# Enhancements to the Sequential Approach

**Antonio Morlupi**

Banking Supervision Data Division

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# Overview

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CI

NCA

ECB

**ITS submissions**
- **Excel**
- **XML**
- **XBRL**

**ITS submissions only in XBRL**
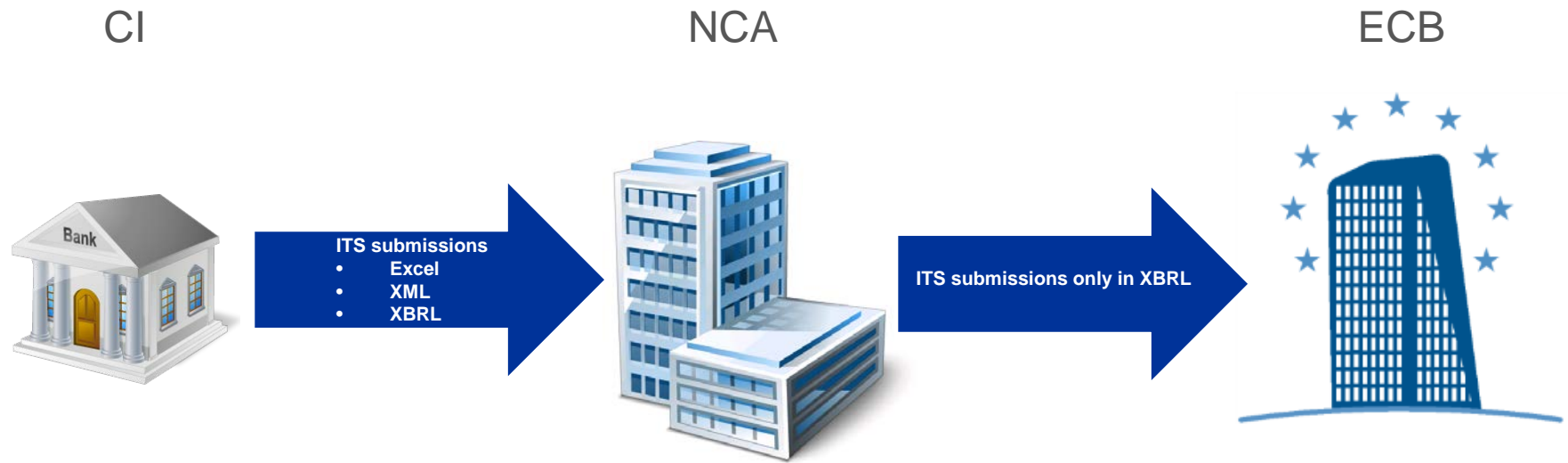
# It is the bank's responsibility to submit supervisory data on time and 100% correct and complete.

- **Capital Requirements Directive IV, DIRECTIVE 2013/36/EU:**

  - Art. 88(1): "the management body must ensure the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the law and relevant standards".

  - Art. 123(2): "Competent authorities shall require institutions to have in place adequate risk management processes and internal control mechanisms, including sound reporting and accounting procedures in order to identify, measure, monitor and control transactions".

- **Commission Implementing Regulation (EU) No 680/2014:**

  - Art. 3: Reporting remittance dates.

  - Art. 17: Binding validation rules.

# Data Quality Assessment at (N)CAs

- **Main responsibilities:**

    - Assessing compliance with:

        - ITS remittance dates.

        - ITS binding validation rules.

    - Defining additional validation rules.

    - Requesting reporting institutions to have sound and reliable financial and prudential data reporting systems.

    - Highlighting breaches on reporting obligations.

- **ECB regulation 2014/17 (SSM Framework Regulation):**

  - Art. 140(3): Unless specifically otherwise provided for, all information reported by supervised entities shall be submitted to the NCAs. They (NCAs) shall perform the initial data checks and make the information available to the ECB.

- **ECB decision 2014/29:**

  - Art. 3(1): National competent authorities shall submit to the ECB the data referred to in Article 1 and reported to them by the supervised groups and supervised entities on the following remittance dates….

  - Art. 4(1): National competent authorities shall monitor and ensure the quality and reliability of the data made available to the ECB. National competent authorities shall apply the validation rules specified…
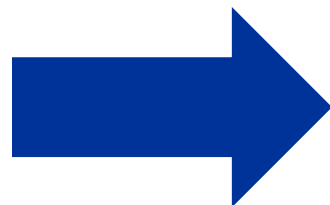
**Since the 4th of November 2014:**

- 20 different implementations of the same regulatory framework.

- National practices have an impact on the data quality assessment.
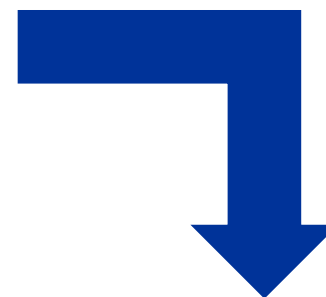
**ECB in collaboration with NCAs and JSTs:**

- Quarterly Data Quality Report.

- Data Quality Dashboard per Institution.

- Data Quality Indicators for the SREP.

- Data Quality Escalation process.

- Additional Data Quality Checks (i.e. Hard and Soft checks).

- Thematic review on ITS modules.

Since 2015, the Working Group on Supervisory Statistics has been mandated to work on the ***harmonisation of the national practices*** to establish ***a level playing field*** for the data quality assessment of the reporting institutions.

