EACB Comments

ECB draft Regulation on the collection of granular credit and credit risk data (AnaCredit)

Brussels, 29th January 2016

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Introduction

The members of the EACB welcome the opportunity to comment on the ECB draft regulation on the collection of granular credit and credit risk data (AnaCredit).

General comments

The EACB welcomes the decision taken by ECB to involve the financial industry in the ongoing work pursuing a constructive dialogue on the text of the draft regulation. However, we believe that the publication of the draft AnaCredit regulation should have been anticipated earlier. We understand that the legal basis for this regulation mandates the ECB to only carry out a merit/cost analysis, but given the significance of the project a longer and more in-depth consultation process would have been beneficial.

The reporting requirements that AnaCredit entails will impose both high initial implementation and high running costs on institutions and IT providers. Thoroughness should have a precedence over speed, and the involvement of the banking industry should not be limited to the merit/cost analysis phase. We would therefore propose an ongoing involvement of the banking industry and IT providers in further activities on the basis of consultations. Such an approach has already amply proved its worth with the other standard setters in the area of banking regulation (i.a. EBA, NCAs).

While the initial investments by banks to improve their IT systems and reporting practices will certainly be very relevant, we have no certainty that this will be offset by lower running costs. At the very least there should be fewer ad hoc data requests from central banks.

- *Purpose and benefits of AnaCredit*

It has long been a key demand of the financial industry that supervisors should closely question whether additional reporting requirements are necessary and on what scale they are appropriate. The workload imposed by implementation and the operating costs should always be carefully weighed up against the benefits. This implies that data are to be collected only when a clear case can be made for their use. Indeed, credible and high quality statistics are key for ECB's policy-making. A data pool able to adapt flexibly to new economic circumstances is certainly a decisive element to this end. It is thus understandable that the ECB intends to use AnaCredit to create an improved database to enable it to adopt more finely tuned monetary policy and macro-/microprudential supervisory measures. But it should not go too far. A balanced approach is called for, particularly with regard to the degree of data granularity and the reporting thresholds under discussion.

- *Implementation timeline*

We understand that the reporting requirements will initially be set on the basis of the draft ECB regulation at the beginning of 2016 and applied from the beginning of March

2018. It is still however unclear whether other Stages will be established later on. We believe that in such case, the ECB regulation shall be subject to further consultation.

For banks and IT providers, it is particularly important to have a final picture at an early stage, i.e. the final actual reporting requirements (reporting templates, format, deadlines and frequency), so that they can set up suitable implementation projects. In this context, the final picture means not only the structure of the initial data collection, but also the medium- and long-term strategy of the ECB and other regulators in the future.

It would indeed constitute a major difficulty, if reporting templates were to be constantly extended or modified.

For this reason, we strongly advice that early this year the ECB announces the definitive reporting templates and the respective intended implementation deadlines as well as whether other reporting requirements could be expected in the future. Deadlines seem too tight also considering that in many Member States the implementation will have to be reviewed among credit institutions, NCAs and the ECB.

Having the possibility to receive as soon as possible the final templates and information on whether and how additional stages of AnaCredit are expected to be launched is of the utmost importance for institutions to be able to adequately plan and launch the implementation phase.

Also the validation rules for the needed verification of the information filing are needed in the shortest timeframe possible.

Regarding the short implementation timeline for the consolidated reporting we suggest to redraft the last sentence of Recital 11 as follows:

"Any such extension must be adopted at least two years for unconsolidated and three years for consolidated reporting prior to its introduction to allow sufficient time for implementation by reporting agents and NCBs."

The extended timeline for consolidated reporting would allow the reporting agent to ensure the reconciliation between different foreign entities and the group reporting.

Selected technical aspects

- *Reporting dates and deadlines*

In certain cases, national credit registers provide for mandatory reporting on a quarterly basis. We believe that this frequency would be sufficient to enable valid macro-prudential analysis. Shorter intervals between reporting dates entail considerably higher costs and unduly tie up the responsible human resources. Moreover, a higher reporting frequency is hardly realisable on the basis of the IT infrastructure, processing operations currently employed by institutions and in view of the data volume to be generated.

