
Consultation Response

EBA Discussion Paper on a Feasibility Study of an Integrated Reporting System under Article 430c CRR

11 June 2021

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the EBA's **DISCUSSION PAPER ON A FEASIBILITY STUDY OF AN INTEGRATED REPORTING SYSTEM UNDER ARTICLE 430C CRR** (the "Discussion Paper"). AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA), a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

AFME is registered on the EU Transparency Register, registration number 65110063986-76.

We summarise below our high-level response to the consultation, followed by answers to the individual themes raised.

Executive Summary

We would like to highlight the following key messages as part of our response, which focuses on the technological and architectural aspects of the Discussion Paper:

- Any reporting transformation project should first begin by identifying the purpose behind the data collection, and therefore what data is required to meet that purpose, rather than focusing on the scope of existing data reporting requirements;
- Any changes to reporting architecture should be secondary to: first, establishing clear and unambiguous data dictionaries and standards, harmonised at a global level where possible; and second, assessment and reduction of duplicative and overlapping reporting that occurs today; and
- Engaging with other data transformation projects will be important for sharing findings and lessons learned, acting as an important input for the success of this initiative.

Comments on the Discussion Paper Themes

Stocktake of Existing Requirements

AFME welcomes the EBA's decision to begin the work with a stocktake of existing requirements. However, we suggest that the EBA goes further in its next steps. We believe that any reporting transformation project should first begin by identifying the purpose behind the data collection and what data is required to meet that purpose. This approach will provide a clearer picture of what the end state of the transformation should be targeting. Relying on the scope of existing reporting may risk continuing reporting requirements that deliver data that is not ultimately used or useful for regulatory purposes. In addition, a focus on data requirements rather than existing rules would remove duplicative or conflicting requirements, particularly where multiple European and national authorities currently collect data, or where existing data standards cover multiple meta-data fields (e.g. the Legal Entity Identifier). Finally, this will also allow the most appropriate source of

Association for Financial Markets in Europe

London Office: 39th Floor, 25 Canada Square, London E14 5LQ, United Kingdom T: +44 (0)20 3828 2700

Brussels Office: Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 788 3971

Frankfurt Office: Bürohaus an der Alten Oper, Neue Mainzer Straße 75, 60311 Frankfurt am Main, Germany

T: +49 (0)69 153 258 963

www.afme.eu

each type of data to be identified, which may not be the entity that currently reports it – an example could be where certain market data would be better sourced from trading venues than from trading counterparties.

We would also strongly support the EBA engaging with other ongoing data transformation projects to share findings and lessons learned. We note, for example:

- The Bank of England's work on 'Transforming data collection from the UK financial sector'¹
- The BIS and IOSCO work on standardising the data inputs for derivatives trade reporting²
- The European System of Central Banks' Integrated Reporting Framework³
- The European Commission's work on a supervisory data strategy⁴
- The industry consortium work on an Open Taxonomy for Monetary Authority of Singapore 610/1003 regulatory returns⁵

Engaging with other data transformation projects will be important for sharing findings and lessons learned, acting as an important input for the success of this initiative.

In addition, engagement with authorities beyond the EU is key given the global nature of the industry. Conceptually, integrated reporting would lead to a more sustainable and less burdensome mechanism as well as more accurate and valuable data for the authorities. However, as many banking groups also operate in third countries, consideration should be given to the impact any initiative on integrated reporting may have at consolidated level, and the manner in which this could impact or even reduce the above-mentioned benefits.

Data Dictionary

We believe that a global common input layer of data points will be an essential requirement for all solutions put forward in this initiative. A common set of data points for many existing reporting requirements would provide significant value to the industry. It would also contribute to longer-term goals such as making regulatory rules machine-readable or reducing the amount of additional guidance which regulators are required to produce (such as Q&A).

Ideally, authorities would use global data standards that exist today, as these have generally been implemented on a cross-border basis.

However, defining a global common set of data points for a given reporting scope will require a significant amount of time to develop. Definitions for data points must be precise to be understood by both firms and authorities, and individual data points may require specific labels and definitions. In addition, there must be a suitable way to determine what amounts to sensitive or confidential information and how to treat this accordingly. This determination increases in complexity when one or more data points for a given report is connected to other reports (or data).

