FINANCE DIVISION
RISK DIVISION

# REPORTING DEMANDS IN A COMPLEX REGULATORY WORLD

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# CONTEXT - REMEDIATION THROUGH REGULATION

- **The ongoing strengthening of regulatory supervision as a necessity**
  - The crisis we went through during the last decade have demonstrated the weaknesses of both the supervisors and the banks in their ability to anticipate / cover all risks efficiently
  - The increasing pressure of regulation has been a trigger for banks to
    - Strengthen their risk management framework. Liquidity being a good example
    - Increase the investments in IS upgrades
    - Fasten transformation of Finance and Risk divisions
  - The strengthening of regulation and supervision is as well a necessity to give back confidence in banks

- **That is leading to more homogeneity. The euro zone is now partially harmonized with the implementation of the SSM. A difficult tasks though since :**
  - National options and discretions remains numerous (140) and are still making it difficult for supervisors, investors, shareholder, etc. to compare banks
  - Heterogeneity of the supervision models and reportings with the rest of the world makes it difficult for International Banks to comply with all regulators' requests
  - Heterogeneity of the underlying accounting rules makes it difficult for prudential supervisors to reach homogeneity

- **The new model of supervision for the Euro Zone intends to be far more intrusive**

CHAPTER 01

# FEEDBACK SINCE 2014

# SINCE 2014 : CHALLENGING ENVIRONMENT & EXPECTATIONS

- **2014 the year of expectations with 2 major changes supposedly leading to simplification of the supervision set-up:**
  - Implementation of both **the new capital requirements rules** and **reporting requirements.**
    - Especially through FINREP / COREP, implementation of **the min and the max required from banks / "aiming at rationalizing the requests without increasing the reporting costs for the Banks"**
  - For the Euro zone **implementation of a single supervisory mechanism** with the ECB as one supervisor for all major banks in replacement of all national supervisors leading to the SRA and AQR exercises

- **Two years after where do we stand on these changes:**
  - The ramping up of ECB as a supervisor is putting a huge amount of pressure and workload on banks
  - The implementation of CRD IV reportings was only a minor part of the ongoing regulatory changes
  - What has been implemented is already about to be reviewed and adapted through the new requests (Basle IV, IFRS9)
  - On top of COREP and FINREP, new ad-hoc reportings have been requested by ECB or Basle Committee on a recurrent basis: part of the SRA exercise has been made recurrent through the quaterly STE reporting and Basle QIS has been significantly enriched

CHAPTER 02

# A COMPLEX AND UNCERTAIN ENVIRONMENT

## THE SOURCES OF COMPLEXITY: REGULATORS / SUPERVISORS

- **This regulatory pressure appears to be at the same time:**
  - **Not properly coordinated:**
    - Studies are conducted in parallel by EBA and the Basle Committee on the same topics leading to a duplication of workload for the banks and a lack of clarity on the expectations
    - The regulators roadmaps are not transparent enough for Banks
  - **Sometimes leading to some inconsistencies:**
    - Does it really make sense to conduct **at the same time** studies on advanced methodologies used for RWA computation and on the review of the standard method ; with a floor that can lead to the uselessness of the advanced methodologies ?
    - The way to deal with some products is not always the same in each reporting / indicator. For instance, the derivative netting methodology is different according to the indicator (leverage ratio, LCR, NSFR, accounting netting)
  - **Hardly manageable by the regulators or by the banks:**
    - One could question the ability for banks, and regulators as well, to manage so many topics at the same time in a consistent way
    - The instability of norms and the divergence between EBA ans Basle Committee rules makes it difficult and very time consuming to industrialize production process (NSFR or TLAC vs MREL for instance)
  - **A bit intrusive on upstream processes like accounting:**
    - Regulatory production is highly dependent on Accounting production
    - Regulatory requests are sometimes in contradiction with accounting processes in place
    - One can question some of the ECB request that could be seen as invasive and outside of their legal framework of intervention

