Ways to improve the use of banking statistics by policy-makers: what is reasonable, what is feasible and what the SSM and the banking union are calling for

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1. Central banking and supervisory functions

Linkages between the traditional central banking functions (in particular, monetary policy) and banking supervision have been deeply analysed over many decades. More recently, financial stability considerations have gained importance, especially as a consequence of the major financial and economic crisis that has affected the industrialised world since 2007. In this regard, macroprudential policies have emerged as a crucial item in the policy-makers' toolkit.

It is well documented that keeping monetary policy and banking supervision decision-making processes apart is highly beneficial as this minimises conflicts of interest. Countries have approached this *separation principle* in a variety of ways, designing different institutional structures. Even when banking supervision has been assigned to the central bank, it has been well understood that supervision and central banking functions belong to very different realms, each requiring its own particular analytical approaches and decision-making processes. All these caveats have been duly taken into account in the design of the SSM which the ECB is set to perform as from November 2014.

However, the question of the best reporting framework to support monetary policy and banking supervision has not, until recently, received enough attention in this long-standing debate. This is striking since a large part of the data used

for both these functions stem from the same reporting entities (the banks) and are grounded in the same raw material (mainly financial instruments).

In spite of this coincidence in the reporting sources and their content, the reporting models in those fields have often been largely disconnected, although some work has been done in the last few years to reduce the differences. As a result, banks have been asked to deliver information in accordance with certain rules, templates and schedules for monetary policy uses while, at the same time, somewhat similar data have been required for banking supervision, although with different definitions for similar concepts (for instance, short positions are deducted directly from debt securities held, for monetary purposes, while they are reported separately for supervisory purposes), different measurement criteria (e.g. loans and deposits are measured at nominal value for monetary purposes and by their carrying amount for prudential purposes) and different levels of detail (e.g. the breakdown of the institutional sector). This situation notably increases the burden on banks to comply with such reporting requirements, as well as the resources devoted by central banks and supervisors to the collection, checking and analysis of the incoming data. Moreover, it has become increasingly clear that the (mainly) macro perspective of monetary policy data is useful for supervisors and that the typically more granular supervisory data can be helpful for assessing the macroeconomic situation and the monetary policy transmission mechanism. Again, both worlds are intertwined.

Accordingly, it seems clear that the different perspectives of central banking and supervisory functions should not prevent policy-makers from exploiting all the information synergies we can find. In particular, we should ensure that an efficient system to collect financial information is in place, as this will allow us to minimise costs, better allocate the available resources and facilitate the circulation of information to the interested stakeholders, thus enhancing the decision-making processes in both policy areas.

In this paper, I review the current approach of the statistical function of central banks and supervisors (Section 2) and assess the advantages to be gained by putting in place a more integrated approach (Section 3). Section 4 presents the

way in which the collection and use of banking information is organised at the Banco de España and in Section 5 the steps being considered at the European level are briefly sketched. Finally, Section 6 focuses on the challenges we need to address, in particular, in connection with the upcoming birth of the SSM.

2. Current approach of the statistical function in the monetary policy and banking supervision realms

Banking data represent the backbone of the information required by financial policy-makers (central banks and banking supervisors) to perform their duties. This being true for any country, it is even more so in a region such as the euro area, where the relevance of the banking system in financial intermediation is particularly large as compared to other economic areas, such as the United States.

This prominence of banking data coexists in many EU countries with the fact that the compilation of banking information for monetary policy and for supervision functions is to some extent disconnected, with collection of data through different means, following different criteria and using different databases, with no links between them.

This lack of integration is partly the result of different institutional structures, since in some countries different authorities are in charge of banking supervision and monetary policy, and data requirements have mainly followed the specific objectives of those bodies. However, it must also be recognised that this disconnection is also observed in countries where national central banks are in charge of banking supervision, which suggests that the main determinant in shaping data requirements is more the function to be served than the institutional framework. This may also point to the existence of a certain silo mentality, whereby the Chinese walls separating monetary policy from banking supervision have been erected beyond what may be considered a reasonable limit, reaching the initial stages of gross data collection as well.

