

FEEDBACK STATEMENT IN RESPONSE TO THE CONSULTATION ON THE SRB VALUATION DATA SET



Single
Resolution Board

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1. INTRODUCTION

On 19 May 2020, the SRB launched a six-week consultation on its standardised data set designed to ensure that the minimum needed data is available to support a robust and timely valuation for resolution.

The SRB consulted on two documents:

- ▶ The SRB Valuation Data Set instructions document, developing the SRB Valuation Data Set and establishing clear expectations in relation to data needs.
- ▶ An explanatory note aiming to provide guidance to the banks regarding their Management Information System (MIS) capabilities so as to produce information that is as up to date and complete as possible and of adequate quality to carry out a fair, prudent and realistic valuation.

The consultation garnered responses from 10 respondents spread mainly across banks and banking associations. This Feedback Statement addresses the main comments received on the consultation and is published alongside the final SRB Valuation Data Set.

2. MAIN ISSUES RAISED IN RESPONSE TO THE CONSULTATION

2.1. SRB Valuation Data Set instructions document

2.1.1. General comments on the overarching principles set out in the SRB Valuation Data Set instructions document

2.1.1.1. Reporting obligations

Respondents requested clarifications on potential additional reporting obligations arising from the SRB Valuation Data Set.

As stated in the Explanatory note, the SRB Valuation Data Set does not introduce a new reporting obligation (i.e. institutions will not be required to submit data with a predetermined frequency, format, etc.). Nonetheless, as per the Expectations for Banks (EfB), banks should have MIS capabilities in place to produce information that is as up to date and complete as reasonably possible, to carry out a fair, prudent and realistic valuation. To this end, banks are expected to self-assess the availability of data and their aggregation capabilities during the resolution planning phase. Based on the results of the self-assessment and follow-up discussions with the Internal Resolution Team (IRT), institutions will be required to set up a dedicated work programme addressing the main shortcomings of their MIS.

2.1.1.2. Proportionality and scope

Respondents also requested further clarifications on the way in which proportionality is taken into account by the SRB. In addition, respondents believe that, in line with the principle of proportionality, the SRB Valuation Data Set should not apply in principle to institutions for which the resolution plan provides that they would be wound up under normal insolvency proceedings (NIP).

In regard to proportionality, the SRB Valuation Data Set does not include data points that have already been reported by banks under existing EU reporting obligations (e.g. data on legal persons to AnaCredit or data on derivatives under the European Market Infrastructure Regulation (EMIR)) because the SRB expects banks to be able to provide the SRB with the updated data which they already report to other authorities (i.e. European Central Bank (ECB), European Securities and Markets Authority (ESMA), etc.). Furthermore, the SRB expects that some of the SRB data points are already reported to national databases under national laws. Lastly, paragraph 13 of the

instructions document recalls the proportionality principle when referring to the scope of the data set for the self-assessment to be made by banks.

Regarding the scope of the exercise, the final SRB Valuation Data Set is to be defined by the IRT for each individual entity on a case-by-case basis according to various considerations, including the entity's resolution strategy, structure, business model, complexity, etc. For instance, the IRT may decide to scale down the Data Set for certain banks/groups should any of the data points be deemed irrelevant.

In relation to NIP entities, paragraph 14 of the instructions document recalls that, in principle, all entities within the scope of the BRRD may be required to perform a self-assessment. The document provides flexibility to the IRT to expand or scale down the data set for each individual bank on a case-by-case basis according to various considerations, including the preferred resolution strategy.

2.1.1.3. Securities Holdings Statistics (SHS)

Respondents suggested that the SRB could also retrieve the data set for securities from the reporting of securities holdings statistics (SHS) available at the ECB, which banks submit at a very granular level, therefore excluding debt securities and equity investments from the SRB Valuation Data Set.

In accordance with Article 3a(1) of Regulation (EU) No 1011/2012 and as set out in footnote 12 of the SRB Data Set instructions document, institutions must, on a quarterly basis, provide the relevant National Central Bank with security-by-security data on the end-quarter positions of securities. However, the SRB believes that, having regard to the specific 'volatility' characteristic of the securities portfolio, credit institutions should maintain daily records of debt securities and prices, this being a common practice in many institutions following the requirements imposed by both the accounting and prudential frameworks.

2.1.1.4. Internal valuation models

Respondents indicated that it would be less burdensome for the institutions, and more effective for the authorities, to leverage the existing internal valuation models that are already in place, notably in the larger banks.

The SRB Valuation Data Set already acknowledges that valuers may use the outcomes of internal valuation models. In fact, many data fields are parameters provided by the banks' internal risk models (PD, LGD, fair value, etc.). However, an independent valuer, when performing the valuations, cannot not be limited to the outputs of internal models, as they might be flawed or not adequately reflect the valuation premises adopted by the independent valuers'. The methodology applied by the external valuer might be different or even incompatible, and/or certain parameters might need to be added/deleted/updated.