# THE SOURCES OF COMPLEXITY: IMPROVEMENTS EXPECTED FROM BANKS

- **Beyond the complexity of the regulatory environment, the increasing needs for information makes it harder for Banks to answer to all constraints with their current organization, IT systems etc.**
  - **Flexibility needed** especially for Groups like Socgen with a lot of subsidiaries:
    - Increasing volume of ad-hoc or non stabilised requests
    - Ability to deliver IS tactical solutions in shorter period of time
    - Ability to change internal management rules quickly to adjust to new regulatory requests
  - **Data accessibility and quality is more critical:**
    - More granularity and thinner aggregates requested
    - More reporting axis requested
    - Ability to access data
    - New external data collection for risk drivers for instance
  - **New computation expectations:**
    - Computation is requested with several methodologies on the same perimeter
    - Ability to change parameters for simulation purposes
  - **Ability to meet deadlines with always more constraints**
    - Shortening of deadlines and requests even during regulatory production period
    - Increasing frequency of production put pressure on IS

CHAPTER 03

# WHAT CAN BE IMPROVED

# EXPECTATIONS FROM THE BANKS TOWARDS THE REGULATORS

- **Give more visibility to the banks on the regulatory target and roadmap through:**
  - **A 3 to 5 years roadmap**, shared with the banks, that plan ahead the studies that are considered
  - **A shared, coordinated -not competitive- work program between EBA and the Basle Committee**:
    - Favouring a sequential approach (Basle Committee and then EBA) rather than a parallel one.
  - **The definition of a target** in terms of reportings: anacredit type of reportings vs aggregated data based reportings

- **Better integrate Bank's constraints through:**
  - **Ad-hoc requests properly planned ahead with reasonable remittance deadlines:**
  - **Implementing recurrent reportings should be considered when norms are stabilised / ratios are applicable**
  - **QIS should be proportionate to the stakes and the stability of the topic**

- **Avoid to pile up reportings on the same risk nature for aggregation axis reasons :**
  - **Anacredit initiatives are making sense under conditions**
    - To give time for implementation
    - To stop investing in trying to adjust the current reporting framework to avoid waste of energy and money
  - **To work on the coherence between the reporting framework on an individual basis and on a consolidated basis**
  - **Work on aligning FSB reporting requests with EBA or Basle Committee reportings**

# LEVERS FOR THE BANKS TO REACH REGULATORS EXPECTATIONS

- **Regulatory monitoring: allowing management to have a global view and a sense of the impacts related to the various topics under regulators' review**
  - Reinforcement of the internal regulatory monitoring structure
  - Cross requests reporting impacts assessment
  - Active participation to regulatory networks and lobbying instances

- **Organisation: centralisation of regulatory production together with internal management production reportings**
  - The regulatory information is more and more built up on accounting enriched with risk based information and then required a mix of risk and finance competences
  - There are an increasing volume of adherences between the various regulatory production **as well as with internal management reportings**
  - Investments are so significant it is more efficient to focus them on one single team

- **Governance: strengthening of  the governance around raw data and indicators**
  - Data quality governance: raw data must have a dedicated governance to ensure their quality
  - Metrics governance: regulatory production could not be considered on a stand alone basis, it has to be steered. Regulatory indicators have to be integrated within the risk management framework

# LEVERS FOR THE BANKS TO REACH REGULATORS EXPECTATIONS

- **Data quality: ensuring quality of all raw data at the most granular level**
  - A shared data model for all the entities with normalised definition
  - A structured and standard control framework ensuring data quality
- **Information System: enhance production tools for regulatory production and provide ability to access detailed information at a very granular level by users**
  - A key success factor for regulatory production is the granularity of the data available and the ability “to play” with all the attributes
  - Reporting production tools enhancement in order to conduct the necessary analysis and reportings/ratios correction
- **Process Steering: reinforcement of the monitoring of processes performance**

Thank you !