EUROPEAN CENTRAL BANK

BANKING SUPERVISION

ECB-UNRESTRICTED

11 December 2019

Reporting in large exposures templates

Disclaimer: The guidance provided in this document is not intended as an interpretation of the Implementing Technical Standards (ITS)[1] on supervisory reporting developed by the European Banking Authority (EBA). The development and implementation of the additional data quality controls developed by the European Central Bank (ECB) takes into consideration the guidance provided by the EBA Q&As so far, nonetheless the EBA could adopt a different position in future answers to Q&As that may result in the need to amend the checks and this note accordingly.

1. Introduction

The reporting framework on Large Exposures is included in Annex IX of the ITS on supervisory reporting developed by the EBA. The associated instructions refer to six templates which include information on large exposure limits (C 26.00), identification of the counterparty (C 27.00), exposures (C 28.00 and C 29.00) and maturity buckets of the exposures (C 30.00 and C 31.00).

The EBA develops and requests institutions to apply a set of validation rules on the supervisory data. With the objective of increasing the overall quality of submissions from reporting entities, the ECB, in collaboration with some National Competent Authorities (NCAs), has developed additional data quality controls. These controls are known as EGDQ[2] checks targeting, amongst others, large exposures templates and significant institutions at the highest level of consolidation are expected to implement these controls in their internal reporting systems before submission. As observed from Table 1 on the next page, a consistent high share in failing EGDQ checks relates to large exposures templates. In 2018, on average 50 per cent of the failures in EGDQ checks were contained in large exposures submissions.

[1] https://eba.europa.eu/regulation-and-policy/supervisory-reporting/implementing-technical-standard-on-supervisory-reporting

[2] Expert Group on Data Quality

Table 1 Data Quality Findings related to failing EGDQ checks

Reference quarter	DQ findings from EGDQ checks	of which large exposures *(%)*
2018Q1	403	270 *(67%)*
2018Q2	678	279 *(41%)*
2018Q3	395	301 *(76%)*
2018Q4	1213	310 *(26%)*

The objective of this note is to provide to NCAs additional guidance on the EGDQ checks applied to the large exposures templates with a view of improving supervisory data quality in this area. The document is focused on two main aspects that have often shown to be the trigger of EGDQ checks errors. First, the definition of a Group of Connected Clients (GCC) is explored, followed by the reporting of identification fields of a counterparty in template C 27.00. An overview of the reporting of exposures and information on the related counterparties in templates C 28.00 and C 29.00 is also provided. Second, guidance is provided on the identification of exposures required to be reported in large exposures templates.

2. Definition of a Group of Connected Clients

Understanding properly the definition of a GCC is crucial as this is the precondition for reporting correctly information related to counterparties which are GCCs. To this aim, the EBA provides guidelines on connected clients[3]. This note highlights ways the GCC are identified across the large exposures templates. For reporting purposes, the code which identifies a GCC does not always represent a group of entities. While the reporting instructions for template C 27.00 identify a case where the code refers to a group of entities, the reporting instructions for template C 28.00 describe those cases in which the code associated to a GCC refers to an individual entity. Please refer to Table 2 on the next page for additional details, extracted from the ITS.

Table 2 Annex IX instructions for reporting large exposures

C 27.00 Identification of the counterparty	C 28.00 Exposures in the non-trading and trading book
Institutions shall report the identification of any counterparty for which information is being submitted in any of the templates C 28.00 to C 31.00. The identification of the group of connected clients shall not be reported, unless the national reporting system provides a unique code for the group of connected clients.	For a GCC, if a unique code is available at national level, this code shall be reported as the code of the group of connected clients. Where there is no unique code at the national level, the code that shall be reported shall be the code of the parent company in C 27.00. In the cases where the group of connected clients does not have a parent, the code that shall be reported shall be the code of the individual entity which is considered by the institution as the most significant within the GCC.

