

FORUM GROUP n° 10

REPORTING REQUIREMENTS

FINDINGS OF THE FORUM GROUP
Final Synthesis report

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EXECUTIVE SUMMARY

The Forum Group on reporting, which includes representatives from all three sectors of the financial industry (credit institutions, insurance undertakings/pension funds, investment firms), was set up in May 2002, as a result of an ECOFIN mandate given to the Commission at its Oviedo informal meeting on 12 April 2002. The mandate invited the Commission to explore ways of reducing the administrative burden of reporting by streamlining the reporting requirements within the EU and, as part of that work, to organise a dialogue with industry. The Forum Group was set up to facilitate this dialogue.

From the start the Forum group emphasised that any discussion on improving reporting efficiency would need to have a broad scope – including all types of reporting requirements (e.g. internal, supervisory, statistical, accounting, tax, public disclosure reporting). The main argument for this broad approach was that the lack of co-ordination between different types/categories/receivers of reporting is precisely the main source of reporting inefficiency. The Forum Group also emphasised that any streamlining of reporting would need to go hand in hand with a streamlining process of the underlying regulatory requirements.

Members were of the view that efficient reporting should permit the set up of integrated corporate reporting systems, ideally based on the institutions'/groups' existing internal reporting systems. If authorities would need additional data, these requirements should be streamlined across reporting lines/units to permit a uniform reporting for the group as a whole.

Forum Group Members observed that the present financial reporting requirements are neither harmonised across sectors/borders nor closely related to internal reporting systems. There is a multi-layer legal framework, in which regulatory power is shared between the EU-level, national legislation and different national authorities with statutory power. The results are a fragmentation of reporting and costly, decentralised corporate reporting structures that reduce the possibilities of economies of scale.

Differences in reporting requirements across borders and sectors are considered as a barrier for integration of financial markets (in particular for small and medium sized institutions or single products), although it is not the main barrier.

To promote efficient reporting and to facilitate the introduction of integrated corporate reporting systems, the Forum Group offers a set of recommendations :

- Undertake regular top-down examinations of reporting requirements;
- Improve transparency, co-ordinate computer systems of authorities, strive for a single contact point and reduce the number of receivers;
- Strengthen co-ordination among Member States' regulators/supervisors in the converged implementation and application of EU-legislation (in particular as regards IAS, Basle II, Solvency II, Financial Conglomerates), with important role to play for the EU-supervisory co-ordination Committees set up for the different financial sectors in the spirit of the Lamfalussy approach; apply IAS as a common basis of reporting;
- Enhance co-ordination among the wider circle of regulators in the areas of accounting, prudential supervision, disclosure, statistics, tax;
- Enhance convergence/introduce maximum harmonisation in EU legislation (cross sector, cross country) and enhance the "lead supervisor/co-ordinator" concept;
- Recognise internal models more widely as a basis for reporting and establish a consensus-based relationship between authorities and financial institutions.

SECTION A : INTRODUCTION

1) The Forum Group on reporting requirements and the Commission's ECOFIN mandate

The present paper reflects the findings of the Forum Group on reporting (referred to as "the Forum Group" or "the Group"). Its Members¹ have been nominated by the financial industry federations representing the three sectors (credit institutions, insurance undertakings/pension funds, investment firms). Members' views expressed in the paper are personal and do not necessarily reflect the views of their federations or companies.

The Commission services took the initiative to establish the Forum Group on reporting following a mandate² to the Commission from the ECOFIN informal meeting of 12 April 2002 in Oviedo. After having identified the reporting burden as one of the potential barriers for optimal integration of EU financial markets, the ECOFIN informal meeting invited the Commission to explore ways of reducing the administrative burden by streamlining reporting requirements within the EU and to report back to the ECOFIN Council by December 2002.

The mandate also invited the Commission to set up a dialogue with the financial industry. A new Forum Group was established to facilitate this dialogue. The Commission services chaired and provided the secretariat for the two meetings of the Group, which took place in Brussels, on 20 June and 10 September 2002.

