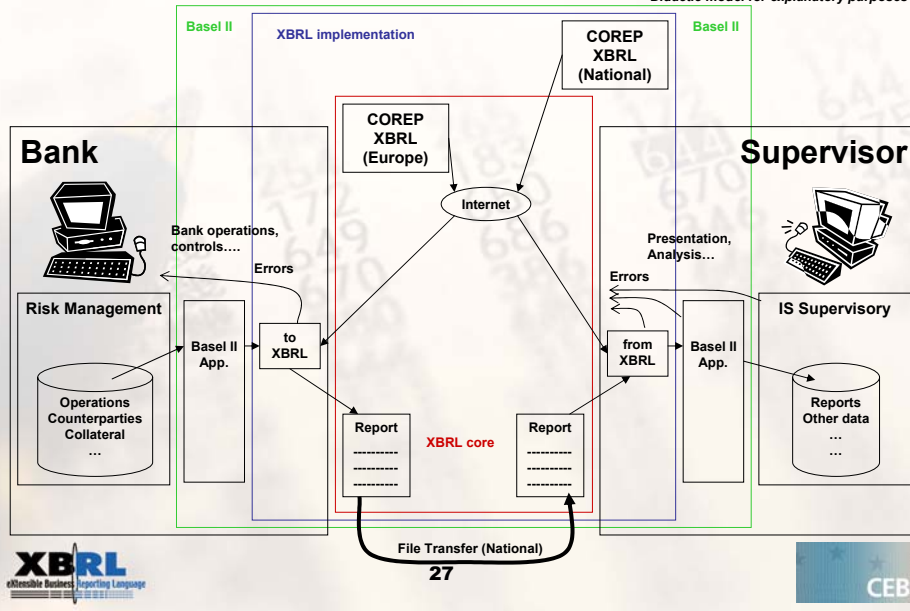
- Multiple implementation approaches:
- **Small banks** may use Application Service Provider -ASP- model, outsourcing technical complexity
 - **Banks may report all to all** the Supervisors: Basel II & IFRS, Banking & Stock Exchange...
 - **International Banks** may reduce supervisory burden when reporting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

COREP implementation: Model

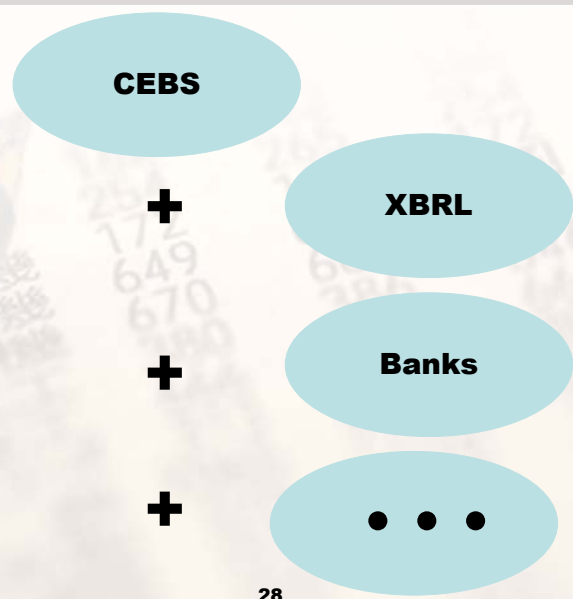


COREP implementation: Model

Didactic model for explanatory purposes only



Joint venture



COREP project: Acknowledgments

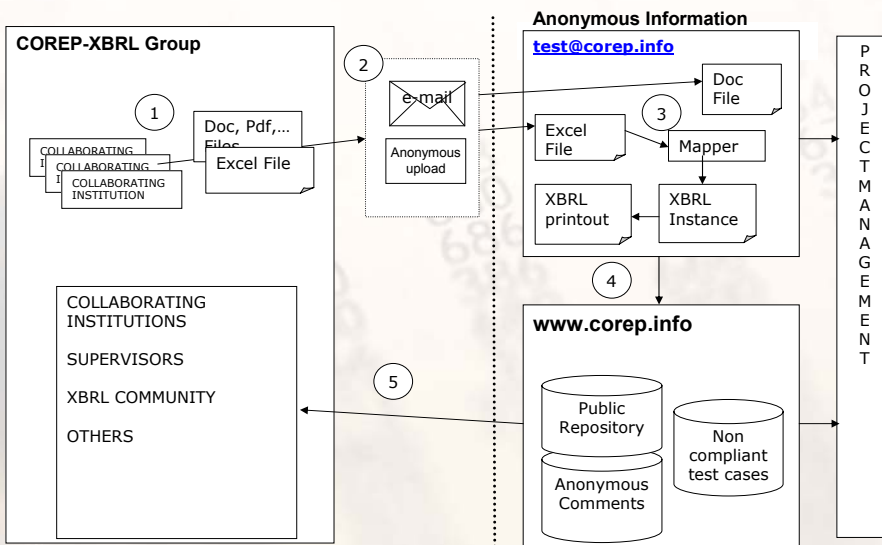
(kick-off workshop, February 2005)



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Guillermo Garcia	ES	IBM	Walter Hamscher	USA	XBRL



COREP project: Test cases flow



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

COREP Next steps: Releases



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

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
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Pieter Bruegel
The Tower of Babel. 1563