In this world of function-oriented reporting models, banking data collection is mainly governed by ad hoc regulations, which allow policy-makers to cope flexibly with particular requirements: if a new set of data (or a different periodicity or a new accounting criterion) is considered necessary, the corresponding regulation is changed without too much attention being paid to other possible implications. The price of this flexibility is that it is time and resource consuming, with many people at central banks and supervisors working to collect and store data, check its coherence and so on.

This strategy also overburdens banks since they have to regularly send large amounts of information to national authorities, in accordance with different criteria, schedules and templates. Sometimes differences are not large: the typical data required for monetary policy analysis is that collected on a solo basis for domestic activity, whereas supervisory efforts are more focused on all the activities performed by a particular banking group. In the case of banking groups with subsidiaries in different countries, requirements multiply. With the prospect of a true banking union at the euro area level in mind, that reality needs to be changed and public authorities should aim to maximise the usefulness of the information regularly received from banks.

Moreover, a very independent strategy when defining which type of data is needed for a particular policy field may be counterproductive, since it is not obvious what information is not useful for a supervisor or a central banker. Indeed, it is increasingly clear that a sound assessment requires full exploitation of information across domains. In this respect, the supervisory function would benefit from a more intensive use of macro information, which may help to set supervisory priorities or identify relevant horizontal reviews. This cross-fertilisation also works in the other direction, since a more intensive use of micro-information is warranted in monetary policy analysis. Indeed, granular data is key to assessing the monetary transmission mechanism. For example, data from central credit registers (CCRs), a typical supervisory product, may enrich monetary analysis, showing how lending is distributed across different types of agents or to what extent it is concentrated among particular debtors

(helping to develop financial pressure indicators)[1]. Micro-data may also be relevant to monetary policy-makers when taking operational decisions in relation to counterparty risk or the management of collateral.

These approaches are also possible in the current situation, but they are more difficult to develop, given the different data, conceptual structures, confidentiality regimes, IT systems, legal barriers, etc. Since advances in IT allow the swift management of different access rights and the anonymisation of files, devising a single treatment for the information received from the same data provider (whatever its final use) would not appear to be an unreasonable objective.

3. The scope of an integrated approach for banking statistics

I have already stressed that, even if monetary policy-making and banking supervision should be kept apart, this does not mean that banking information should be treated in the same way. In fact, in a very dynamic and complex financial world, the public authorities may derive useful information from data collected under an – at first sight – different perspective.

To allow the use of statistical data for both supervisory and monetary policy purposes, it is fundamental to have in place an integrated reporting approach. Under such an approach, all financial and prudential information that reporters must report (e.g. FINREP, COREP, BSI and MIR), including micro-data (e.g data for central credit registers and securities holdings statistics), are designed and managed as if they formed part of a single reporting package, irrespective of the main function for which the specific data are required and the fact that they are collected under different reporting packages.

Such an integrated approach is possible because the basic information is the same. The degree of integration can vary although the following elements might be considered to make up its basic contents:

[1] See for example Box 4.1 of the Banco de España's 2013 Annual Report.

- A single data point model and dictionary with all the elements necessary for identifying all the data to be collected, including validation rules applied across the different data, and
- a single data warehouse for storing all the information together, that is designed to allow access to data by different users on the basis of a need-to-know basis. This means that non-anonymised data must be stored in an anonymised way, so as to allow its use by certain users.

An integrated design and collection of data for monetary policy, financial stability and supervision reporting would thus make it possible to:

- reduce the reporting burden for credit institutions
- free up resources at national central banks/national competent authorities given economies of scale in data management, less need for checks, etc.
- improve the quality and consistency of data, and
- reap the benefits for analysis by all interested parties.

In this respect, at the European level, there is broad agreement on the need to gradually integrate the information system.