2) Forum Group's comments on its task

The Group welcomes the Commission's initiative of starting a dialogue with financial industry in view of streamlining reporting requirements. In particular financial institutions that are active in several European countries and sectors are subject to burdensome and sometimes super-equivalent reporting requirements. The consultation of financial industry is timely : the regulatory changes which are currently being prepared in the supervisory area (Basle II, Solvency II, Financial Conglomerates) and the implementation of IAS have increased the relevance and imminence of the discussion.

The Forum Group members have the following comments on the ECOFIN mandate and its effects on the Group's work:

- Time constraints put limitations on the Group's task: The Forum Group was offered three months to prepare its Findings paper. The time allowed and the cross-sectoral composition of the group were adequate to define the main characteristics of the problem. However, it was neither possible to carry out an in depth industry survey to illustrate the full dimension of the reporting burden nor to come forward with detailed recommendations on the streamlining of specific reporting statistics. However, the Group's problem description is supported by case-studies. Its recommendations concern the direction of further work to streamline reporting.

¹ Forum Group Members are listed in Annex I.

² The main lines of the ECOFIN mandate to the Commission are quoted in Annex II.

- The degree of uncertainty related to substantial regulatory changes which are currently being prepared in the supervisory area (Basle II; Solvency II, Financial Conglomerates), which will have important consequences on reporting, also limits the possibility to put forward detailed recommendations.
- The Group's concern is not solely to reduce the reporting burden. The recommendations for increased efficiency aim at improving the quality of reporting and to promote the creation of a real internal market for financial services.
- Reporting is closely related to the underlying regulatory requirements: the Group emphasises that reporting is part of a broader process in which authorities impose requirements to attain certain objectives (e.g. prudential objectives) and that any streamlining exercise cannot avoid to address also the underlying regulatory requirements.
- Any review of reporting needs to address the full range of the financial institutions' reporting requirements and should not be limited to sub-groups of reporting, e.g. prudential reporting. In practice, and from a resources point of view, financial institutions do not (and cannot) distinguish between different sub-groups of reporting. A broad scope including all types of financial reporting (i.e. internal reporting as well as accounting, tax, statistical, disclosure or supervisory reporting) is necessary because the main source of inefficiency is precisely the lack of co-ordination between these different types/categories of reporting. In particular the Group underlines the urgent need for further reflection and co-ordination to avoid possible conflicts between the supervisory and accounting reporting requirements resulting from the implementation of the International Accounting Standards in 2005.

3) The structure of the Findings paper

Section B offers a broad problem description of the reporting situation in the financial industry, defining reporting inefficiency by comparing industry's present reporting situation with a situation that would allow the use of integrated corporate reporting systems. The present barriers preventing such systems are then identified. The relevance of these barriers is supported by a number of case studies provided by Members of the Group. Section B closes with comments on the costs of reporting.

Section C provides an analysis of the future reporting situation in view of expected regulatory/institutional changes.

Section D presents the Forum Group's recommendations on how financial reporting can be made more efficient.

A separate document (Annex III) includes the full text of the case studies.

SECTION B : FINANCIAL REPORTING - PROBLEM DESCRIPTION

1) Reporting : an integration barrier

The ECOFIN mandate suggests that reporting requirements are an important integration barrier, i.e. that reporting prevents or reduces the incentives for a financial institution to provide services across Member States' borders.

The Group is of the view that differences in regulatory, fiscal and administrative regimes among Member States are the most important integration barriers. However, reporting results in substantial costs and efforts. For major groups, reporting might not be the main element of consideration when cross-border business decisions are taken but it is a relevant, indirect integration barrier, as well as a competitive barrier. For small and medium sized institutions or single products it is definitely a direct barrier for cross-border business.

2) Reporting inefficiencies

a) Integrated vs. fragmented reporting systems

An efficient reporting system should be able to fulfil the objectives of reporting while permitting integrated corporate reporting systems, based on the institutions'/groups' existing internal reporting systems. Additional data needed by different authorities should be harmonised/co-ordinated in a way that would permit an integrated reporting system for the institution/group as a whole. Such an approach would not only be cost efficient by permitting a high level of automation resulting in economies of scale; it would also facilitate supervisors'/investors' risk assessment of the institution/group. The main objectives of reporting would thus be strengthened.

