

Micro and macro dimensions of the banking union - what are the challenges for statistics?

Martin Špolc, Gintaras Grikšas and Carlos Maravall Rodriguez

European Commission – Directorate General for Internal Market and Services

The establishment of the banking union represents a major milestone for the supervision and resolution of banks in Europe. The agreed new institutional set-up, centralising the decision-making powers, will be considerably more effective than a patchwork of national authorities. Decisions will be made on the basis of a more comprehensive understanding of the overall situation thanks to a more complete set of all relevant information and data. The increasing complexity of financial markets poses considerable challenges for supervisors and resolution authorities, which underlines the critical importance of having all the necessary appropriate data to be able to make informed decisions. The agreed legislative framework underlying the banking union provides the right basis for that. Nevertheless, the legislation on its own will not suffice. It will need to be complemented by actions by the relevant supervisory and resolution authorities, ensuring appropriate exchange of data and information among themselves so that the benefits of the banking union are reaped to the largest extent possible. This paper examines the key challenges for data needs arising from the establishment of the banking union from two perspectives: the macro-prudential and the resolution angle.

More broadly, the ECB has far reaching powers when it comes to statistical information. Council Regulation 2533/98 clarifies the collection of statistical information by the ECB. In March 2014, the ECB adopted a recommendation to amend this Regulation in light of the establishment of the SSM. The purpose is twofold: (i) to allow the ECB to use confidential statistical information for the purpose of carrying out supervision and (ii) to allow the transmission of statistical data to supervisory authorities, the European Supervisory Authorities and the ESM. The discussions on these possible amendments are still ongoing.

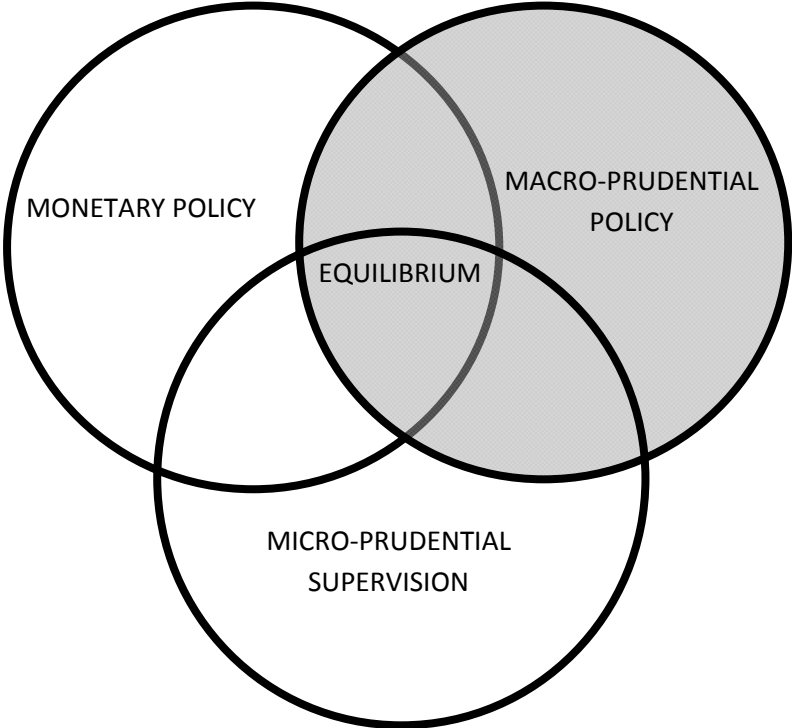
1) Data needs from the macro-prudential perspective

The new macro-prudential regulatory powers conferred to the ECB by the SSM Regulation give rise to an important interplay between micro-prudential and macro-prudential regulation in the banking union.

While these policies have complementing objectives - the soundness of individual institutions and the financial stability as a whole, some instruments could easily be seen as contributing to both micro- and macro- prudential goals, such as in the case of imposing capital buffers for

global or domestic systemically important institutions. There might also be situations where the measures undertaken in one policy area impede reaching goals in another. This underlines the need to ensure close coordination of these policies and their respective measures with a view to reaching the most appropriate calibration (as depicted in the graph below).

