ESBG observations on the Draft ECB Regulation on the collection of granular credit and credit risk data (AnaCredit)

ESBG (European Savings and Retail Banking Group)

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ESBG Transparency Register ID 8765978796-80

29 January 2016
From a procedural point of view the European Savings and Retail Banking Group (ESBG) welcomes the publication of the draft ECB Regulation on the Analytical Credit Dataset (AnaCredit) and being afforded the opportunity to submit its observations on this draft regulation, thus providing more transparency and greater involvement for the banking industry.

This being said concerns have been raised by members of the ESBG regarding the aim and the design of the ECB AnaCredit project. The question of the necessity of AnaCredit and of each of the more than 100 data points to be reported by banks remains to be answered by the ECB.

This regulation comes at a time when small and medium sized banks are already facing a high administrative burden with a vast number of regulatory initiatives and reporting duties. Due to their size this brings them to the edge of economic feasibility. With any new initiative, being regulatory or statistical, this should be kept in mind. A thorough evaluation of the necessity and the costs and benefits with a strong focus on small and medium-sized banks has to be at the beginning of any process. In addition to this, for every new reporting burden an existing reporting requirement should be abolished (“One in, one out” Principle).

While the goal of the regulation to harmonise and improve data collection across member states is appreciated many of our members are concerned by the high administrative burden that the AnaCredit regulation may impose on small and medium sized banks. Along with the ongoing costs that this regulation will generate the cost involved in collecting the required information for existing loans has been especially highlighted by members. It is worth noting that all new reporting requirements necessitate further development of the banks’ IT systems. The lack of harmonisation in data requirements is causing huge increases in IT costs for banks. A common Industry Banking Data Model with harmonised definitions and technical standards would ensure standardised IT implementations and aligned processes as well as comparability between different requirements and reports across countries. Within this harmonised Banking Data Model, the principle of proportionality would have to be ensured in order to allow for simplifications and thus a reduction of administrative burden for smaller institutions that form part of a banking group. Our members are of the opinion that a balance needs to be struck between data that is sufficiently granular to achieve the analytical purposes intended by the ECB and a level of cost and effort (at both banks as well as NCB and ECB level) that is not excessive.

Regarding the proposed reporting thresholds (Article 5), it is not clear, in the case of the EUR 25,000 threshold (paragraph 1.a) if the total commitment includes only reportable credit instruments in the first stage or the sum of all the instruments contracted by the counterparty (not a natural person). When looking at the EUR 100 threshold for any non-performing instruments (paragraph 1.b) clarity is needed as to whether reporting agents have to report only that instrument or all the instruments of that counterparty.

Our members are quite concerned by the level of the reporting threshold for non-performing instruments (EUR 100). It is felt that, should this threshold be imposed, in order to be in a position to report non-performing loans, institutions would always have to maintain the complete data record for every loan to a reportable borrower, effectively reducing the general reporting threshold. ESBG members consider this to be impractical and contend that this threshold should be reconsidered. The dependencies with the ongoing European Banking Authority discussions regarding Article 178 of the Capital Requirements Regulation (EBA/CP/2014/32 of 31 October 2014) should also be considered.
The source of some of the data required under this draft regulation is also causing our members concern. As certain data will not be available centrally or in an electronically readily processable form, the collection of same will require the modification or creation of systems and processes. For this to be done effectively an extended implementation period may be the best solution. AnaCredit recognises three types of reporting: monthly, quarterly and on change. According to the draft Regulation, most of the data must be submitted every month with a small number of datasets being delivered quarterly. To aid implementation it may be advisable to grant the opportunity for a quarterly reporting frequency for the first two years. This would also allow for institutions to apply lessons learned and fine tune the work flows in between reportings.

The requirement to provide data on instruments originating prior to 01 March 2018 will also prove particularly burdensome and difficult. In some cases this data may not be available and we would suggest that only for credit instruments originated after 01 March 2018 should the reporting be mandatory or, at a minimum, data provision (effective grandfathering) on a best efforts basis should be permitted for a transitional period (for example five years), with no sanctions applicable.