The Group observes that, at present, financial reporting requirements are not harmonised/co-ordinated. The multiplicity of underlying regulatory requirements across sectors/countries/reporting categories etc. lead to fragmented reporting systems at company level which restrict the institutions' ability to achieve reporting efficiency. Conflicting definitions generate an additional burden as institutions strive for consistent treatment of products across borders. Conflicting definitions have even a more negative impact when they are not based on business models of the institution but on external policy considerations.

b) Barriers for integrated corporate reporting systems

A high number of authorities imposing reporting requirements and the principles on which the EU legal framework is based (e.g. minimum requirements, home-host country control, sectoral legislation) are main reasons for the fragmentation of the reporting systems. In fact reporting is targeted at sectors/countries/group levels/reporting types.

- Multiple reporting

- Across sectors: EU Directives impose a number of mandatory home state reporting requirements concerning prudential matters (e.g. relating to qualifying holdings or to close links). These requirements are substantially identical in most of the sectoral passport directives but have not been harmonised. Nor has the lead supervisor concept been applied to co-ordinate these areas. Thus a number of (in theory) substantially identical reports have to be made to a number of different regulators.

- At different levels of a group: The entitlement of the regulator to require sub-consolidation in the area of financial reporting (banking and financial firms) results in additional and significant financial costs.
- Member state optioning
 - Minimum-requirements: Directives impose minimum, rather than common standards, thus leaving scope for “super-equivalence” at the level of Member States;
 - Optional additional requirements: Member States are free to go beyond the requirements of the directives. Hence reports have to be tailored to comply with each Member State’s requirements.
- Besides supervisory authorities, other authorities/institutions both at the European and national level (e.g. ECB, Eurostat, national tax & statistical authorities, central banks) have the independent power to impose reporting requirements on financial institutions. Their reporting requirements are neither necessarily co-ordinated, nor is there a mechanism for regularly evaluating their relevance or assuring that the reporting requirements are efficient, i.e. that the overall benefits of reporting clearly exceed the costs it entails.

The result of the present regulatory and supervisory structure is that financial institutions are subject to a multitude of reporting requirements. The following dimensions illustrate the problem of diversity : financial institutions have to report to different authorities, according to different criteria/definitions/classifications, with different levels of detail, according to different calendars, in different technical formats and with different time tables for the national implementation of new reporting requirements. In addition, there is a lack of transparency : difficulties in getting access to relevant reporting requirements in another Member State, ambiguity concerning the status of the different reporting items (mandatory/optional/recommended), difficulties in distinguishing which reporting requirements are applicable for the different types and sizes of financial institutions.

Box 1 below sums up the main barriers for reaching reporting efficiency. Obviously each of the above mentioned dimensions of the reporting diversity adds to the reporting fragmentation and reporting costs. The lack of harmonisation as regards definitions/classifications of requested reporting items and as regards the time tables are major sources of fragmentation. They reduce the possibilities for cost savings through the introduction of integrated systems. They also reduce the quality of reporting.

To sum up, any streamlining of reporting would need to focus on reducing the diversity of reporting by addressing the above-mentioned inefficiency barriers. An important way of streamlining is also to improve the transparency of reporting requirements.

BOX 1: Barriers preventing reporting efficiency:

a) Fragmented reporting requirements lead to diversity as regards :

- o definitions/classifications of requested reporting items;
- o requested time-tables (frequency, dates, uneven burden over the calendar);
- o receivers :international/EU/national/sectoral authorities;
- o required level of detail;
- o technical formats (forms, paper/electronic reporting);
- o implementation time table for new reporting requirements.

b) Lack of transparency in reporting requirements :

- o difficulties in getting access to relevant reporting requirements in another Member State;
- o ambiguity concerning the status of the different reporting items (mandatory/optional/recommended);
- o difficulties in clearly distinguishing the differences in reporting requirements applicable for the different types and sizes of financial institutions.

3) Case studies

A separate document (Annex III) provides a set of case studies, most of them illustrating the reporting problems in different types of financial institutions. They have been provided by Members of the Forum Group. The case-studies illustrate that the efficiency barriers, listed in Box 1 above, are supported by real evidence. They also demonstrate that the same barriers are relevant for all financial institutions, regardless of the sector in which they operate and whether it is a stand-alone institution or a more complex group. However, the more countries/sectors/reporting lines are covered, the more fragmented and burdensome reporting becomes. In fact the reporting burden multiplies with a factor related to the number of Member States in which the institution is represented as well as to the number of financial sectors in which the institution is active.

