European Banking Federation

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Speech

THE NEW SUPERVISORY REPORTING FRAMEWORK

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Ladies and Gentlemen,

Dear Colleagues,

I would like to thank XBRL-Europe and XBRL-UK for having invited us to speak at this prestigious Conference. As they are aware, the European Banking Federation has always been a fellow traveler of XBRL and we are pleased to be provided with an opportunity to express our support for what the XBRL-community aims to achieve.

As a representative of the EBF, allow me to tell you in just a few words who we are and what we stand for.

The European Banking Federation – EBF - embodies the united voice of some 4 500 banks established in Europe. Our membership comprises the national Banking Associations from the 27 Member States of the European Union and four EFTA countries and cooperates closely with those of another 14 European countries outside the European Economic Area. This means that we stand for large, cross-border financial institutions as well as smaller ones, with a much more national or even regional outreach. The banks we represent cover all areas of banking activities: retail, corporate, investment banking. They are also, in the vast majority, commercial banks. The spectrum of our stakeholders is extremely broad.

So how does the EBF serve its members?

Well, by ensuring that the experience and the views of banks are taken into consideration in the shaping of relevant policies; the EBF has been established as the prime sector interlocutor of the European institutions: the European Commission, the European Council of Ministers and the European Parliament in laying out their legislative initiatives. And in doing so the Federation has remained committed to its overall aim of creating an integrated single market for financial services throughout the European Union.

From a Single Market perspective, the administrative burden which comes along with supervisory reporting has been a major concern for the EBF in the past.

To highlight the importance of the issue, I would like to recall that less than 10 years ago, in 2006, when Mrs Daniele NOUY took office as Chair of CEBS, the Committee of European Banking Supervisors, the predecessor of the EBA, she started a very interesting experiment. Her idea – or should we say "flash of genius"? – was that you do not necessarily need to come up with big Master Plans to make substantial progress and that fixing small, operational difficulties may make a huge difference when it comes up to improving day-to-day banking supervision practices. This explains why she decided to set up "an Operational Network" consisting of 10 large cross-border European banks. They were asked to identify a number of issues which they perceived as a major stumbling block to organise their cross-border activities in a most efficient way.

It was this exercise that created awareness amongst regulators and, probably more importantly, at the European Commission, about the need to fix the mess which the COREP framework had created for cross-border banks.

At that time – I use the past sentence here although it may be useful recalling that the situation way back then was exactly the same as the one we still have today - we had an EU reporting framework which was called "common" but which had not been harmonised at all, meaning that the precise contents of the supervisory reporting was still decided upon at Member State level. There were as many national "COREP"'s as there were Member States. As a consequence, COREP reporting was a nightmare to banks - and I use the term "nightmare" deliberately because this was how a paper which the 10 banks sitting on the Operational Network Platform summarised the situation they were in.

- Each of those national frameworks may use differing definitions of the concepts.
- If the definitions were identical, it often happened that the various supervisors gave a different interpretation to it.
- Supervisors may require differing breakdowns of data, or ask to report net exposures in one country and gross exposures in another.
- And so on, as there were many other differences.
- And, let's not forget, when preparing consolidated statements for the whole group, all those differences needed to be bridged.

Clearly, therefore, the emergence of a Single Rule Book which the new Capital requirements Regulation will achieve is a major break-through. The European Banking Federation has been fighting for years to obtain such an outcome: tomorrow, the national reporting frameworks will give way for one single European reporting framework that will be fully harmonised.

So, definitely, we are now on the right track and we are particularly grateful to the European Commission for having convinced the supervisory community to follow that path.

This is not to say, however, that no further improvements to Supervisory Reporting would be possible.

Last year, the European Banking Federation held an enquiry amongst its membership to find out what their main concerns were in the area of reporting requirements. What would they like an EBF strategy to achieve in the area of reporting? The answers that we received from our members made it apparent that the following three main concerns are at the forefront.

1) Reporting needs to be addressed by adopting an integrated approach.
2) Banks need to be informed on why the information that they are invited to produce is needed, who will make use of them and how.

3) Appropriate Channels of communication need to be set up at EU Level between all the stakeholders involved, i.e. the European Commission, micro- and macro prudential supervisors and statistical agencies.

NEED FOR AN INTEGRATED APPROACH

The industry has been urging public authorities to adopt an integrated approach to reporting for some time now.

"Integrated Reporting" means that reporting requirements should be designed in such a way that they integrate accounting, statistical and other data requirements as much as possible. The overall objective should be to make sure, as much as possible, that all those various reporting streams make use of identical criteria, definitions and classifications, with similar levels of detail and need to be transmitted using the same technical formats.

Adopting an integrated approach allows banks to introduce a high degree of automation and, therefore, contribute to minimising ad-hoc requests from authorities which, still too often, mobilise time-consuming efforts for all stakeholders concerned today.

