

Explanatory note on the draft ECB Regulation on the collection of granular credit and credit risk data

On 18 November 2015 the Governing Council of the ECB has agreed to publish the draft Regulation on the collection of granular credit and credit risk data (“AnaCredit”) on the ECB website; it is still in a draft format. While its legal basis (Council Regulation (EC) No 2533/98 of 23 November 1998 concerning the collection of statistical information by the European Central Bank) does not require a public consultation process, the high public interest in the project warrants publication at this juncture.

The purpose of this note is to provide background information on the planned collection of granular credit data by the European System of Central Banks (ESCB), as set out in the draft Regulation.

1 Purpose of the data collection

The way for the draft Regulation was paved by Decision ECB/2014/6 on the organisation of preparatory measures for the collection of granular credit data by the European System of Central Banks and the related Recommendation ECB/2014/7. The ECB, assisted by the national central banks of the ESCB, has developed a strategy to (i) develop and produce new ESCB statistics, and (ii) increase the quality of existing ESCB statistics that will effectively support the ESCB and the ECB in the performance of tasks, including those related to:

- monetary policy analysis and operations;
- risk management;
- financial stability surveillance.

To this end, the draft Regulation stipulates that granular credit data are collected based on harmonised ECB statistical reporting requirements, with a view to establishing a common granular credit database (i.e. “AnaCredit”) shared between the Eurosystem members and comprising input data for all euro area Member States.

2 ECB requires broad loan-by-loan data

The draft Regulation covers credit and credit risk information. Since granular credit data can be used to broadly monitor the performance of the whole euro area credit market, it is essential for the ECB that the credit database contains **complete, accurate and timely information** on the credit situation in the financial system.

Covering loans to non-financial corporations in the initial phase, the AnaCredit datasets will allow a better understanding of the monetary policy transmission channel, particularly regarding small and medium-sized enterprises (SMEs) – the backbone of the economy in terms of investment and employment opportunities.

AnaCredit should provide high-quality and timely information **on debtors and their respective credits** (i.e. type of credit, outstanding debt, number of days past due date, date of origination and contractual maturity, type of interest rate and currency of the credit).

Furthermore, information on any **risk mitigation measures securing the credits** (e.g. credit derivatives, guarantors, financial collateral received) is useful to estimate the severity of losses in the event of default.

Finally, the granular credit database should support **reliable debtor identification** (e.g. full name and unique ID number, address or location, type of obligor (SME or corporate obligor)) as unique identification is essential for capturing the total indebtedness of debtors accurately, especially if there are **cross-border exposures**.

3 Balanced requirements

The reporting specifications of AnaCredit, as laid down in the draft Regulation, build on a wide range of **requirements for granular data** and the outcome of a comprehensive **merits and costs procedure** carried out in 2014, which involved reporting agents (indirectly via national central banks) and assessed the implied costs and merits of these requirements.

As a matter of fact, the above-mentioned procedure was used to carefully scrutinise the requirements initially formulated by the ESCB so as to ensure that the reporting burden is balanced with the merits and that data are collected and compiled in the most cost-effective way. The assessments considered, among other things, individual data attributes, reporting frequencies and timeliness, the coverage in terms of types of creditor, types of debtor and instruments, reporting threshold, consolidated data or data on borrower groups.

Based on the outcome of the matching of the essential user needs with the costs, the broad requirements were streamlined or reprioritised.

In particular, owing to complexity and the time needed for reporting agents to comply with the various data requirements, in order to help advance the process, **further reporting requirements may be implemented through a step-by-step approach**

vis-à-vis the reporting population, the coverage of counterparties' sectors, the credit and credit risk data registered and the data attributes to be collected; this intention is reflected in the "Recitals" of the draft Regulation.

Specifically, the draft Regulation focuses on the collection of granular credit data on **credits granted by credit institutions to legal entities on a "solo" basis** to address the main data needs of the ESCB. No specific requirements pertaining to the ECB's Banking Supervision function are included in the draft Regulation.

While Decision ECB/2014/6 required the establishment of a granular credit dataset by end-2016, the draft Regulation envisages **the launch of the initial data collection in March 2018 at the earliest**, allowing for enough preparatory time for the Eurosystem and reporting agents.

4 Core reporting requirements

In line with the above, the draft Regulation specifies the reporting requirements.

4.1 Reporting area

The draft Regulation **stipulates that the reporting requirements are to be followed by reporting agents resident in EU Member States whose currency is the euro.**

4.2 The reporting population – who has to report?

As per Article 3 of the draft Regulation, the following entities are subject to the reporting requirements:

- (a) **credit institutions** resident in a euro area Member State;
- (b) **branches of credit institutions**, provided that the branches are **resident in a euro area Member State.**

The draft Regulation considers these entities to be **reporting agents**, as defined in Article 1(8).

In the light of requirements regarding the completeness of the credit coverage, articles 4 and 6 indicate that **each reporting agent must report granular credit data relating to credits granted or serviced by:**

- (a) the reporting agent itself;
- (b) any foreign branch controlled by the reporting agent, **regardless of whether or not the foreign branch is resident in a euro area Member State.**

The draft Regulation refers to these entities as **observed agents**, as defined in Article 1(9).

