Micro-data for micro- and macro-prudential purposes

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Prologue

- Lessons from the crisis
  - Lack of effective macro-prudential oversight
  - Analysis seldom benefited from bottom-up supervisory inputs
  - findings on potential risks stopped short of putting forward hard-hitting policy recommendations
- Macro-prudential supervision as a pillar of the financial stability framework
- Data as a key component of risk assessment, but scarce and expensive resource
- Information gaps limited the ability of authorities to identify the building-up of vulnerabilities:
  - limited data on specific institutions and markets was a first shortcoming
  - but most gaps linked to the inadequate use of existing resources and information
    - Fragmentation
    - Lack of harmonisation

Micro data for microprudential purposes

1. Harmonisation and comparability of data

- Comparability of data across intermediaries is an essential feature

- Easier to say than to do, particularly across national borders
  - Accounting and reporting rules still diverse
  - International accounting and reporting standards' primary objectives are relevance and faithful representation of firms' financial conditions, not harmonisation and comparability

- Milestones in the EU
  - 2005: CEBS publishes a standardised financial reporting framework (FINREP) for reporting the consolidated financial accounts of EU credit institutions using IFRS
  - 2006: CEBS publishes the common framework (COREP) for reporting capital adequacy data

Micro data for microprudential purposes

- COREP and FINREP: only a partial success
  - implemented under the Lamfalussy architecture as non-binding guidelines
  - some countries decided to adopt the FINREP and COREP and others preferred to retain national reporting standards
  - remittance dates, taxonomies and the IT platforms differ across countries

- Lack of a single rule-book made it very difficult to organise the micro-prudential assessment and supervision of cross-border groups in a truly coordinated fashion
  - limit to cross-country comparability of financial information
  - perceived by cross-border banks as a dead-weight cost
  - Source of inefficiency
  - regular reporting is perceived as not fully reliable and complemented with frequent ad-hoc data collections

Micro data for microprudential purposes

2. The experience at the EBA

- Micro-prudential information on an institution-by-institution basis is essential for EBA risk assessment
  - analysis of the data gaps
  - identification of data needs
  - effort to align to the maximum extent possible the EBA and ESRB's requirements and avoiding duplication of reporting obligations

- Identification of a core set of "Key Risk Indicators"
  - minimum metrics required for effective monitoring of risks in the European banking system, providing an overview on solvency, profitability, balance sheet structure, credit portfolios, and asset quality
  - in the EU stress-tests, also used for putting the results into the historical context and used for back-testing and benchmarking
  - aggregate KRIs shared with the ESRB

Micro data for microprudential purposes

- KRIs are a “key” element, but
  - very basic indicators, with limited breakdowns
  - backward-looking and lagging indicators
- Starting point, but not enough
  - complemented with the qualitative information gathered from participation in the colleges of supervisors
  - market data and intelligence.
  - medium term: to expand the scope of supervisory reporting to the EBA
- Regular reporting is accompanied and supplemented by ad-hoc data collections
  - more focused and granular information on specific risks and thematic reviews
  - wide-ranging information on banks’ exposures, risk parameters, funding structures as input to the EU-wide stress test

Micro data for microprudential purposes

- Looking ahead
  - Main challenge from the micro-prudential perspective is how to merge quantitative data and “softer” supervisory information into a synthetic assessment on banks’ financial conditions in order to achieve reliable early warning systems and share this aggregate analysis with the macro prudential authorities
  - Real value added value that micro-prudential supervisors can bring to the assessment of financial stability

Micro data for macroprudential purposes

- "*[…] a comprehensive and granular information base is required to facilitate the timely detection of the build-up of vulnerabilities, such as financial imbalances. Furthermore, the accuracy and reliability of data largely determines the quality of the systemic risk assessments that inform macro-policy decisions*" (Constancio , 5th ECB Conference on Statistics)

- 2 questions are:
  - Can we rely on existing data for macro-prudential purposes?
  - Can micro-prudential data be the servant of macro-prudential oversight?