[3] Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013

2.1 Identification fields of a Group of Connected Clients in template C 27.00

According to the ITS instructions for reporting large exposures, template C 27.00 should list all the counterparties included in any of the large exposures templates i.e. the fields "Code", "Name", "LEI code", "Residence of the counterparty", "Sector of the counterparty" , "NACE code"[4] and "Type of counterparty"[5] should be reported. However, in the case of GCCs, a row in template C 27.00 should be reported only if the national reporting system provides a unique code for the GCC. In this specific case, such **code identifying the GCC only refers to a group of entities (and not also to an individual entity)** and, for this reason, it is not possible to associate with it a single residence or sector. *As a result, the fields "Residence of the counterparty", "Sector of the counterparty" and "NACE code" in C 27.00 should be left blank.*

Similarly to template C 27.00, also in template C 28.00 if a unique code is available at national level, this code should be reported as the code of GCCs. If such code is not allocated at national level, the GCC shall be identified with *i)* the code of the parent company of the group or *ii)* (in case the GCC does not have a parent) the code of the individual entity which is considered by the institution as the most significant within the GCCs[6]. In cases *i)* and *ii)*, the **code identifying the GCC refers to an individual entity** which can be distinguished by a given residence and sector. This, in turn, implies that this counterparty which "represents" the GCC not only needs to be listed also in template C 27.00, but the fields "Residence of the counterparty" and "Sector of the counterparty" should be reported.

There are currently a number of additional data quality checks developed by the Expert Group on Data Quality (EGDQ) which verify the compliance of the data submitted with the requirements listed above. For instance, EGDQ check 56 states that the "Residence of the counterparty" in template C 27.00 should always be reported for individual entities, while for a GCC it should be reported only if the GCC is also listed in template C 29.00 column 010 i.e. it is either the parent company or the most significant entity within the GCC. In case the supervised entity does not have exposure to the parent company or stops having exposure to the most significant entity within the GCC, in order to facilitate the application of EGDQ checks, a row reporting a zero exposure value should be included in C 29.00 for such counterparties. This is also in line with guidance provided by EBA Q&A 2014_1562. This will become clearer in the next section, which provides further guidance on the reporting of large exposures for GCCs in template C 29.00.

In a similar way, *"Residence of the counterparty", "Sector of the counterparty" and "NACE code"* in C 27.00 should be left blank for unknown clients. In order to identify cases of unknown clients across

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[4] The NACE code should be reported only for the counterparties "Other financial corporations" and "Non-financial corporations".

[5] The type of the counterparty of the ten largest exposures to institutions and the ten largest exposures to unregulated financial sector entities should be reported.

[6] To be noted that when an entity is identified as the most significant within more than one GCC, it shall be used to identify only one GCC – see [EBA Q&A 2014_920](#).

jurisdictions, and avoid triggering data quality findings under the applicable EGDQ checks, reporting institutions across jurisdictions are invited to identify the unknown client in column 020 of template C 27.00 using the term "Unknown client".

2.2 Details of the exposures to individual clients within a GCC in template C 29.00

Template C 29.00 includes detailed information on each exposure towards the individual clients which form a GCC. The reporting of information in this template varies depending on whether the code identifying the GCC corresponds to a group of entities or an individual entity and whether there is an exposure to the parent company or the most significant entity within the GCC.

Table 3 Example of reporting in template C 29.00

A			B			C		
Group code **001** refers to a group of entities[7]			Group code **123** refers to an individual entity[8]			Group code **123** refers to an individual entity with no exposure		
Code - c010	Group code – c020	Exposure value – c050	Code – c010	Group code – c020	Exposure value - c050	Code – c010	Group code – c020	Exposure value - c050
123	001	10	123	123	10	123	123	0
234	001	15	234	123	15	234	123	10
345	001	20	345	123	20	345	123	25
456	001	30	456	123	30	456	123	30

As it can be observed in the above table, code 123, which refers to an individual entity within the GCC, is also used to identify the GCCs in examples B and C[9]. This does not occur in example A, where code 001 was generated at national level with the purpose of identifying the given GCCs. This is the reason why EGDQ check 56 requires the "Residence of the counterparty" to be reported in template C 27.00 only if the code is also listed in c010 of template C 29.00 i.e. it is an individual entity representing the GCCs. A similar logic is applied to EGDQ check 57 and 58 which verify the reporting of the "Sector of the counterparty" and "NACE code" in template C 27.00.On average, more than one third of errors related to failing LE EGDQ checks are stemming from these three checks.