On this basis, we support a phased approach that looks to implement a global common data dictionary (or, if necessary, a coherent set of data dictionaries, given that different functions or asset classes may have different requirements) which incorporates existing global standards wherever possible and is based on the sectors or reports that are prioritized as part of the initiative.

As part of this, each sector will need to identify the participants and their roles and the required investment for the creation, ownership, and maintenance of the common data layer. This industry involvement will be crucial given the complex nature of the task and the specialised input required to produce and use the relevant

¹ <https://www.bankofengland.co.uk/paper/2020/transforming-data-collection-from-the-uk-financial-sector>

² The LEI ROC has now been appointed the governance body for this work and a useful summary is available here: https://www.lei-roc.org/international_bodies.htm

³ https://www.ecb.europa.eu/stats/ecb_statistics/co-operation_and_standards/reporting/html/index.en.html

⁴ https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13023-EU-financial-system-supervisory-data-strategy_en

⁵ <https://www.regulation-asia.com/how-a-consortium-created-the-mas-610-open-taxonomy/>

granular data points. Too small a number of participants in the data layer development may make the outcome too customised and unable to scale across the industry.

It will also be necessary for firms to have insight into how regulators are using the data included in the common input layer, including each time a new use is envisaged. A lack of transparency in this regard could create issues about how firms are reporting the data under such definitions, or about whether the proposed data use will be appropriate for the intended purposes. This would be similar to approving an existing template on first submission and, in certain circumstances, may require feedback from the firm by way of commentary or context to the regulator. It will be important to set out a clear process to achieve this. Furthermore, it will be necessary for firms to have the ability to run the regulators' reports or templates themselves, in order to see what data the regulator is viewing and to assess it for completeness and accuracy. Such reports are often also used internally within firms today as part of management information.

Appropriate governance will be required, with authorities such as the EBA playing a key coordinating role and committing to using the agreed standards in reporting (no altering of definitions to a specific regime). A periodic process to assess and update this common set of data points, involving suitable consultation of industry users of the data dictionary (we note, as examples, the EBA's own Banking Stakeholder Group, or the industry advisory groups to ESMA's Standing Committees), will also be needed to maintain its relevance with changing industry products and services.

However, we note that a common data layer, or set of data points, will not guarantee that the interpretation of reporting requirements or instructions will become clearer. This lack of clarity will be more pronounced where common data points are developed agnostic to a specific existing reporting requirement.

Each sector and firm have unique products and continuously develop these on a timeline determined as most advantageous to each firm. With the development of a common set of data points comes the necessity of fitting new data points to established standards. The ability of regulators to respond to institutions in real-time to address issues as they arise will be necessary to maintain data quality.

Data Granularity

As stated above, it is critical to identify the purpose behind any data collection in advance of considering any changes, such as whether further granularity is needed.

In addition, we would like to highlight the impact that a more granular approach could have for more diversified banking groups with operations in third countries. Although at an individual level a more granular approach may be appropriate and bring significant harmonisation benefits, this should be considered within a global market context.

For example, should the new regime include third country subsidiaries of European entities, granular requirements at a European level might conflict with local third country requirements and increase the reporting burden. Therefore, we believe that requesting greater granularity at the consolidated level for subsidiaries in third countries should be considered in terms of:

- a. the usefulness that a more granular approach for these entities could provide to authorities;
- b. the feasibility of moving and managing all such information from third countries to their EU entities and then to authorities; and
- c. the legal constraints regarding the exchange of granular data with EU competent authorities from third countries.

Central Data Collection Point (CDCP)

Many reporting steps are duplicated across firms and the industry today. A CDCP could, in many cases, remove this duplicated effort and introduce greater consistency and efficiency for regulatory reporting. However, we refer first to our comments on data dictionaries above: any changes to reporting architecture must be secondary to establishing clear and unambiguous data dictionaries and standards, harmonised at a global level where possible.