Moreover, it is essential that the way these policies, including monetary policy, interact should be conducive to the single market and should avoid being detrimental to a level playing field not only within the SSM area, but across the EU as a whole.



Macro-prudential instruments are powerful tools in terms of their ability to effectively and relatively quickly change the risk profile of both the individual institutions and the banking system as a whole. Given the considerable impact of these measures, all relevant authorities should develop their capacity to understand and monitor the underlying macro-prudential risks and have all the necessary information available in order to make informed decisions.

i) Challenge: data to support effective interaction between national authorities and the ECB

The need for coordination between micro- and macro-prudential authorities is highlighted by both the EBA and the ESRB in their opinions on macro-prudential tools.¹ The need for effective coordination stems from the fact that the applicable CRR/CRD rules allocate different macro-prudential tools to different authorities, where the SSM Regulation provides the ECB with important macro-prudential powers and competences, in a number of cases shared with the national designated or competent authorities, whereby the ECB may apply higher requirements for capital buffers than applied by the national competent authorities or national designated authorities of participating Member States.² The allocation of responsibilities for different macro-prudential instruments is summarised in Table 1 in Annex.

Given that the macro prudential measures unavoidably overlap in terms of their impact, it is essential that the data collection by the respective authorities and their exchange with other relevant authorities in charge of macro-prudential policy works effectively.

ii) Challenge - geographical coverage: data should cover the whole single market

One could make a straightforward conclusion that geographical coverage of data in the banking union should only be limited to the participating Member States. This could be seen as a natural extension of the data needs to support ECB monetary policy. However, there are at least three important reasons why data to inform macro-prudential policy making should cover the EU as the whole.

First, there is an important single market dimension, which has to be taken into account in the macro-prudential decisions to be taken within the SSM area. The CRR/CRD establishes an overarching principle that the spill-over effects within the single market from any macro-prudential decisions should be well assessed. Assessing the potential cross-border effects of macro-prudential measures is essential to safeguard the effectiveness and efficiency of macro-

¹ ESRB opinion, 30 April 2014 regarding Belgian notification of a stricter measure based on Article 458 of the CRR: http://www.esrb.europa.eu/pub/pdf/other/140430_ESRB_Opinion-on-Belgian-measure.pdf?46afb80e2eec4f50a667db4f5d99f433; EBA opinion of 30 April of the European Banking Authority on measures to address macro-prudential or systemic risk: <https://www.eba.europa.eu/documents/10180/657547/EBA-Op-2014-02+Opinion+on+measures+to+address+macroprudential+or+systemic+risk.pdf>

² See Articles 5(2) and 9(1) of SSM Regulation (OJ L 297, 29.10.2013, p. 63).

prudential policy in the EU as whole. Macro-prudential measures taken by the relevant authorities within the SSM area could have material positive spill-overs on other non-SSM EU Member States (and vice-versa) by reducing the build-up of systemic risk and the probability and the impact of systemic crises, but may also transfer risks, reduce credit supply and temporarily lower GDP growth. Negative cross-border spill-overs could arise in cases where national economies have strong financial interconnectedness but experience asynchronous credit cycles. The assessment of cross-border effects therefore needs to consider both the long-term benefits for financial stability and potential short-term costs associated with the policy measures in question. This calls for establishing a framework that would allow for an effective exchange of information between the relevant authorities in the SSM, and the ECB in particular, and relevant authorities in the non-participating Member States.

Second, there is the prospect of future enlargement of the SSM area and the fact that time series are needed to inform macro-prudential decisions. It would therefore appear to be practical to start collecting the relevant data also for Member States that could join the banking union in years to come.

Third, the current institutional framework for macro-prudential policy provides an essential role for EU bodies, in particular the European Banking Authority (EBA), the European Systemic Risk Board (ESRB), and, to a lesser extent, the European Commission. Seeking maximum synergies in data collection and exchanging them with the EBA³ and the ESRB⁴ would benefit the financial stability of the whole EU.

