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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY

OF THE FITNESS CHECK OF EU SUPERVISORY REPORTING REQUIREMENTS

{ SWD(2019) 402 final }

EXECUTIVE SUMMARY

Context and objectives

EU and national supervisory authorities need access to data to effectively supervise financial institutions, to monitor risks, to ensure financial stability and market integrity, and to protect investors and consumers of financial services in the EU. Regulated financial institutions and other entities active on the financial markets are therefore required to report to these supervisory authorities on a wide range of data on their financial condition and on their activities.

The financial crisis exposed significant weaknesses in the EU's regulatory framework governing financial services. It revealed significant data gaps and insufficient reporting to the relevant supervisory authorities. The post-crisis overhaul of the regulatory framework, which involved adopting more than 40 pieces of EU financial services legislation, generated a significant number of new, and mostly more granular, supervisory reporting requirements.

The stakeholders broadly acknowledge the need for EU supervisory reporting, but have argued that the requirements are unnecessarily complex, inconsistent, and therefore burdensome. This can also impair the quality of data available to supervisors. Following the Commission's Call for Evidence¹ and other stakeholder feedback, the Commission launched this fitness check to assess whether the current EU-level supervisory reporting requirements are fit for purpose. This involves assessing whether the reporting objectives are set correctly (relevance), whether the requirements meet the objectives (effectiveness, EU added value), whether they are consistent across the different legislative acts (coherence), and whether the costs and burden of supervisory reporting are reasonable and proportionate (efficiency). The broader objective of this analysis is to identify areas where there is scope to simplify and streamline reporting while ensuring that supervisors continue to receive the data they need to fulfil their mandates — in other words without compromising the financial stability, market integrity, and consumer protection objectives of EU financial services legislation.

The EU and national supervisory authorities have taken action in recent years to simplify and streamline supervisory reporting. Most of this has focused on issues in individual pieces of legislation or focused on a certain subsector. This fitness check takes a horizontal cross-sectoral approach, focusing on the cross-cutting issues that affect more than one reporting framework.

To carry out the fitness check, the European Commission drew on multiple sources of information and consulted extensively with stakeholders. It ran an open public consultation, a large conference, an external study on the costs of compliance, a detailed mapping exercise of supervisory reporting requirements, several workshops with the industry and the supervisory authorities, a targeted consultation of national supervisory authorities, and carried out an extensive internal assessment. The European Commission was supported throughout the assessment by a Stakeholder Roundtable consisting of representatives of the three European Supervisory Authorities (ESAs), the European Central Bank (ECB), the Single Supervisory Mechanism (SSM), and the Single Resolution Board (SRB), which provided technical advice and on-the-ground knowledge.

¹ COM(2016) 855 final, COM(2017) 736 final.

Main findings

EU supervisory reporting requirements have improved supervisors' ability to monitor systemic risk in the single market, the interconnectedness of the financial system, and any developments that may pose a risk to financial stability. This has improved market surveillance and is a valuable tool for supervisors to address market abuse and other risks to market integrity and the protection of investors and consumers of financial services. The new supervisory reporting requirements have also brought benefits to stakeholders, contributing to improved internal control and risk management processes, and the development of new analytical tools. Supervisors are able to carry out more detailed, accurate, and complex data analyses of the supervised entities, mirroring the shift to more data-driven supervision. The greater comparability of the data at EU level has also been beneficial, not only for the supervision of cross-border groups but also to enable benchmarking of domestic entities against the EU average and to supervise cross-border activities in an integrated market.

These benefits are inherently difficult to quantify. It has therefore not been possible to provide a quantitative comparison of costs and benefits of EU supervisory reporting. However, the available evidence on costs suggests that reporting entities spend significant financial resources on complying with the current reporting requirements, with additional costs also arising for supervisory authorities as the recipients of the data. Bearing in mind methodological difficulties in estimating the true incremental costs of compliance with specific rules, the external study conducted by ICF/CEPS at the request of the Commission estimates that in 2017, the cost of supervisory reporting was on average about 30% of total compliance costs or 1% of the annual operating costs for a sample of regulated entities.

This fitness check concludes that EU supervisory requirements are broadly effective in providing supervisory authorities with the data they need to fulfil their statutory tasks and mandates, with data used across the range of supervisory functions. Data quality is overall considered adequate, although there are quality issues in certain reporting frameworks that impair data usability. This is partly due to the fact that most of the supervisory reporting requirements are relatively new, but to some extent it also reflects the design and implementation of the requirements.

The specific objectives of EU supervisory reporting requirements are often not spelled out in legislation. Nonetheless, the main objective of these requirements — to provide supervisors with the data they need to fulfil their functions that contribute to the wider objectives of financial stability, market integrity and investor/consumer protection — continues to be highly relevant. This does not mean that every requirement is (still) necessary. Data needs might change as the industry evolves and new risks emerge, and some data may become less relevant over time.