Ensuring that all regulatory reporting is performed correctly has significant financial and legal implications for firms and broader implications for financial stability. Therefore, this must be carefully considered for any proposal to introduce a CDCP, where functions or processes performed by individual firms today are outsourced to one or more third parties or an authority-managed service. We suggest that the EBA seeks to learn from areas in which this transition has already been made successfully, such as trade-level reporting to trade repositories, centralised trade capture and confirmations platforms, or the European Single Electronic Format (ESEF) under Transparency Directive.

Critical considerations for the use of CDCPs needs to include, as a minimum: cost, security, performance, assurance, ownership (the platform and code), governance and liability. AFME has developed several papers on the benefits and challenges of industry utilities (such as CDCPs) and recommendations for improving their success in coming to market⁶.

In particular, we note the following challenges with a CDCP model:

- **Competition:** if the solution is vendor-led, competition concerns may arise for firms if a single vendor is chosen. On the other hand, multiple vendors/national solutions would increase the likelihood of divergences and data mapping complexities.
- **Cybersecurity:** the storage of significant quantities of industry data in a single location raises data security and data integrity challenges. Firms would have no control over their data security, as this would fall solely to the system provider. For this reason, the EBA may want to consider the benefits of other models.
- **Compliance:** in a model whereby data is submitted to a CDCP in its raw form, it becomes more difficult for firms to be confident that they are meeting each individual regulatory obligation. There may be little visibility for firms on how the raw data is being transformed into the required formats for individual obligations or little opportunity to provide the context and commentary required. We address this concern further in our comments regarding data dictionaries above.
- **Notification process:** related to the compliance point above, firms should be alerted to a request by an authority to access their data; the notification should also contain details about the rationale and scope of the data request. This notification will allow firms to ensure that the data being requested is appropriate and complete for the purpose, is accompanied by any additional contextual information and will be subject to suitable transformation methodology.
- **Functionality:** care should be taken to ensure that the CDCP provides the same access and functionality across all EU Member State time zones.
- **Transmission of data:** there could be regional issues relating to the storage and transmission of personal information depending on the type of information collected, for instance for the more diversified banking groups with operations in third countries. This is currently an issue faced by individual firms but would become a significant challenge for the CDCP provider. A complete analysis

⁶ See, for example: <https://www.afme.eu/news/press-releases/2017/afme-outlines-opportunities-and-challenges-in-developing-utilities-for-capital-markets> and <https://www.afme.eu/Publications/Reports/Details/recommendations-for-increasing-the-success-of-utilities-projects>

of the applicable regional and national laws would be required, as well as a clear explanation of any restrictions on the ability of national authorities to access and use data submitted in, or pertaining to, jurisdictions to which such restrictions apply.

- Regulated status: the feasibility of making the CDCP a regulated entity (similar to Approved Reporting Mechanisms or Consolidated Tape Providers) could be an important consideration in terms of compliance and security obligations.

Private-public collaboration/cost-sharing

The industry appetite for sharing costs is likely to depend upon how much say the industry has in developing the solutions and whether the return on investment can be demonstrated by harmonising requirements and reducing duplication. The willingness of firms to bear the cost will be lower if the industry is given limited ability to influence the outcome of the solutions that are developed. In addition, the appetite for sharing costs will differ between institutions of different sizes; for instance, smaller firms may not currently be producing data at the same level of granularity as larger firms and may therefore obtain less benefit from an integrated reporting solution. Some consideration of proportionality may be required here.

We also note that:

- The cost of any changes will depend upon whether existing initiatives are leveraged. To the extent that new common data dictionaries are created, or the scope expands significantly from data already produced, the cost will increase. It is crucial that a complete cost-benefit analysis is undertaken.
- Any cost reduction would need to be measured against the potentially high upfront investment needed of such a change. There would also be a need for standards to manage updates of products, activities, geographical zones, actors, and technological changes (e.g. ISO standards).
- The cost savings are likely to be less pronounced for ad hoc regulatory reporting. For example, although data dictionaries will be of use, bespoke arrangements will likely need to be undertaken internally where an ad hoc request touches on a new or unique issue (e.g. internal sign-off).

Push vs Pull Approach

As stated above, we believe that any changes to reporting architecture must be secondary to: first, establishing clear and unambiguous data dictionaries and standards, harmonised at a global level where possible; and second, reducing duplicative and overlapping reporting that occurs today.

