Data Quality Escalation Process

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# Overview

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1. Introduction

Escalation Process: what is it?

The Escalation Process constitutes one workflow within the overall framework for data monitoring and quality assessments that is set up jointly by the ECB’s Banking Supervision Data Division (DG-S/SUP) alongside counterparts in the SSM (MSI, MSII, MSIV) as part of its responsibilities for managing the supervisory data of significant institutions (banks) under SSM supervision.
## Overview

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2. Rationale

**Escalation Process: why do we need it?**

Data quality is **one important element** for the Supervisory Reporting and Evaluation Process (SREP) and important generally for **all supervisory tasks**.

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**SREP methodology at a glance: four key elements**

- **SREP Decision**
  - Quantitative capital measures
  - Quantitative liquidity measures
  - Other supervisory measures

**Overall SREP assessment – holistic approach**

- **Score + rationale/main conclusions**

1. **Business model assessment**
2. **Governance and risk management assessment**
3. **Assessment of risks to capital**
4. **Assessment of risks to liquidity and funding**

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Feeds into the Supervisory Examination Programme (SEP)
2. Rationale (cont.)

Supervisory data collected by DG-S/SUP is used for:

- Ongoing risk assessments in each of the three phases in each of the four key elements of the SREP

  Phase 1: Data gathering
  Phase 2: Automated anchoring score
  Phase 3: Supervisory judgement

- Within Element 2, data quality issues are analysed in category iii

  (i) Internal governance framework,
  (ii) Risk management framework and risk culture
  (iii) Risk infrastructure, internal data and reporting
  (iv) Remuneration policies and practices

Main sources: quarterly ITS reports, ad hoc reports
Hence, it is crucial that banks submit supervisory reports of consistently suitable quality in a timely manner to enable aforementioned SSM activities to be reliably undertaken.

However, current data quality monitoring and assessment methods are deemed not sufficiently authoritative to enable these data quality issues to be adequately resolved.

Consequently, developed Escalation Process.
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3. Data quality issues: monitoring and assessments (current methods)

Regular ECB-NCA data monitoring and quality assessments

- **Automatic feedback** (Acknowledgement Files) → **real-time**

- **Production Summary Reports** → **day after remittance date**

- **Quarterly Reports on all outstanding issues** → **per quarter**

- **Quarterly Data Quality Assessment Reports** → **per quarter**
3. Data quality issues: how flagged?

Data quality issues flagged through other channels:

Specific Thematic Analyses
- e.g. on Pillar 2, Operational Risk, Group Structures…

Other ECB Business Areas
- e.g. for DG-Market Operations for Counterparty Framework; or for generation of SSM Bank ID Cards…

European Banking Authority (EBA)
- e.g. quarterly quality assessments; or Annual EBA Transparency Exercise…

Supervisory Data Issues Tracker
- Request management tool for SSM since December 2015
- JSTs raise questions on data (quality) issues
3. Data quality issues: interactions with NCAs

Communication and interactions with NCAs is very frequent

- *Inter alia* Mail correspondence, Structured reports, SUBA discussions, Phone
- Issues discussed in fora, e.g. Task Force on Expert Group on Data Quality (EGDQ) and WGSUP

- However persistent cases of
  - Delayed reporting (*Punctuality*)
  - Missing, incomplete, inaccurate data (*Accuracy and Completeness*)

- And issues remain of
  - Non- or partial response
  - Inadequate explanations
  - Perceived lack of commitment / planned action

Consequently, over the last 18 months, experts and Management in **DG-S/SUP, DGMSI, DGMSII** and **DGMSIV** discussed and developed together the Escalation Process
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4. Underlying legal acts, guidelines or best practices

Guidance underpinning supervisory reporting

- **SSM Framework Regulation** (EU) No 2014/468
- **ECB’s FINREP Regulation** (EU) 2015/534
- **CRR** (EU) No 2013/575
- **CRDIV** (EU) No 2013/36
- **EBA’s ITS on supervisory reporting** (EU) No 2014/680
- **ECB Decision on supervisory reporting from NCAs to ECB**
  - ECB/2014/29 amended by ECB/2017/23
- **ITs/RTS on supervisory benchmarking**
  - (EU) No 2016/2070; (EU) No 2017/180
- **SSM Regulation** (EU) No 2013/1024
- **EBA’s ITS on supervisory reporting** (EU) No 2014/680
- **EBA Decision on funding plans from NCAs to ECB**
  - (ECB/2017/21)
- **EBA Decision on sequential approach for supervisory reporting**
  - EBA BS 2013 355
- **EBA Guidelines on funding plans**
  - (EBA/GL/2014/04)
- **BCBS 239**
  - Effective risk data aggregation and risk reporting

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5. Escalation Process modalities

