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Draft ECB Regulation on the collection of granular credit and credit risk data (AnaCredit)

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Dear Ms Lautenschläger,

We appreciate the fact that the ECB has responded to calls for more transparency and greater involvement of the banking industry in its AnaCredit project and has now published a draft of its planned regulation. We welcome this opportunity to communicate our observations to the ECB.

The German Banking Industry Committee (GBIC) nevertheless continues to have strong reservations about the objective and design of the ECB's planned analytical credit dataset (AnaCredit). We find it difficult to understand the need for AnaCredit in the proposed form. Banks in the euro area face an ever growing administrative burden of regulatory requirements and reporting obligations. The scale of these requirements is stretching the resources of small and medium-sized banks, in particular, to their absolute limit.

We are pleased to note that the AnaCredit project will now be somewhat more streamlined and that only the first stage is up for discussion at present. For each subsequent stage, the ECB Governing Council is to take its decision at least two years prior to implementation so that banks will have sufficient preparation time. This is a sound approach, in our view. This principle should naturally also apply to the timetable for stage one since it is especially important for banks and data processing centres to have an adequate and appropriate period of time to prepare for first-time implementation (see also our comments on Article 2 – Implementation Stages and first reporting).

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Careful cost-benefit analysis essential

We also welcome the fact that the ECB intends to carry out a careful analysis of the costs and benefits associated with the project and that a final decision on the first stage of AnaCredit will be taken only after the ECB Governing Council has been informed of the estimated cost of the relevant IT project, and of the cost/benefit procedure to be used to define the reporting requirements envisaged by the draft regulation. Our banks and data processing centres estimate that the cost of implementing AnaCredit will be in the millions of euros even at small and medium-sized banks, while for big banks the figure will be in the mid-tens of millions. We are particularly concerned about the cost of delivering data on existing loans. The AnaCredit requirements will oblige banks to make substantial adjustments to their advisory and lending processes, undermining efforts by many banks to streamline processes and cut costs, especially in their retail business. Demanding data and client information over and above current regulatory requirements will also initially place a strain on banks' relations with customers, especially if existing business is subject to the reporting requirements. Furthermore, we see a danger of business migrating to less regulated areas of the financial sector.

It is absolutely vital, with this in mind, to strike the right balance between the degree of granularity desired by the ECB for analytical purposes and a reasonable reporting workload. (See also our comments on Article 7 and Article 17.)

Greater harmonisation of requirements absolutely essential

If the objective of a standardised credit register for the entire euro area is to be achieved, it is essential that the ECB set harmonised requirements which are binding on all euro states (see also our comments on Article 1 – Definitions). The draft regulation leaves details of certain key requirements to the discretion of national central banks. This runs counter to the objective of harmonisation and will undermine the level playing field. What is more, it will make reporting significantly more difficult for banks with foreign branches. We therefore believe it would be preferable to have a uniform reporting format and uniform attributes. National discretion should be eliminated altogether, or at least reduced to an absolute minimum.

Article 1 – Definitions

A number of definitions are insufficiently clear at present and raise questions as to their meaning and interpretation. Since this is a European statistical reporting project, it is essential that the ECB set clear, unambiguous and detailed requirements, illustrated, where possible, by examples. Differing interpretations of the reporting requirements would defeat the whole purpose of a European credit register and risk distorting the subsequent analyses by supervisors and the planned feedback information for banks.

We warmly welcome the plans announced by the ECB in the press to publish a detailed handbook and respond to questions on the ECB website. The handbook should be made available as soon as possible after the adoption of the regulation by the ECB Governing Council because key aspects of implementation can only be tackled once major questions of interpretation have been resolved and the extent to which national discretion has been exercised have been clarified at European level. The banking industry should be involved as closely as possible in the preparation of the handbook via their national central banks. The planned implementation periods should not start until the handbook has been published.

We would ask the ECB to post details of each country's AnaCredit requirements on its website in order to ensure that all information is available centrally. Otherwise, banks with legally dependent foreign

branches will face a number of practical obstacles to ascertaining the precise form of requirements in the relevant host countries.