For the setting of reporting dates and deadlines we recommend using the COREP and FINREP reporting provisions as a guide. Ultimately, much of the information to be reported in AnaCredit is based on supervisory reporting requirements, thus reporting

AnaCredit data before filing a report for supervisory purposes does not seem viable. In addition, it seems evident that, while some of the data could also be used for supervisory purposes, AnaCredit in its current format is not designed for banking supervision. This should be kept in mind, in order to align the requirements as much as possible, to avoid doubling of reporting for institutions.

- *Availability of data*

So far comprehensive data on borrowers and their indebtedness have been generally collected via large-scale credit reporting. AnaCredit, however, requires that much more granular data is collected, data that is not yet, or not fully, available in the relevant reporting systems. The reporting threshold for loans is higher in different Member States (e.g. € 1mn in Germany). To speed up their IT systems, many banks use filters to ignore much borrower data for large-exposures reporting. These are thus excluded from reporting and cannot be easily accessed either.

For AnaCredit reporting, data have to be compiled from different business divisions and different systems (bookkeeping and accounting, reporting, risk management). The relevant reporting interfaces cannot be defined within a short time. This requires an implementation period of several years. In the light of the BCBS "Principles for effective risk data aggregation and risk reporting", large international banks have already started to adapt their IT infrastructures to enable the fastest possible aggregation of data. However, initial practical experience with implementation shows that the quality of data in upstream systems complies merely with currently applicable legal (reporting) requirements and that lacking data still have to be supplied gradually from credit procedures and client contact. This cannot be done quickly and, in addition, it is currently partly devoid of any legal or contractual basis. We therefore wish to call for sufficiently long implementation periods. We would support a postponement for the first transmission of credit data (March 2018) pursuant to Art. 2(1)(a) in conjunction with Art. 20 to March 2020. It must be ensured that there is enough implementation time for credit institutions concerning their regulatory reporting taking into consideration the 94 data attributes, definitions and values as laid down in Annex IV.

In addition, the information available on, for example, retail or SME borrowers differs greatly from bank to bank. This depends also on the kind of scoring or rating system used. In Germany, for instance, pursuant to section 18 paragraph 1 of the Banking Act, banks are required to have borrowers disclose their financial statements/status only if the total borrowed amount exceeds € 750,000. In many cases, it is not possible to demand additional information from borrowers ex post unless this has been contractually agreed beforehand.

In most cases, credit institutions act both as lenders and operation administrator, so in these cases it would not make sense to duplicate information requirements. We think that it is unnecessary to send both data links and it should be enough to inform the lender link. We believe that a more balanced solution should be found to adequately report exceptions, (e.g. operations where credit institutions act as a lender and it is not the operation administrator and vice versa).

Finally, there appear to be two mistakes within the annexes. In particular, Annex II (page 27) has a specific cell on "correlation products" and Annex IV, (page 40), includes derivatives (and particularly credit derivatives) within identification of correlation products. In both cases, the Annexes seem to reflect something which is not in the scope of the regulation.

- *Reporting threshold*

In many Member States mandatory reporting requirements for overall indebtedness of a borrower or group of borrowers have already seen an increase (i.e. lower thresholds). This has already led to significant increases in the volume of reporting by banks. An exponential increase is likely. For instance the € 1mn threshold envisage in Germany would allow the supervisory authority to achieve a level of coverage that is sufficient to enable the necessary macro-prudential analysis. Lowering further the reporting threshold is not advisable. Specifically, the threshold - especially on a loan-by-loan basis - of EUR 25,000 is far too low, particularly as the focus is on SME loans. This threshold should be € 1mn, and *ad minima* € 350,000, this could be coupled with a borrower's perspective, which would justify a higher threshold and still be adequate for micro and macroprudential analysis, rather than loan by loan. Data from a number of German institutions have shown that, depending on the business model, a reporting threshold of € 1mn could cover over 85% of credit exposures.

Other Member States have far lower thresholds and require reporting on a loan-by-loan basis, however a € 25.000 threshold does not seem necessary to enable meaningful analyses. In any case, switching from borrower-by-borrower reporting to loan-by-loan reporting in many Member States would not be easy to implement and not feasible in the short term.

