

European Commission

Consultation on fitness check on supervisory reporting

Finance Finland calls for more efficient regulatory reporting requirements for financial institutions

Finance Finland (FFI) welcomes the possibility to provide feedback on the Commission's fitness check on supervisory reporting requirements. We have given feedback on the REFIT programme and call for evidence already in 2015, and we very much stress the same issues as we did then. Unfortunately, we have not seen many positive developments since then regarding regulatory reporting in practice. On the contrary, more reporting requirements have been imposed, with compliance costs having increased simultaneously.

What we have seen in recent years are some good initiatives, mainly BIRD¹ and ERF² from the European Central Bank as well as the Financial Data Standardisation (FDS) project from the European Commission. These initiatives are a positive step into the right direction. However, we lack the vision of the big picture and we need to see more clearly what the strategic solutions for the way forward are with these different initiatives, and how these different projects work together. Finally, it is important that these initiatives build on the definitions and concepts which are already in place.

We also note some positive suggestions in the CRR II (risk reduction package) proposal and fully support the initiatives to make regulatory reporting more proportionate, cost-efficient and harmonized for the banking sector. However, we are afraid that the definition of small and non-complex institutions will be so narrow that in reality, the benefits will remain small or non-existent.

The regulatory reporting package needs a comprehensive evaluation. We are pleased to see that the Commission is putting effort in finding solutions to create more effective, streamlined and cost-efficient ways for data gathering. FFI acknowledges the importance of high-quality reporting that gives supervisors, central banks and investors a better idea of the market situation. However, reporting obligations should be implemented in an efficient and straightforward way, using the "one stop shop" principle. Reporting systems should be designed as comprehensive, integrated systems, as opposed to the current fragmented approach. The financial sector aims for more efficient reporting without overlapping elements to avoid additional costs from the unnecessary development of data gathering and reporting systems.

1 Section 1: Assessing whether the supervisory reporting requirements are fit-for-purpose

We do agree that supervisory reporting requirements have produced relevant and high-quality data for financial stability purposes. However, this goal could have been reached with much less burden and with lower costs. In many cases, authorities

¹ Banks' integrated reporting dictionary

² European Reporting Framework

could have focused on less but more relevant data. Furthermore, they could have investigated what other authorities are already collecting.

For small, non-complex financial institutions, missing proportionality of EU-level regulation is a major cost driver. In addition to EU-level regulation, the national authorities require institutions to participate in national reporting frameworks which mostly collect the exact same data that has already been reported under the EU requirements to the same authority under a different framework. This is burdensome, costly and provides no additional information.

1.2 Are all of the existing supervisory reporting requirements relevant for maintaining financial stability and upholding market integrity and investor protection?

In principle, most regulatory reporting is relevant. The problems are overlaps and inconsistencies between different reporting streams, and reporting on solo level, which is rarely relevant. From a reporter's point of view, it seems unnecessary irrelevant to report the same things many times for different reporting streams and to different authorities, with slightly different definitions.

In some cases, the relevance of reporting is not obvious. Reporting to trade repositories according to EMIR has been going on since February 2014, including positions open since August 2012. This reporting is well motivated and important. It is therefore remarkable that this data, collected at high cost, has not yet led to any deeper analyses or conclusions.

1.4. To what extent are supervisory reporting requirements across different EU level reporting frameworks coherent (e.g. in terms of scope, content, methodology, timing/frequency of submission, etc.)?

Supervisory reporting requirements across different EU-level reporting frameworks are far from coherent, and it is one of the main problems causing unnecessary burden for reporting institutions. For example, definitions are inconsistent between different reporting streams. Also, the use of different classifications is causing difficulties.

Furthermore, the practice in recent years has been that each authority comes up with new reporting requirements instead of utilizing existing information. The result is a new layer of reporting where each authority and new report looks at the same activity that has already been reported with only a slightly different angle.

For insurance groups and especially financial conglomerates, it is important to clarify interactions between regulations related to banking, insurance and financial conglomerates in order to avoid the duplication of reporting requirements. Currently insurance groups can be required to apply Solvency II, CRD4 and FICOD. FFI thinks that Solvency II reporting should be the only group-level reporting requirement for insurance-dominated financial conglomerates.

1.5 To what extent is supervisory reporting in its current form efficient?

We think that currently the regulatory reporting package is rather inefficient. It seems that efficiency has not been the leading principle when determining the reporting

frameworks. For reporting institutions, it seems like authorities are asking everything, just in case, before really examining if the specific data item is relevant or not.