The more general conclusions to be drawn from each case study are :

Case study 1 : UCITS

This case-study clearly illustrates that it is impossible to manage a uniform reporting policy for a Fund distributed across borders. The reporting requirements result in a multiplication of reports, produced in various countries by different service providers. This increases the costs of the Fund thereby directly reducing the Fund's performance. These costs are carried by the final investor.

In addition, there is a risk that a fragmented approach to meet local reporting requirements :

- delivers incomplete documentation;
- misses dead-lines;
- fails to meet tax requirements,...

resulting in possible pecuniary penalties, discriminatory tax treatment or loss of reputation.

With this reality as a backdrop, the major consulting firms that have a local presence in all Member States, have started to offer pan-European solutions to conduct registration and reporting processes to the investment fund industry. Obviously, this alternative is again a costly exercise.

The concept of a harmonised simplified prospectus was introduced in January 2002 as an amendment to the UCITS Directive. This will hopefully simplify the marketing of cross-border UCITS, once the amended Directive enters into force. The principle of harmonisation should be pushed further. It would be to the benefit of the whole industry, if a harmonisation and standardisation of reporting could be achieved by the introduction of a single format or model for periodical reports. It would reduce costs and render the provided information more accessible and understandable for the end-investor, regardless of his home country, and encourage him to invest further in this type of product. Such a step forward would certainly contribute to accelerating the European integration process in the field of investment funds.

Case study 2 : The one country/one sector financial institution – German Bausparkassen

The overview of the statutory regulations and the external reporting system of the German Bausparkassen applies regardless of the size of the institution and the actual risks incurred.

The requirements based on specific Bausparkassen-regulations are supplemented by requirements based on general regulations for banks and savings institutes, even if some of the risks covered by these regulations are not relevant to Bausparkassen.

The reporting burden increases in particular by the implementation of new reports or changes to existing reports, because the development of the necessary systems is a particularly labour-intensive process.

It should be borne in mind that, depending on the size of the institution, the number of back-office staff working in the Bausparkassen ranges from 100 to 4,000. For the smaller institutions, the reporting burden represents a considerable effort.

Cost savings would be possible if management reports could be used for supervisory purposes.

European regulations should allow supervisors to simplify reporting requirements and to use more tailored solutions, if the risk covered by a regulation requiring regular reports is hardly relevant.

Case study 3 :A branch of a financial institution in another Member State (UK)

The major reporting burden at branch level is statistical reporting. No significant duplication of effort was observed in the production of statistical information to the relevant authority (Bank of England). However, this last conclusion is not necessarily valid for all Member States.

Although the supervisory reporting burden is of limited importance, there is still room for improvement (e.g. as regards liquidity reporting). It should be noted that in the case of a financial institution with branches in more than one member state, the impact of this reporting duplication could be significant as a result of different national requirements.

An improvement in supervisory reporting burden could be achieved through further harmonization of supervisory reporting at the EU-level and stronger co-ordination and communication among national supervisory authorities to avoid differences in the national implementation phase of EU legislation. An initial recommendation would require all supervisory authorities to provide a reporting manual, containing all key definitions and classifications for their reporting requirements. This would facilitate comparisons, assist the detection of major differences and could result in further co-ordination of the reporting requirements at the EU-level.

Case study 4 : A subsidiary of a financial institution in another Member State (UK)

The main reporting duplications arise in the Regulatory (Prudential) and Financial Reporting areas. The principal drivers of this duplication are the differences between UK and German Regulatory Reporting Rules and forms, FSA consolidation requirements and UK and US GAAP differences.

Example : Data on “Capital Adequacy” are monitored internally on a daily basis, provided to the FSA on a quarterly basis and to Head Office on a monthly basis to contribute to the Group capital adequacy reporting. Data are extensively re-cut due to nuances in German and UK capital adequacy rules and different reporting frequency.