- The answer is positive if some conditions are met
  - quality, reliability and comparability of the existing statistics are to be improved
  - data consistency at the micro level is a prerequisite for meaningful aggregation and, therefore, for the macro-prudential use of micro-prudential information
  - harmonisation of the reporting framework is the priority for microprudential purposes, even more for macroprudential analyses
    - Standardisation allows the aggregation of bank-level data and makes macroprudential monitoring more accurate
    - Maximum harmonisation as a "win-win" game

Micro data for macroprudential purposes

- EBA to deliver a truly European reporting framework
  - draft implementing technical standard (ITS) on supervisory reporting:
    - capital adequacy,
    - financial information,
    - liquidity,
    - large exposures,
    - leverage ratio
  - ITS will specify uniform formats, frequencies, remittance dates, IT solutions
    - to be submitted to the European Commission next summer and enter into force in 2013

- Uniform reporting requirements ensure a level playing field for cross-border institutions
  - all credit institutions and investment firms should be subject to the ITS
  - but with proportionality: the requirements have been developed taking into account the nature, scale and complexity of institutions' activities

Dissemination of micro data and transparency

- Financial information is a public good that has the potential to reinforce market discipline:
  - Harmonisation should be complemented by data dissemination
- EBA made significant efforts in increasing transparency
  - 2010: publication of the EU-wide stress test results
  - 2011: publication of a broad set of information
    - about 3,400 data points – in editable and interactive format –for each of the 90 banks
- Transparency as a fundamental component of the stress test and a complement to scenario analyses
  - market participants were able to perform their own analyses, understand the drivers of the stress test results, simulate the impact of alternative assumptions
  - some recent empirical analyses find evidence of significant market reactions upon the release of the stress test results and show that disclosure contributed to reduce the uncertainty and opacity on banks' conditions
  - stress test has been used (also) for filling information gaps due to poor disclosure practices

Dissemination of micro data and transparency

- Transparency and disclosure deliver positive outcomes if the underlying data is consistent, of high quality, and reliable

- Complete and detailed metadata can help interpret data, but the harmonisation of the form and the contents of disclosure is crucial

- CEBS / EBA have published several papers presenting the results of the assessments of banks' public disclosure
  - progress made by banks in implementing Pillar 3 requirements, but
  - there are still important areas where improvements are needed
    - **Contents.** It is necessary to enrich the range of information released to the market
      - composition of own funds,
      - back testing information on credit risk,
      - remuneration)
    - **Form.** The presentation of the data is still very diverse, raising comparability issues for users

- EBA identified a set of principles which are intended to further improve the quality of disclosure, particularly in crisis times
  - Substance
  - Presentation
  - consistency

Dissemination of micro data and transparency

- Improving transparency is a challenge
  - lively discussions on the level of disclosure regarding the stress test
  - EBA ready to actively participate to this debate
  - assessment of banks' risk disclosure included in our work programme as a regular task
    - in 2011 we explored the level of interaction between Pillar 3 and IFRS disclosure
    - in 2012 we plan to run an assessment of disclosure on Basel III implementation

- The ideal outcome
  - banks themselves disclose financial information based on common definitions and according to fully harmonised templates
  - a strengthened Pillar 3 is crucial, but disclosure of banking data should go well beyond Pillar 3, including detailed information on asset quality
  - the EBA may play a role in setting a pan-European data-hub
  - Once all this has been accomplished, stress test may return to being mainly an assessment tool for supervisors

Conclusions

- The effective use of all the available information for pursuing micro- and macro-prudential objectives is key

- Micro-prudential data can be the servant of two mandates to the extent they are based on common definitions and harmonised reporting standards

- Standardisation of the reporting framework is a necessary but not sufficient condition for full comparability and aggregation of data: if prudential and accounting rules remain different, no reporting framework can make the job
  - COREP vs FINREP

- Need to be ambitious in planning ahead
  - the development of the single rule-book and microprudential-risk assessment are interlinked
  - single rule-book ensures that banks in different MS are subject to the same requirements, apply them in the same ways, report to their national supervisors according to common frameworks
  - once the single rule-book is in place, no significant differences will distort the assessment of risks:
    - micro-prudential supervision will leverage on highly comparable data
    - macroprudential surveillance will benefit from data that can be consistently aggregated across the piece