
The Single Resolution Board's proposed Valuation Data Set

AFME consultation response

30 June 2020

Introduction

The Association for Financial Markets in Europe (AFME)¹ welcomes the opportunity to comment on the Single Resolution Board's proposed '*Valuation Data Set*'. We hope that the SRB will find our response of assistance in finalising their policy approach.

AFME has been very supportive of the development of an effective recovery and resolution framework in Europe and we continue to support the overarching aims of ensuring resolvability. We recognise the importance of valuation capabilities, and the need for Management Information Systems (MIS) to be able to provide accurate and timely information in the run-up to, during, and after a resolution event.

Nevertheless, for a Valuation in Resolution (ViR) to be effective within the short time available, particularly for large cross-border banks, existing internal capabilities, including internal valuation models, should be leveraged as much as possible (albeit with the ability to adjust those models where necessary). This is touched upon throughout the EBA's 'Chapter 10' on MIS for ViR within their Handbook on Valuation². We strongly believe that the SRB's approach should take this on board, and should seek to ensure an institution's MIS expectations are shaped by that institution's business model, balance sheet, size, complexity, resolution strategy, and the existing relevant capabilities. It is with this in mind that we have approached the SRB's consultation, to which we set out our views below.

Given the time available to respond to the SRB's consultation, we have not been able to review all of the SRB's proposed Valuation Data Set, and as such refrain from commenting in detail on this document at this stage. We do however provide general comments and answers to several of the questions being consulted on and have sought to provide appropriate feedback on the SRB's Explanatory Note.

We welcome any questions or views you may have on this response and we are very happy to discuss these issues further.

General Comments

We welcome the publication of the SRB's proposed approach, setting out the SRB's draft expectations for institutions this year and providing a high-level overview of the approach to implementation in the years to come. There are however a number of clarifications and considerations that we believe should be taken forward by the SRB as it finalises its policy in this area.

¹ The Association for Financial Markets in Europe (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 listed on the EU Transparency Register, registration number 65110063986-76.

² EBA - https://eba.europa.eu/sites/default/documents/files/document_library/Publications/Other%20publications/2020/880851/Handbook%20valuation%20-%20MIS%20Chapter.pdf

Tailoring and proportionality: Whilst we fully appreciate the need for complete and accurate data for the purposes of valuations, the SRB's proposed approach does little to reflect on the fact that institutions are of different sizes, complexity, have different business models, and tailored resolution strategies. Whilst reference to this is made in paragraph 23, and it is clear in the Explanatory Note that the SRB's proposed approach does not set a reporting obligation, we believe there is a risk that the SRB may be seeking to broadly apply the same data expectations across all institutions, applying further additional data expectations for some institutions where data is not currently within the proposed SRB Valuation Data Set.

It is necessary, in our view, to ensure a proportionate approach is taken forward when setting expectations for MIS, and to understand the different needs of a valuer depending on the size and complexity of the institution it is seeking to value in a fixed, short, period of time. It is therefore necessary for the SRB to further set out how it will seek to tailor its data expectations for different institutions, and where different institutions should prioritise their efforts accordingly.

For example, we would expect that for a large G-SIB or D-SIB the reliance on internal valuation capabilities would be much higher than a smaller institution in a single jurisdiction, where the valuer could easily value the institution based on, for example, loan level data. For a G-SIB or D-SIB, it would be much more important to ensure the valuer had access to underlying systems and valuation experts rather than being able to aggregate all the data in a Virtual Data Room (VDR), as is currently proposed. Therefore, the priority for these institutions may not be to undertake gap-analysis exercises against a benchmark data set, but instead assess existing capabilities against criteria to aide in any possible ViR.

AFME would therefore recommend that the SRB considers including what the expectations are for different sized institutions and how these expectations change from data extraction, aggregation and provision, to internal valuation system access, flexibility and specific capabilities therein.

Prioritisation of material data: It would be helpful if the SRB clarified in the Explanatory Note that only the data necessary for a valuation should be sought, nothing further, as otherwise this will add a greater strain on resources at a time when data will be needed at short notice.