Since the entry into force of CRR/CRD, Member States' experience in activating macro-prudential instruments has shown that the assessment of the potential cross-border impact (both positive and/or negative) of their respective macro-prudential measures remains rather limited. Therefore, a pro-active role by all relevant authorities in the SSM, and in particular the ECB, while ensuring a close cooperation with EBA and ESRB, is essential in order to

3 With respect to macro-prudential regulation, EBA plays an important methodological role in macro-prudential supervision, such as with respect to G-SII and O-SII identification or the application of the countercyclical buffer. In relation to the statistical issues, the EBA is responsible for implementing technical standards with regard to aggregate statistical data on key aspects of the implementation of the prudential framework in each Member State.

4 In order to ensure consistent macro-prudential oversight across the Union, the ESRB develops principles tailored to the EU economy and is responsible for monitoring their application.

build the relevant data collection and dissemination platform, but also to encourage an EU-wide focus of macro-prudential policies and its interaction with micro-prudential policies at all three levels: national, SSM and the EU level. This is an important challenge that all the authorities concerned will have to meet as of 4 November 2014.

Finally, to ensure the effective use of statistical data, it will be particularly crucial for the functioning of the Banking Union that an appropriate methodology for assessing cross-border impacts is put in place and constantly improved.

2) Data needs from the micro perspective - resolution

With the entry in force of the SRM's Regulation in August 2014, the EU has now come full circle in its proposal to establish a Banking Union.

Equipping the Board with the tools and the capacity to undertake economic and financial analyses of credit institutions is just one piece that needs to fall in place to ensure its success. Access to data and the Board's capacity to analyse such data is vital. Among the issues the Board will need to consider are the following:

- Evaluation of available data.
- Identification of the SRM's data needs.
- Addressing the resulting difference (i.e. the data gap).

The Commission is reviewing the above issues until the Board becomes fully operational. The next section draws attention to a number of (tentative) conclusions that arise as a result of this exercise.

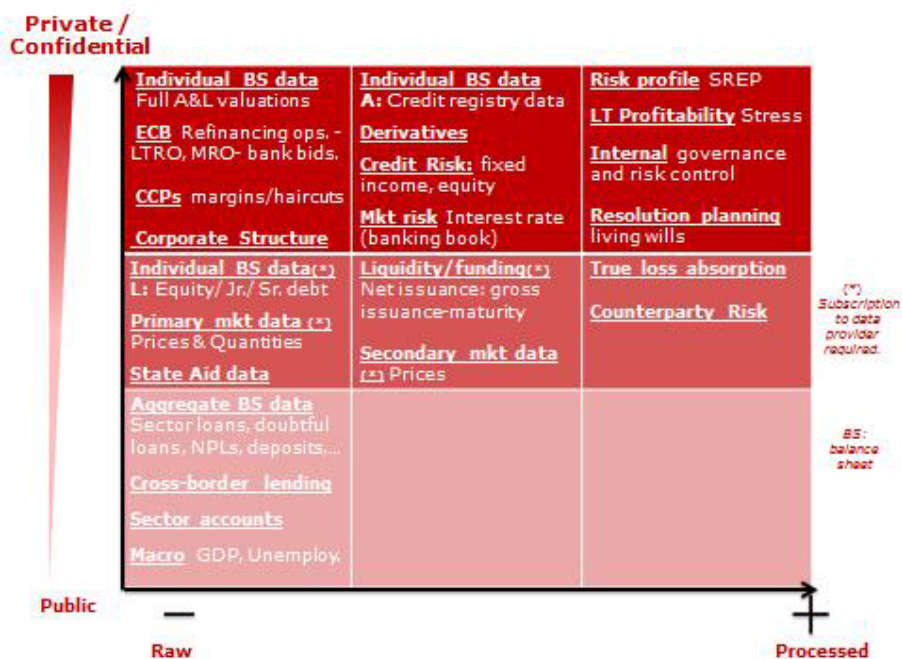
i) Available data

Resolution authorities need to keep up with economic and financial developments that can have an impact and, potentially, provide critical information on whether an institution is failing or likely to fail. In this regard, Figure 1 below depicts a part of the toolkit that a resolution authority will use in performing its tasks with regards to monitoring credit institutions:

