White Paper

AnaCredit Reporting: Benefit or Burden

Two years on and in the midst of a global pandemic has AnaCredit delivered results for regulators and credit institutions?

REGNOLOGY

Abstract

AnaCredit reporting, two years in

30th September 2018 marked the reference date for the first AnaCredit Reporting dataset. Two years later, many Reporting Agents (RAs) still face challenges in submitting high quality granular data on a monthly basis.

What lessons have been learned over the last two years? What are the main challenges being faced? What tangible benefits has AnaCredit reporting brought so far, and where will it go next?

The two-year anniversary also coincides with a global pandemic caused by the Covid-19 virus. While the full effects of the pandemic are yet to be seen, how has this impacted the reporting process and, more importantly, has this new source of granular data proved beneficial during a global crisis?

Based on discussions with a number of RAs and National Central Banks (NCBs) throughout Europe, this paper will examine some of the highs and lows of the AnaCredit journey so far as well as discussing the impact of AnaCredit on future trends in regulatory reporting.

Background — A new type of reporting

In May 2016, the Governing Council of the European Central Bank (ECB) approved Regulation (EU) 2016/13 on the collection of granular credit and credit risk data. This new data initiative, known as Analytical Credit Datasets (AnaCredit), involved the collection of granular credit data based on harmonised ECB statistical reporting requirements. The objective was to establish a common granular credit database shared between the Eurozone members to develop and produce new ECB statistics and improve the quality of existing ones.

Granular credit data can be used to serve a number of different functions. The AnaCredit data supports the ECB and NCBs in performing their central banking and supervisory functions including monetary policy analysis and operations, risk management, financial stability surveillance, statistics, macroprudential policy and research.

Implementation of AnaCredit — European and national requirements

AnaCredit reporting is mandatory in all nineteen member states of the Eurozone. Other EU states can also opt-in to the reporting process, and so far, Denmark and Sweden have chosen to do so. While the scope of the reporting requirements is laid out by the ECB, there have also been significant national discretions and divergences in approaches and data collected across countries.

ECB Requirements

At its core, AnaCredit requires the line-by-line reporting of certain types of debt instruments that give rise to credit risk. Each instrument is reported with up to 50 attributes, 34 of which are reported monthly, and the remaining 16 on a quarterly basis through the accounting dataset.

Each instrument is linked to a number of counterparties, either directly in the role of debtor, creditor, servicer or originator, or indirectly as part of a group structure consisting of the debtor, head office, and immediate and ultimate parents (if applicable). These counterparties are then reported on a line-by-line basis with up to 25 attributes depending on their role(s).

Finally, if an instrument is secured by protection (both funded and unfunded), this protection must be reported with up 12 attributes including details on the protection provider (if not a natural person) and the allocated value of the protection against each secured instrument.

A full set of requirements can be found in the AnaCredit reporting manuals available on the ECB AnaCredit webpage.[1]

National Implementations

The granular nature of the AnaCredit datasets provide NCBs with a unique opportunity to define the data they receive, especially when compared to traditional template-based reporting. In many countries, this has led to an increase in the breadth (new instruments or counterparties) and/or depth (new attributes) of data being collected, over and above the ECB standard.

Aside from the data, the implementation of the reporting process itself also differs across countries, including variations in the format and frequency of reporting as well as in the processing of corrections.

These differences can lead to challenges for RAs, particularly for those who report in multiple countries with different requirements and interfaces. To reduce the impact of this, many NCBs have put bilateral agreements in place with their equivalents in other countries to share information and limit double reporting. Despite this, some overlaps still exist.

