AFME Response:

EBA Consultation on draft guidelines on resubmission of historical data

July 2023

Comments and recommendations:

AFME and its members welcome the opportunity to comment on the EBA consultation on the draft guidelines on the resubmission of historical data.

As an industry, we strongly support the EBA's work to ensure that the regulatory reporting framework remains effective and efficient and a common approach to resubmission of historical data is a cornerstone of that. However, we believe that, in order to strike the right balance between efficiency and effectiveness from both the perspective of competent authorities and reporting institutions, such common approach to resubmission should embed specific materiality thresholds which would perfectly complement the proportionality elements that already underpin reporting requirements. We note that with the exception of reporting errors falling within agreed filing rules i.e. "precision requirements", the draft guidelines do not include materiality thresholds which would trigger resubmissions. We believe, however, that percentage thresholds should be introduced to ensure that any resubmission is proportionate.

Precision requirements are akin to rounding errors, but due to the volume / frequency of regulatory reporting, if these are subsequently used as the only error tolerance this could result in a significant operational burden to firms, but also to regulators receiving updated reports. Appropriate thresholds should be introduced to avoid resubmitting changes that do not impact readers' understanding of a firms Capital / Liquidity position, or the specific reports "true and fair view" if we consider a common principle within accounting frameworks.

If, as in the case today, in the absence of clear and proportionate thresholds, some local regulators choose to apply an almost zero tolerance approach to resubmission, whilst others adopt a more proportionate treatment, then some EU firms will continue to experience unlevel playing field effects. Capital and Liquidity reporting requirements have grown exponentially since inception, therefore any requirement to resubmit information that falls significantly below risk thresholds internal to a firm, and those assessed by external auditors, would be considered disproportionate. To ensure a proportionate treatment we urge the EBA to introduce percentage threshold tolerances per individual reporting lines depending on the specific report e.g. x% of HQLA if submitting the LCR, appropriate measures in relation to the NSFR and additional liquidity monitoring metrics, and measures for RWA and capital requirements. As demonstrated per the precision requirements, the EBA have previously provided numerical thresholds. Our proposal would therefore be an expansion of previous guidance and would align with the EBA's mandate to "measure and assess the costs and benefits of the reporting requirements" per Article 430(8) of the CRR, and subsequently recommend cost reduction approaches. In addition, we would note that requirements in relation to the resubmission of historical data where it does not impact or affect current reporting without any consideration of proportionality or materiality is not logical from a risk or user perspective and would appear to deliver little benefit for a potentially significant operational outlay.

Given regulatory reporting is using balance sheet information as a source, we would propose to consider the materiality thresholds used by external auditors as an independent third party for the purpose of the annual audit to be a good starting point to determine materiality for the EBA reporting framework as well, given the accounting materiality will anyways play through to the regulatory reports. Also, ECB recently shared a significant resubmissions framework with institutions, outlining what data points ECB is focusing on for their supervisory tasks. These, together with the accounting materiality could constitute a good starting point to determine a risk sensitive materiality for EBA's resubmission framework.

Due to an increase in detailed regulatory reporting and the ongoing changes in the reporting and regulatory landscape, firms have invested and will have to continue to invest significant resources to enhance systems to increase the accuracy of reporting, implement risk data aggregation capabilities across their reporting landscape and ensure cross-report validations. If as a result of enhancements to systems or models a reporting treatment is amended, we would propose the reporting treatment is not applied retrospectively unless revised resubmission thresholds are exceeded. In the event that reasonable thresholds are not provided, we would propose that systems/model enhancements (rather than errors) should not require resubmission.

Proportionate thresholds will ensure firms can continue to focus on enhancing strategic reporting, implementing the upcoming changes caused by new regulations, and these projects can be delayed if regulatory SMEs are diverted to resubmit immaterial changes to previous reporting periods. It has to be noted that a 100 percent precision requirement in combination with the requirement to resubmit without undue delay will mean that the amount of resubmission will significantly increase and will also be a challenge for the supervisory authorities as a recipient of these.

We would suggest also that, subject to a firm's internal governance process, a change in an interpretation would not constitute an error and therefore resubmission, the draft guidelines clarify this treatment for EBA Q&As and we would propose a consistent approach. We note that if any change in interpretation is viewed as an error, this is likely to mean that firms are less likely to revisit their interpretations. There is rightly significant focus by senior management on getting reporting correct. However if the focus becomes so much driven by demonstrating a zero tolerance, and even improvements are seen as errors, such a zero tolerance approach is likely to be harmful to the use of data.

More widely, immaterial errors in regulatory returns could also impact Pillar 3 disclosures and we would suggest that in the interests of consistency and clarity for stakeholders that these would not need to be republished.

We would also like to highlight the challenge to perform resubmissions under previous reporting Taxonomies and reporting rules and interpretations. Integrated Regulatory Reporting infrastructures are often highly complex, and it is very challenging to maintain the rules and parameters valid as per each of past reporting dates. Given the frequent changes to the reporting landscape, a lot of banks have not been able to build flexible and strategic reporting infrastructure, which would easily allow the backwards compatibility required by the EBA to fulfil the requirement to resubmit under previous Taxonomies and rulesets. The requirement to resubmit consistently across reports, and the inconsistency of Taxonomies being rolled out for certain modules at different points in time, constitutes another infrastructure challenge, with certain data-points present in multiple reporting templates. A potential solution to this could also be a kind of delta submission of data, as used under AnaCredit framework, allowing targeted resubmission of only changed data-points.

More detailed observations/areas for clarification

- **Related reports**: If there is an error in a report "A" of data that is also included into report "B", even in the case that reports "A" and "B" are independent reports, we understand it would be necessary to resubmit in addition to report "A", report "B".

- **<u>Template update:</u>** The templates of the reports are updated regularly. Which template should be used in case of resubmission of historical data? the template that was mandatory in each fiscal year or the latest version of the template that is in force at the moment of the resubmission?
- **<u>Resubmissions accountability:</u>** We would suggest that those resubmissions made due to the modification of templates by regulators should not be taken into account, as those errors or inaccuracies are not attributable to the institution.
- **Resubmission traceability:** It would be very useful in instances where a regulator reports to individual institutions on the received resubmissions to include data/information that allows traceability between the resubmitted data and the dashboard that is provided by the regulator.

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About AFME:

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

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