The macro and micro dimensions of the banking union — which are the challenges for statistics?

Martin Špolc
European Commission

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Overview

1) Introduction

2) Data needs from the macro-prudential perspective

3) Data needs from the micro perspective - resolution

1) Introduction

- **The legal framework underlying the BU provides <u>the right basis</u> for having all the necessary appropriate data and information to make informed decisions.**

- **It will be <u>considerably more effective than a</u> patchwork of national authorities.**

- **However, <u>further actions by the relevant supervisory and resolution authorities are needed</u> to ensure appropriate exchange of data and information among themselves to maximise the benefits of the BU.**
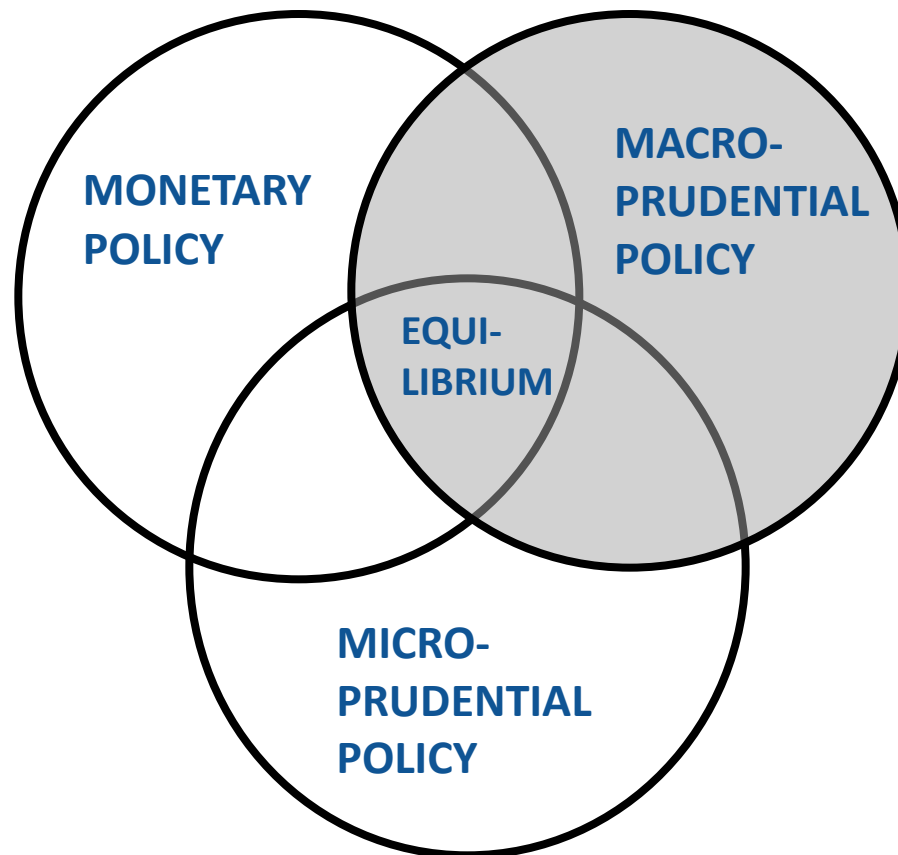
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3) **Data needs from the micro perspective - resolution**

2) Data needs from the macro-prudential perspective

MONETARY POLICY

MACRO-PRUDENTIAL POLICY

EQUI-LIBRIUM

MICRO-PRUDENTIAL POLICY

2) Data needs from the macro-prudential perspective

Area of shared competence – allocation of responsibilities for the different macro-prudential instruments:

Instrument	Relevant provision	Allocation of responsibilities
Countercyclical capital buffer (CCB)	CRD 130, 135-140	Designated authority (or competent authority for the exemption of SMEs under CRD 130)
Systemic Important Institution (SII) buffers (G-SII and O-SII buffers)	CRD 131	Designated or competent authority (more than one authority possible)
Systemic risk buffer (SRB)	CRD 133, 134	Not mandatory to implement – if implemented, designated or competent authority
Macro-prudential use of pillar 2 measures	CRD 102-105	Competent authority
Higher requirements on capital / liquidity / large exposures / risk weights	CRR 458	Competent or designated authority
Higher real estate risk weights and stricter lending criteria	CRR 124	Competent authority
Higher minimum exposure-weighted average LGDs	CRR 164	Competent authority

