

How integrated reporting by banks may foster sustainable finance?*

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* The views expressed are solely those of the authors and do not necessarily reflect the opinion of the European Central Bank nor of Banque de France

1. Introduction

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1. Introduction

Traditional macroeconomic statistics...

- consider economic areas as homogeneous entities
- ignore complex relationships between agents
- have long lead-time and provide little flexibility

... while granular data

- allow to reflect the heterogeneity of economies and can be used for panel analyses
- measure economic phenomena at the level at which they occur
- allow high flexibility by users in handling data
- enable them to drill down from aggregated to institution-level or contract-level data so as to better understand new developments

“...well-established ESCB statistics will continue to provide the “big picture” of economic developments. But we should also offer a magnifying glass.”

Mario Draghi, ECB President, 8th ECB Statistics Conference, 2016



2. Recent developments in processing granular data

Securities Holdings Statistics

- since 2013, security-by-security quarterly information on securities held in the euro area, broken down by instrument type, sector and residency area of the debtor, and
- further additional classifications

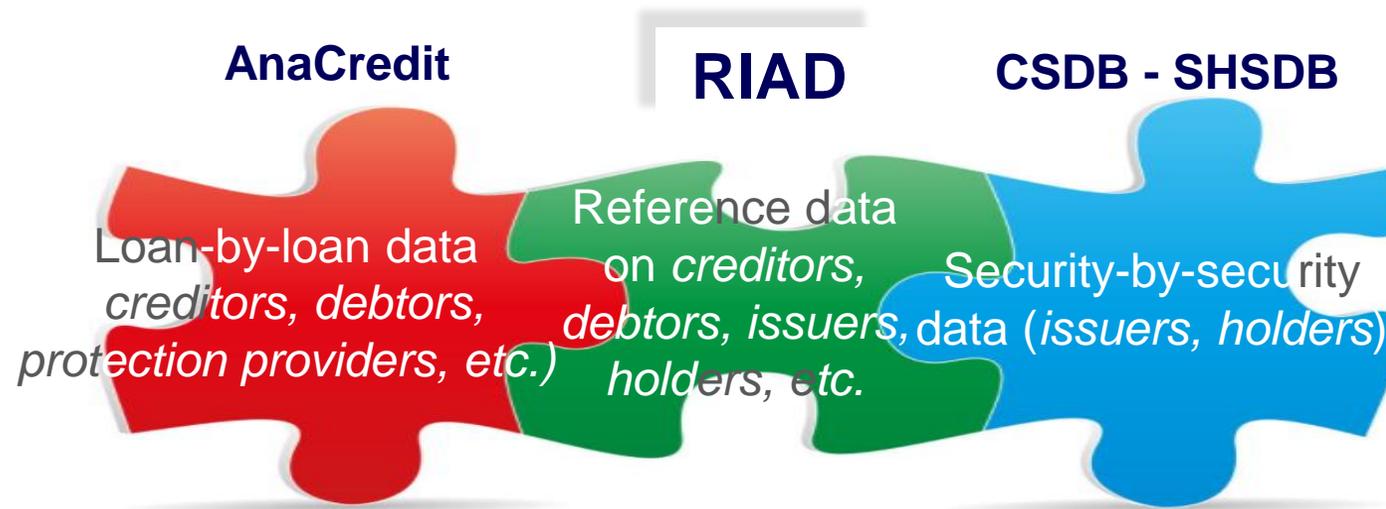
AnaCredit

- pan-European granular database on loans provided by euro area credit institutions to legal entities that models credit intermediation on an instrument-by instrument, counterparty-by-counterparty and protection-by-protection basis
 - ✓ as well as the relationship among these three building blocks
- since 2019, it provides a large set of harmonised and comparable information – ie 88 attributes defined based on the needs of a variety of business areas

2. Recent developments in processing granular data

The role of a repository of legal entities

- enrich granular data with information on borrowers and creditors as regards
 - ✓ their characteristics – eg sector of activity, residency
 - ✓ their relationships – eg the actual risk bearer
 - ✓ identifiers to link granular data with each other and other sources
- RIAD as the backbone of all ESCB granular statistics



3. Policy uses of granular data

Monetary policy conduct and operation

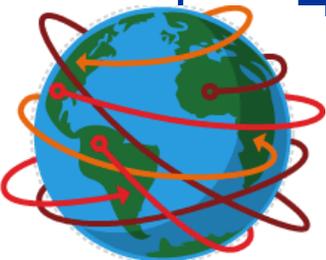
- study demand and supply effects in credit markets
- assess the heterogeneity in segments of lenders and borrowers -
 - ✓ eg credit market conditions for SMEs
- monitor the transmission channels of standard, as well as non-standard monetary policy measures, eg TLTROs

Macroprudential policies

- assess risk concentrations and propagations
- focus on specific parts of the distributions – eg the tails
- define structural and cyclical macroprudential policies – eg set-up structural or countercyclical capital buffers or to define limits on loan-to-value ratios

Micro prudential supervision

- analyse exposures to specific sectors or individual (groups of) counterparties
- assess the effectiveness and accuracy of internal ratings models of banks
- reduce the burden of stress tests, as data are available to supervisors



4. A closer look at sustainable finance

Climate-related physical and transition risks

- capturing the heterogeneity of the economy calls for an intensive use of granular data
- link risk factors from climate risk drivers, eg based on geolocational datasets or data on carbon footprint, to exposures of banks



Brown vs. green financing

- analyse in detail the nature of counterparties, the *credit allocation and their environmental impact*
- monitor developments *towards green financing*
- EU regulatory framework for sustainable finance, including the EU Taxonomy for sustainable activities