2.1.1.5. Relevance of data

Respondents support a prioritisation of the most relevant data items and are in favour of relying on a similar prioritisation of data points/variables as found in EBA's Data Dictionary.

The SRB Valuation Data Set ensures a consistent implementation of the EBA's valuation handbook for the Banking Union and will be embedded in the resolution planning process of the banks falling within the SRB's remit. Therefore, from this perspective, the SRB Valuation Data Set can be understood as a subset of the EBA's Data Dictionary comprising the data points with the highest priority for the SRB. Furthermore, the SRB Valuation Data Set does not include the data points already reported by banks under existing EU reporting obligations. Finally, when defining the final SRB Valuation Data Set, the IRT may decide to scale down the Data Set for certain banks/groups should any of the data points be deemed irrelevant.

2.1.1.6. Granularity of data

Respondents also question whether such a magnitude of data will effectively be helpful and suggest that the valuation could be also done based on data on a more aggregated level.

Concerning the magnitude of data, as set out in paragraph 36 of the SRB Valuation Data Set instructions document, the SRB acknowledges that valuations of retail portfolios are usually made with lesser granularity than valuations of corporate portfolios. However, in specific circumstances (e.g. high default rates in mortgage portfolios), a collective assessment might not suffice and the valuer might rely on a more granular approach for qualitatively and quantitatively assessing the level of economic impairment of exposures to natural persons that would typically be impaired on a collective basis under the International Financial Reporting Standards (IFRS 9). In this case, the valuer would require a more granular data set to perform valuations.

2.1.1.7. Valuation data for subsidiaries outside the Banking Union

Respondents also indicated that AnaCredit reports are not available for groups with subsidiaries outside the Banking Union. In such cases, it is unclear whether the SRB expects AnaCredit-like data or will switch to the EBA Data Dictionary, or a combination of the two.

For large groups with subsidiaries outside the Banking Union, the Explanatory Note provides guidance to address the specificities of groups with subsidiaries domiciled in non-BU Member States or in third countries. In that context, the document advocates reaching an agreement on the valuation data approach in the resolution college or in the CMG. Notwithstanding this, in the case of SPE groups, the parent company is expected to provide all the relevant information necessary to perform the valuation exercise, including information/data regarding non-BU subsidiaries. As set out in paragraph 30 of the Explanatory Note, relevant information might comprise data based on: (i) the SRB Valuation Data Set, (ii) other data and information that, in the IRT's opinion, satisfy the definitions of the SRB Data Set, (iii) EBA Data Dictionary or the definitions laid down in the EU reporting standards (e.g. AnaCredit), (iv) information available via other sources or required under local regulations, (v) information available via other sources.

2.1.1.8. Cut-off date

Respondents asked for additional clarifications in relation to the cut-off date for the SRB dataset.

Neither the SRB Valuation Framework nor the SRB Valuation Data Set instructions document imposes any additional obligations in this respect. The cut-off date for the SRB dataset will be determined by reference to the legal framework. Article 3 of Commission Delegated Regulation (EU) 2018/345 established that the valuation date shall be determined by the valuer on the basis of the date as close as possible before the expected date of a decision by the resolution authority.

This approach ensures consistency with the accounting records and/or with other information reported internally or externally as appropriate.

2.1.1.9. BIRD initiative

Respondents also requested some clarifications on how the SRB considers the Banks' Integrated Reporting Dictionary (BIRD). Specifically, respondents are wondering about the possibility that the BIRD initiative will perhaps encourage the SRB to adapt its dataset in the future.

In order to avoid imposing unnecessary costs on banks, the SRB Valuation Data Set relies as far as possible upon existing common definitions used in reporting under the EU regulatory and supervisory framework. The BIRD initiative is at a very early stage. However, the SRB is taking part in this initiative and will assess if and how the SRB Valuation Data Set could be integrated, subject to a mutual agreement with the project's sponsors.

2.1.2. Data Set for exposures to legal persons

A respondent asked for clarifications as to whether the definition of 'legal person' used in the SRB Valuation Data Set is identical to the definition of 'legal entity' pursuant to the AnaCredit framework, as well as whether the requested IDs must match those that were delivered for AnaCredit reporting.

The definition of legal person used in the SRB Data Set is identical to the definition of 'legal entity'. Indeed, the SRB Valuation Data Set on legal persons complements the data provided via AnaCredit.

Some of the respondents also indicated that it is unclear whether 'Data Point V_10' refers to a 12-month PD or a Lifetime PD.

'Data Point V_10', entitled 'IFRS 9 Probability of default', refers to PDs used for accounting purposes, being a 12-month PD for stage 1 exposures and a lifetime PD for stage 2 and 3 exposures as per the accounting framework.