# Overview

# Discussion at Supervisory Board level

Reception, quality control and transmission of banks' supervisory reports – sequential approach

✓ The Supervisory Board was informed about the current state of play regarding the sequential approach for the reporting and transmission of supervisory data.

✓ The Supervisory Board agreed to continue working on establishing a common set of best practices in the field of data quality assessment.

- **Task Force Objectives:**

  - Further analysis of the national best practices.

  - Definition of a common set of practices to be implemented by NCAs and ECB.

  - Establishment of a level playing field for SSM reporting institutions in terms of data collection and data quality assessment.

- Working Group on Supervisory Statistics members and observers (10 NCAs, EBA as an observer).

- Task Force coordinated by Antonio Morlupi.

- ECB Team of Experts to be coordinated by Luis Suarez and composed of:

  - ➢ SUP Data Quality Team member.

  - ➢ SUP Data Production Team member.

  - ➢ SUP Data Development Team member.

  - ➢ ECB Banking Supervision.

- Inspiring principles.

    - Better data quality.

    - Assessment of regulatory breaches.

    - Better knowledge on the reporting institutions habits.

    - Providing a level playing field.

- Approval process.

    - Agreement on the harmonised set of principles (Task Force -> WG SUP -> STC -> SB).

    - Proposal for user requirements and possible candidate technical implementation (Task Force -> WG SUP -> STC -> SB).

- Harmonised set of principles.

    - No constraints/considerations on existing systems, timeline, IT and HR resources.

- ECB decisions to be changed if needed and agreed.

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| **3** | **Best practices under discussion** |
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- ***Collection and Analysis of supervisory data.***

- Auditing and supervisory inspections.

- Interaction and engagement with supervisors.

- Interaction with supervised entities.

- ***Submitting supervisory data to ECB.***

- Bank's senior management should be aware and responsible of each supervisory report.

- The NCA collection system should allow an early recognition of misreporting and track the reasons for any significant resubmission.

- Banks should submit only one complete file per ITS report (and not in several parts) and NCAs should not split received files in several ITS reports. (Establishing 1-to-1 mapping between national supervisory modules and ITS modules).

- Improving the traceability of bank's senior management role in the submission of supervisory reporting.

- Contributing to fewer and better submissions.

- Encouraging the harmonisation within the banks between managerial and supervisory reporting.

- Fostering reconciliation of data aggregation and controls.

- Increasing the awareness of the board and senior management towards supervisory data as well as defines clear roles and responsibilities.

- Increase the number of internal controls within the banks for supervisory reporting.

- Discouraging 'test transmissions' in the official production system.

- Encourage reconciliation of supervisory data and managerial data.

- Possible delay for requested resubmissions.

- Difficult to set up a unified process given specificities on the side of the NCAs.

- Implementation costs.

- Difficult to manage information on the person(s) expected to show manager's role in the submission process.

# Supporting banks in early identification of validation errors

## Testing environment

- *Objective*

  - Allow banks to replicate in their own infrastructure the controls done at supervisor's level.

  - Early recognition of misreporting by the institutions.

  - Increase internal controls by the institutions.

  - Reduce the number of resubmissions due to known deficiencies of data quality.

- *Benefits*

  - Prevent the misuse of the production environment as a "trial-and-error" platform.

  - Production environment will be less overloaded at NCAs and ECB level (better performance) .

- *Challenges*

  - Some TFHSA members raised the concern that it may cause higher reliance on NCAs' quality checks.

  - Limited to a subset of the data quality checks.

## Acknowledging reasons for resubmissions

- *Objective*

    - Increase the accountability.

    - Reduce the number of resubmissions due to known deficiencies of data quality.

    - Increase internal controls by the institutions.

- *Benefits*

    - Track the reasons for resubmissions.

    - Ultimately this can lead to an improved understanding of the data compilation process and allow identifying problems and making improvements.

- *Challenges*

    - Difficulties in managing a too high number of resubmissions.

## One complete file per single ITS report

- *Benefits*

    - Comparability.

    - Data Quality.

    - Harmonisation.

    - Encourages reconciled reports in the bank.

    - Reduced NCA risks.

- *Challenges*

    - Legacy systems in banks and/or in NCAs.

- The ECB in collaboration with NCAs would need to receive all submissions of the reporting institutions that have been sent according to the SSM regulation.

- An ITS module should be forwarded to the ECB with all its predecessors as soon as this module has been assessed in terms of data quality by the NCA (e.g. by the ECB remittance date for the first submission).

- Resubmissions should be forwarded to the ECB as soon as they have passed the NCA data quality assessment.

**Submitting all the ITS modules to ECB**

- *Objective*

    - Getting all the ITS modules **by** the ECB remittance date.

- *Benefits*

    - More accurate data quality assessment.

    - Coherence of information between NCA and ECB.

- *Challenges*

    - High data volume (i.e. performance).

    - Usage of the forwarded data (i.e. possible impact on the SAS code).

    - Way of implementing the forwarding logic at NCA level.

## _Enhanced data quality assessment_

- Deeper knowledge in the bank's reporting habits and behaviour.

- Variance analysis on the different resubmissions performed by a reporting institutions:

  - Reported values in data points involved in the Risk Assessment System.

  - Failing validation rules.

  - Completeness in terms of templates and data points.

# Thank You!