In Table 1 below, five reporting countries were analysed to illustrate the range of differences seen in national implementations. In particular, the following topics were compared:

- Reporting Format: What technical format is used to submit the data to the NCB?
- Threshold: What reporting threshold is used, if any? In Article 5 of the 2016/867 regulation, the ECB specifies that only counterparties with a combined exposure of 25,000 Euro or more are considered in scope for reporting purposes. Many countries have opted to lower this threshold in the interest of collecting a more complete dataset.
- Feedback Loop: The ECB allows NCBs to participate in the sharing of certain subsets of data with RAs on a voluntary basis. The framework for this was recently enhanced in (EU) 2020/381. Some NCBs have not implemented these requirements as of this date, so in the table below, the feedback loop refers to any automated transmission of feedback from NCBs to RAs
- Delta Reporting: Whether delta submissions (submission of new or updated records only) are supported, or whether a complete report is submitted each period
- Deletion of Records: Whether the NCB supports the deletion of inaccurate data in an automated fashion for correction purposes
- National Specific Requirements: Any additional national specific requirements or features not covered by the above.

1 www .ecb.europa.eu/stats/money_credit_banking/anacredit/html/index.en.html

	Austria	Ireland	Germany	Netherlands	Lithuania
	Data Cube	XML	XML/SDMX	CSV	XML
Threshold	€25,000	0	€25,000	€25,000	0
Feedback Loop	Yes	No	No	No	Yes
Delta Reporting	No	Yes	Yes	No	Yes
Deletion of Records	No	No	Yes	No	Yes
National Specific Requirements	Combined with, and replaces, existing reports Counterparty data not required as this is captured from other reports Includes reporting on natural persons Part of AUREP framework	Additional counterparty attributes including full reporting of all roles filled. Additional national templates reported by selected Institutions	Additional template for reporting of multiple protection providers Technical attribute to distinguish between replacement and deletion of records	Restructured data model includes 51 separate templates but few additional attributes Complete submission of applicable templates each month	45 national attributes added Includes reporting on natural persons Delta and deletion functionality on attribute level Reporting on both daily and monthly basis

While the above table only covers a subset of reporting countries, a high level of differences can already be seen. For large international RAs reporting in multiple countries, this means that a more complex centralized solution is required or that separate implementation projects are done on a national level. Both approaches can lead to higher costs and require more resourcing.

Local requirements present their own unique challenges for reporting, however, there are also many challenges that are common to all countries and reporting agents.

Challenges – The right data at the right time

When asked about the biggest challenges faced as part of the AnaCredit reporting process, the majority of RAs interviewed listed data quality and data availability as primary issues. This was followed by the corrections process, differences in national implementations and tight deadlines.

Data Quality

One recurring theme was the challenge of obtaining certain data, particularly counterparty reference data such as parental or balance sheet information. Information on smaller counterparties or counterparties in third party countries was also considered more complex to source. Generally, the higher the level of IT maturity within an organization, the easier it is to source and integrate this data into the reporting process. Some RAs also questioned the reason or necessity behind certain data attributes required for reporting. Counterparty information such as balance sheet attributes were highlighted as a burden for RAs to collect and verify and were perceived as providing limited benefit either to themselves or NCBs.

Of the RAs interviewed, two main approaches were adopted to improve data quality issues. Firstly, engaging with an external data provider to fill gaps in the available counterparty data. Most RAs who used an external provider agreed that data received was generally of average to good quality, but that there were often gaps (particularly for smaller counterparties), where data could not be sourced. It is also noteworthy that of the RAs using an external provider, very few have yet leveraged the data they receive for purposes outside AnaCredit reporting. This indicates that they either do not consider this data valuable or have not yet integrated it with their existing sources.

The second approach to address data quality issues involves internal initiatives to enhance the collection of data at source. In many cases, it was noted that this requires a significant investment in the existing IT infrastructure of the organization.

While many RAs agreed that this was the preferred option, in many cases, after the initial AnaCredit implementation, IT budgeting was redirected towards other topics like customer experience, which are perceived as more valuable.

To secure the required investment for improvements in data quality and lineage, stakeholders must be convinced of the value of the exercise to the organization, either by showing how this data could be leveraged for other value adding purposes or by highlighting the risks of non-compliance, such as regulatory sanction and data-related business risk, should quality standards not be met.

This lack of ongoing investment also means that for many RAs, maintenance is focused on implementing mandatory changes, responding to queries from NCBs and correcting issues. Coupled with the tight monthly reporting deadlines this can leave little capacity to implement long term improvements.