2.1.3. Data Set for exposures to natural persons

Some respondents urge the SRB to consider raising the threshold for natural persons, currently set at EUR 25 000. With such a low threshold, the number of customers in scope would increase drastically and be significantly higher than in most AnaCredit reporting Member States.

To avoid any duplication of data points or definitions, the SRB based the Valuation Data Set for exposures to natural persons on the AnaCredit data points and definitions for legal persons. However, institutions can leverage the definitions and data points of local standards or legislations, provided those definitions and data points are, in the IRT's view, equivalent to those envisaged for AnaCredit. This also applies to thresholds triggering reporting obligations (EUR 25 000 for AnaCredit). That said, if data on natural persons relies on local standards and such local standards provide for a higher threshold, the IRT might consider such a threshold equivalent to that envisaged for AnaCredit.

2.1.4. SRB derivatives Data Set

A respondent requested guidance to understand the transactional flows or aggregated data to be reported concerning the SRB derivatives Data Set. Data sets that require a break down of derivatives by transaction are very complex to implement, and, moreover, ignore the existence of Master Agreements and netting sets that are relevant in this field. Detailed requirements that go beyond netting sets should be removed.

The SRB derivatives Data Set should be reported at single contract level. Valuations in the context of prudential or accounting requirements are performed at single contract level and this is in line with the reporting requirements under MiFID, MiFIR and EMIR. That said, the SRB derivatives Data Set takes into account Master Agreements (e.g. netting set rules) when defining the specificities regarding margin requirements. For instance, in the context of collateral information, the value of the margin posted is requested on a portfolio basis if the margin is calculated and reported on such a basis.

2.1.5. SRB data set for deferred tax assets/credits

Some respondents requested clarifications on what information is expected in field 'V_102 (Existence of a cap on DTA/DTC recognition)'. In particular, respondents sought confirmation about whether this question refers to the limits established by accounting regulations regarding the recognition of deferred tax assets or to the limits established in tax regulations to the recognition of monetisable or convertible deferred tax assets (DTC) based on settlement of payments.

'V_102' refers to the limits established by tax regulations regarding DTAs or DTCs.

Some respondents also requested clarifications on fields V_108, V_109, V_110, V_111, V_112 and V_114, relating to the expiry date of DTAs. In particular, respondents sought to understand if the expiry date of DTAs should be understood as the recovery periods of DTAs or as the expiration date of any tax credit (e.g. deductions pending to be applied have a term set in the tax rule for their application, a fact that previously also occurred for negative tax bases).

The DTA expiry date should be understood as the estimated recovery period of the DTA.

2.1.6. SRB data set for intangible assets

A respondent asked for clarifications on the information requested in fields 'V_135 (Transferability)' and 'V_136 (Caveats for transferability)'.

Fields 'V_135' and 'V_136' will be deleted in the final version of the SRB Valuation Data Set. In principle, accounting transfer of goodwill is not possible. In the case of an acquisition, the acquiring entity has to integrate the assets and the liabilities at their fair value, so that the goodwill has to be reassessed. Indeed, goodwill does not meet the separability criterion as required by IFRS 3.

2.2. Explanatory note

2.2.1. General comments regarding the SRB's approach to request from institutions a self-assessment of their own MIS capabilities and to provide a dedicated working programme to improve them

2.2.1.1. MIS capabilities and BCBS 239

Some respondents indicated that the self-assessment of MIS capabilities is an activity already performed on a larger scale and monitored on a yearly basis by banks under the BCBS 239 requirements. Therefore, respondents do not see an added value in running a parallel exercise on MIS capabilities for resolution purposes.

The SRB does not see a contradiction in the implementation of the BCBS principles on a broader scale and the implementation of those principles for resolution purposes. According to paragraph 3 of BCBS 239 'improving banks' ability to aggregate risk data will improve their resolvability'. The SRB is proposing a tool to measure the ability of banks' MIS to prepare, collect, aggregate and submit data on a timely basis for resolution purposes in line with the principles established in BCBS 239. If banks are confident that their MIS comply with BCBS 239 principles in resolution, they can easily share their conclusions with the SRB/IRTs as well. The SRB will liaise with the ECB to discuss the conclusions of their own assessment and evaluate if they are relevant in resolution scenarios.

2.2.1.2. SRB Valuation Data Set template

Respondents highlighted that the outcome of the self-evaluation does not appear to be supported by a template provided by the SRB, and to be completed by the institutions.

The SRB Valuation Data Set instructions document provides sufficient information to perform the self-assessment. A template is only a representation of the information contained in the instructions document and the SRB did not intend to provide a template that could be interpreted as an additional reporting obligation.