It is appreciated that some of the complexity of the AnaCredit project has been reduced with only the first stage being open for discussion. With this in mind there are several references to data reported in following stages in the draft regulation. To avoid misinterpretation it may be prudent to remove those references and to maintain only data required to be reported in the first stage. Examples of such would be derivatives and off-balance sheet items not included in the first stage but referenced in Annex II. The Governing Council will take its decision on each subsequent stage at least two years before it comes into force, allowing sufficient time to implement the requirements. Given that the first stage is the first time the requirements are being implemented the principle should also apply here.

There are benefits to be gathered by the banking industry from the feedback loops mentioned in Article 11. It is the view of our members that these should be mandatory and that the ECB should take a stronger stance by requiring NCBs to participate in the feedback loop to add reciprocity to the reporting process. A clarification of whether the third parties mentioned in Article 11 do not include the data processing entities and service providers mandated by the institutions to process the AnaCredit reporting requirements would also be helpful.

ESBG members attested to the fact that the definition of a number of attributes are not clear and have expressed their view that there is an urgent need for further clarification on certain points. Given the importance of this draft regulation aiming at a European-wide harmonised statistical base it is imperative that the ECB should specify clear, unambiguous and detailed requirements, which should be supplemented by examples if possible. This will improve the information gathered to be analysed by the supervisors and provided to the institutions in the feedback loop.

The below highlighted examples are not an exhaustive list of issues that need further explanation. They are included only to draw the ECB’s attention to the need for further clarification and harmonisation.

For example with regards to data attribute “Joint Liability Amount” it is unclear which type of amount should be reported. Carrying amount, outstanding nominal amount and total commitment amount at inception are reported as amount attributes in the draft regulation. Clarification is also needed in the case of multiple debtors, whether it should be one reporting line per debtor, resulting in multiple reporting lines per instrument.
Another example where further explanation is needed is the data attribute “Cumulative Recoveries Since Default”. Our members want to know does the definition of Annex IV relate to any amount collected since the date of default of the instrument and whether it relates to recoveries collected by means of enforcing a protection. How to report a scenario where there is one instrument and multiple protection providers and thus multiple protections has also been raised by our members. In such a case would reporting institutions need to report multiple protection received data sets and if so which protection value shall be disclosed e.g. in the case where a number of different persons provide “joint and several guarantees”. ESBG members have suggested, given that the data attributes of “Institutional Sector” and “Economic Activity” (NACE Code) are highly correlated the ECB could provide a table that explicitly maps NACE codes to the Institutional sectors stipulated in Annex IV of the draft regulation. This would increase uniformity in classification of counterparties across reporting institutions and prevent inconsistencies. According to 4.2 on page 4 of the explanatory note the data has to be reported on a solo level to the respective NCB. Our members believe that further clarification is required for the following “No reporting on a consolidated basis is required, whereby credit institutions would need to take into account the positions of their subsidiaries and foreign branches but exclude inter-company activity”.

Concerns have also been raised regarding the “counterparty role” and the need to include the role of the provider and/or servicer if they are the same reporting agent. In “Annex I Data to report and templates” we suggest that the Regulation applies the same criteria to “Accounting Standard” data as to “number of employees”, “balance sheet total” and “annual turnover” i.e. mandatory if available, as this accounting standard data may not be available for credit institutions. Reporting on “senior credit secured by the protection” may also cause an issue if the senior credit is not related to reporting agent transactions. In some Member States, credit institutions are unable to report on the current value of protection when it is in a different credit institution. In such a case they can only report the initial value recorded in the Land Registry (without updates on its current value) for transactions originating from March 2018. Therefore, adding an alphanumeric field to indicate if the senior credit secured by the protection is related to credits in the own reporting agent may be necessary.

The provision in Article 17 allowing NCBs to grant derogations from the AnaCredit reporting requirements to small institutions is welcomed by members, however, as the criteria can be defined on a national basis it will lead to inconsistencies across Europe. As some data included in table 1 is not included in current reporting requirements to NCBs, it is important that the Regulation allows NCBs to decide not to collect that information from individual reporting agents, especially in the case of instruments originating prior to March 2018. This article also states that “small” institutions will be defined based on an individual member state’s total commitment amount. This method will impede both transparency and a level playing field at European level. We also believe that a transitional period of less than 12 months to require full reporting after an institution no longer fulfils the derogation criteria is too short. ESBG members submit that an effective grandfathering for instruments originated prior to the full reporting requirements or at least a transitional period equivalent to the two year period currently under discussion before implementing further stages must be granted.