Queries and Corrections

Another area that is proving challenging for many RAs is the handling of queries and the subsequent corrections process. While some NCBs are focusing on raising data quality through ongoing monthly corrections, others have already begun deeper analysis on the data received so far, including cross-checking it against other statistical returns.

Cross-checking returns can be used by NCBs to reconcile and validate the AnaCredit data before using it for other analytical purposes. While some NCBs are choosing to wait for these checks to be defined on a European level before implementing them, several have already begun querying discrepancies (such as sectoral and geographical breakdown of counterparties) between AnaCredit and other national returns. As a result of these and other data quality queries, many RAs in these countries are now being asked to submit corrections to previously submitted data.

Accurate historical data is important to NCBs and the ECB for developing time-series analysis and monitoring changes in exposures, but it is also proving a challenge for many RAs. Several RAs pointed out that their reporting process and solutions were implemented before a clear corrections process was defined and they are now struggling to meet the resubmission requirements, while also continuing their monthly reporting cycle in parallel.

The delta approach to reporting has also caused challenges. The delta mechanism specifies that certain counterparty, instrument, or protection records should only be submitted when new or when their reportable attributes change. One of the goals of this was to help reduce data volumes for reported information, but it can also lead to misalignment between the data of the RA side compared to what has been accepted by the NCBs. This often requires additional manual effort and analysis to review the complete history of each individual record and factor that into the corrections process.

Many RAs interviewed felt that their current corrections process was particularly onerous and that to avoid unnecessary burden, the reach of historical corrections should be reviewed.

Some believed that corrections should only be done on a go-forward basis, while others felt that corrections should be limited to an agreed timeframe, in the region of 6-12 months.

While most RAs acknowledged that improvements in both data quality and the reporting process have been made over the last two years, it is still a challenge. Even if satisfied with their current monthly process, there are concerns that changes in scope or more detailed analysis of the data already submitted could lead to significant effort in the future.

Challenges for the NCBs

RAs are not the only ones facing challenges with AnaCredit reporting. For many NCBs AnaCredit was also a complex project to implement. To begin with, NCBs were required to analyze the ECB requirements and decide how best to implement them within their own national frameworks. This also meant ensuring they had a clear view on the business definitions of the attributes that could be shared with RAs.

There were technical challenges too, both in implementing systems to collect and process large volumes of granular data as well as analyzing the data once received. These systems also need to be scalable and extensible to accommodate future changes in requirements. Many of the NCBs interviewed noted that matching and consolidating counterparty data from multiple RAs into a single dataset and integrating that into the RIAD database also required a significant effort.

As with the RAs submitting to the NCBs, the NCBs themselves must ensure that they meet certain data quality criteria when submitting onwards to the ECB. Meeting these criteria requires close collaboration with the RAs to improve data quality over time.

Several NCBs have acknowledged that as reporting has developed, some changes have been required in their approach to corrections – to ensure consistency of data and simplify the process going forward. Some NCBs implemented a delete functionality to remove incorrectly submitted records from their system. Others, however, do not use this functionality and separate provisions must be made for the removal of incorrectly reported data. Similarly, some NCBs support the resubmission of individual records or attributes, while others focus on overwriting rather than changing data. There does not

seem to be a general consensus among RAs or NCBs about which approach is best, but in many countries, NCBs and RAs are working together to refine this process.

Benefits – New ways of looking at data

When RAs were asked about their opinions on AnaCredit reporting, the phrase "Regulatory Burden" came up in more than one discussion. When initially introduced, the ECB and NCBs stressed the benefits of this return. They highlighted both the value of the data being collected for central banking purposes as well as the goal of mitigating the reporting burden on RAs via stable requirements and less need for ad-hoc requests. But after two years of reporting, what benefits have been seen so far?

Several RAs interviewed noted that AnaCredit reporting had put an increased focus on data quality due to the granularity of the information being requested. There was also a broad consensus that AnaCredit has contributed to an overall improvement in data management within credit institutions, resulting in improved quality in other regulatory returns, and in general data quality within the organization.