Example : Following an additional requirement of German authorities all loans in excess of 1.5 mn have to be reported to Head office, in addition to daily internally reporting and quarterly reporting to FSA on “large exposures”. A harmonised definition of “large exposures” would reduce significantly the reporting burden.

Example : Balance Sheet and P&L data. Production of information in US GAAP for consolidation with group figures and in UK GAAP for FSA, with significant differences (derivatives accounting, revaluation of freehold property, valuation of securities available for sale).

Conclusion : Streamlining would be possible by harmonising rules, definitions, frequencies and formats.

Case study 5 : A home country/financial group parent institution (AT)

The main identified problems are :

- A sizeable number of reports are similar but not exactly the same, while the results must be consistent.

Examples : Balance sheet structure/break down, time lines/time buckets for the reporting of remaining/original life of assets.

- Key definitions/classifications are not identical.

Examples : Classification of Bank and Non-Bank, definition of domestic/international structure

- Sometimes changes of reporting requirements are announced at short notice (in particular ECB reporting requirements). The deadlines for implementing changes do not adequately consider the required period for adapting EDP systems.

- Reporting deadlines are mostly concentrated in the first 5 to 12 days of the month. This leaves the banks with a substantial and still increasing workload at the beginning of the month. Banks need to be staffed to cope with that reporting “peak”. If deadlines are more evenly distributed over the month, personnel expenses for reporting could be reduced.
- Different reporting frequencies

Case study 6 : An international financial group

The drivers behind globalisation influence the financial services industry. The industry is consolidating to adapt to customer needs and to achieve economies of scale.

For many years the reporting requirements have been amended along the historical division between industry sectors within each country. These have changed remarkably with the development of a single market in Europe and with the need to develop distribution channels and products in a more integrated financial services industry.

After integrating business units, differences in reporting requirements materialise as obstacles for the drive for cost efficiency in systems development, production and maintenance. Furthermore, the differences increase the complexity of management-decisions and of decisions of the users of the financial information (the authorities or other stakeholders).

The issue is not whether there will be an alignment process of the differences in reporting requirements, but how and at what speed, especially with a number of heavy implementation projects in the pipeline (IAS, Basel II) over the next couple of years.

One approach could be to focus on a unification of the requirements in these new rules, and to align major other lines of reporting requirements, like the reporting requirements from the European Central Bank, and the tax requirements related to VAT and Transfer pricing within Europe.

To secure the process, the technical flow of the information could be centralised to one or a few collection centres. The national and supranational authorities could retrieve information based on unified principles for their individual use from these centres.

Unified reporting principles and requirements between authorities and across borders will not only increase the cost efficiency for the contributors, but also for the authorities that are to manage the interest of the European society, both at a national and a supranational level.

4) Reporting costs

The fragmentation of reporting systems makes it difficult for financial institutions to assess the reporting burden in a quantitative way. A reliable assessment would require overall, intensive, costly and time consuming research on the specific human resources and information technology required for reporting. The scope of the Forum Group and its time constraints did not permit such an exercise.

Human Resources

A study carried out in the 2001 by Deloitte & Touche on reporting requirements for credit institutions confirms the complexity of an quantitative assessment of the reporting burden. This study could not obtain sufficient quantitative estimates of reporting costs from institutions. In particular large institutions engaged in cross-border operations usually have no exact system or calculation method to assess reporting costs. However, the study suggests that 5-6% of the total workforce in a credit institution is directly and predominantly involved in regulatory reporting and around another 3% of the total workforce also has regulatory duties.

Case study 3 mentioned above (a branch of a financial institution) estimates that the cost of statistical reporting is 1.63% of total annual staff cost. In addition the estimated cost of supervisory reporting is 0.74% of the total annual staff cost. Together statistical and supervisory reporting corresponds to 2.37% of total annual staff costs in this particular case study.

Information Technology

Costs include development, production and maintenance

Any regular reporting requirement must be aggregated electronically because it usually involves large amounts of data. This means that any change or new reporting requirement first require the development of the necessary systems and, later on, production and maintenance relating to the use of those systems.

Generally speaking, if a European reporting requirement is introduced nationally in slightly different versions, all of these versions – instead of one - have to be handled in the development, production and maintenance process. This reduces economies of scale. Any material discrepancy between reporting requirements will also affect the users of reporting, who have to take account of these differences in their analysis and decision-making.