Last year, the industry was under the impression that, within the European Union, all stakeholders – including the banking supervisory community, the European Central Bank and the European Systemic Risk Board –fully agreed with us that there is a need to integrate the various reporting streams as much as possible and significant steps have already been taken to make this happen. I would like to draw your particular attention in this context to the JEGR Project, i.e. the work that is being undertaken by a "Joint Expert Group on Reconciliation of statistical and supervisory reporting requirements" which is sponsored by the EBA and the ECB. Its objective is precisely to build bridges between the statistical and supervisory reporting streams and both institutions need to be congratulated for the excellent work that they have been doing in this area.

We have noted in the meantime, however, that some important developments have taken place which makes us believe that steps are being taken in wrong direction.

- Let me recall, firstly, that the industry's call for integrated reporting mainly aimed at making banking supervisors agree with the basic idea that the language which they use should remain closely in line with the accounting language. Standardisation of supervisory reporting requirements should be undertaken on the basis of IFRS concepts.

- Banks were, therefore, disappointed to note that the EBA consultation paper on supervisory reporting departed from that line of thought. More particularly, templates appear to have been included at the request of the European Systemic Risk Board to improve its statistical database, and it were precisely those templates that gave rise to concerns.

  Those concerns need to be put in a proper context though, as it needs to be recognised immediately that the ESRB requirements which we are referring to, remained in line with the accounting terminology. The main difficulty which they create for banks is that the information needs to be broken down in a different way as required under IFRS. As a result, those tables create significant implementation challenges as they are seeking to collect transaction information which is currently not available in the banks' accounting information systems. Satisfying those information needs implies introducing major basic changes in the information streams that banks need to organise and, more precisely, increasing the data points that their product and client management systems will need to produce henceforth. This explains why the EBF is very much insisting that banks be given more time to comply with those specific requirements.

- The picture becomes totally different when we turn to two recent EBA consultations, i.e. the one on "forbearance and non-performing exposures" and the one on "asset encumbrance". Both consultations take a completely different direction as the definition of "forbearance" and "asset encumbrance", which they propose, are totally new and, therefore, totally disconnected from the accounting language.

  We may have some sympathy with the supervisory community. Their concern is to satisfy supervisory needs. If it appears that the accounting language is not immediately suitable to satisfy those, it is probably only natural for them to design new concepts which are more appropriate. However, adopting such an approach may be too easy a way out, particularly considering that EBA has always be telling the world that it supports the use of common concepts and definitions and that it wishes to avoid any duplication of data collection. You simply cannot say one thing and subsequently act in a different way.

It is and remains essential for supervisory reporting concepts to be based on accounting language.

RIGHT TO KNOW WHY

I must say that, at the EBF Secretariat, we were somewhat surprised to discover that one of the main frustrations which our reporting experts are having with today's reporting practices is that, in their view, EU Authorities very often fail to provide sufficiently clear indications on why specific reporting requirements are being imposed and how the collected data will be exploited.

It needs to be recognized that due explanation about why precisely the supervisors are asking the information that they are requiring is often missing in the consultation papers they issue.

Conversations that we have had with software providers confirm that this industry fully shares our views.

To give you only one example: why do we need a FINREP framework next to a COREP framework? Why do banks need to report to their supervisors financial data on top of risk data? Today, there are a range of EU member States that have never asked their banks to supply financial data, which demonstrates that this is not an obvious issue. However, the consultation which the European Supervisory Community has launched does not go through any effort whatsoever to justify why FINREP has been set up and how supervisors intend to make use of FINREP data.

We have explained to the supervisors in the past that defining clearly the purpose and the usage of the information is essential to the banks in various respects.

- Firstly, it is a legal constraint: supervisors are legally required to specify the objectives of the reporting requirements that they are imposing on banks.

- Furthermore, and perhaps more importantly, becoming aware of the broader picture allows banks to gain a better understanding of what precisely they are expected to deliver and, hence, contributes to improving the quality of reporting.

- Finally, I believe I do not need to explain that every human being who is asked to do something is not keen on investing time and resources in a project when he has no clue whatsoever on what benefits its efforts may bring. People want to be certain that their efforts serve a purpose.

To avoid any misunderstanding I need to clarify the following. Every time we ask authorities to explain why they are asking for this or that information, they tend to be on the defensive immediately because they believe that the main objective of our question is to challenge the requirement as such. This is, however, not necessarily so. On the contrary even, because experience has learned that, in bilateral conversations that we have hadwith supervisors, they easily succeed in convincing us that it makes much sense indeed to collect the data that they are looking for. We cannot, therefore, help wondering why they do not make more effort to duly explain this upfront in the consultation papers.

To be honest, we must say that our calls to be made sufficiently aware of the rationale of the various reporting requirements are starting to be heard. The situation is improving.

Lack of Appropriate Communication Channels at EU Level

Last but not least, I would like to draw your attention to the communication gap that exists today in the area of supervisory reporting.