To increase the quality of data, in addition to an integrated reporting approach, an *input approach* should also be developed. Under this approach, which is already in place in some countries, banks would have a common way of organising the internal data they need for reporting to regulators. This approach would facilitate the transmission of information to central banks and supervisors as well as allowing a flexible and swift response to any new requirement from the authorities. Additionally, this approach would facilitate the monitoring of data by auditors and supervisors.

For the above reasons, the Banco de España would welcome any initiative to work on an integrated reporting approach and on an *input approach* at the European level.

4. The integrated reporting approach of the Banco de España

At the Banco de España, we have implemented an integrated reporting approach. Our banking reporting model is composed basically of three layers: how data are organised at the entity level, how they comply with the reporting (and collection) requirements and how the information is stored in the Banco de España's data warehouse.

With respect to how data is organised by the entities, there are no guidelines provided by the Banco de España. Entities are free to choose how to organise their internal database, although they need to at least use a standardised format to be able to report the micro-data and aggregated data required.

The design and collection of supervisory and statistical data from credit institutions is integrated. We collect all data from a single point and have implemented a large number of validation rules across the different data. With the introduction of FINREP at the consolidated level, we are currently adapting our solo basis requirements and our data point model and dictionary to the requirements of FINREP.

Additionally, the Banco de España is currently introducing a new CCR with a lot of granular data on the financial assets and off-balance sheet exposures of the banks, which is going to (a) harmonise the formats of the internal databases of entities to facilitate the transmission of micro-information, (b) improve the quality of the different templates reported to the Banco de España for monetary policy and supervisory purposes, because we will be able to compare the micro-data reported to the CCR with the data reported on an aggregated basis, and (c) allow the compilation of new statistics through the combination of the different attributes required.

The level of granularity of the new CCR will involve an important improvement to the quantity and quality of the data reported to the Banco de España, in comparison with the current situation, because entities will have to build their databases with all the data required transaction by transaction to be able to report

them to the Banco de España. With the attributes required for the CCR we could construct the majority of the FINREP templates and ECB and Banco de España statistics, but not the COREP templates.

Finally, the Banco de España has a data warehouse for storing all micro- and macro-information. This facilitates data validation, the monitoring of the consistency of all the information and the performance of quality controls, although this is only possible for some items. Moreover, it allows different indicators to be built on the basis of the reported information.

Although the Banco de España has implemented an advanced integrated reporting approach, we consider that a higher degree of integration of banking information is possible, especially in the case of the financial data and COREP.

5. A roadmap for a European-wide integrated approach for banking statistics

These issues have been thoroughly discussed for a number of years in different fora at the European level. As long ago as in 2007 a *Report to the ECB Governing Council on the analysis of the function of statistics* by the Statistics Task Force described the principles of the integrated approach. At that point it was recognised that we should support and enable the full re-use of available (micro-) data for statistical purposes, integrate different statistics within each central bank and align the concepts and the national collection of supervisory and statistical data.

Indeed, after that report was published, a group was set up, under the aegis of the Statistics Committee (STC), the Financial Stability Committee (FSC) and the European Banking Authority (EBA), with a name that is particularly meaningful: *Joint Expert Group on Reconciliation of credit institutions' statistical and supervisory reporting requirements* (JEGR). From 2008 to 2013 this Group designed a classification system for the ECB's statistical requirements relating to credit institutions' balance sheets and interest rates and the relevant supervisory guidelines established by the EBA, delivering two

products: a) a methodological bridging manual on areas of potential overlap between the two requirements; and b) a relational database to systematically identify possible links between those requirements.

More recently, just a few months ago, the so called *Groupe de Réflexion on the integration of statistical and supervisory data* (GRISS), also within the orbit of the STC, delivered a report with a very clear objective: the gradual integration of the European information system in two dimensions (across countries and across domains). To achieve that, a number of tasks were identified, some of which have already been put in motion:

- Adoption of a harmonised common European reporting framework (ERF) for data collection from banks: moving towards a single, integrated ERF incorporating both the EBA and ECB requirements
- Development of a common Statistical Data Dictionary describing data managed within ESCB/SSM information systems
- Development of a Banking Data Dictionary containing a logical description of the source data and of the transformation rules a bank might use to fulfil the reporting requirements
- Analysis of the legal framework which should be put in place in order to enable data sharing.

