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

- Data quality is one of the main challenges for SREP
- Data quality of supervisory reporting is key
Supervisory data in the SREP methodology

SREP Element 2 – Supervisory reporting

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

Viability and Sustainability of Business Model
Adequacy of Governance and Risk Management
Categories: e.g. Credit, Market, Operational Risk and IRRBB
Categories: e.g. Short Term Liquidity Risk, Funding Sustainability

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.

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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.
Overview

1. Supervisory data in the SREP methodology

2. Data quality of supervisory reporting: a joint effort
   - Data quality dashboard per institution
   - Data quality indicators
   - Data quality escalation process
Data quality of supervisory reporting

Broad set of tools for JSTs to tackle data quality

1. **On-going automatic monitoring by DG-S/SUP**
   - Quarterly data quality reports
   - Data quality dashboard per institution

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

Latest developments in the context of the SREP
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
  - Plausibility
  - Stability
  - Reliability

- Data Quality Index (DQI)
  - Rating scale: 1, 2, 3, 4 as for SREP Element 2 scores
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”
Improving data quality

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**
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.
Latest developments in the context of the SREP

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