Quality in statistical data – internal control

One of the best internal controls and quality checks of statistical/accounting data stems from the day-to-day use of this specific information by the institution or its customers. Other types of internal control have to be implied if these data “only” are gathered to be used for external reporting requirements, and if the use and importance of data are not known. Even a small number of similar data, with minor differences in definitions, requires the creation of specific internal controls. In other words, it is easier and cheaper to secure a proper level of quality if the number of reporting alternatives originating from the same base data item (most often available in the internal reporting system) is reduced as much as possible.

SECTION C : THE FUTURE REPORTING SITUATION

The Forum Group noted that several key regulatory initiatives (under preparation or adopted but not yet implemented) are expected to have a substantial impact on the future reporting situation of financial institutions (see Box 2 below).

Box 2: Key regulatory initiatives with impact on reporting efficiency

- the Basel II review of capital regulation for the banking/securities sector;
- the Solvency II review for the insurance sector;
- the Financial Conglomerates Directive;
- the implementation of the International Accounting Standards (IAS) in 2005.

The Group expresses its concern about the risks for the future reporting situation of financial institutions stemming from a lack of co-ordination between these regulatory changes and from their different implementation in each Member State.

The Group considers that these changes are a golden opportunity to improve the streamlining of reporting through co-ordination. Given that key regulatory proposals are, or will soon be, in the pipeline for implementation this process should start very soon.

1) The content of the new proposals : positive opportunities from a reporting perspective

Key regulatory proposals are expected to permit to take steps in the right direction to reduce the financial industry's reporting burden :

- As regards the work related to Basel II & Solvency II, the Group welcomes the declared intentions to recognise firms' internal risk models as a basis for regulation. This could be the starting point for an integration process of internal and external reporting requirements. However, the three-pillar approach (capital regulation, supervisory review and market discipline) is expected to be demanding and costly for financial institutions in terms of sophisticated reporting demands, comprehensiveness, application to several group layers and short reporting deadlines. Any possibility for streamlining should thus been examined. To this end, the Group calls for a co-ordination between the Basel II/Solvency II requirements and the principles of the International Accounting Standards. Basle II/Solvency II need, to the greatest extent possible, to use the same basis for reporting (i.e. IAS-principles). Moreover, a cost-benefit analysis of the resulting reporting requirements is necessary.
- The Group welcomes the introduction of the lead supervisor concept ("co-ordinating supervisor") as well as the initiatives of cross-sectoral harmonisation launched by the proposed Directive on the supplementary supervision of financial conglomerates. The Directive could potentially contribute to an improved overview of group wide risks and at the same time reduce the number of contact points and differences in definitions. However, the proposal offers no guarantee for reducing the reporting burden of a financial group as it introduces a supplementary supervision layer, in addition to sector specific supervision. If the role of the co-ordinating supervisor were not sufficiently strong, the directive would not reduce the reporting but in fact increase it, both in terms of the number of reporting receivers and in terms of reporting items.

- The implementation of the International Accounting Standards will in principle allow internationally active groups to apply common principles on a group-wide basis. However, this ambition could fail to become reality. One reason is that the EU regulation makes IAS only compulsory for the consolidated accounts of listed companies. Depending on the implementation of IAS in the different Member States, this could result in companies having to maintain accounting records under both local GAAP and IAS to comply with reporting requirements for all the companies in their group. Another reason is that not all reporting (e.g. supervisory, disclosure, tax and statistical reporting) is based on IAS principles. Members advocate the application of IAS as a common basis of reporting. This approach would not exclude specific adjustments to achieve specific reporting purposes, as long as these adjustments were still based on IAS principles.

2) The implementation process – co-ordination is crucial

The Forum Group is concerned that the new regulatory initiatives, once adopted, will be differently applied by Member States in their implementation process. Such a development would definitely increase the reporting burden without offering any added-value to the objective of supervision. Although the Group welcomes the initiatives to update the existing legislation to focus more on risk and group wide risks, Members insist on the urgent need to co-ordinate the implementation process among Member States, and ideally also with major third countries that will apply the same regulatory framework (particularly relevant for Basel II).