Moreover, a euro area initiative to collect micro-data on loans and other exposures (known as AnaCredit) is being developed, which would also facilitate progress in that direction. A detailed loan-by-loan database, built on the basis of homogenous standards at the euro area level, would be a very useful tool for both monetary policy and banking supervision functions.

6. Challenges ahead

The banking and financial landscape is changing rapidly in the euro area. Private banks and public authorities have been working hard in recent months to catch up with the ambitious initiatives launched as a consequence of the financial

crisis, in particular, with the setting up of the SSM and further moves to achieve a banking union at the EU level. Measures are being taken simultaneously in several fields, but we run the risk of focusing too much on every single measure needed to progress towards those targets while missing the overall picture which is emerging. This is particularly true in the case of banking statistics. As I have tried to explain before, it is reasonable and feasible for much more efficient use to be made of banking data by monetary authorities and bank supervisors than has been made up till now.

In this regard, all efforts made by the ECB with a view to moving towards an integrated approach are welcome, because we are convinced, due to our experience, that the use of multi-purpose statistics affords many synergies between the central banking and supervisory functions, reduces the reporting burden and increases the quality of data. Along with the tasks to progress on that front, it is also important to disseminate the best practices followed at present by some European countries. In fact, some experience shows that a much better exploitation of banking information is feasible and less costly.

It is also very important for all relevant stakeholders in international organisations to be fully aware of the broad landscape of financial statistics, in particular, when they are setting new requirements or new standards. New requests by those institutions (such as the ECB, SSM, FSB, ESMA or EBA) should be coordinated in order to reduce the reporting burden and maximise the usefulness of the information already available.

Deeper reflection is also needed on the new possibilities entailed by the use of information across domains (for example, exploring the potential benefits of an integrated approach for economic research). The trade-off between confidentiality and the use of information should be addressed with appropriate rules. IT advances facilitate making those two targets compatible since it may help to set up an appropriate access rights management regime.

At the SSM level, challenges are more urgent and do not relate as much to the lack of harmonisation across domains (monetary policy vs. banking supervision)

as to that across countries. The current approach is mainly based on the FINREP-COREP schemes required by the EU implementing technical standard on reporting (ITS), although it is expected that the ECB will enrich it by extending the requirements of FINREP data to non-IFRS groups and some banks on a solo basis, because they are outside of the scope of the ITS.

Setting a minimum level of harmonisation can be considered an appropriate target, but only as a starting point. In this regard, the existence of jurisdictions with more demanding solo basis requirements means that different reporting burdens are imposed on euro area banks and, as a result, the ability of the ECB to supervise them depends on the country in which they are established. Despite this, the additional information available in some countries should not be overlooked, since in the long term a more ambitious harmonisation should be aimed at. Indeed, a level playing field must be ensured, without compromising the need to have an ever deeper knowledge of banking data.

In the short term, an enhancement of the current scheme for institutions should be foreseen and further work on harmonising definitions and concepts to make data fully comparable would be very welcome. Apart from the harmonisation of some crucial definitions, such as those of *non-performing loans* and *forbearance*, progress is also needed on harmonising accounting practices, with full respect for international accounting rules. In this respect, the lessons drawn from the AQR are very relevant: e.g. it has been ascertained that a crucial item such as *provisions* does not actually mean the same thing throughout the euro zone.

These harmonisation issues are complex and may require long periods of preparatory work but it is important to be clear about the target, while being pragmatic about the timeframe for achieving it. An ambitious approach to the compilation of banking information, along the lines of a more integrated model, will definitely allow both central banks and banking supervisors to be better equipped to take sound policy decisions.