Also the reporting threshold for non-performing instruments, of € 100 (as under Art. 5(1)(b)) should be increased. Otherwise every single overdraft of a business account or non-payment of a monthly loan instalment for longer than 90 days would have to be reported while this might have no significant additional value for risk management. The same applies to the forbearance of credit rates, which may be granted by credit institutions. In any case this should be in line with the existing prudential requirement for default under Art. 178 CRR and currently under further definition by the EBA with its draft RTS on materiality threshold and draft GL on the definition of default. A separate calculation logic for the purposes of AnaCredit should be avoided.

With regard to Art. 5(1)(b) it could also be further clarified that the reporting only concerns the non-performing instrument, to avoid ambiguity on whether to report the client's total risk.

- *Data protection and implications for competition*

Via AnaCredit, highly sensitive data will be gathered and stored in a central data pool at the ECB. The present cross-border exchange of data between central credit registers has

so far been limited to a small amount of data. We therefore have serious concerns relating to data protection and competition issues.

For instance the information to be disclosed under Table 2 of Annex III concerning the address, also as further specified in Annex IV, might entail privacy infringement issues. It would be sufficient instead to only provide the postal code of the borrower.

The filing of such information should also be seen in the context of implementing a "privacy by design" approach and in the context of a revised EU framework for a Data Protection Regulation to be adopted in the course of 2016, which may reveal criticalities with regard for instance to Art. 19 of the draft Regulation.

As we understand it, information on terms and conditions (interest rates, type of interest rate lock-in, etc.) will also be gathered via AnaCredit. This is a truly critical issue, since a bank's pricing policy for individual customers becomes transparent and it might not always be ensured that this information will not be misused – particularly as it is not yet entirely clear who is to be given access to the information and on what scale.

For this reason, we believe that a detailed access authorisation concept is needed. In addition, a sufficiently sound legal basis for the collection and transfer of data must be established.

Finally, we are against the collection of any data under AnaCredit that are likely to cause distortions of competition if they are improperly used.

- *Derogations and definitions*

In general, we believe that a grandfathering for all reporting attributes for outstanding loans granted before March 2018 is necessary. We strongly recommend the ECB to avoid requiring lengthy surveys in the institutions inventory and provide the prompting for all attributes only for new contracts. For "old loans" should have an optional character to the reporting attributes.

The draft regulation also provides that in a given Euro area Member State, derogations may be granted by the relevant national Central Bank provided that the total commitment amount for all derogations granted to reporting agents resident in the country concerned does not exceed 2% of the total commitment amount that would be reported in that country if no derogations were granted.

We welcome this provision to enable national supervisors to exempt small institutions from the obligation to notify and ask the national central banks to take advantage of this provision, as this is consistent with the principle of proportionality. In the same vein, a proportional approach should also be taken at the level of granularity and scope of the financial data required for small and medium sized institutions as part of the national implementation.

For the sake of simplicity, however, in addition to the 2% threshold of reportable lending, a minimum reporting relief for institutions with total assets of less than € 3bn should be provided as for the case of the SRF and within the FINREP reporting system with regard to the exchange of "simplified supervisory Financial Reporting" to collect "data points".

With regard to the definition of a substantial number of attributes, there is currently a very heterogeneous understanding. Individual definitions are also defined against an IFRS background, which may differ from n-GAAP specifications. This raises many questions and different points of view among institutions. Given the statistical nature of AnaCredit, it is essential that clear, detailed specifications are provided by the supervisor. A different interpretation of the reporting requirements would thwart the aim of project and might even distort the results.

It is also unclear whether it is only the "reporting agent" obliged to report the required data or whether there is an obligation for additional reporting at the level of the parent institution. We understand and believe that only the entities must fulfil the reporting requirements and not once again the parent institution. A clarification would be very helpful in this context.

AnaCredit reports have to be made on both consolidated and individual basis (for NCAs). We think it will generate additional costs to financial institutions. A leaner approach could be envisaged, for instance remarking operations declared individually whose borrowers are other group members should be sufficient.

AnaCredit should also ensure that there is no parallel reporting obligation by institutions with derogating requirements (e.g. definitions) at national level. This would result in considerable additional workloads. Nevertheless, there are parts of the industry that would be interested in feedback reports on borrower indebtedness as part of the cross-border exchange of information.