



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

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# Latest developments in the context of the SREP: supervisory data in the SREP methodology

Supervisory Reporting Conference 2018  
6 November 2018, Frankfurt am Main

## Overview

### 1 Supervisory data in the SREP methodology

### 2 Data quality of supervisory reporting: a joint effort

SREP: Supervisory Review and Evaluation Process

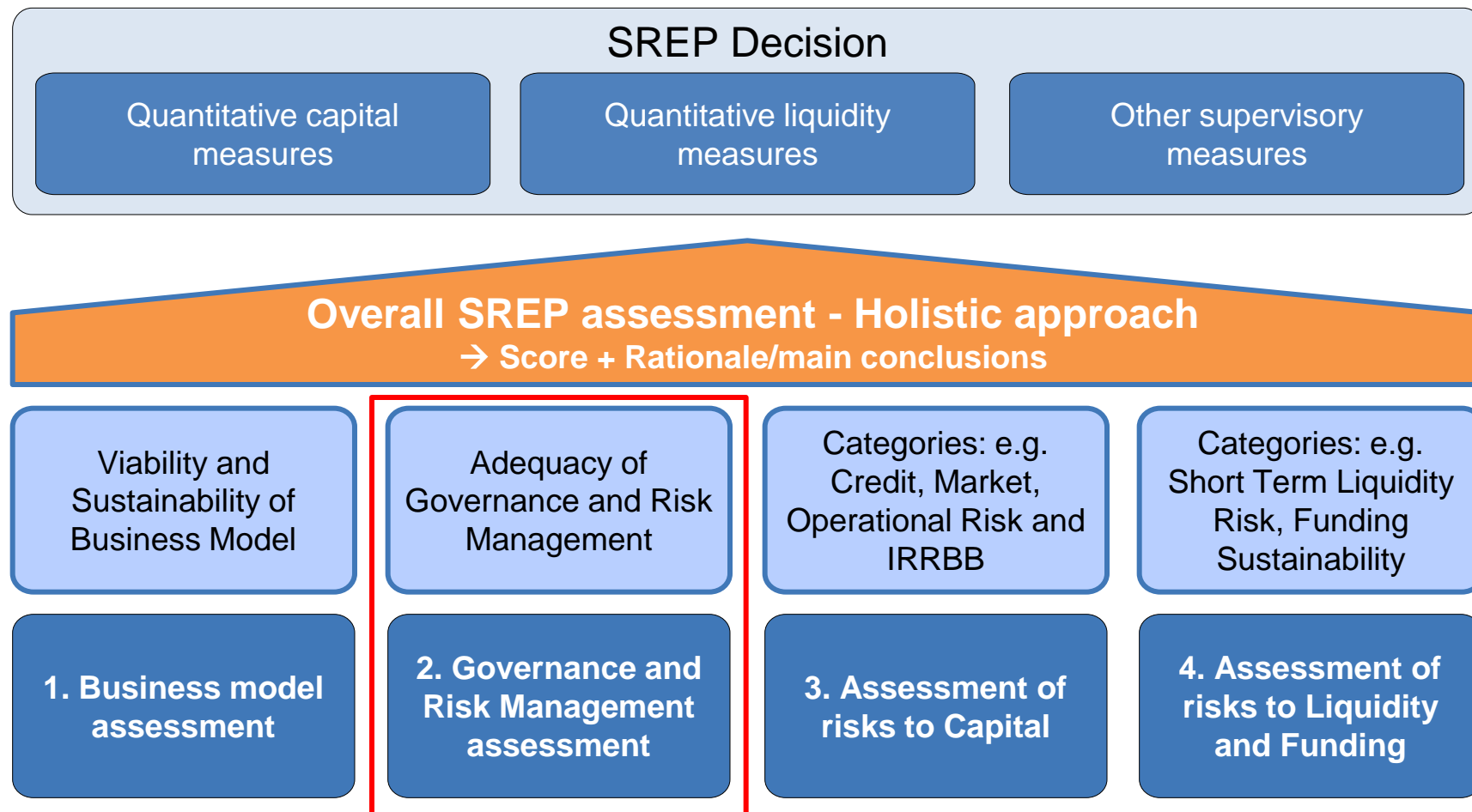
## Supervisory data are the backbone of the supervisory work