The exercises undertaken within institutions to populate the key elements of the Valuation Data Set typically takes many weeks to populate and run the necessary quality assurance checks. Having such a vast amount of information required in a short space of time is already a very challenging operational prospect. Expanding upon this further will only add to the difficulties in trying to ensure this is possible, and so we strongly recommend that the materiality of the data is fully considered.

AFME strongly supports the idea of clustering data in terms of materiality and agrees with the SRB that this should be one of the factors for consideration in the more detailed discussions with IRTs. This should be with the goal to define the final list of relevant and necessary information for valuation purposes for each institution. Information needs however should not be limited to granular 'transactional' data, but should also consider the use of existing internal valuation capabilities to ascertain the use of material valuation outputs to avoid the approach of simply providing significantly large data sets in advance of a ViR.

Leveraging existing capabilities: The SRB's Explanatory Note focusses heavily on the need for institutions to assess the availability of their data against the draft SRB Valuation Data Set. However, the SRB have yet to set out their expectations for valuation MIS with regards to the use of existing internal valuation capabilities. The Explanatory Note does however state that the expected self-assessment report should include the availability and use of internal models, although no benchmark is provided to assess these against.

Institutions are already able to value their assets and liabilities, models are validated and undergo internal model verification frameworks, which include an external assessment. Utilising these existing valuation capabilities within an institution, where necessary with additional model development to inform the economic and counterfactual valuation, and providing model documentation would in our view be a more logical approach than the provision of significantly large data sets.

Given the importance of these capabilities, particularly in the case of a resolution of a large cross-border institution, as opposed to a small-to-medium sized domestic institution, it is in our view critical for the SRB to set out its own thinking with regard to the utilisation of these existing tools to ensure that the valuation capabilities are maintained in Business As Usual and can be relied upon in a resolution event. If the SRB are expecting institutions to embark on a multi-year project to arrive at a point where MIS meet the SRB's requirements in preparation for a resolution event, it is necessary to ensure all aspects of an institution's systems are considered from the beginning. Key valuation systems and capabilities for use in a ViR should not be seen as a secondary consideration, to be made part-way through the proposed multi-year project.

We would therefore recommend that the SRB detail its own considerations with regard to the use of internal valuation capabilities, setting out the criteria it believes to be necessary to meet in order for the SRB and valuers to be able to make the best use of such systems in a resolution event.

Standardised format: The consultation paper proposes that institutions report resolution valuation data in a standardized and single format via a VDR, independent of the institution's resolution strategy. As noted above, the SRB's approach in this respect should reflect the size, complexity, business model and also resolution strategy of the relevant institution. Maintaining a VDR in a business as usual would impose undue costs on institutions where adequate capabilities to make data available may already exist in light of the institution's specific profile. This also extends the scope of the VDR requirement beyond that within the SRB's recently published Expectation for Banks³ document, where it is limited to those institutions with a transfer-strategy. We would welcome clarity as to whether the SRB intends to broaden the recently finalised Expectations for Banks document.

More broadly, as mentioned above, consideration should also be given to the importance of ensuring access to an institution's internal valuation experts rather than simply requiring the aggregation of all the data in a VDR as is currently proposed. One of the key inputs in a valuation is the subject matter expertise that an institution's management has of its business and the markets it operates in. Placing data and information in a VDR will not provide this knowledge, and currently the consultation paper does not take into consideration this aspect of a valuation.

SRB Valuation Data Set – Explanatory Note

- 1. Do you have any comment with regards to SRB's approach to perform a self-assessment by the institutions of their own MIS capabilities and the resulting multiannual working programme to improve them?**
- 2. Do you have any comments on the two implementation phases foreseen by the SRB?**

Clarity on immediate expectations: In the Explanatory Note the SRB sets out a proposed path for institutions for 2020, and beyond. The first two phases consist of an self-assessment and gap analysis, followed by the drafting of a work programme with Internal Resolution Teams (IRTs). Considering that this consultation paper

³ SRB Expectations for Banks 2020 - https://srb.europa.eu/sites/srbsite/files/efb_main_doc_final_web_0.pdf (in particular page 37 of the document)

has been published for review half-way through 2020, with no clear view to when the final policy on this matter will be published, it will be particularly challenging for institutions to complete these two phases in the few months that remain.