Enclosed with this letter is a list of questions concerning selected definitions and attributes. This list is by no means exhaustive, but is merely intended to highlight a few examples of the numerous issues requiring clarification at present.

Article 2 – Implementation Stages and first reporting

Discussions about fundamental elements of the regulation are still ongoing. The uncertainties that still remain should consequently be taken into account when setting the first (possible) reporting date. As things stand, national central banks may require data to be reported from the end of June 2017. This timetable is much too overambitious, in our view. Given the number of open issues and questions of interpretation, and bearing in mind the period of at least two years needed for implementation, the earliest realistic date for initiating a test phase is two years after publication of the ECB regulation in the Official Journal of the European Union (currently, this would mean the second quarter of 2018). We would ask you to adjust the timetable accordingly.

Article 3 – Actual reporting population

The draft regulation envisages that the reporting population will comprise both banks and dependent foreign branches of banks located in a reporting member state. Explicitly included for the first time are institutions which are not subject to supervision under CRD IV or the CRR. Until now, these institutions had assumed on the basis of workshops and talks with their NCB that they would not become subject to AnaCredit reporting requirements in the first stage, but only later in stage two. We therefore urge the ECB to grant institutions which are not subject to EU banking regulation, and consequently exempt from numerous reporting requirements, a deferral until the expected start of stage two in 2019. At the very least, no sanctions should be imposed on these institutions if they submit partial reports or omit to report in 2018.

Article 4 – Statistical reporting requirements

We are opposed to the idea of reporting data on a monthly basis. It would be virtually impossible, with a monthly frequency, for banks to ensure the delivery of high-quality data. We fear that speed would come at the expense of quality. Furthermore, it should be borne in mind that there is little or no volatility in the data basis and the attributes to be reported in template 1. The huge extra workload for both banks and supervisors would be out of all proportion to the additional gain in insight. For these reasons, we consider quarterly reporting sufficient from both a statistical and prudential perspective.

Article 5 – Reporting thresholds

The €100 threshold under discussion for non-performing loans should be reconsidered. It would effectively lead to an indirect lowering of the reporting threshold from €25,000 to €100. To be in a position to report non-performing loans, banks would invariably need to maintain a complete dataset for every single loan granted to a reportable counterparty. In any event, the current EBA consultation on harmonising and fleshing out Article 178 of the CRR should be taken into account when setting a threshold for non-performing loans.

Article 6 – Statistical reporting requirements on an individual basis

To avoid double reporting, all data relating to foreign branches should (as under the reporting framework for banking statistics) be reported only by the resident credit institution to the NCB of its home country.

This would mean that resident foreign branches would be excluded from the definition of the actual reporting population in Article 3. Any possible special need for information on the part of the NCB of the foreign branch's home state should be satisfied at ECB level on the basis of shared data.

There are even stronger arguments for using shared data from a cost-benefit perspective. We cannot understand why the regulation in its present form is proposing to place a cost burden on banks which is many times higher than the cost of using shared data. If these arrangements are retained, the cost-benefit ratio of AnaCredit will deteriorate further still.

Article 7 – Specific statistical reporting requirements

Effective grandfathering arrangements are essential, in our view, to ensure that a reasonable balance is struck between costs and benefits. It is true that point 6 of Annex II envisages specific statistical reporting requirements for instruments originating before 1 March 2018. But Table 1 in Annex II clearly shows that virtually no reporting attributes will be totally dispensed with for these instruments. It would ease the burden on reporting institutions considerably if they did not need to collect extensive information manually about loans already granted and process it for their IT systems. We therefore consider it essential to significantly simplify reporting requirements and exempt instruments issued before 1 March 2018. At the very least, banks should be able to deliver data on a “best efforts” basis for a transitional period of, say, five years without having to fear sanctions. This would allow banks to gradually fill gaps in their data when routinely monitoring their exposures (e.g. carrying out know-your-customer checks).

