

POSITION PAPER



ESBG response to the EBA consultation on its approach to the resubmission of historical data under the EBA reporting framework

ESBG (European Savings and Retail Banking Group)

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Dear Sir/Madam,

Thank you for the opportunity to comment on the European Banking Authority (EBA) consultation on its approach to the resubmission of historical data under the EBA reporting framework. The European Savings and Retail Banking Group (ESBG) would like to provide you with the comments below, which we hope will be considered by the EBA.

Questions for consultation

1. What are your general views on the proposed approach to the resubmission of historical data?

Against the background of the results of the "Study of the cost of compliance with supervisory reporting requirements" of the EBA, we welcome the draft for the concretisation of the criteria for the resubmission of historical data (in the following short: resubmissions). In principle, we welcome the EBA's clarifications as they should lead to more legal certainty in dealing with resubmissions.

Moreover, we highly appreciate the initiative to reduce reporting burden by reducing the number of reporting resubmissions. However, mainly in regard to immaterial deviations that do not have any impact on regulatory key figures we believe more needs to be done, as outlined below.

Furthermore, it seems appropriate to us that there are recommendations on this matter in which the relevance, pertinence and cost / benefit are taken into account for the purpose of determining resubmissions. However, more could be done with regard to proportionality in order to achieve an actual reduction of reporting costs as envisaged by the "Study of the cost of compliance with supervisory reporting requirements" of the EBA.

Furthermore, we believe that materiality thresholds should be established for resubmission, since otherwise there would be many resubmissions with non-relevant changes and with a high cost in relation to the benefit of their report, both for the entities and for the supervisors and competent authorities.

The capacity required by technology to implement changes to historical data is very technically complex and very costly; frequently technical improvements are not able to apply on past data because technical standards or operativity adequations, or because changing past data implies not only change reports also date used on several other internal process and decisions that could jeopardize past criteria.

Some proposals to reduce the number of resubmissions would be, besides the consideration of insignificant changes, also significant changes within the regulatory requirements as well as changes in accounting standards or methods that have a significant or insignificant impact on the reports to which the correction/resubmission would be related. As an example:

- If a significant change in the Capital Requirements Regulation enters into force at 1.1.2025 and the need for resubmissions is detected within the Q2/25 the related resubmissions shall be required only the last YE (31.12.2024) and reports under the current framework but no resubmissions shall be required for dates prior 31.12.2024, as the

historical data is related to a legal framework that is no longer in place. As a consequence, resubmissions for monthly reports starting with January-reporting and Q1-reporting (reporting data 31 March 2025) would be sufficient to satisfy the regulatory needs from our point of view.

As we understand it, the scope of the guidelines is limited to the EBA's reporting framework and does not include the resubmission of data in external reporting and disclosure reports under Part 8 CRR. We ask for a corresponding clarification in the final guidelines.

In addition to this, we note that the target set by the EBA itself in Recommendation No. 25 of the "Study of the cost of compliance with supervisory reporting requirements", namely that the guidelines on resubmissions should reduce 1.0 to 1.5% of the ongoing reporting costs for SNCIs, cannot be achieved with the proposed measures. In order to reduce reporting costs, we consider, among other things, the introduction of materiality thresholds as well as further measures to be necessary (cf. option 3a discarded according to the accompanying information on the draft guidelines, our concrete proposals on resubmission periods (see below and under question 5a) as well as on a general principle under question 3).

In particular, we welcome the definition of a period limited to one calendar year for resubmissions. This should be defined as the maximum period for resubmissions. Only in very limited and justified exceptional cases should a supervisory authority have the possibility to go beyond this period.