2.2.1.3. SRB resolvability self-assessment report and Valuation Data Set self-assessment

Respondents mentioned that a self-assessment is already required by the SRB in the context of the 'resolvability self-assessment report' (RSA) and that this constitutes a top-priority requirement for 2020. Respondents fail to see the difference between the self-assessment in the context of the RSA report based on the expectations for banks (dimension 5: MIS capabilities) and the specific demand on MIS capabilities in relation to valuation. It is unclear from the Explanatory Note whether what is proposed 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 the requirements proposed here would be welcomed by the participants.

In line with the SRB response to the industry consultation on the Expectations for Banks¹, the SRB Dataset for Valuation complements the Expectations in specifying the capabilities to demonstrate readiness for Valuation in resolution. Therefore, banks' self-assessments against the SRB Dataset for Valuation form an integral part of the broader RSA exercise against the Expectations for Banks. The identification of gaps and priorities to be addressed in respect of the valuation self-assessment should feed into the broader RSA report submitted by the banks, and in their multi-annual work program.

2.2.1.4. Virtual Data Room (VDR)

Respondents argue that the SRB's approach concerning the establishment of a Virtual Data Room (VDR) should reflect the size, complexity, business model and also the resolution strategy of the relevant institution. Maintaining a VDR in a going concern would impose undue costs on institutions where adequate capabilities to make data available may already exist in the light of the institution's specific profile.

The SRB Data Set does not require the use of a specific format to share the data. Banks are free to use any format for the data exchange. Nevertheless, in the case of resolution, banks are expected to have the capabilities in place to report data (e.g. at a short notice/on the spot). by setting up and populating a VDR) to the resolution authorities in a single format and in a standardised and exportable way to make it easier for valuers to manage large amounts of data.

2.2.2. Comments on the two implementation phases foreseen by the SRB

Respondents indicated that the Explanatory Note sets out a proposed path for institutions for 2020, and beyond. The first two phases consist of a self-assessment and a gap analysis, followed by the drafting of a multiannual work programme. Considering the timing of the consultation and the lack of clarity about when the final policy will be published, it will be particularly challenging for institutions to complete these two phases in the few months that remain. The operational resources required to undertake full gap analysis assessments, specifically at this time in the light of the COVID-19 outbreak, may be needed and best utilised in supporting ongoing operational continuity.

The proposal and the timing indicated in the consultation referred to those 'pilot' banks that already had valuation as a priority for 2020. The same approach will be applicable for all other banks during 2021 and onwards. As explained in the document, the banks will perform a self-assessment and will then propose a working programme to improve their valuation capabilities and address any shortcoming identified during the self-assessment.

2.2.3. Comments regarding the operationalisation of the scenario depicted as Banking Union groups with parent entity and subsidiaries in the same Member State

Respondents indicated that the EBA Valuation handbook lays down that the RAs should only require subsidiaries (which are not themselves resolution entities) to comply with the extensive provisions on Valuation MIS if they have to consider a positive recapitalisation amount for their Internal MREL requirements. However, in the explanatory note, the SRB indicates that a parent

¹ https://srb.europa.eu/sites/srbsite/files/efb_responses_industry_final_web_0.pdf

entity has to be able to provide detailed data sets for all subsidiaries in Member States. This means that the subsidiaries are required to have a comprehensive MIS in order to provide the parent entity with the required data.

The SRB is indeed requesting the subsidiaries to have a comprehensive MIS in relation to valuation. In terms of process, the valuation may entail the valuation of “one” entity, which might for instance be the institution in resolution on a consolidated basis. Alternatively, one might also split the group into different parts for valuation purposes, e.g. into the parent and subsidiaries. If this is the case, after having performed the valuation of these parts, these parts would be in the end combined. This is the so-called sum of the parts (SOTP) methods.

In both cases, subsidiaries information are deemed necessary to perform the valuation.

2.2.4. Comments regarding the operational feasibility of the parent entity providing data for the subsidiaries under the Banking Union

Respondents indicated that, considering the time constraints during resolution proceedings, the provision of data for subsidiaries might constitute a substantial obstacle for effective and timely resolution. This will be of particular concern, as it is common that individual entities in banking groups use different core banking systems, which in turn leads to further challenges regarding timely delivery of data as well as data consistency. Consequently, it has to be carefully assessed whether granular data on assets of subsidiaries (i.e. consolidated view) are needed or whether data on participations and intragroup liabilities (i.e. single entity view) will suffice. In the respondents’ opinion, the SRB should provide further guidance on this topic. Furthermore, respondents identified substantial differences between accounting/regulatory/resolution methodologies prescribed by different local supervisory authorities. The provision of consistent data sets is significantly complicated by these differences between prescribed methodologies. Consequently, according to the respondents, the alignment between the local supervisory authorities is a prerequisite for efficient and timely data provision.

The SRB takes note of this comment and will further analyse this issue for the purposes of expanding the guidance.

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