Believe it or not, our reporting experts sometimes look back with some nostalgia at the good old times when reporting issues were still exclusively being dealt with by their domestic authorities, at national level. In those days, the various authorities involved – the central bank, the banking supervisors, statistical authorities - tended to liaise rather closely with each other and their banking community to exchange views on upcoming developments as well possible ways of integrating those new workstreams into ongoing projects and initiatives. As a consequence, reporting experts within banks were well informed of what the future would bring and were in a position to take those in to account in their overall planning of changes to be made to IT-systems.

However, now that reporting requirements are increasingly being imposed exclusively at EU level, the situation has totally changed – and unfortunately not for the better. We experience every day that it has become impossible today for banks to gain insight into future developments as long as no final decision has been taken by the competent EU authority. Pending such a decision, no supervisor in Europe is able to tell you with some assurance what will be upcoming. As a result, the industry is seldom provided with an opportunity to be informed of new, forthcoming reporting requirements at an early stage of the process.

Clearly, therefore, there is a need to set up a forum at EU level which makes it possible for the industry to exchange views with all relevant authorities on upcoming developments and their timelines on a regular basis. Such a forum could also be used to exchange views on possible ways of integrating new workstreams into ongoing projects and initiatives.

I have been talking to you until now on the industry’s wish list as to the future of European Reporting requirements.

As far as the immediate future is concerned, the most burning issue is and remains the timing of the implementation of the new supervisory framework that is being set up today.

As I have explained a few minutes ago, a range of templates which have been introduced at the request of the ESRB are creating significant implementation challenges on the ground as they are seeking to collect transaction information which is currently not available in the banks accounting information systems. The two recent consultations on “forbearance” and “asset encumbrance” templates will produce implementation difficulties that are even more significant.

Against this backdrop, banks should be provided with sufficient time to prepare their IT-systems to cope with the new requirements.

Finally, Technology remains another major challenge.

I believe that the audience which is gathered here today will agree if I say that, where reporting is concerned, XBRL is clearly the way forward. Everybody will benefit from a generalised introduction of XBRL as it will contribute to reducing manual processes and increasing data quality.

Awareness about the benefits that XBRL can bring is sufficiently today.

- In the US, banks – to take only one obvious example - are obliged to report using XBRL to their banking authorities.

- In the European Union, the Economic and Monetary Affairs Committee of the European Parliament has produced a Report earlier this year which takes the view that all European companies should prepare their financial statements using XBRL from 2018 onwards.

All this clearly shows that XBRL is the way forward. And when the European Commission invited the European Banking Authority to come up with an IT-solution for supervisory reporting, all of us expected that the European Banking Authority would go for XBRL.

Nevertheless, the European banking supervisory community failed to meet those expectations. Instead of paving the way for a larger usage of XBRL by providing the right incentives, the European Banking Authority is proposing that it should be up to each national supervisor to decide if it is prepared to accept the XBRL format.

Mind you: what is being proposed is not being designed as a mere temporary solution aimed at paving the way for a smooth transition to XBRL some time in a near future. The EBA has not made any attempt to provide clarity on how it intends to exploit the opportunities provided by XBRL in the future. This leads us to the question if we need to conclude from the lack of communication from EBA on XBRL that it has no strategic vision on the future of XBRL?

I do not need to explain that, for the industry, this is the worst possible outcome as it will oblige European cross-border banks to report under various reporting formats. The solution which the EBA proposes results in creating an additional, useless burden for groups which have subsidiaries in several Member States and, therefore, creates an obstacle to a proper functioning of the Internal Market.

I would like to close my presentation by referring to the "Law of the hammer" which you surely will have heard about and which says that, if you give a small boy a hammer, he will find that everything he encounters needs pounding.

Against this backdrop, it never came as a surprise to us that the creation of the European Systemic Risk Board resulted in a considerable increase of reporting requirements.

To be honest, though, it needs to be conceded that this is a mere logical consequence of the severe financial crisis that we have experienced.

I still remember that, way back in 2008, Mr David WRIGHT, when he was still working at the European Commission, convened the main European industry associations of the financial sector at his office to express his astonishment about the lack of data that was available to authorities. Nobody in the world was in a position to provide them with precise information about those toxic assets that were at the origin of the crisis. Which banks precisely were holding them? Nobody knew. As a consequence, it was far from obvious to develop strategies to address the crisis.

Clearly, therefore, we fully understand the concern expressed by public authorities that it is essential for them to have sufficient information at their disposal.

At the European Banking Federation, our basic position has always been that it is the exclusive privilege of public authorities to define for themselves what their information needs are. Industry associations would step out of line if they would start arguing about this.

However, this does not mean that the industry should restrain from being critical. To the contrary even. As I have explained to you, we from our side will keep on hammering the following nails:

- First, reporting requirements need to avoid any duplication of data collection and continue to support the use of common concepts and definitions.
- Secondly, public authorities are required to duly justify and explain why they seek to collect data.
- Finally, it would be highly beneficial to the quality of reporting if public authorities would go through the effort of involving them in the preparation of reporting requirements.

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