

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

2. Recent developments in processing granular data

3. Policy uses of granular data

4. A closer look at sustainable finance

5. On-going ESCB activities

6. Conclusions

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

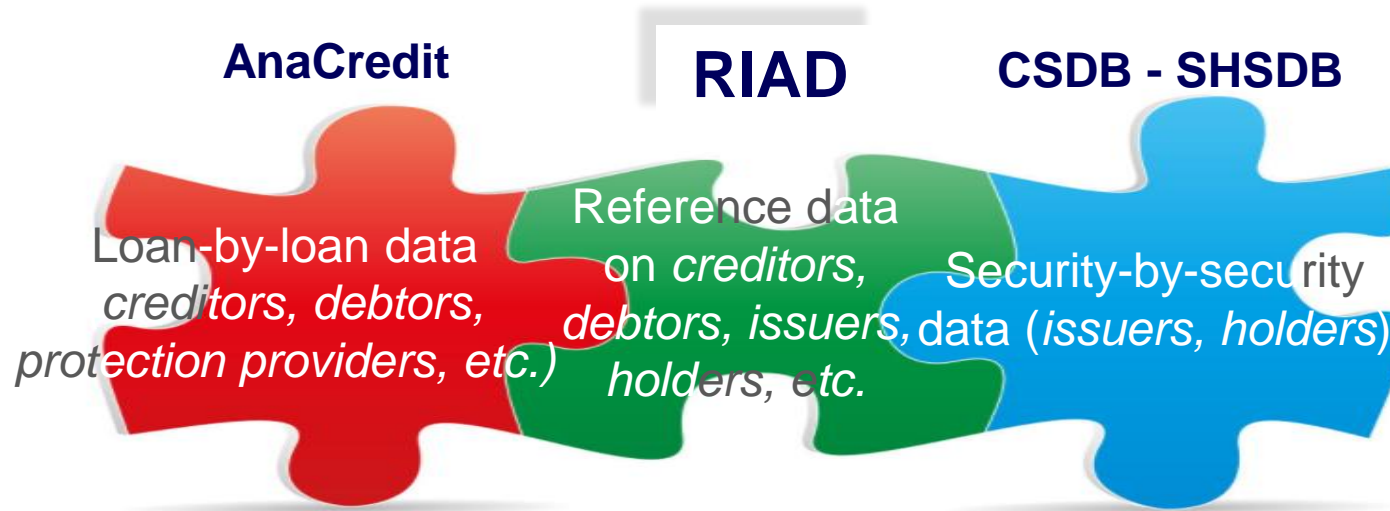
AnaCredit

- 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

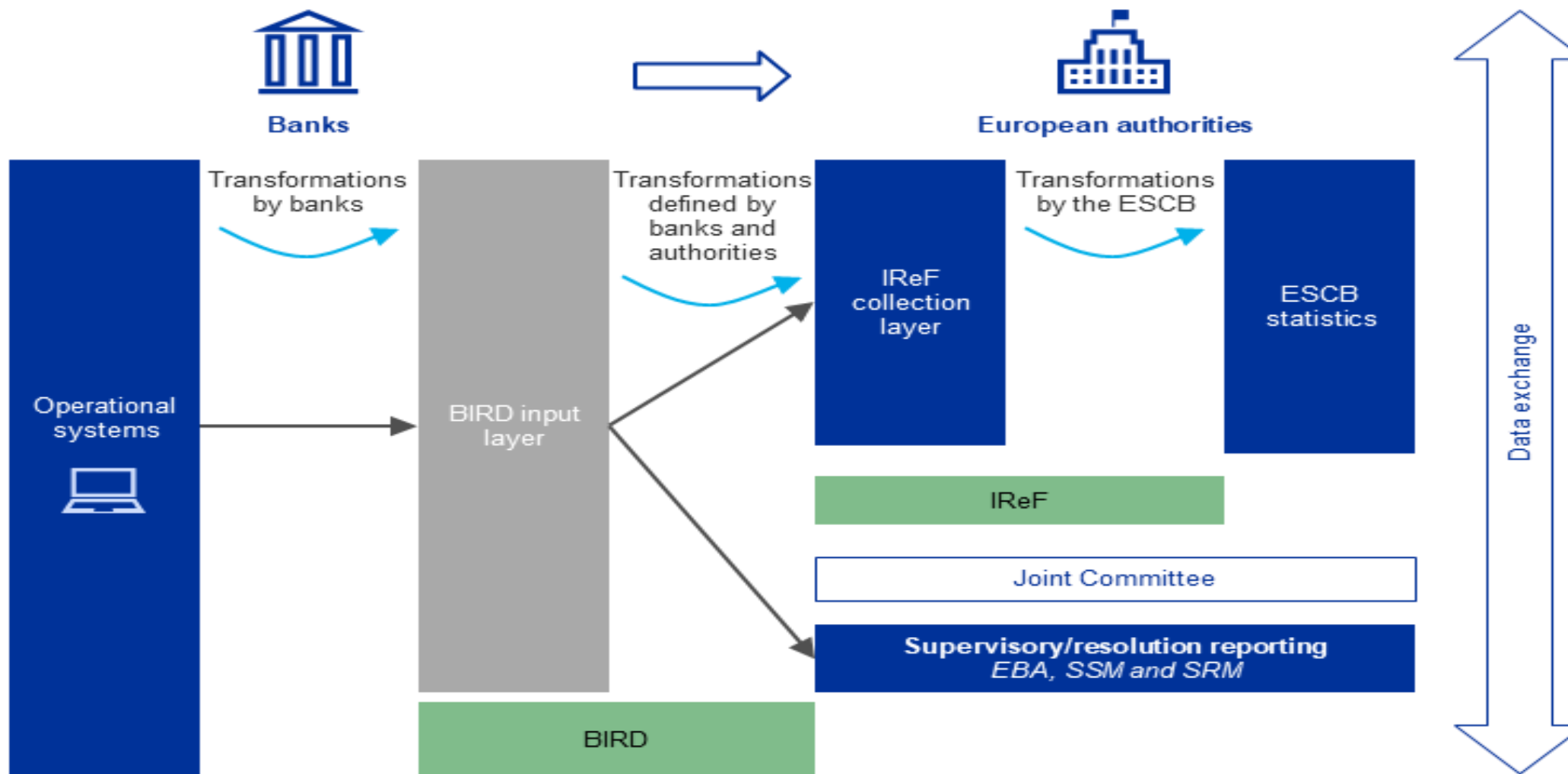
ESCB Integrated Reporting Framework (IReF)

- 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

Thank you!

Questions?



Word-cloud from the AnaCredit Regulation