a) **Data accessible to private market analysts**⁵

b) **Raw confidential supervisory data.** Bank supervisors regularly receive raw data from banks to perform analyses and reviews: accounting data (valuations of assets and liabilities); data on the institution's quarterly performance; general regulatory compliance data; and risk and solvency reviews and evaluation. An example of data falling into this category is the ECB's Comprehensive Assessment (prior to assuming its full responsibility for supervision under the SSM⁶).

Figure 1: Data relevant for analysing credit institutions



c) **Supervisory conclusions.** Supervisors need to come up with an overall evaluation of an institution regarding its arrangements, strategies, processes and mechanisms as well as its capital and liquidity to ensure sound management and coverage of risks to which it is or might be exposed, including those revealed by stress testing. It represents the minimal set of analyses supervisors need to carry out to establish a dialogue with the supervised institutions under their supervision. In the EU, the EBA is currently developing guidelines for such analyses, following a CRD/CRR mandate.

⁵ Research departments of financial institutions regularly monitor the following data: Macro-economic (GDP, unemployment, interest rates, business cycle variables); Financial and non-financial sectoral flow-of-funds; Cross-border flows (balance of payments); Primary and Secondary market activity and market references.

⁶ In this regard, the work involved in ensuring that data coming from banking union Member States is harmonised should not be underestimated, as the Comprehensive Assessment has shown.

d) Other data, including access to non-banks sources of financing. Banks do not only interact with each other, they also regularly access non-bank sources of financing. This includes, for example, tapping secured financing in repo markets through CCPs.⁷ Thus, bank resolution authorities should have the ability to access and exchange information with CCPs and trade repositories at the minimum. More generally, financing coming from the repo markets is also of considerable interest.

ii) The SRM's data needs

Table 2 in Annex presents an overview of the relevant key provisions regarding how cooperation and exchange of information are meant to be established in the SRM, by comparing it to the SSM. The table demonstrates that both the SSM and SRM Regulations represent a strong legal basis for mutual support and exchange of information between and within the SSM and SRM.

iii) The SRM's data gaps

To sum up, a lot of work has been done, but a lot remains to be done. Establishing a framework to access information and tap data is burdensome and a constant work-in-progress. In the SRM's case in particular, it will need to take into consideration the significant issues that private investors and supervisors rely on when making choices to invest in and supervise banks.

However, a number of issues are already pointed out in the SRM Regulation. For instance, it empowers the Board to have access, through the national authorities or directly, to information relevant to perform its duties which, in particular, include issues that could undermine resolution. These comprise, for instance, the numbered exceptions to declare an institution as failing or likely to fail (Article 18) or problems that might arise in applying bail-in because of the implicit incentive to substitute funds over time for those further up in the bail-in hierarchy (Article 27).⁸ This latter point would in particular imply having access to data considered in point (d) above.

⁷ Moreover, new EU regulatory initiatives force banks to report and clear transactions through trade repositories and central counterparties, respectively.

⁸ For instance, substituting long-term liabilities for financing that falls below the 7-day threshold; unsecured for secured financing; etc.

In order to facilitate the cooperation, Memoranda of Understanding should be established between the Board and the ECB, national resolution authorities and national competent authorities describing how they will cooperate in the performance of their respective tasks under the SRM, Article 30(7). This would cover access to data considered in points (b) and (c) above.