**Scope and method:**

- **Significant** supervised banks at **highest** level of consolidation
- **Quarterly** reports of supervisory data
- Three **quality dimensions** of:
  - Punctuality
  - Accuracy
  - Completeness
- **Expert Judgement** alongside quantitative findings
5. Escalation Process modalities

Steps of the Escalation Process

**Preparation phase (before Step 1):**
- Extensive communication with NCAs
- Notification that specific banks fall under scope of a potential initiation of Escalation Process
- Clarification of issues and defined course of action for specific bank(s)
5. Escalation Process – Step 1

**Step 1: Informal dialogue**

- Informal and continuous exchange via NCAs
- Request for explicit clarifications, submissions, corrections
- Banks warned of possible escalation

**If banks:**

- Do not respond,
- Do not provide adequate explanations
- Do not submit missing or corrected data within specified deadlines
- Do not adequately plan for remedial measures

**Escalate to next step**
5. Escalation Process – Step 2

**Step 2: Operational act**

- Formal letter drafted by DG-S/SUP as a binding operational act
- Attach Individual Bank Data Quality Dashboard
- Include details of unresolved data quality issues / dialogue & actions of bank
- JST is consulted
- Bank is requested *inter alia* for details on its plan to:
  - Increase the quality of the submitted data
  - Specify a timeline to remedy the issues
- Letter is signed by Head of Section of DG-S/SUP
- Sent directly to bank’s Senior Management (e.g. Chief Risk Officer)

If banks do not react appropriately to a Step 2 letter

**Escalate to next step**
Step 3: Operational act

- Formal letter drafted by DG-S/SUP as a binding operational act
- Similar content to Step 2 letter
- Aim is to emphasise to bank that case is now escalated further
- Letter is signed by Head of Division of DG-S/SUP
- Sent directly to bank’s highest authority (i.e. Chief Executive Officer)

If banks do not react appropriately to a Step 3 letter

Escalate to next step
Step 4: ECB Supervisory Decision

- The Decision is drafted by DG-S/SUP
- The Decision is a legally binding act
- JST is consulted
- May refer to other relevant breaches
- Approved by Supervisory Board and Governing Council
- *Enforcement and Sanctions Division of SSM (DGMSIV/ESA) informed*
- Bank is formally issued with Decision

If banks do not react appropriately to a Step 4 Decision

**Escalate to next step**
Step 5: Referral to Enforcement and Sanctions (DGMSIV/ESA)

If inadequate or no reaction from bank to the Decision in Step 4, or if data quality issue meets the Supervisory Board Guidance for referrals, then

- DG-S/SUP and JST **take final step** in the Data Quality Escalation Process
  - Jointly **refer the case to ESA**

- ESA (supported by JST) **decide** whether to:
  - Initiate enforcement procedures
  - Impose administrative pecuniary penalties
  - Open sanctions proceedings
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6. Escalation Process in practice

Operational from reference period of 2016Q4

For reference period of 2017Q1, timeline/activities for Preparation Phase was:

- Mid-July: review of quality of SI H data up to 2017Q1
- 25-July: 8 NCAs asked to explain issues for 16 banks
- 25-July to 1-Aug:
  - 8 banks: confirmed punctuality issues due to NCAs
  - 1 bank: sent correction
  - 2 banks: confirmed issue is linked to pending EBA questions+answers
  - 2 banks: confirmed one-off issues; have defined action plans
- Aug-Sep:
  - ECB communicated repeatedly with 2 NCAs (3 banks)
  - 2 banks: sent corrections
- End-Sep:
  - 1 bank: ECB provided final guidance; awaiting corrections

Escalation Process was not initiated
Type of response expected from NCAs (and banks)

1. **Timely and regular contact**, also while issue is under investigation

2. **Clear and detailed explanation** of:
   - **Which organisation** (bank or NCA) “caused” the delay and why (Punctuality)
   - **Why checks are failing** (Accuracy, Completeness)
   - **Which actions** the bank is taking with timeframes
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Work-in-progress

- To refine documentation-management of all correspondence
- To establish visualisation tools
- To further fine-tune timelines in the “Preparation Phase”
Thank you
Questions or observations
Supervisory sanctions

In accordance with Article 18(6) of the SSM Regulation and Article 132 of the SSM Framework Regulation, penalties imposed by the ECB within the remit of its supervisory tasks are published below.

<table>
<thead>
<tr>
<th>Date of ECB decision</th>
<th>Supervised entity</th>
<th>Amount (in EUR)</th>
<th>Area of infringement</th>
<th>Publication</th>
<th>Status</th>
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<td>Banca Popolare di Vicenza S.p.A. in liquidazione coatta amministrativa</td>
<td>8,700,000</td>
<td>Reporting and public disclosure</td>
<td>[link]</td>
<td>Appealable before the Court of Justice of the European Union</td>
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<td>Large exposures</td>
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