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### **ORGANISATION OF ACCOUNTING AND FINANCIAL REPORTING IN GERMAN COMMERCIAL BANKS**

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#### **Abstract**

Accounting and financial reporting in German commercial banks is shaped by national legislation, European prudential regulation, and international standards. Germany's three-pillar banking system creates significant institutional diversity and reporting complexity. This paper examines the interaction of HGB, IFRS, KWG, MaRisk, FINREP, COREP, and the Basel III/CRR III framework. It identifies three key challenges: limited comparability between HGB and IFRS, disproportionate compliance costs for smaller banks, and overlapping regulatory requirements. To address these issues, the paper proposes a three-tier reporting framework based on institutional size, complexity, and systemic importance, aiming to reduce compliance costs while maintaining effective supervisory oversight.

**Keywords:** German banking, HGB, IFRS, KWG, MaRisk, FINREP, COREP, Basel III, CRR III, SSM, financial reporting, proportionality.

#### **Introduction**

Germany has one of the most institutionally diverse banking sectors in Europe. Its banking system consists of private commercial banks, public savings banks and cooperative banks. This structure means that accounting and financial reporting cannot be understood through a single regulatory or organisational model. The large number of small and medium-sized savings and cooperative



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institutions exists alongside internationally active commercial banking groups, creating significant differences in the scale, complexity and nature of reporting activities.

The organisation of accounting and reporting in German banks is based on several overlapping regulatory layers. At the national level, the Handelsgesetzbuch (HGB) establishes the principal requirements for individual financial statements, while the Kreditwesengesetz (KWG) provides the legal basis for banking supervision and organisational requirements. At the European level, the Capital Requirements Regulation (CRR), Capital Requirements Directive (CRD), European Banking Authority (EBA) reporting standards and the European Central Bank's Single Supervisory Mechanism (SSM) establish common prudential requirements. Internationally, the Basel III framework provides the foundation for capital adequacy, liquidity and leverage regulation.

The financial crisis of 2008 demonstrated that formal compliance with accounting and reporting requirements does not necessarily guarantee effective risk transparency. Problems experienced by German Landesbanken and other institutions revealed weaknesses associated with off-balance-sheet exposures, risk management and governance. Consequently, post-crisis reforms have increasingly connected financial reporting with risk management, capital adequacy, internal controls and market discipline.

Against this background, the purpose of this paper is to examine the organisation of accounting and financial reporting in German commercial banks and identify the principal challenges associated with the current regulatory architecture. The paper also proposes a differentiated reporting model that could improve proportionality and reporting efficiency.



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### **Analysis and Results**

The German accounting system is characterised by the coexistence of HGB and IFRS. The HGB provides the principal legal foundation for individual financial statements of credit institutions. Sections 340 et seq. HGB, together with the Kreditinstituts-Rechnungslegungsverordnung (RechKredV), establish specific accounting and presentation requirements for banks.

The HGB traditionally follows a creditor-oriented and prudence-based approach. The principle of prudence (Vorsichtsprinzip) emphasises capital preservation and creditor protection. This differs significantly from the investor-oriented information objective of IFRS. Consequently, German banks may produce substantially different accounting results under HGB and IFRS for economically similar transactions.

For listed banking groups, IFRS is generally applied to consolidated financial statements. Large institutions therefore maintain HGB-based individual accounts while preparing IFRS consolidated accounts. The dual structure requires reconciliation between two accounting frameworks, particularly in relation to financial instruments, loan-loss provisions and consolidation.

The introduction of IFRS 9 significantly changed the recognition of credit losses. The expected credit loss (ECL) model requires forward-looking assessment of credit risk and recognition of expected losses at different stages of asset deterioration. While this approach has improved risk sensitivity, it also increases reliance on models, macroeconomic assumptions and management judgement.

In large commercial banks, the accounting and finance function is typically organised under the Chief Financial Officer. It includes external financial reporting, management accounting and controlling, treasury, taxation and investor relations. The accounting infrastructure must simultaneously support statutory HGB reporting, IFRS consolidation and prudential reporting.