The rationale for distinguishing between reporting agents and observed agents is that AnaCredit is designed to collect credit data with a view to obtaining a complete picture of credit exposures in the euro area. By linking observed agents with reporting agents, data is collected on credits granted by credit institutions resident in the euro area, irrespective of whether they are provided directly by the credit institutions or indirectly via subsidiaries or branches under their control.

In particular, this means that **the scope of the data collection in the initial stage** covers data on credits extended or serviced by:

- (a) credit institutions located in the euro area that are not branches of other credit institutions;
- (b) foreign branches of euro area credit institutions, including non-euro area branches;
- (c) foreign branches that are located in the euro area but are part of a credit institution resident outside the euro area.

Data related to credits extended by subsidiaries of credit institutions are not included, provided the subsidiary concerned is not a credit institution located in the euro area.

Furthermore, as foreseen under Article 3(2), reporting agents must report data related to credits extended by the respective observed agents on a solo basis. **No reporting on a consolidated basis is required**, whereby credit institutions would need to take into account the positions of their subsidiaries and foreign branches but exclude inter-company activity.

All reporting agents have to **report data to their respective national central bank** – to be determined by the residence of the reporting agent.

4.3 The scope of AnaCredit – which credits are subject to reporting?

The term credit is defined broadly under the draft Regulation. Any item by means of which credit is actually extended to a debtor is referred to as an **instrument**. As indicated by Article 4(2)(a), **loans and deposits** are the only instruments that will be considered, with credit derivatives and off-balance-sheet items being excluded from the scope of the draft Regulation.

Loans and deposits to be collected in the first stage comprise outstanding financing under any of the following types of credit:

- deposits other than reverse repurchase agreements;
- overdrafts;

- credit card debt;
- revolving credit other than overdrafts and credit card debt;
- credit lines other than revolving credit;
- reverse repurchase agreements;
- trade receivables;
- financial leases;
- other loans.

In line with Article 4(2)(b)(i), credit data related to the above-mentioned instruments must be reported **if the credit risk arising under the instruments lies with the observed agent**. This implies that **any deposits received by the observed agent are not part of the data collection** (as these would not give rise to credit risk for the observed agent).

Furthermore, by also covering instruments that are serviced by observed agents without generating credit risk for them, credits held by entities other than credit institutions, for instance financial vehicle corporations engaged in securitisation transactions, are included in the scope of AnaCredit.

4.4 Debtors

Only credits extended to legal entities and other entities that are not natural persons fall under the scope of the data collection. In particular, Article 4(2)(b) indicates that **no credit data is required for credits extended by an observed agent to a natural person**.

It is clarified that multi-debtor credits are in the scope of the data collection, provided that at least one of the debtors is not a natural person.

In any case, AnaCredit requires no information on natural persons, also even if they are involved in multi-debtor credits.

4.5 Applying a reporting threshold

With regard to the application of reporting thresholds, as foreseen under Article 5, **a given instrument has to be reported to AnaCredit if it is held by a debtor whose total commitment amount for all relevant instruments (including serviced instruments) in respect of the observed agent equals or exceeds €25,000 at the reporting reference date. In such cases, every single credit instrument of the debtor is subject to reporting**, even if the commitment amount of an individual instrument does not exceed the threshold.

Each **non-performing instrument** where payment is in arrears must be reported until it is redeemed in full or written off, provided the **total commitment amount for the instrument exceeds €100**, irrespective of the total commitment amount for all instruments used by the debtor.

4.6 Drawn and undrawn amount

The total commitment amount of an instrument includes both its **drawn and the undrawn amounts**.

The drawn amount, termed “outstanding nominal amount” in the draft Regulation, refers to funds which have already been used by the debtor and are outstanding at the reporting reference date.

The undrawn amount involves funds which the debtor has access to but has not yet used or drawn down. Undrawn amount is referred to as “off-balance-sheet amount” in the draft Regulation.

4.7 Derogations

In order to ensure the proportionality of the reporting obligations stipulated in the draft Regulation, it is envisaged that the **relevant national central bank may grant derogations to small reporting agents** in accordance with national criteria.

In a given euro area Member State, **derogations may be granted by the relevant national central bank** provided that the total commitment amount for all derogations granted to reporting agents resident in the country concerned does not exceed 2% of the total commitment amount that would be reported in that country if no derogations were granted.

For instance, it is possible that in those Member States in which credits are extended by a large number of relatively small credit institutions (i.e. where there are very many institutions in the banking system like in Germany), the derogations, if applied, may lead to a large number of small credit institutions or branches thereof that are actually exempted from the reporting of granular credit data.

4.8 Data attributes and datasets

Once an instrument held by the observed agent is determined to be subject to reporting pursuant to the draft Regulation, **the reporting agent is required to report to the relevant national central bank up to 94 data attributes**.

More specifically, the reporting requirements of AnaCredit involve **ten interrelated reporting datasets** (referred to as the **data model**). Each reporting **dataset stores individual records and consists of a number of data attributes** (fields), which are related to one of the following:

- (a) the reportable instrument;
- (b) the collateral or guarantee securing the instrument;
- (c) the counterparty using the instrument or providing the collateral/guarantee.