Article 11 – Feedback loop to reporting agents

We warmly welcome the idea of providing regular feedback to reporting banks. These feedback loops would enable the banking industry to derive benefit from the compiled data as well. Banks would not only be able to access information about a borrower's level of debt in the euro area, for example, but would also be able to improve the quality of its own data if, for instance, the NCB had more up-to-date or complete information. But the draft regulation proposes leaving it up to national central banks to decide whether or not to establish a feedback loop, so the provision of credit information would depend on their readiness to make it available. We would prefer a standardised procedure throughout Europe based on a common technical platform. The ECB should at least take a clearer stance in the recitals and explicitly recommend that national central banks establish a feedback loop. We would also appreciate clarification that the “third parties” mentioned in Article 11(1) of the draft regulation do not cover data processing centres and service providers commissioned by the bank to process AnaCredit reporting.

Article 12 – Access by legal entities

As we understand it, only the ECB or national central banks can be responsible for dealing with requests by legal entities to access information. We would appreciate clarification of this point. Similarly, requests to rectify incorrect data will also first have to be addressed to the ECB or national central banks, which will in turn need to contact the relevant reporting institutions.

Article 17 – Derogations

Under Article 17 of the draft regulation, national central banks will be able to exempt small institutions from AnaCredit reporting requirements. In principle, we welcome this envisaged application of the principle of proportionality to ease the burden on small banks. We have strong reservations, however, about linking the decision concerning a possible derogation to the total commitment amount in a reporting member state. For the banks, this criterion is not transparent. We also have doubts about the practicality of the proposed procedure and are concerned that renewing the decision yearly may generate

considerable methodological uncertainty. Exempted banks may find themselves nevertheless obliged to develop and maintain technical reporting systems so as to be able, if necessary, to respond to a data request from their national central bank. We believe the better solution would be to link exemptions to an institution's total assets. We would recommend granting derogations throughout Europe to banks whose total assets do not exceed three billion euros, which would be in line with the thresholds for levying contributions to the Single Resolution Fund (SRF) and for being subject to the full set of FINREP requirements.

Article 17 also proposes that, if a derogation is lifted, banks will have a transitional period of no more than 12 months before becoming subject to full reporting obligations. A 12-month period will only be realistic, in our view, if business originating in the period before the lifting of the derogation is excluded or, at the very least, if banks are permitted to report such business on a "best efforts" basis for a transitional period.

Article 19 – Sanctions

AnaCredit is a highly complex project. It will, moreover, take time in our view for consistent reporting practices to establish themselves, not least given the need to clarify a number of open questions of interpretation. The possibility therefore cannot be excluded that banks may inadvertently breach reporting obligations and become liable to sanctions despite their intensive preparation and best efforts. With this in mind, and especially in view of the complexity of the new reporting requirements, we do not consider it appropriate to apply sanctions on the basis of Article 7(1) of Regulation (EC) No 2533/98. Instead, the ECB should refrain from imposing sanctions for a reasonable transitional period of five years from the first reporting date.

Annexes I – IV: Data attributes, definitions and values

Please also see our comments on Article 1 – Definitions.

Banks face major challenges in implementing AnaCredit, especially given that a lot of information is currently available only in front office systems, not centrally. This applies, for example, to credit attributes such as reference interest rates, spreads and margins based on reference rates, as well as caps and floors. Other data are not systematically collected or computerised at all at present, or – at most – only in as far as they relate to certain types of borrower. This information would have to be collected ex post. Examples can be found in the enclosure. It is essential, in our view, to allow a reasonable amount of time for implementation, together with effective grandfathering arrangements and a sanction-free transitional period, so that banks will be able to adapt their systems and processes, and establish new ones where necessary.

We would welcome an opportunity to discuss our views with you in person.

Yours sincerely,
on behalf of the German Banking Industry Committee,
Association of German Banks



Dirk Jäger
Member of the Management Board



Silvia Schütte
Director