The operational resources needed to undertake full gap analysis assessments, specifically at this time in light of the COVID-19 outbreak, may be required and be best utilised in supporting ongoing operational continuity. We would therefore politely request from the SRB a reconsideration of the level of detail necessary this year and propose instead that only an initial gap-analysis be undertaken. This would help to support banks operationally during this time, along the lines already observed from the SRB and other authorities in the area of data reporting, which we strongly welcome. It would also help to align expectations with a more realistic and achievable goal-set for this year.

Greater clarity on when the final SRB policy is to be expected, and further detail as to what the SRB expect to have been completed by the end of 2020 would also be welcomed – in particular whether the second phase of drafting the multi-year programme is only expected to have begun before 2020 ends, or if it is intended that this be completed by year-end, where we believe the former to be a more realistic and proportionate expectation.

Institutions are currently expected to produce a self-assessment on their resolvability as per the SRB's Expectations for Banks policy, and it is not clear from the Explanatory Note whether what is proposed here is to be included within that assessment, or if this is to be a separate document with a separate accompanying work programme. Clarity on the interaction between the existing requirements placed on firms, and those proposed here would be welcomed. Where a separate assessment and work-programme is envisaged clarity as to whether institutions should omit valuation from its main report would be welcomed, to ensure the avoidance of duplicative work and clarity on the SRB's expectations.

Resolution planning: Implementation

- 3. Do you have any comments regarding the operationalization of the SRB's approach?**
- 4. In particular, do you have any comments regarding the operationalization of the scenario depicted as Banking Union groups with parent entity and subsidiaries in the same Member State?**
- 5. In particular, do you have any comments regarding the operationalization of the scenario depicted as Banking Union groups with parent entity and subsidiaries in different Member States?**
- 6. In particular, do you have any comments regarding the operationalization of the scenario depicted as Banking Union entities with subsidiaries in non-Banking union Member States?**
- 7. In particular, do have any comments regarding the operationalization of the scenario depicted as Banking Union entities with subsidiaries in third-countries?**
- 8. In particular, do you have any comments regarding the operationalization of the scenario depicted as Banking Union subsidiaries of EU or third country groups?**
- 9. Do you have any comments regarding the operational feasibility of the parent entity providing data for the subsidiaries under the Banking Union?**

Clarity on local implementation requirements: The SRB set out in the Explanatory Note under the Implementation section the various scenarios in which a resolution group might find itself when considering the operationalisation of these expectations. What is not clear at present from the proposed note is whether or not the SRB expect local entities to have local Valuation Data Sets available at the local level.

We believe that this is not necessary, especially given that resolution actions are only taken at the level of the resolution entity, and that instead institutions should only be required to provide information at the consolidated level of the resolution group, or at least limited to material subsidiaries. Requiring individual data sets at each subsidiary would create a significantly large administrative burden for institutions and may create inconsistencies between information at the parent and its subsidiaries. This is also true for subsidiaries of third-country headquartered banks operating in the EU, which we comment on in further detail below.

We recommend that the SRB coordinates data requirements with National Resolution Authorities to avoid unnecessary burdens should local National Resolution Authorities impose additional data requirements, which may be very costly for institutions to comply with.

Clarity on expectations for MPE banks headquartered in the Banking Union: Given the nature of MPE resolution strategies, for those banks with such a strategy under the SRB, there will be at least one other resolution group that will not be under the SRB's remit, where the relevant subsidiary acting as resolution entity may be based in a non-Banking Union Member State, or in a third country. As the separate resolution group will have a resolution strategy led by another resolution authority, albeit in close cooperation with the SRB as the Group Level Resolution Authority (GLRA), we strongly believe that the SRB should not apply its approach to valuation across the different resolution groups. The relevant resolution authorities for those other resolution groups should be free to take forward their own approaches that meet the needs of the local authority.