4. A closer look at sustainable finance

Challenges

- Ever rising need for more data, with greater detail and accuracy
- Some remaining data gaps
 - ✓ AnaCredit covers loans of credit institutions above € 25,000, leaving out many banks' counterparties, notably smaller firms, and loans from non-bank financial intermediaries
 - ✓ SHS covers listed ISIN securities and does not foresee the collection of data on holdings of securities from securities and derivatives dealers and captives
- Datasets are collected in national silos and not fully standardised dictionaries
- Still relatively limited connectivity of granular data with external datasets

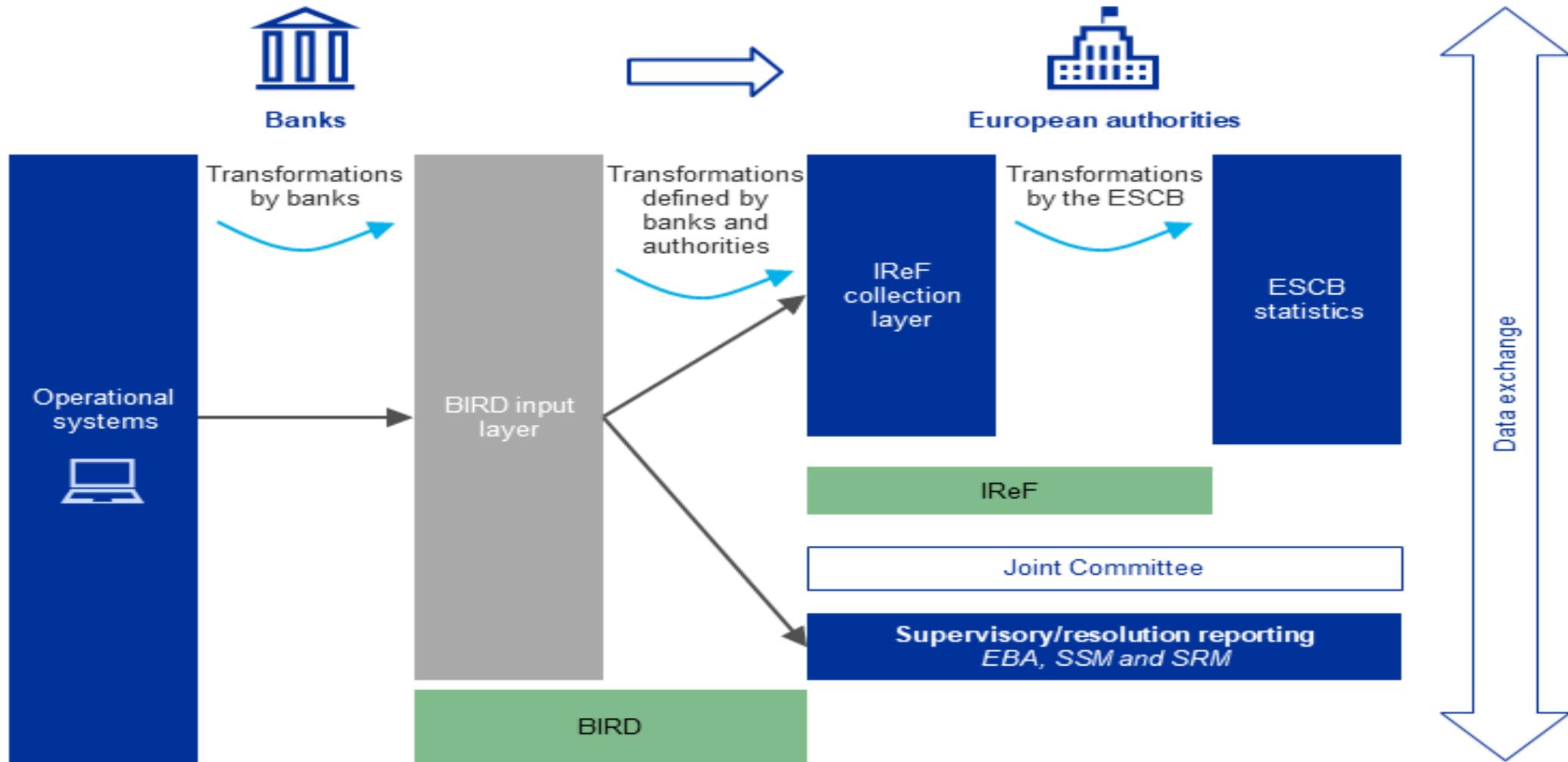
ESCB Integrated Reporting Framework (IReF)

- IReF for banks across countries and across (initially statistical) domains, with a focus on *ECB statistical requirements*
- gaps in granular data will be addressed, as well as existing gaps in master data on entities, eg extension of entities covered in RIAD to all banks' counterparties
- reporting based on a standard data dictionary; potentially shared with prudential and resolution reporting - Article 430(c) of CRR II
- scalable project that can extend granular reporting to other financial intermediaries

Banks' Integrated Reporting Dictionary (BIRD)

- organise data in banks' internal systems in a single redundancy-free 'input layer' as basis for fulfilling the statistical, prudential and resolution reporting obligations
- BIRD moves one step closer to the operational systems of banks
- in the future authorities might be reduce aggregated, eg template-based, reporting towards a more structured (and closer to redundancy-free) granular reporting

ECB broader strategy for statistics: envisaged approach



6. Conclusions

Granular reporting and data standards as a breakthrough

Datasets using ESG criteria to support green financing

**Statistics to support researchers at central banks
(*and beyond*) by offering services tailored to their needs**

- Continuous **dialogue** with *analysts* and *researchers* to define appropriate *data marts* for pre-defined queries; also **banks** to benefit from *feedback loops*
- Ensure **methodological support** – eg consolidate exposures or debt – *correct usage of the data* and interpretation of the results