- SREP methodology based on data with **harmonised definitions** (e.g. COREP, FINREP), ensuring comparability **and level-playing field** across SSM banks
- Supervisory data flow automatically into the IT platform for the supervisory assessment, continuously providing **JSTs with the most up-to-date data**
- Data quality framework ensures that **supervisory assessment is based on reliable and high quality data**, in terms at minimum of punctuality, completeness and accuracy
- **Joint effort of cooperation and involvement of many business areas across the ECB and SSM**

### HLG on SREP & SB feedback

- **Data quality is one of the main challenges for SREP**
- **Data quality of supervisory reporting is key**

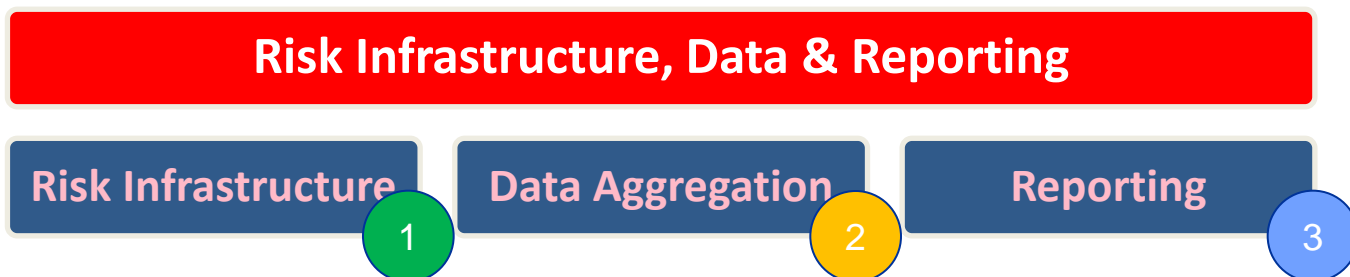
## SREP Element 2 – Supervisory reporting



Data quality issues must be reflected in the SREP via Element 2



- Banks need to have **adequate data and data aggregation capabilities** to support their own risk management and the Resolution and Recovery processes
  - **Part of SREP assessment**
  - Focus in 2016/2017 as part of **SSM supervisory priorities**



The 11 principles for effective risk data aggregation and risk reporting of BCBS 239 were assessed in the Thematic Review

1	Governance and Infrastructure	I. Governance	
		II. Data architecture and IT Infrastructure	
		III. Accuracy and Integrity	
2	Risk data aggregation capabilities	IV. Completeness	
		V. Timeliness	
		VI. Adaptability	
3	Risk reporting capabilities	VII. Accuracy	X. Frequency
		VIII. Comprehensiveness	XI. Distribution
		IX. Clarity and usefulness	

## Rationale for the Thematic Review

- In 2013, the Basel Committee on Banking Supervision published the “**BCBS 239 - Principles for effective risk data aggregation and risk reporting**” and followed up with **progress reports** in 2014, 2015 and 2017.
- The last financial crisis revealed the need for **more information** on risk in order to make **sound business decisions**.
- **IT, data architecture** and related **business processes** were not sufficient to support the broad management of financial risks and resulted in an **inability** to **aggregate risk exposures** and **identify concentrations** quickly and accurately.
- As part of the supervisory priorities for 2016 and 2017 the ECB launched a **Thematic Review on effective risk data aggregation and risk reporting** which included 25 SIs.

## Implementation of principles is an ongoing process

- Credit institutions need to deal with **changes to their business models and risk profiles** in a proper manner and **periodically assess the adequacy** of their risk data aggregation and risk reporting capabilities
- The Thematic Review allowed the ECB to **identify issues** and address them in **follow-up supervisory actions** (e.g. **on-site inspections**)
- All of the institutions under the scope must **continue to remedy identified weaknesses** in **accordance with the deadlines** agreed with the JSTs
- The JSTs will **monitor and follow up** on these issues, considering that the **remediation of the gaps** identified by the Thematic Review is a **multiyear project**
- The lessons learnt from the TR need to be addressed in the **SREP process** and included in the subsequent **supervisory examination programs**



## Next steps SREP Element 2 methodology

- **Incorporating lessons learned** from the Thematic Review on BCBS239 Principles.
- **Grant level playing field** among **all SIs** (the TR involved only 25 SIs)
- **Improve supervisory tools** for assessing banks' Governance, Data aggregation and Reporting capabilities referred also to Supervisory and External Reporting.