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The development of IFRS 9 has increased the importance of integrating accounting and risk-management information systems. Expected credit loss calculations require historical data, current credit-risk indicators and forward-looking macroeconomic scenarios. As a result, accounting is increasingly dependent on data governance, information technology and risk models.

MaRisk establishes an important organisational link between accounting, risk management and management reporting. Banks must maintain an Internal Capital Adequacy Assessment Process (ICAAP) and an Internal Liquidity Adequacy Assessment Process (ILAAP). The resulting information supports decision-making by the management and supervisory boards and contributes to the supervisory assessment conducted through the SREP.

Internal controls are generally organised according to the three-lines-of-defence model. Business units constitute the first line and are responsible for managing risks. Risk management and compliance form the second line and provide independent oversight. Internal audit represents the third line and independently evaluates the effectiveness of the first two lines.

However, the experience of major banking institutions demonstrates that a formally established control structure does not automatically guarantee an effective risk culture. The quality of governance depends not only on formal reporting arrangements but also on the allocation of human and financial resources, independence of control functions and the actual behaviour of management.

In savings and cooperative banks, accounting functions are generally smaller and more standardised. Many institutions rely on shared IT and data-processing infrastructures. This model generates economies of scale but simultaneously creates concentration and operational risks associated with dependence on external technology providers.



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German commercial banks are required to prepare annual financial statements, including the balance sheet, income statement and notes. Depending on their size and legal requirements, banks also prepare management reports covering financial performance, risk exposure and future prospects.

Supervisory reporting is primarily organised through FINREP and COREP. FINREP provides detailed financial information concerning balance-sheet positions, income, financial instruments and other exposures. COREP focuses on prudential information, including capital adequacy, risk-weighted assets, leverage, liquidity and large exposures.

The Deutsche Bundesbank plays a central role in collecting and validating supervisory reporting data before the information is transmitted to the relevant supervisory authorities. A particular challenge for Germany is the integration of HGB-reporting institutions into an essentially IFRS-oriented European reporting infrastructure. National reporting instructions therefore provide mappings between HGB accounting concepts and FINREP requirements.

Although this approach makes supervisory information more comparable, it also increases technical complexity. Institutions must maintain data structures capable of translating national accounting concepts into European supervisory templates. The reporting burden is particularly important for smaller institutions. The broad regulatory architecture includes FINREP, COREP, ICAAP, ILAAP, MaRisk and various disclosure requirements. Proportionality provisions reduce the reporting scope for some smaller institutions, but they do not fundamentally redesign the reporting architecture around their specific information needs.

The development of sustainability reporting has added another dimension. ESG risks are increasingly incorporated into risk management and supervisory processes. The Corporate Sustainability Reporting Directive (CSRD), EU Taxonomy requirements and prudential ESG disclosures require banks to collect



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additional information from their clients and counterparties. This creates particular difficulties for smaller banks whose customers may not have sophisticated sustainability reporting systems.

### **Conclusion**

The organisation of accounting and financial reporting in German commercial banks reflects the interaction of national accounting traditions, European prudential regulation and international standards. HGB provides the foundation for individual statutory reporting, while IFRS governs consolidated reporting for relevant banking groups. KWG and MaRisk establish the organisational and risk-management framework, while FINREP and COREP provide harmonised supervisory information under the European regulatory architecture.

The current system has contributed to stronger capitalisation, improved risk sensitivity and enhanced supervisory effectiveness. The SSM and SREP have strengthened the consistency of supervision, while Basel III reforms have improved the quality of prudential requirements.

Nevertheless, important challenges remain. The HGB/IFRS dual system creates reconciliation and comparability problems; smaller institutions face disproportionately high compliance costs; and the accumulation of prudential, sustainability and digital-resilience requirements has increased regulatory complexity. Moreover, formal reporting cannot substitute for effective governance and risk culture.

The proposed three-tier reporting framework provides a possible solution. By differentiating reporting requirements according to systemic relevance and institutional complexity, Germany could preserve comprehensive supervision of large institutions while significantly reducing unnecessary compliance costs for smaller banks. The central principle is that supervisory effectiveness and



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reporting efficiency should not be treated as mutually exclusive objectives. A reporting architecture designed around the actual information needs of different categories of banks could improve both regulatory quality and the efficiency of the German banking sector.

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