2) Data needs from the macro-prudential perspective

Challenges:

i. Area of shared competence - data to support effective interaction between the national authorities and the ECB

ii. Geographical coverage: data should cover the whole single market for the following reasons:

- Assessment of spill-over effects
- Prospect of future enlargement of the SSM
- Essential cooperation with the EU bodies, in particular the EBA, ESRB and the Commission

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3) Data needs from the micro perspective - resolution

Access to data and the Board's capacity to analyse such data is crucial. Steps to be taken:

Evaluation of available data

Identification of the SRM's data needs

Addressing the resulting difference, the data gap

3) Data needs from the micro perspective - resolution

Evaluation of available data - taxonomy to establish information requirements:

A) List
- Present all sources of info with no given order

B) Matrix
- Focus on sources according to some dimensions: i.e. public/confidential –vs.- raw/processed information

C) Analytical
- Establish information requirements according to objectives and priorities necessary to achieve successful resolution processes

A) List - Sources of info with no given order

FREE PUBLIC

- Aggregate banks' balance sheet data: ECB.
- Aggregate primary market issuance: ECB.
- Cross-border lending: BIS.
- Macro & public finance: AMECO/IMF/OECD.
- Financial & non-financial sector accounts: Eurostat.

PRIVATE

- Secondary market prices: Bloomberg / Thomson Reuters.
- Primary market prices & quantities: Dealogic (Equity, Fixed Income & Syndicated Loans).
- Derivatives: Bloomberg, itraxx.
- Granular data on loans, doubtful loans & NPLs: Fitch, Moody's, S&P.

CONFIDENTIAL

- Refinancing Operations, individual bank bids: ECB.
- Supervisory (accounting & prudential): SSM.
- Supervisory (internal governance & risk management): SSM.
- Margin requirements & Haircuts: CCPs (LCH Clearnet, etc.)
- Credit registries data.

COSTLY PUBLIC

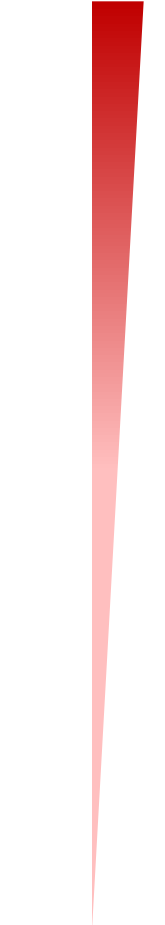- Individual bank's balance sheet data: Bankscope, SNL Financial.

UNAVAILABLE

- Secondary market quantities (i.e. liquidity /market depth).
- True loss absorption capacity by type of liability.
- Forward-looking measures of Risk aversion.

B) Matrix – part of the SRB's toolkit

Private / Confidential

Public

Individual BS data Full A&L valuations **ECB** Bank bids in Refinancing ops. (MRO) **CCPs** margins/haircuts **Corporate Structure**	**Individual BS data** **A:** Credit registry data **Derivatives** **Credit Risk:** fixed income, equity **Mkt risk** Interest rate (banking book)	**Risk profile** SREP **LT Profitability** Stress **Internal** governance and risk control **Resolution planning** living wills
Individual BS data(*) **L:** Equity/ Jr./ Sr. debt **Primary mkt data** (*) Prices & Quantities **State Aid data**	**Liquidity/funding**(*) Net issuance: gross issuance-maturity **Secondary mkt data** (*) Prices	**True loss absorption** **Counterparty Risk**
Aggregate BS data Sector loans, doubtful loans, NPLs, deposits,… **Cross-border lending** **Sector accounts** **Macro** GDP, Unemploy.		