The golden opportunity to streamline reporting will be missed if no urgent actions were launched to co-ordinate the implementation phase of the new legislation and to ensure that the resulting reporting is based, to the greatest extent possible, on IAS principles.

The Forum group takes note and welcomes the initiative to establish at EU-level regulatory and supervisory co-ordination committees for the different financial sectors in the spirit of the Lamfalussy approach applied in the securities sector. The converged implementation in Member States of the regulatory proposals emanating from Basel II/Solvency II and the Financial Conglomerates Directive should be on top of the agenda of these committees. The committees are not only expected to co-ordinate the regulatory requirements among Member States : co-ordination should also include the area of the specification of reporting requirements.

SECTION D : THE FORUM GROUP'S RECOMMENDATIONS

Section B identifies the fragmentation of reporting requirements as the main source of inefficiency. The Forum group's recommendations aim at improving transparency, consistency, co-ordination and harmonisation and, as a result, at paving the way for setting up integrated corporate reporting systems. The recommendations can be broken down into a number of sub-objectives, see box 3 below.

BOX 3: Recommendations to improve reporting efficiency

a) Promoting general efficiency

- a Undertake regular top-down examinations of reporting requirements;
- a Improve transparency, co-ordinate computer systems of authorities, strive for a single contact point and reduce the number of receivers.

b) Promoting convergence and co-ordination of reporting requirements:

- b Strengthen co-ordination among Member States' regulators/supervisors in the converged implementation and application of EU-legislation (in particular as regards IAS, Basle II, Solvency II, Financial Conglomerates), with important role to play for the EU-supervisory co-ordination Committees set up for the different financial sectors in the spirit of the Lamfalussy approach; apply IAS as a common basis of reporting;
- b Enhance co-ordination among the wider circle of regulators in the areas of accounting, prudential supervision, disclosure, statistics, tax
- b Enhance convergence/introduce maximum harmonisation in EU legislation (cross sector, cross country) and enhance the "lead supervisor/co-ordinator" concept;
- b Recognise internal models more widely as a basis for reporting and establish a consensus-based relationship between authorities and financial institutions.

1) Recommendations promoting general efficiency of reporting

- q Undertake regular top-down examinations of reporting requirements to reduce outdated/low value information and to reach a balance between objectives and cost of reporting. The examination should cover the following questions:
 - Why is reporting necessary and which requirements are needed at which level?
 - Which reporting requirements can be harmonised at the EU-level?

- Does the current diversity in reporting requirements in different countries correspond to a real need? Do the differences create a problem from a financial stability perspective? Make sure that they do not prevent an efficient overview of financial groups.
 - Are exemptions/simplifications in reporting requirements possible for small institutions?
- q) Improve transparency, co-ordinate computer systems of authorities, strive for a single contact point and reduce the number of receivers.
- Improve transparency via reporting manuals provided by the supervisory authorities, containing all the key definitions and classifications of the items included in reporting. The manuals should be accessible in each Member State via a European central information access point (central Web-site) in the major European languages (or at least in English). The status of the requirements should be clearly defined, e.g. mandatory, choice between options, recommendation. The manuals could subsequently be used as a basis for taking further co-ordination steps;
 - Co-ordination of computer systems by authorities (cross-border and cross-sector) in order to avoid duplication of reporting. This would permit a reduction of the number of receivers and in some areas allow single contact points (e.g. the ECB could be the central recipient of financial statistics with possibility for national central banks to obtain country-based information from the ECB data base). However, a local support function (account manager or help desk) is necessary. More centralised data bases and compatible computer systems would lead to more standardised reporting formats. When a requirement has its origins at the EU level, the electronic format should also be specified at that level, although not necessarily in the form of legislation. The system should include control of data and be based on a modular approach allowing small/non-complex institutions to disregard modules that would not be applicable on their type of business.
- 2) Recommendations promoting convergence and co-ordination of reporting requirements
- q) Strengthen co-ordination among Member States' regulators/supervisors in the converged implementation and application of EU-legislation
- Try to achieve a common interpretation of existing reporting requirements, including frequencies, common reporting formats and a single method of delivery to be used by all EU supervisors;
 - Start up a one-off exercise on the harmonisation of definitions/classifications of reporting items and timetables;
 - Start imminently the co-ordination of the implementation IAS, Basle II, Solvency II, Financial conglomerates in order to avoid possible conflicts between the supervisory and accounting reporting requirements resulting from the implementation of the International Accounting Standards in 2005. The objective should be to apply IAS as the common basis of reporting;