In addition, the only difference between examples B and C is the existence or not, respectively, of an exposure towards counterparty 123. The two examples have been separated to show that information

[7] In this case, the code for the GCC is provided by the national reporting system. The code identifying the GCC refers to a group of entities.

[8] In this case, no code for the GCC is provided by the national reporting system and the code of the parent company/most significant entity should be used to identify the GCC. The code identifying the GCCs refers to an individual entity.

[9] Entity 123 should continue to be used for identifying the GCC also in instances when the reporting institution no longer has an exposure to this entity but has exposures to its subsidiaries – see EBA Q&A 2014_1562.

related to the GCC needs to be reported in template C 27.00 also if the exposure towards the latter is zero.

3. Identification of exposures to be reported in large exposures templates

Article 394(2)[10] of Regulation EU No 575/2013 (CRR) requires reporting entities to report their ten largest exposures towards institutions and ten largest exposures to unregulated financial entities[11]. It is important to note that such requirement is complementary to the requirement under article 394(1) whereby every large exposure, defined as any exposure whose value is equal to or exceeds 10% of the institution's eligible capital, should be reported to the competent authorities. The immediate implication is that, in case a reporting entity does not have at least 10 exposures within its set of large exposures defined as being above 10% of its eligible capital, then also exposures below the 10% threshold should be reported. This is necessary in order to meet the requirement to report the ten largest exposures towards institutions and unregulated financial entities. In other words, large exposures templates may also include exposures which do not meet the legal definition of a large exposure but still convey relevant information on the concentration risk of a reporting entity[12]. A similar logic lies behind ITS article 9(2)[13], which requires institutions to report exposures whose value is larger than or equal to EUR 300 million, even if they don't account for more than 10% of the institution's eligible capital[14].

EGDQ checks 61a and 61b verify the reporting requirement specified under article 394(2) of the CRR and they also account for a big share of checks failures in large exposure templates. While reporters might have valid explanations for failing checks 61a and 61b, they should make sure that they interpret the reporting requirement correctly. One example of explanations received from institutions in response to failures in these checks is the following: "We have less than 20 counterparties to report exceeding the 10% of own funds limit". It seems that this particular institution is interpreting incorrectly the requirement to report the 10 largest exposures towards institutions or unregulated financial entities. In fact, it is considering only those exposures exceeding 10% of the eligible capital base to fulfil the requirement.

[10] "An institution shall report the following information to the competent authorities, in addition to reporting the information referred to in paragraph 1, in relation to its 10 largest exposures on a consolidated basis to institutions as well as its 10 largest exposures on a consolidated basis to unregulated financial entities […]"..

[11] Additionally, institutions that use internal model approach for the calculation of credit risk shall report their 20 largest exposures to their competent authorities on a consolidated basis exempted from the application of Article 395(1) of the CRR.

[12] Please refer to the Basel Committee on Banking Supervision (BCBS) Standards for background information on the supervisory framework for measuring and controlling large exposures. Link: https://www.bis.org/publ/bcbs283.pdf.

[13] "The information [..] shall be submitted according to the following specifications: [..] (g) the information specified in Annex VIII for exposures whose exposure value is larger than or equal to EUR 300 million but less than 10% of the institution's eligible capital with a quarterly frequency."

[14] Please note that this reporting requirement has been included in Article 394(1) of Regulation EU 2019/876 i.e. the CRR 2.