The requirements also have clear EU value added by providing data to supervisors and regulators that was not available before and enabling the EU-wide supervision of entire sectors. They also generate efficiencies in reporting and greater convergence of supervisory practices through more harmonised requirements, which enables supervisors to assess risks consistently across the EU based on comparable data. The European System of Financial Supervision set up after the crisis brought in the requirement to change from mainly national reporting to EU-level reporting, with more uniform requirements and common EU-wide data being reported to supervisors at both national and EU level.

However, the assessment also shows that reporting is not as efficient as it could be, and that there are issues with coherence between reporting frameworks. Inefficiencies arise from a

lack of clarity in requirements and insufficient use of standards, common formats, and identifiers. Some of the data reporting requirements have become unnecessary or redundant. Although measures have been taken recently, parts of the industry remain concerned about the proportionality of some EU-level requirements for smaller firms operating in local markets. The number and frequency of changes, coupled with short implementation timelines, add to the costs incurred by both reporting entities and supervisors.

The requirements are not fully consistent across reporting frameworks, which has an adverse impact both on efficiency and on the quality and usability of the data. The inconsistencies concern in particular the precise scope of the requirements, the definitions used, the timing and frequency, and the detailed technical specifications (such as the configuration of data fields, templates and messaging formats). A key driver for these inconsistencies is the fact that the empowerments given to ESAs to specify the technical details of reporting are not consistent across the different legislative acts. Although many of the identified inconsistencies appear minor in terms of the extent of the differences, they can nonetheless increase compliance costs significantly, especially in the initial implementation phase.

The assessment also shows that the claim by industry stakeholders that there is a large degree of duplication or overlaps between the requirements is not valid. The detailed mapping of structured reporting requirements carried out has shown that, of the more than 72,000 data points examined, only 42 data points precisely overlap (less than 0.06%). However, the analysis applied a narrow definition of what constitutes an ‘overlap’. Many data points have a high degree of similarity and other data points (in theory) could be derived from already reported data. Furthermore, given that the scope of the fitness check is limited to EU supervisory reporting, there was no comprehensive analysis of other reporting frameworks such as statistical reporting to the ECB or national supervisory reporting not based on EU legislation. While outside the scope of the assessment, the feedback received suggests that the number of overlaps would rise if the analysis were expanded to cover those frameworks.

Overall, this fitness check concludes that EU-level supervisory reporting requirements as a whole are broadly effective, highly relevant, and bring EU value added. Nonetheless, a number of issues in the development process, adoption, set-up, and implementation of these requirements reduce their efficiency and coherence, and impair the quality and usability of the reported data.

Follow-up

A number of specific issues identified in this fitness check are being addressed (and in a few cases have already been addressed) in various legislative reviews of sectoral legislation and other initiatives that can deliver targeted improvements in supervisory reporting and can improve proportionality. The work conducted for this fitness check and the input obtained from stakeholders have added momentum and have directly contributed to several of these initiatives.

The fitness check identified a number of cross-cutting issues where there is scope to further simplify and streamline EU-level supervisory reporting. Any major policy actions would, however, be subject to a further assessment of their feasibility and impact, also taking into account the implementation costs of any required changes. The main areas for improvement to follow up include:

- Legislative process and instruments. There is scope for improving the design of primary (Level 1) legislation, including the need for clear and consistent

empowerments for ESAs to develop the necessary technical standards in secondary (Level 2) legislation and better consideration of implementation timelines.

- Data needs and uses. Supervisors are best placed to assess what information they need to fulfil their supervisory functions. There is a case for further review of what data supervisors actually need, for what purpose, and what data they already have access to. More feedback and better communication on the purposes and actual use of the data, insofar as feasible and compatible with the nature of supervision, could help address concerns that supervisors request data that is ‘nice-to-have’ as opposed to necessary and actually used.
- Consistency and harmonisation. In addition to common definitions and terminology, there is a case for greater use of standards, including for identifiers and data formats. Consistent definitions and standards enhance comparability, communication and streamlined processes, both within firms and with supervisors, facilitating automation and reducing the costs related to data collection and analysis. There is also scope for improving the interplay between EU and national reporting, given industry concerns about flexibility in national implementation and additional national reporting requirements.
- Governance. There is scope for more coordination and cooperation between stakeholders, from the early design phase through to data sharing between authorities.
- Technology. Although alternative solutions are not yet sufficiently advanced to replace the current supervisory reporting system on an EU-wide basis, technological developments (increasingly referred to as RegTech and SupTech) provide new opportunities to collect, transmit, access and process large amounts of data more efficiently and effectively. However, new data technologies also place new demands on the design of future supervisory reporting.