For further discussions, we believe it is necessary to closely dovetail with the ECB's activities on the topic of resubmissions. It remains unclear from the guidelines to what extent the ECB's considerations on "significant resubmissions" will also be taken up by the EBA and are compatible with the guidelines. The ECB's approach deliberately provides for the introduction of thresholds based on a list of KRIs, which in our view represent a proportionate basis for a resubmission requirement (cf. ECB presentation "Updates on the resubmission framework" of 26 April 2023). We ask that these considerations be taken into account when assessing the inclusion of materiality thresholds. The Final Report of the EBA Cost of Compliance Study also states as follows: "'Immaterial' or 'unnecessary' resubmissions should be avoided both from the reporting entities' and data recipients' point of view." In our opinion, the draft does not fully meet this objective. The one-year limit on resubmissions does not prevent the submission of "immaterial" or "unnecessary" data. We understand the need for reliable and accurate data, but believe that many of the required resubmissions, many of which result from violations of validation rules, represent only such minor changes from the original notification that they do not jeopardise the fulfilment of supervisory tasks. For example, in our opinion, there is no gain in knowledge if the error only has a minor impact on relevant ratios (e.g. <0.1 percentage points change in the Common Equity Tier 1 capital ratio).

Against this background and the ECB's ongoing 1-year trial phase on the KRIs, we consider a planned first application of the guidelines by 31 December 2023 to be premature. We suggest waiting for the ECB trial phase before finalising the EBA guidelines and ideally following up with a second trial phase involving less significant institutions in consultation with the ECB in order to take up the findings from the first phase of the ECB's work and to examine whether the thresholds found by the ECB can provide a basis for exempting LSIs from the resubmission of data points. The ECB's approach assumes that changes below the respective thresholds do not require

explanation and are therefore immaterial. This approach can, in our view, be applied to LSIs under a benevolent proportionality approach, which could under certain conditions result in their complete exemption from immaterial resubmissions.

In our opinion, the focus of resubmissions should be on correcting material errors. The present draft should therefore be supplemented by a differentiation as to which data are erroneous. Currently, there is no differentiation as to whether central regulatory data or informational data are erroneous. With regard to a materiality threshold, a differentiation should be considered as to whether material changes occur, for example, in the own funds, or so-called memo items are erroneous, which ultimately do not affect a minimum ratio relevant to taxation.

We also welcome the EBA's clarification that newly published Q&As should not lead to corrective submissions for previous reporting dates. Furthermore, in our view, a requirement should be included in the guideline on how to deal with EBA validation arrangements that are deleted, deactivated or suspended after a reporting date. In the past, institutions have experienced that EBA validation rules as well as ECB EGDQ checks could not be complied with in certain data constellations. Corresponding feedback to the supervisory authorities has in some cases led to a deletion, deactivation, suspension or amendment of the rules for future release cycles. For past reporting dates, however, institutions are still required to resubmit in compliance with the respective validation rules on the grounds that they were still in force on the corresponding reporting date. From the institution's point of view, such a corrective submission is de facto not feasible and would lead to incorrect reports or validation errors elsewhere. Here, it would have to be differentiated whether a change in the supervisory requirements is the cause for the deletion of validation rules or the determination that the rules are not appropriate. In the latter case in particular, the validation rule should not be considered retroactively for possible subsequent submissions, even though it was still active on the reporting date.

With a view to an integrated approach to reporting, we also suggest that the EBA coordinates with the ECB and the SRB before finalising these guidelines so that rules on resubmissions apply uniformly to supervisory, statistical and resolution-related reporting in the future.

2. How do you see the proposed approach in relation to your existing resubmission policies set out in your institutions, agreed with internal audit and control functions?

Criteria of pertinence and relevance of the change to be made by those responsible for the reports are followed in accordance with reviewing areas (second line of defense and internal audit) in order to determine if a forwarding of information is carried out.

Furthermore, we note that extensive control mechanisms have already been established in the institutions to ensure the highest possible data quality. In this context, processes have been introduced which, taken together, mean that the data delivered to the supervisory authority on an aggregated basis already have a very high data quality and at the same time reflect the risk profile of the institution. In principle, we very much welcome the clarification that has now been made that in the case of errors, resubmissions do not have to be submitted for an unlimited period of time. However, we are of the opinion that further measures are necessary to further optimise the cost-benefit ratio for resubmissions (cf. our comments on question 1).

3. How do you see the proposed approach in relation to actual practices for the resubmission of data also considering the legal requirements set out in existing legislation (e.g. Article 3(5) of Commission Implementing Regulation (EU) 2021/451)?

It seems appropriate to establish guidelines that establish general criteria for entities and supervisors in relation to the provisions of Article 3(5)5 of Commission Implementing Regulation (EU) 2021/451. We also suggest that requirements must be aligned with ECB new approach on significant resubmissions.