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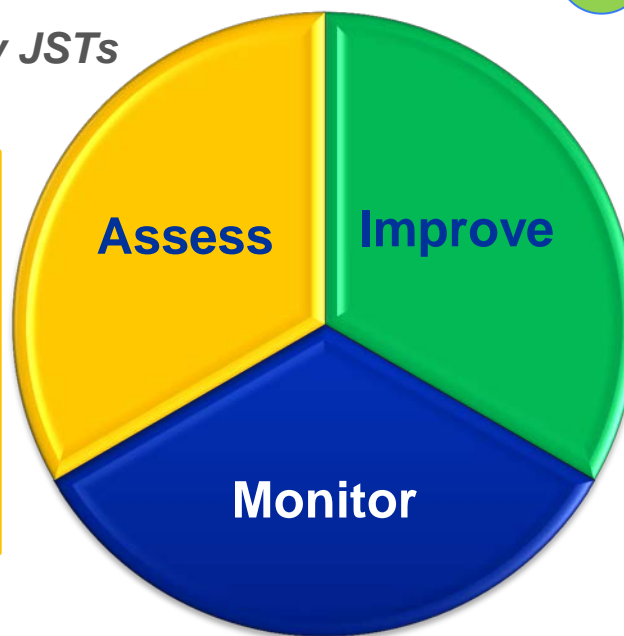
- Data quality dashboard per institution
- Data quality indicators
- Data quality escalation process

## Broad set of tools for JSTs to tackle data quality

### 2 Assessment performed by JSTs

#### SREP Element 2

- Data quality indicators
- BCBS 239
- SSM Liquidity Monitoring exercise
- TRIM



### 3 Improvement is joined effort

- Supervisory data issues tracker tool
- Thematic analyses of selected ITS reports
- Feedback to bank / Supervisory dialogue

### 1 On-going automatic monitoring by DG-S/SUP

- Quarterly data quality reports
- Data quality dashboard per institution

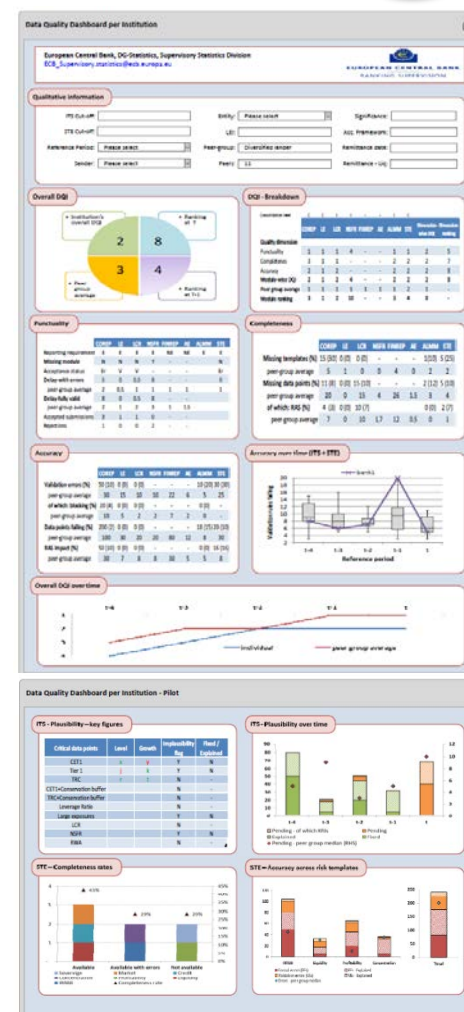
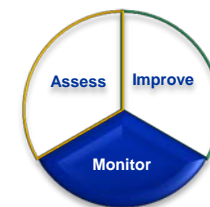
## 1 Monitoring data quality