Raw → **Processed**

Available data

i) Data accessible to private market analysts

ii) Raw confidential supervisory data

iv) Other data, including access to non-bank sources of financing

iii) Supervisory conclusions

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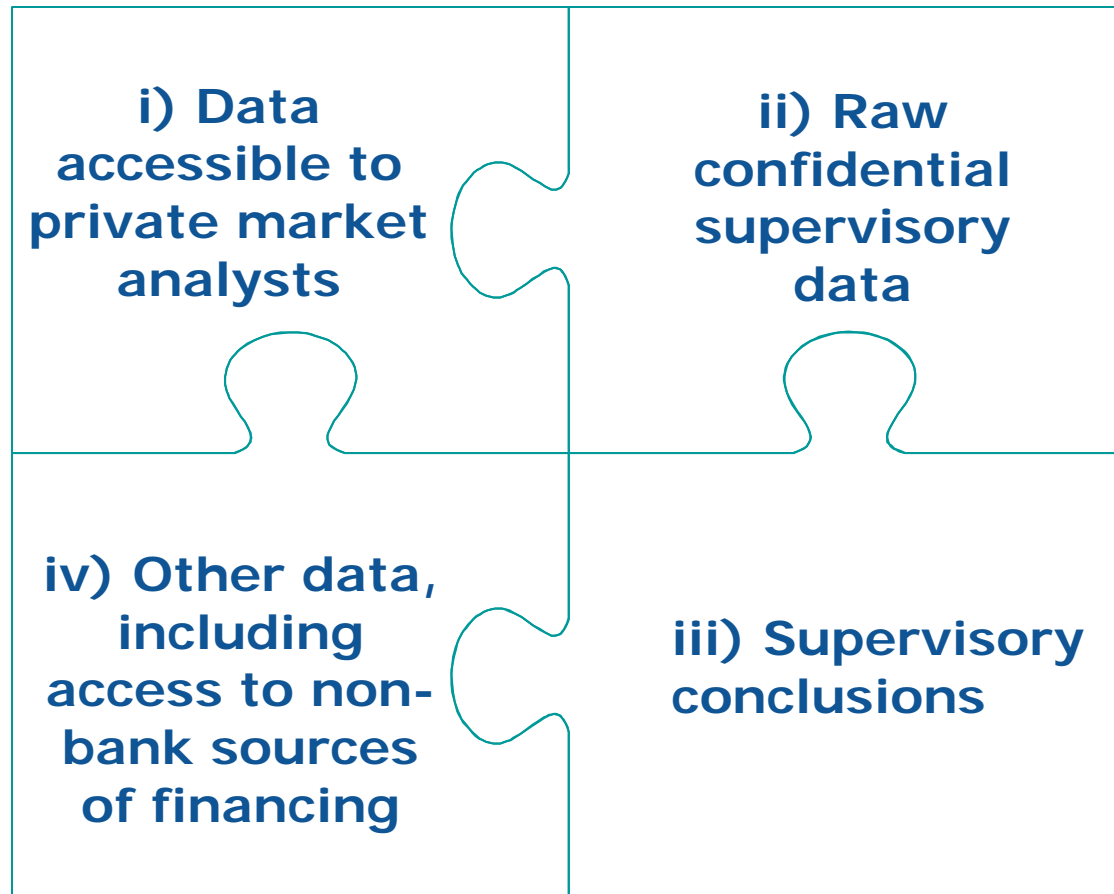
Most challenging:

▪**Requires several layers of analysis using <u>both</u> supervisory & market data in parallel**

> ➤ In principle, supervisory and resolution authorities should be one step ahead of markets, because of their access to confidential information.

> ➤ However, investors don't wait for losses to materialise. They prefer to "*run*", so the SRB cannot solely rely on the supervisory info only.

▪**Need to establish priorities**

> ➤ Focus on how bank failures arise, aside from underlying "fundamentals". EU banks failed in a variety of ways.

> ➤ Case studies focusing on individual EU bank failures and data generated on the road to failure are key.

Example – start from the end, backwards induction

- **Endpoint**
  - Bank A failing or likely to fail
- **Common sense**
  - Investors will have run before bank fails, they don't wait for losses to materialise
- **Distinguish between runs**
  - (i) retail (depositors) & wholesale (investors); (ii) different ways to run; (iii) why? how? etc.
- **Consequences of runs**
  - (i) loss of financing (ii) substitution of junior for senior financing etc.
- **Avoid bank runs**
  - Understand investor's behaviour, bear in mind their incentives, etc.

Thank you for your attention!
Martin.Spolc@ec.europa.eu