ANNEX

Table 1. Allocation of responsibilities for the different macro-prudential instruments

Instrument	Relevant provision	Allocation of responsibilities by a Member State
Countercyclical capital buffer (CCB)	CRD 130, 135-140	Designated authority (or competent authority for the exemption of SMEs under CRD 130)
Systemic Important Institution (SII) buffers (G-SII and O-SII buffers)	CRD 131	Designated or competent authority (more than one authority possible)
Systemic risk buffer (SRB)	CRD 133, 134	Not mandatory to implement – if implemented, designated or competent authority
Macro-prudential use of pillar 2 measures	CRD 102-105	Competent authority
Higher requirements on capital / liquidity / large exposures / risk weights	CRR 458	Competent or designated authority
Higher real estate risk weights and stricter lending criteria	CRR 124	Competent authority
Higher minimum exposure-weighted average LGDs	CRR 164	Competent authority

Table 2: Provisions on the cooperation and exchange of information in SRM

RESPONSIBILITIES	SRM: ARTs & LANGUAGE USED	ACTION
BASIS OF MECHANISM	TFEU: Art. 114 <i>Board is an EU Agency</i>	
EFFECTIVE & CONSISTENT FUNCTIONING	SRM Regulation: Art. 7 <i>The Board shall be responsible for the effective and consistent functioning of the SRM</i>	Build strong legal department
OBLIGATION TO COOPERATE AND INFORMATION EXCHANGE	SRM Regulation: Art. 30 <i>In the exercise of their respective responsibilities under this Regulation, the Board, the Council, the Commission, the ECB and the NRAs and NCAs shall cooperate closely, in particular in the resolution planning, early intervention and resolution phases pursuant to Articles 8 to 29. They shall provide each other with all information necessary for the performance of their tasks.</i>	An (interim) Board Working Group has been established to develop the <i>Priorities & Work Program for 2015</i>
COOPERATION WITHIN THE MECHANISM (FRAMEWORK)	SRM Regulation: Art. 31(1) <i>The Board shall, in <u>cooperation</u> with national resolution authorities, <u>approve</u> and make public a framework to organise the practical arrangements for the implementation of this Article.</i>	An (interim) Board Working Group has been established to develop <i>Resolution Planning, Procedures and Guidelines</i> . The establishment of MoUs will be developed in this context.

<p>REQUESTS FOR INFORMATION</p>	<p>SRM Regulation: Art. 34(1)</p> <p><i>For the purpose of performing its tasks under this Regulation, the Board may, through the national resolution authorities or directly, after informing them, <u>making full use of all of the information available to the ECB or to the national competent authorities</u>, require the following legal or natural persons to provide all of the information necessary to perform the tasks conferred on it by this Regulation.</i></p>	<p>An (interim) Board Working Group has been established to develop the <i>Exchange of Information and Data Requirements</i></p>
<p>GENERAL INVESTIGATIONS</p>	<p>SRM Regulation: Art. 35</p> <p><i>For the purpose of performing its tasks under this Regulation, and subject to any other conditions laid down in relevant Union law, the Board may, through the national resolution authorities or directly, after informing them, conduct all necessary investigations of any legal or natural person referred to in Article 34(1) established or located in a participating Member State</i></p>	<p>An (interim) Board Working Group has been established to develop the <i>Priorities & Work Program for 2015</i>. The experience of the SSM arrangements will be instructive in this respect.</p>

<p style="text-align: center;">ON-SITE INSPECTIONS</p>	<p>SRM Regulation: Art. 36</p> <p><i>For the purpose of performing its tasks under this Regulation, and subject to other conditions laid down in relevant Union law, the Board may, in accordance with Article 37 and subject to prior notification to the national resolution authorities and the relevant national competent authorities concerned, and, where appropriate, in cooperation with them, conduct all necessary on-site inspections at the business premises of the natural or legal persons referred to in Article 34(1). Where the proper conduct and efficiency of the inspection so require, the Board may carry out the on-site inspection without prior announcement to those legal persons.</i></p>	<p>An (interim) Board Working Group has been established to develop the <i>Priorities & Work Program for 2015</i>. The experience of SSM arrangements will be instructive in this respect.</p>
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