Under Article 6.2 b the issue of branches of an institution based in another member state is addressed. The draft regulation may allow the relevant NCB of a foreign branch to require these branches to report information (template 2, 6-10) back to them which could have different criteria from that required by the relevant NCB of the legal entities. In order to avoid double reporting with different criteria, we propose that foreign branches report data for template 2 (6-10) only to the relevant NCB of the legal entity with the criteria of that relevant NCB and not report them to the relevant NCB of the foreign branches.
Regarding the values of “Default status of the counterparty” (according to counterparty default data in Annex IV) we suggest there should be an additional value referring to the simultaneous occurrence of the following: “Default because unlikely to pay” and “Default because more than 90/180 days past due”. Therefore, we propose either the introduction of said value or that the regulation clarify a hierarchy amongst them.

Tables 1 and 2 include classifications “I”, “X” and “N”. Classification “I” being: “information required for institutions applying an IRB approach in accordance with Regulation (EU) No 575/2013. For institutions not doing so, relevant NCBs may decide not to collect this information from individual reporting agents, subject to individual arrangements”. It has been suggested that this classification may be more effective if it referred to “transactions recorded with IRB criteria” as opposed to “credit institutions that apply IRB approaches”.

Classification “X” indicates: “information not required to be reported”. As previously stated ESBG members have serious reservations surrounding the practicality of reporting on instruments originating prior to 01 March 2018. Members are of the strong opinion that only instruments from 01 March 2018 onward should be included in the reporting scope, however, should pre March 2018 reporting be mandatory certain sections will prove especially difficult to complete and it would be prudent to also apply an “X” to, at a minimum, each of the following in column 6 (instruments originating prior to 01 March 2018):

- Status of forbearance and renegotiation: In the case of former forbearance exposures, credit institutions don’t record all the modifications that have been done on them (only interest rate or similar), therefore it may be difficult or impossible to report such data.
- Cumulative recoveries since default: Credit institutions may have difficulties obtaining the data in the case of former contracts. Moreover, members suggest that the reference date to consider, if the data is available, should be the date of the default instead of the instrument originating date (general criteria in column 6). Therefore, we suggest to report the “cumulative recoveries since default” only for defaults originating from March 2018 onward.
- Protection original value and protection original valuation date: Historical data for all protections may not be available.

The draft Regulation states that the collected data will also be useful for banking supervision purposes in the context of the Single Supervisory Mechanism (SSM). AnaCredit will therefore allow the ECB to intervene in the daily credit approval process which is at the heart of every bank’s core business. It is imperative that the ECB limit the AnaCredit initiative to statistical purposes only.

With all of the above in mind the announcement that there will be a publication of a detailed manual and of answers to questions about AnaCredit on the ECB’s website is most welcome. These outstanding questions must be answered before the implementation process can begin. This should be taken into account when deciding upon the first (potential) reporting date, which could be as early as June 2017.

Many thanks again for the opportunity to contribute and we look forward to the results.
About ESBG (European Savings and Retail Banking Group)

ESBG brings together savings and retail banks of the European Union and European Economic Area that believe in a common identity for European policies. ESBG members support the development of a single market for Europe that adheres to the principle of subsidiarity, whereby the European Union only acts when individual Member States cannot sufficiently do so. They believe that pluralism and diversity in the European banking sector safeguard the market against shocks that arise from time to time, whether caused by internal or external forces. Members seek to defend the European social and economic model that combines economic growth with high living standards and good working conditions. To these ends, ESBG members come together to agree on and promote common positions on relevant matters of a regulatory or supervisory nature.

ESBG members represent one of the largest European retail banking networks, comprising of approximately one-third of the retail banking market in Europe, with total assets of €6,702 billion, non-bank deposits of €3,485 billion and non-bank loans of €3,719 billion (31 December 2014).

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Published by ESBG. 29 January 2016