One of the proposed benefits to RAs as users of the granular credit information was the ability to perform finer and more robust analysis of their own exposures then was previously feasible. RAs also have an opportunity to use the data collected for AnaCredit purposes to provide customer insights for internal commercial purposes as well as feedback to customers themselves.

This can help move the customer relationship away from a traditional transactional relationship and towards a more data-driven relationship designed to predict and address the customers' individual needs. However, the majority of RAs interviewed are not currently re-using the AnaCredit data collected for other value-added business or customer purposes.

This can be partly explained by the fact that a lot of the longer established Institutions are still reliant on inflexible legacy systems that were built for a specific purpose. As these systems are costly and difficult to replace, the data lineage benefits enjoyed by newer digital banks and FinTech's are much more challenging for traditional banks to achieve.

One of the stated aims of the AnaCredit data collection exercise is to ultimately reduce the reporting burden on RAs and some NCBs have already been able take steps in this direction.

> Edita Lukaševičiūtė, Principal Statistician in the Bank of Lithuania notes that:
>
> "The information collected for AnaCredit purposes has already enabled us to discontinue one of our statistical returns and we anticipate that this trend will continue into the future."

Other NCB's we spoke with noted that while reducing the reporting burdens for banks is still a priority, for some there is a preference to pursue this goal at a European level in line with updates to relevant regulation e.g. ECSB's Integrated Reporting Framework (IReF)

Covid-19 – A case study for AnaCredit

The most obvious example of AnaCredit realizing a direct benefit to both RAs, NCBs and indeed the economy as whole, came from an unexpected source. In March 2020, the Covid-19 pandemic swept across Europe resulting in both economic and societal shockwaves. During this unprecedented time, AnaCredit both proved its value, and provided a glimpse into the future of granular data sets in crisis situations.

NCBs interviewed described how the AnaCredit datasets collected so far have proven a valuable asset during the early stages of the pandemic. Several noted that granular information around individual and sectoral exposures could be analyzed very quickly. The available data was used to inform rapid decision making and reduce the need to impose additional and burdensome data collection exercises on the RAs.

> Stefan Brunken Head of Division for Monetary and Financial Statistics, Deutsche Bundesbank elaborates on this:
>
> "It was clear from the beginning of the pandemic that we needed accurate customer level data fast. [....] Due to the flexibility of the AnaCredit dataset and AI-based algorithms, we were able to quickly analyze the amount of public support loan programs at instrument, bank and customer level. Timeliness of data is critical and in collaboration with our banks, we were able to get quality information quickly to our stakeholders to assist in making informed decisions. In many ways, AnaCredit was enacted with a view to supporting yet unknown user requirements. The Covid-19 pandemic is a case in point for its value."

The pandemic has also presented unique challenges for both RAs and NCBs. Both parties had to adapt to a new way of working overnight, while NCBs have also played a central role in analyzing the impact of the crisis and the effectiveness of public support programs

While deadline extensions for AnaCredit reporting were considered at both National and European level, ultimately it was agreed that obtaining timely data was a priority during the crisis and NCBs acknowledged that the majority of RAs were able to continue to report on time and noted their resilience in this respect.

For many RAs, a more substantial impact was seen on the data itself. It was recognized that there are challenges ahead that may require additional process improvements and additional analysis to capture the granular information required. The full extent of the impact is yet to be seen.

RAs have also noted challenges with respect to credit loans guaranteed by National Governments, a common policy response to the Covid-19 crisis across Europe. Often these guarantees have been approved and need to be reported at extremely short notice requiring workarounds and manual intervention from RAs until the complete data is available in source systems.

Future Developments – Evolving regulatory reporting

While there have been many challenges in the reporting of AnaCredit, interviewees were in agreement that that this type of granular reporting will become more common and that RAs should view AnaCredit as a starting point for a longer journey ahead.

Under Article 430c of the Capital Requirements Regulation 2 (CRR2), the EBA has been mandated to carry out a feasibility study with respect to the development of a consistent and integrated system for collecting statistical, resolution and prudential data. The European System of Central Banks (ESCB) recently published its input into this study. The report identifies the integration of reporting requirements from these three areas as the main prerequisite to reducing the reporting burden on banks. A common standard data dictionary, incorporating transformation and validation rules, and a common data model are viewed as necessary components of a future standard for granular regulatory reporting.