- Important role to play for the EU-supervisory co-ordination Committees set up for the different financial sectors in the spirit of the Lamfalussy approach.
- q Enhance co-ordination among the wider circle of regulators/supervisors in the areas of accounting, prudential supervision, disclosure, statistics, tax
- Reinforce cross-sectoral and cross-functional co-operation mechanisms at the level of regulators and supervisors in order to avoid conflicting definitions/classifications of reported items and to enable the set up of integrated corporate reporting systems.
- q Enhance convergence/introduce maximum harmonisation in EU legislation (cross sector, cross country) and enhance the “lead supervisor” concept
- Extend harmonisation of regulation on a cross-sectoral basis with the objective of attaining the same treatment for the same risks;
 - Strive for more maximum harmonisation in reporting with mutual recognition. Reduce Member States’ options in the EU legislation. Harmonisation work on reporting requirements needs to go hand in hand with a harmonisation of the underlying regulatory requirements;
 - Enhance the “lead supervisor/co-ordinator” concept developed for financial conglomerates for domestic and international groups regardless if they cover one or more different financial sectors.
- q Recognise internal models more widely as a basis for reporting and establish a consensus-based relationship between authorities and financial institutions
- Basel II and Solvency II – which foresee a wider recognition of internal models – are expected to be step in the right direction. The supervisory authorities are advised to avoid a “one-size-fits-all” approach that would restrict the development of new model approaches or limit the introduction of more company specific models;
 - Establish a consensus-based relationship between institutions and authorities including regular dialogue and feedback on the delivered reporting as well as a dialogue on the implementation of changes in the reporting requirements.

Annex I. List of Forum Group Members

Ms. Anne d'Arcy	Deutsche Bank AG
Mr. Serge D'Orazio	Kredietbank S.A. Luxembourgoise,
Ms Raymonde Dury	SMAP
Mr. Umberto Filotto	Univeristà di Roma,
Ms. Hermine Golger	Erste Bank der oestereichischen Sparkassen AG
Mr. Roland Groell	Wiener Städtische Versicherung
Mr. Richard Haas	ABN AMRO Asset Management
Mr. Michel P Haralabidis,	National Bank of Greece
Mr. Kerry Hawkins	LTSB
Mr. Hans Jaeger	Nordea Group
Mr. Mike Kerrison	UBS Warburg
Mr. Christian Ketzner	Verband der Privaten Bausparkassen e.V
Mr. Jacques Le Douit	AXA Group
Ms. Eimer O'Rourke	Irish Mortgage & Savings Association
Mr. Helmut Perlet	Allianz Aktiengesellschaft
Mr. Yvon Queleenn	Crédit Agricole S.A
Mr. Thomas Schröer	Alcas GMBH
Mr. Jhr. Van de POEL	ABP

Annex II. The Commission's ECOFIN mandate on reporting

Mandate given by the ECOFIN informal meeting to the Commission in order to streamline EU reporting requirements

The Economic and Financial Committee's report on financial integration, which was endorsed by the ECOFIN Informal meeting in Oviedo on 12 April, mentions the varying reporting requirements within the EU as a barrier to optimal integration:

"Large financial institutions are still confronted with multiple rules and reporting requirements. A typical large financial institution has to report to over 20 supervisors in the EU. Convergence of supervisory practices – through a consistent application of EU directives – will ensure a level playing field, enhance financial stability and reduce the administrative burden. Identifying co-ordinating supervisors for large financial institutions will also be helpful."

The report concludes:

"...streamlining reporting requirements, will also be helpful. A study by the Commission concluded that the reporting burden for financial institutions could be reduced without impairing the legitimate objectives of supervision. The Commission is invited to explore by December 2002 proposals to reduce the administrative burden by streamlining and enhancing consistency of reporting requirements, and a dialogue with the industry should be started to improve efficiency in the implementation of regulation in the EU."