### ✓ Data quality dashboard per institution

- Two pager document summarising the most important indicators in terms of data quality
- Analysis per entity and per reference period
- Historical performance viewpoint
- Individual & Peer group comparison
- Quality dimensions
  - Punctuality
  - Completeness
  - Accuracy
- Data Quality Index (DQI)
  - *Rating scale: 1, 2, 3, 4 as for SREP Element 2 scores*

**Hard Check in DQI  
Individual Dashboard**

**Soft Check not in DQI**

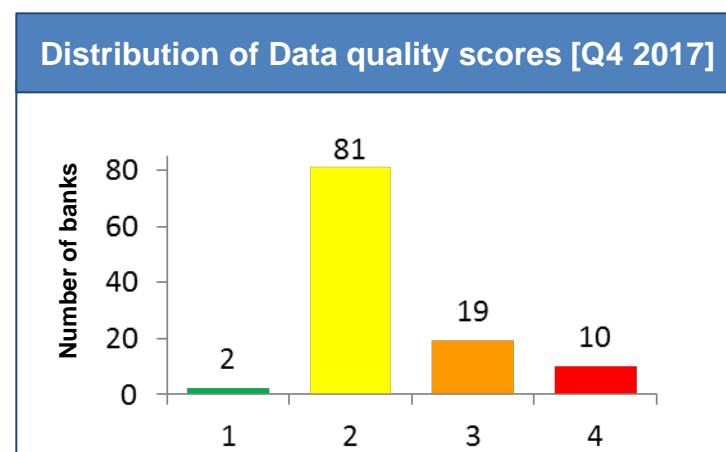


## 2 Assessing data quality

### ✓ Data Quality indicators (DQI)

- ITS & STE joined data quality scores
- Point-in-time data quality assessment
- Rating **per institution and quarter**
- Rating scale similar to SREP  
(1-compliant, 2-partially compliant, 3-non compliant, 4-serious concerns)
- **DQI for each quality dimension:**
  - Punctuality
  - Completeness
  - Accuracy

- **Used by JSTs in their SREP Element 2 assessment in sub-category “Risk Infrastructure, Data & Reporting”**

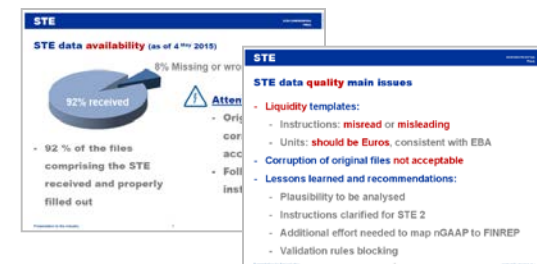


## 3 Improving data quality

### ✓ Feedback to bank / Supervisory dialogue



1. General feedback with horizontal perspective: regular discussion with the industry on data quality necessary to raise awareness

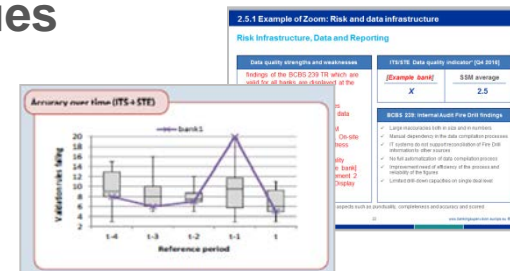


2. DG/S SUP provides feedback to banks via NCAs (data quality reports and results of validation checks for ITS and STE data)

3. Direct feedback to banks given in **Supervisory dialogues** as part of the **SREP communication**



Supervisory Dialogue



## 3 Improving data quality



### ✓ Internal ECB escalation process

- ECB equipped with template letters & decisions to be addressed to banks when facing data issues:
- Covers the cases where ITS/STE data (i) **is missing** or (ii) seems to be **inaccurate**
- Incentivise the **Management Body** to pay increased attention to the quality of the data provided ⇒ **create commitment** by asking them to confirm or resubmit their data

➤ **Ensures that the ECB response to the data quality issues raised is commensurate and fair but dissuasive.**





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