> Rory McElligott, Head of Statistics in the Central Bank of Ireland, notes that:
>
> "This is an important, well considered document that lays out the vision and steps that can be made to reduce the reporting burden. There are a lot of issues on the table, among others, how data will be collected and submitted to the ECB and how collaboration between RAs, NCBs and the ECB will work. These all need to be looked at but there is an appetite to embrace the opportunity to lower costs for industry while continuing to support public policy with high quality data. We will make progress in the coming years."

There has already been significant development in this area over recent years.

The Banks Integrated Reporting Dictionary (BIRD), which has involved voluntary participation from a number of Institutions, specifies how data should be extracted and transformed in order to generate the regulatory information required. BIRD includes definitions of the statistical, resolution and prudential reporting requirements under several EU laws. This demonstrates strong synergies with the proposed approach from the ESCB. In addition, work had been underway for some time on the ESCB's IReF which aims to integrate the statistical data requirements for Institutions into a unique and standardized reporting framework.

The organizational impact of the trend to more granular reporting cannot be ignored. With respect to human resources, a number of participants noted that the move to a more granular data driven approach to Regulatory Reporting has required Institutions to place an increasing focus on data management skills in their search for talent. This poses challenges for traditional Institutions as it brings them into direct competition with FinTech and BigTechs in the labor market who are often seen as more attractive propositions to candidates.

Conclusions — The journey continues

With any new type of reporting comes a myriad of challenges, but the granular and detailed nature of AnaCredit reporting has proved more challenging than most. Two years on, many RAs continue to struggle with the requirements at both a national and ECB level and while improvements have been made, the journey is far from over.

For the NCBs, the Covid-19 pandemic has already shown the value of the data collected so far and as they continue their analysis, the value and insights gained will likely increase. To fully realize the benefits, RAs and NCBs must continue to work closely together to improve data quality.

Though expected reductions in reporting burden on RAs have yet to fully materialize, NCBs note that progress is being made. In many countries, AnaCredit has helped reduce the number of ad-hoc requests issued during the pandemic and as data quality improves and data is further analyzed and expanded, it is envisaged that other aggregated regulatory returns may also become obsolete.