Consequently, we believe that consideration of a pull model should only be a long-term objective. A pull model can only follow the development and implementation of a common data layer and modernising reporting instructions. Whilst a pull model may have potential long-term benefits for the industry, significant operational, legal and security concerns would need to be addressed. As such, embedding this approach would be an extensive and lengthy transformation and should not be a priority at this stage.

Instead, we would advocate for maintaining the current push approach. This continues to give reporting institutions (who retain responsibility for the data) the end-to-end control of the data process and the control of the version history for every cutoff date. It also gives reporting institutions the responsibility for punctuality of reports, as the report is only made once all the internal checks and control thresholds have been complied with.

However, as the discussion paper considers the pull model we suggest that the following high-level aspects, whilst not exhaustive, are examples of the clarification that would be required for any future assessment:

- What level of granularity of data will be required?;
- What level of group consolidation of data will be required (particularly with respect to banking groups with operations in third countries);
- How will data be accessed by authorities (individually from firms or via a central service provider)?;
- How will transparency of data extraction and use between firms and authorities be managed?;
- What will be the frequency of data being extracted?;
- What process will exist for data resubmissions?;
- What cyber and information security safeguards will need to be put in place?; and
- What technology interfaces and standards will be needed?

In particular, we have identified the following specific challenges:

- **Transparency:** there should be full transparency to firms on how data is used by the regulator and how it will feed into the supervisory process. This would need to be built on an in-depth understanding of each reporting entity by the regulator in order to be able to manage and transform their data accurately. A lack of transparency could create issues concerning how the firms are reporting the data. We address this concern further in our comments regarding data dictionaries above.
- **Regulatory requirements:** to meet internal and regulatory requirements a pull model will need to be based on each firm 'publishing' information to authorities, as opposed to access being provided to operational systems or data sets. A solution to this could be that reporting institutions provide raw data to a reporting intermediary that has delegated authority over an agreed model with the institutions. Then the reporting intermediary can either onward report or allow access to certain types of data or analysis results to the regulator.
- **Common data definitions:** these must be well defined and granular enough to capture the nuances reflecting differences to firms products. For highly complex areas where interpretation is needed, such a model may not be appropriate. For example, the interpretation of the capital treatment of a firm's products can vary by firm, and it would be inadvisable for a supervisor to perform this activity on raw data 'pulled' from a firm without governance input from that firm. Such interpretation cannot be replaced unless the data collection is at the most granular level and the definition captures the essence of the product, which can be hard to achieve.
- **Review and quality control:** there should be sufficient review and quality control by firms concerning the data submitted under any pull model, including oversight of the timing of any data publication. For example, to ensure that data is up-to-date and ready for use, since a regulator does not have all insights into how changes to business activities can influence or help inform data changes. Today such review is done before the data and/or reports are submitted (which could also mean that a pull model does not deliver significant benefit in terms of the speed of reporting). The review is also essential to ensure data quality issues are addressed.
- **Additional complexities:** a pull model will require significant changes to the industry across all aspects of reporting, including impacts on firms' resources. For example, firms may need to develop or invest in coding skills for existing reporting functions. Most existing reporting processes are complicated to some degree, and many have dependencies or processes that interact with many operational functions (such as legal, risk, compliance, finance).

Based on the above, we suggest that developing a ‘pull’ model should not be the focus of the EBA’s work at this time. It may be possible to revisit this at a later stage once significant advancements in the data layer and reporting instructions workstreams have been made.

RegTech

We note that RegTech providers can play two important roles within the industry: first, developing common elements such as data standards; and second, connectivity for firms into those common elements. Many firms are already working with at least one RegTech provider to achieve these aims.

AFME Note

AFME has put in place internal arrangements to manage our work in compliance with the conditions set by the EBA on Adam Farkas’ appointment as CEO. As part of these, Adam Farkas has not been involved in the preparation of this consultation response.

AFME Contacts

David Ostojitsch
Director, Technology and Operations
david.ostojitsch@afme.eu
+44 (0)20 3828 2761

Fiona Willis
Associate Director, Technology and Operations
fiona.willis@afme.eu
+44 (0)20 3828 2739