The instrument is the centrepiece of the assumed data model; this means that all other “reportable datasets” relate directly or indirectly to the instrument. It should be noted that:

- the basic features of the instrument, such as the type of instrument, its origination date or the maturity date, are grouped in the **INSTRUMENT DATA**;
- other features of the instrument which are expected to change over time, such as the outstanding nominal amount or accrued interest, are grouped in the **FINANCIAL DATA**;
- the accounting features of the instrument, such as the loan loss provisions or the accounting classification of the instrument, are registered in the **ACCOUNTING DATA**;
- the “ownership” of the instrument is registered in the **COUNTERPARTY – INSTRUMENT DATA**, which include the counterparties involved and their respective roles vis-à-vis the instrument;
- multi-debtor instruments are recorded in the **JOINT LIABILITIES DATA**, together with the data on the liability of each debtor in respect of an instrument;
- instruments secured by guarantees or collateral are registered in the **INSTRUMENT – PROTECTION RECEIVED DATA**, along with data on the extent to which the given collateral or guarantees secure the instrument; the specific features of the collateral and guarantees such as the type of collateral or guarantee, including the data on who provides the protection, are registered in the **PROTECTION RECEIVED DATA**;
- data on counterparties related directly or indirectly to the instrument (thus also including, if relevant, the counterparty providing protection for the instrument) are provided under **COUNTERPARTY REFERENCE DATA**, where the counterparty’s identification data (e.g. the legal name of the counterparty, its address or legal entity identifier (LEI)) are recorded along with other data characterising the counterparties (the legal form, the type of entity or the institutional sector);
- the **COUNTERPARTY RISK DATA** provide information on the probability of default of counterparties, whereas the **COUNTERPARTY DEFAULT DATA** record data pertaining to the default status of counterparties.

In addition to the data attributes, each and every reporting dataset includes a number of **internal identifiers**. These identifiers are a key part of the AnaCredit data model and have no meaning outside AnaCredit. They ensure that each entry can be (uniquely) identified by one or a combination of identifiers in the dataset. They help

towards maintaining data integrity and identifying the relationship between the datasets.

4.9 Reporting types and frequency

The frequency of reporting is specified for each of the relevant datasets. In accordance with the templates provided in Annex I of the draft Regulation, AnaCredit recognises three types of reporting:

- (a) monthly;
- (b) quarterly;
- (c) on change (i.e. when a change takes place).

Monthly reporting means that all the data anticipated for a dataset must be submitted to AnaCredit every month.

Quarterly reporting means that all the data anticipated for a dataset must be submitted to AnaCredit every quarter.

In the third case, initially all the data anticipated for a dataset must be submitted. Thereafter, AnaCredit must **only be informed of data changes which necessitate an update of the tables affected by the change**. This type of reporting is typically used for static data, which rarely change over time.

A change also covers the situation when a new instrument is originated by the observed agent in the period between two consecutive reporting reference dates.

In any case, **in the event of a change, new data do not have to be forwarded to AnaCredit immediately**. These data must be reported **by no later than the earliest reporting reference date** that is relevant for the particular dataset affected by the change.

In general, AnaCredit anticipates that all the data describe the situation on the last day of the month to which they relate (i.e. the reporting reference date).

4.10 Reporting timeliness

The draft Regulation identifies four different reporting schedules, all varying in terms of the time by which the data must be submitted to AnaCredit.

More specifically, AnaCredit anticipates that monthly data relating to observed agents resident in reporting Member States must be submitted to the ECB by the 30th working day after the reporting reference date. In the case of monthly data relating to observed agents that are not resident in reporting Member States, the timeline is extended to the 35th working day after the reporting reference date.

In the case of data reported on a quarterly basis, AnaCredit anticipates that data relating to observed agents resident in reporting Member States must be submitted to the ECB by the 15th working day after the respective reporting remittance date. This timeline is extended to the 20th working day after the respective reporting remittance date for data relating to observed agents that are not resident in reporting Member States.

As per Implementing Regulation (EU) No 680/2014, the reporting remittance dates are presently:

- 12 May for data reported quarterly and relating to 31 March;
- 11 August for data reported quarterly and relating to 30 June;
- 11 November for data reported quarterly and relating to 30 September;
- 11 February for data reported quarterly and relating to 31 December.

4.11 First reporting

The draft Regulation stipulates that the **first reporting to AnaCredit relates to data for 31 March 2018** and covers both data reported monthly and data reported quarterly.

This means that for this reference date the data must be submitted to the ECB by:

- 31 March 2018 + 30 working days for data reported monthly and relating to observed agents resident in reporting Member States;
- 31 March 2018 + 35 working days for data reported monthly and relating to observed agents non-resident in reporting Member States;
- 12 May 2018 + 15 working days for data reported quarterly and relating to observed agents resident in reporting Member States;
- 12 May 2018 + 20 working days for data reported quarterly and relating to observed agents non-resident in reporting Member States.