In these cases the SRB should consider the valuation capabilities – and ability to supply data – required by the local resolution authority to be adequate. We believe this to be consistent with the BRRD requirements for cooperation between resolution authorities and would recognise that an MPE strategy envisages that resolution action will be taken at a local level by the local resolution authority.

Particular consideration should also be given to the need to not apply the SRB's proposed approach to valuation where such resolution groups are already subject to local valuation requirements that are in place or in the process of being implemented.

We strongly believe that it would be helpful if the SRB's final policy could make this position clear with respect to separate resolution groups whose resolution entity is in a non-Banking Union Member States or indeed outside the EU.

Banking Union subsidiaries of third country groups: There is also a need for further clarity regarding the application of these expectations to institutions operating in a participating Member State(s) of the Single Resolution Mechanism (SRM), but which are headquartered in a third country. The SRB do comment on the understandable need for assurance that the valuation process to be conducted by another Resolution Authority is adequate, and state that consideration should be paid to the preferred resolution strategy (PRS).

However, in the case of such third country headquartered groups, the SRB does not appear to have set out in detail how the PRS would be considered. Instead, reference is made to the proposed expectations for all groups under paragraph 30, which could be interpreted as applying local requirements absent consideration and agreement through the applicable Crisis Management Group (CMG) or Resolution College. With regards Banking Union subsidiaries of third country groups, the SRB's final policy should be designed to support the PRS and international coordination in line with the FSB's Principles on Bail-In Execution⁴ which indicate that the home authority should coordinate the group wide valuation on a consolidated basis. We would welcome

⁴ FSB – Principles on Bail-in Execution, 21 June 2018 - <https://www.fsb.org/wp-content/uploads/P210618-1.pdf> (see page 11)

further clarity in relation to the scope of any parallel capabilities that may be required by the SRB in this context.

In any event, the approach proposed assumes that the approach taken by the home authority is similar to that put forward in this consultation paper, i.e. that the relevant subsidiary will be able to provide to the SRB specific information (i.e. the SRB Valuation Data Set, and additional data that the IRT deem appropriate). Depending on the business model of the subsidiary, this may not always be the case, and may not align with the requirements placed on it from the home authority with regard to valuation capabilities. Where third countries take an approach that differs from the SRB's, such that this is the case, we would encourage the SRB to instead seek assurances through the relevant CMG or resolution college, or if necessary bilaterally with the home resolution authority, alongside discussions with the institution in question to understand the approach that is being pursued.

We are already fully aware of the commitment the SRB makes to international cooperation on resolution matters, which we are strongly supportive of, and hope to see this brought through in the final Explanatory Note particularly in relation to this issue.

SRB Valuation Data Set – General Comments

As stated in our introductory comments, given the time available to respond to the SRB's consultation, we have not been able to review all of the SRB's proposed Valuation Data Set, and as such refrain from commenting in detail on this document at this stage.

More generally however it is noted that the SRB's proposed Valuation Data Set does diverge from the EBA's own Data Dictionary. This in itself may not be concerning provided there is clarity on only the SRB's data set being the focus for institutions when reviewing their MIS and data availability.

Nevertheless, there is concern for the impact this divergence may have where resolution groups under the SRB's remit have entities outside the Banking Union but within the EU, where local data MIS requirements may apply along the lines of the EBA's own Data Dictionary. This could mean that groups may have to pursue two (or multiple if local requirements further diverge) different approaches, which would prove excessively burdensome and costly, and could introduce variances in practice within a resolution group. This would not be desirable and we would welcome from the SRB clarity in how they will work with other local resolution authorities to ensure only one approach throughout a resolution group is applied with regards to the applicable data set.

Maintaining a single approach to valuation, and data set requirements where necessary, should be a primary aim of the SRB in this area, to avoid inconsistencies and to help institutions achieve resolvability without competing or divergent approaches being set. Confirmation of this within the SRB's final approach would therefore be most welcomed.

We welcome any questions or views you may have on this response and we are very happy to discuss these issues further.

AFME Contacts

Oliver Moullin

Head of Recovery & Resolution, General Counsel

Oliver.Moullin@afme.eu

Charlie Bannister

Associate Director, Recovery & Resolution

Charlie.Bannister@afme.eu