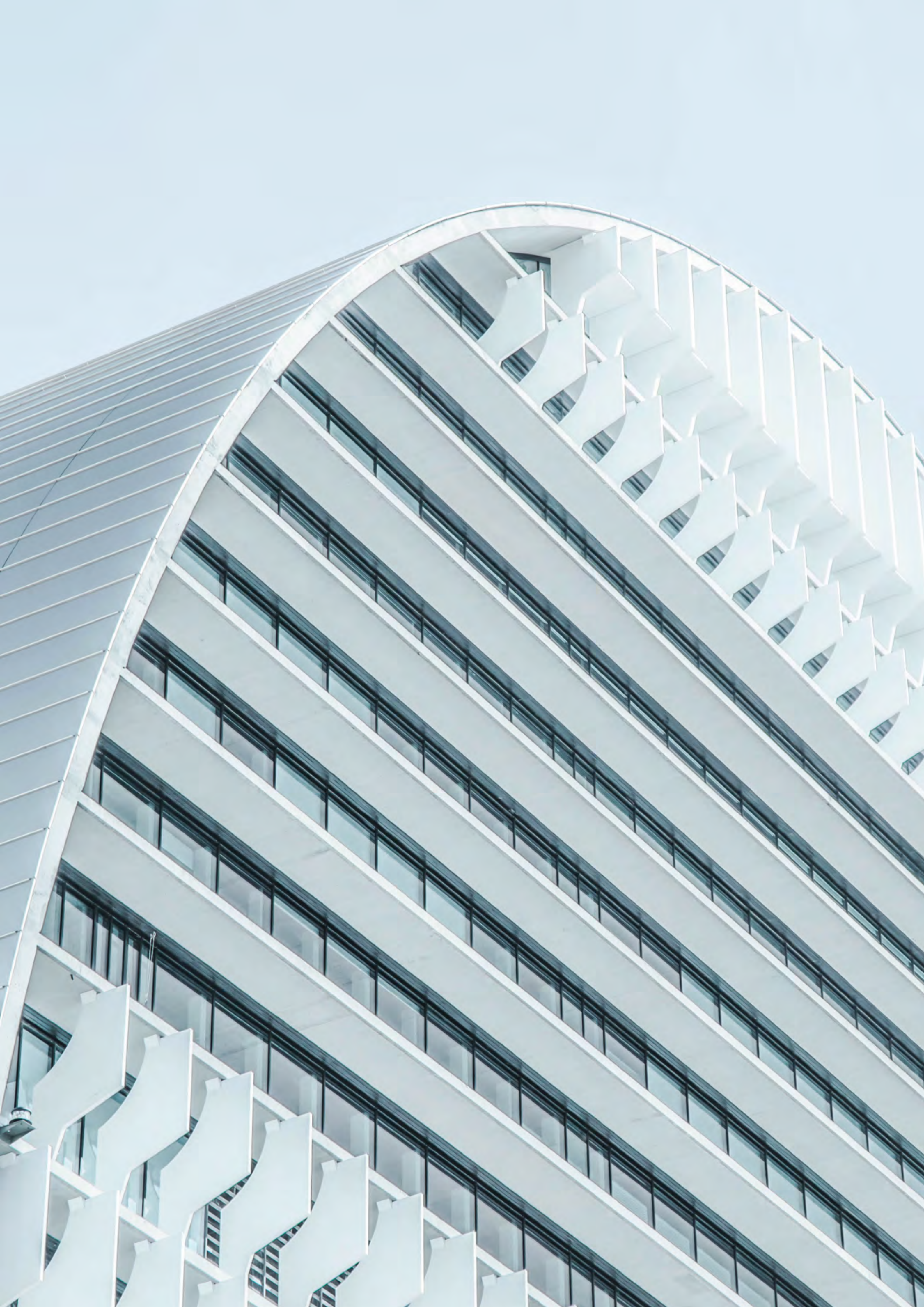
The full effects of the pandemic have yet to be felt, but the longer the current situation continues, the higher the potential impact on individual Institutions and the wider economic landscape. RAs must be prepared to ensure that their reported data accurately reflects this impact.

High quality, granular data should be viewed as an asset not just for the NCBs, but also for the RAs. Participants from both groups agree that the scope of granular reporting is likely to increase in the coming years. As a consequence, RAs must take this opportunity to review how they source and manage this data on an ongoing basis, and equally, how they can harness this investment to generate further value from it.

One of the lessons RAs can learn from FinTech's is how to better leverage and monetize the data they hold to drive innovation, both within the organization itself as well in

the services and insights they provide to their customers. The demands for data and the opportunities associated with data will only grow over the coming decade. In this context, AnaCredit reporting can be seen a first step towards a more data-driven future.

In response to this increasing demand, the responsibility and opportunity to capitalize on the benefit of the investment for the organization lies firmly with the credit institutions.



Regnology
Speicherstrasse 1
60327 Frankfurt
Germany
regnology.net

Marketing/Sales Contact:
info@regnology.net

About Regnology

Regnology is a leading international provider of innovative regulatory and supervisory technology solutions (RegTech and SupTech), of AEOI and tax reporting products, as well as of services along the Regulatory Value Chain for financial services. Regnology has been a partner for banks and regulators for 25 years. Until the end of 2020, the company was part of BearingPoint group and operated under the name BearingPoint RegTech. Since the sale of the RegTech business to private equity firm Nordic Capital, the company has been independent. In June 2021, the company joined forces with Vizor Software and recently changed its name to Regnology. In total, Regnology serves more than 7,000 financial services firms with reporting solutions. At the same time, the company enables more than 50 regulators and tax authorities on five continents to collect data from 34,000 firms in 60 countries. Regnology has a total workforce of over 770 employees at 17 office locations in 12 countries.

More information:
www.regnology.net