Additionally, we note that the proposed approach for resubmissions of reports based on the EBA reporting framework does not have any impact on the definitions and processes for resubmission of any other reports without undue delay.

Following Art. 3 CRR, we consider it necessary to add the following principle to the guidelines:

An institution is at liberty to proceed more conservatively than is stipulated as a minimum requirement by the supervisory regulations. From a supervisory perspective, such a procedure is harmless. In this respect, there is no error in the reporting data derived from this. They fulfil the legal requirements and meet data quality standards. Consequently, historical reporting data are only erroneous and need to be corrected if they have shown - from a supervisory perspective - too favourable a picture of the risk situation, especially with regard to equity and liquidity.

In this respect, the EBA should clarify what is understood by an "error" or an "inconsistency". A data inconsistency detected after a report has been submitted, the resubmission of which would, for example, lead to an improvement in the ratios prescribed by supervisory law, should not be described as an error but rather as a positive change and should be excluded from a requirement for resubmission.

Furthermore, we consider the existing tolerance thresholds based on the filing rules to be insufficient. The current draft should also take even greater account of the cost-benefit ratio (see our proposal to take account of the thresholds per KRI in accordance with the ECB approach under 1).

4. Would the proposed approach be feasible from the technology perspective considering the current reporting solutions?

Some members note that there are certain conditions that hinder the feasibility to make historical resubmissions of some data:

- Integration / fusion processes
- Changes in IT systems
- Data quality improvement processes (prospective vision)
- Changes in definition of concepts and basis regulatory requirements like CRR or ITS on Supervisory Reporting and corresponding DPM
- Data integrity and reconciliation between internal and external reports would be violated (BCBS239)

This means that in certain cases, if the submissions request persists without an exception or any materiality thresholds, the resubmission of historical data might have to be based on estimations.

Additionally, we see challenges with a need for resubmissions to be made over a cut-off date when an adjustment to the DPM has been made. IT service providers cannot

hold all processing logics for all DPMs and bring them back into use when needed, so necessary corrections have to be highly manual. This is already the case under the current situation.

Regardless of the size of the institution, resubmissions for reporting dates prior to a significant change in the supervisory requirements (such as the transition from one CRR version to the next or the fundamental revision of an ITS on Supervisory Reporting) is challenging and in some cases not easy to implement. A resubmission should only have to be submitted retroactively up to the first reporting date according to the new or amended EU regulation. Otherwise, the supervisory authority would also have to maintain the corresponding technical requirements for the supply of the "outdated" data points.

Proportionality

5. What are your views on the proposed 'one-size fits all' approach to the resubmissions, leveraging on the proportionality already built in the supervisory reporting framework, to ensure consistency of data and comparable data quality to enable users to perform their statutory tasks? Do you consider it as suitable for your institutions?

- a. If not, please provide concrete and realistic proposals for improving the proportionality element that can be efficiently implemented in the reporting systems without unreasonable costs or increasing the overall complexity.**
- b. If such additional proportionality proposals are to be based on any threshold(s), please provide examples of such thresholds (relative and absolute) in relation to the size and complexity of your institution, and the reasoning behind that threshold.**

We do not. In our opinion, the established filing thresholds mean that, in practice, variations of any data in the report with changes in a data of more than 1,000 euros mean a resubmission of that template and all related reports. This supposes forwarding with immaterial changes and high cost for the entities and for the supervisor.

We would also like to express concerns to a specific proportionality issue arising with SNCIs, which are fully consolidated within the CRR-scope of consolidation. We suggest to exempt them from such resubmissions that have an impact on solo-level, but do not affect group-figures. At least the period for submissions could be reduced in cases where consolidated numbers are not impacted and the impact on solo-level is not affecting any regulatory key figure in a critical way (see also answer to question 5).

Additionally, there would always be the supervisor's criteria to require entities to resubmit aspects other than the above for the correction resubmission of historical series or any other aspect that it deems appropriate, especially on the data not included in the key risk indicators, and on both ways, also consider and accept not sending any historical resubmission, despite its materiality, if the supervisory team of the entity and the bank agree on not resubmissions will be needed.