Examples of inefficiency include:

- **EMIR reporting:** every single transaction with derivatives have been reported on a daily basis since 2014. How is this information being analysed and how do these analyses contribute to financial stability? One could assume that such detailed data would lead to a very sophisticated analysis of derivative markets.
- **FINREP solo:** there are member states like Finland where FINREP did not exist before it became mandatory in the EU in 2014. We think that FINREP includes a lot of overlapping information with ECBs BSI (balance sheet items) data collection on solo level, and with BIS consolidated banking statistics on consolidated level. Most of the FINREP solo data could have been gathered from already existing data collections from the Bank of Finland, and the establishment of a new reporting framework was unnecessary.
- **AnaCredit:** At the beginning of discussions on AnaCredit, we had hopes that it would replace some of the existing reporting requirements. However, now it is only layered on top of all existing reports and thus overlaps in many ways with ECB BSI, ECB MIR, FINREP and COREP.
- **STE reporting:** some parts of the STE reporting have been duplicative with EBA reporting templates. Most difficulties have resulted from the instability on the reporting package, which has been changed very often. It is impossible for banks to build automated data collections based on an unstable and moving target. Automation can only happen once standardization is achieved.
- **National requirements:** Many duplicative national requirements still exist even though EU-level reporting has been in force for years. This is not acceptable.
- **Validation rules:** there have been dozens of cases with errors or wrong references in the validation checks, especially in the EBA DPM version 2.6. Authorities should put more effort into the testing phase of the rules. It would also be a good idea to give banks time to test the new rules before putting them into production. In addition, the newly established ECB EGDQ-validation rules have put a new layer for euro area banks to deal with.
- **EBA Q&A:** the process is very inefficient. The most obvious problem is that the time lag between sending a question and receiving an answer is simply too long. Another obstacle is that you cannot see if somebody else has already asked the question you are about to ask if no answer is yet available. It will result in many banks sending the same question at the same time.
- **COREP additional monitoring metrics and FSB funding template:** G-SIBs in Europe face two different but similar reporting requirements which draw on the same data systems. Authorities should align the definitions, remittance dates and reporting frequencies between these reporting streams. From a

reporter's point of view, the EBA requirements are more reasonable about the reporting frequency and remittance dates.

The most significant obstacle to efficiency is that many authorities (FSB, ECB, EBA, SRB, ESMA, EIOPA) all have data collections of their own, which often overlap. It seems difficult to coordinate and harmonize between data frameworks.

Data collections should always utilize modern ICT and automation. All Excel data collection should be replaced with one centralized data collection platform which covers all modern data integration techniques (sftp, https, etc.).

1.7. To what extent has the adoption of supervisory reporting requirements at EU level facilitated supervisory reporting in areas where previously only national requirements existed?

Many national requirements still exist even though the EU-level reporting has been in force for years. This is because national authorities used to have country-specific items in their data collections which were not included in EU-level reporting frameworks. That is how they justify keeping national data collections going on, many of which completely overlap with EU data frameworks.

National authorities should be forced to delete national data collections when similar collections exist at EU level. There should be no excuses.

1.8 To what extent have options left to Member States in terms of implementing EU level supervisory reporting requirements (e.g. due to their adoption as Directives rather than Regulations) increased the compliance cost?

For groups operating in many member states, it is a significant extra burden to implement almost the same rules but slightly differently. Maximum harmonization should be the guiding principle. However, it should not mean that all the demands in every country are put together. There should be a critical evaluation of what is included in the harmonized package at EU level.

No matter what, there will always be some national exceptions. There should be a flexible way to tackle these issues without maintaining double frameworks or giving too much freedom to national authorities to change the concepts too much.

1.9 Are there any challenges in terms of processing the data, either prior to (i.e. within the reporting entity) or subsequent to (i.e. within the receiving/processing entity) it being reported?

In Solvency II -reporting, the fund data collection and processing as regards the fund look-through method is very burdensome and costly. EU-level common practices to handle this efficiently do not yet exist. There are significant differences between countries, managers etc. on how the fund look-through is implemented.

1.10 Are there any negative environmental and/or social impacts related to supervisory reporting stemming from EU legislation?

The overall impact of financial regulation and reporting requirements is that they make the market entry very expensive. This might have negative consequences for competition and thus to our society as well.

FINANCE FINLAND

Päivi Pelkonen