- a. Ratios inherently consider the size of the institutions and form the basis for decisions or assessments by the data addressee. The assessment of materiality with regard to corrected reports should be made according to whether a correction can influence a decision or assessment by the data addressee. This concept is applied by the IASB, for example, in order to take the area of conflict "cost-benefit" into account accordingly. In this respect, it would be an easy-to-

implement possibility to define proportionality and materiality on the basis of indicators and their potential change through corrections. A suitable set of indicators would be, for example, the EBA Risk Indicator, which is used analogously by the ECB initiative "significant resubmissions (pilot phase)".

Additionally, the "one-size fits all" approach on resubmissions does not consider proportionality in the specific cases a SNCI is fully considered (consolidated) within the CRR scope of consolidation. In such cases we would like to encourage a shortening of the historical references. In case of a fully consolidated SNCIs the resubmission back to the last YE-report should be sufficient to have appropriate information that allow historical time-series etc.

At the year-end (based on audited figures) most of the relevant key figures are changing due to inclusion of year-end profit. This means that the capital basis for regulatory key figures is changing in a way where a comparison to the Q3-reporting is explainable by the profit-inclusion and other aspects to be considered within the year-end-reporting. Due to this breach in the time-series we would exclude any historical resubmissions related to reporting deadlines prior the year-end-reporting.

Therefore, we would propose an exemption for resubmissions prior year-end-reports for SNCIs that are fully consolidated within a group according to Article 18 CRR.

In principle, we consider it necessary to define key reporting items that are relevant for resubmissions. For example, data/amounts that are not tax-relevant should be excluded from a retrospective resubmission (ex: memorandum data that have no impact on capital adequacy). This would also be in line with the objective of preventing immaterial and unnecessary subsequent filings.

According to the draft, monthly reports should in principle be limited to seven resubmissions, unless the reports for the previous year-end are not included. As a consequence, up to 11 resubmission of the monthly reports could be necessary in these cases. In our opinion, the capping (max. 7 resubmissions) should also apply in these cases. The corrected reports provide sufficient history to analyse the data to be reported monthly.

b. We would welcome the thresholds being stated as a combination of percentage change and absolute values. The use of relative / percentage thresholds has the advantage over absolute amount thresholds that this ensures that these thresholds simultaneously guarantee proportionality with regard to the size of the institution as well as with regard to the respective reporting information. The effort associated with a resubmission, which is made up of internal and - in the case of the usual involvement of reporting software providers - external working hours, should also be taken into account.

As described under a), EBA risk indicators (see ECB presentation "Updates on the resubmission framework" of 26 April 2023) are a suitable way to enable materiality without increasing complexity. Specific materiality thresholds could be based on the potential change in a ratio. According to the ECB's approach, institutions supervised by the ECB are required to provide an explanation of the scope of the correction if the defined thresholds are exceeded. This suggests that deviations below or within the

thresholds are not material and, as relative thresholds for LSIs, can provide a proportional approach to avoid unnecessary and immaterial resubmissions altogether.

Additionally, we would suggest the following:

- Resubmissions in case of variation in "key risk indicators", the ECB has established in its document "Management report on data governance and data quality and significant resubmissions" a table with these key risk indicators. We believe that the list established by the ECB in these key risk indicators implies the resubmissions of relevant and pertinent modifications.
- Regarding the materiality of the changes in these key risk indicators, in order to carry out a resubmission, we suggest using a percentage of what the ECB has considered as "significant resubmissions", for example, a resubmission could be required with a variation in absolute terms of 30% of the data point use on KRIs for these thresholds.
- For data not included as in the key risk indicators, we would consider a threshold of 50% of the value of the datapoint.

6. If such additional proportionality proposals are to be based on less historical reference dates to be resubmitted (compared to those set out in paragraph 17), then what could these be for different types of institutions (large, medium-sized, SNCI)?

We believe that the approach of proportionality based on the changes for the key risk indicators could be useful for the different types of institutions. (see answer 5)

Additionally, as expressed in answering questions 1 and 5 we see the need to further reduce the scope for resubmissions at least – but not limited to – for SNCIs in general and in the specific case of fully consolidated SNCIs.



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