

4th ECB Conference on Accounting, Financial Reporting and Corporate Governance for Central Banks

Session II: Interaction of financial reporting with financial regulation

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“Coping with new reporting challenges – the impact of new regulatory requirements on financial reporting in Europe”

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I. Why regulatory reporting?

I.1. Market information perspective

- efficient markets (i.e., not possible to get advantage)
⇒ prices reflect all information.
- interest of firms on this ⇒ but supervisory input/regulation needed to allow comparability among firms.

I. Why regulatory reporting?

I.2. Compliance purpose

- Regulators need to ensure compliance.
- Individual firms information, but open whether:
 - ◁ available for supervisor to check
part of regular reporting
- Of course, the greater the complexity of regulation, the greater the volume of information, and the greater the difficulty of checking compliance

I. Why regulatory reporting?

I.3. Analytical purpose

- Derived from the need to know what is going on (macroprudential perspective).
- Far more difficult to design and to analyse.
- Difference from market information perspective and compliance purpose:
 - Less point in time.
 - More dynamic:
 - ✓ time dimension
 - ✓ definitions
 - Flows rather than stocks.
 - More costly.
 - Need to supplement information coming from of supervised entities with other sources.

II. Challenges for an effective regulatory reporting regime

II.1. Cost side

- Financial firm, bank, need to provide information to:
 - a) The management of the firm (information needed to run business).
 - b) The marketplace (public firms + issuers of fixed income).
 - c) The supervisors:
 - solvency
 - market supervision
 - macroprudential supervisors.
 - d) Central Banks (Monetary Policy).
 - e) Fiscal Authority.
 - f) Statistical agencies.

- Multiplicity!! Even more if present in several countries.

II. Challenges for an effective regulatory reporting regime

II.2. Volume: is there a trade off of quantity versus quality?

- The increasing complexity of regulatory requirements.
- The greater the volume, the most challenging is understanding it?
- There must be a Laffer Curve for the volume of information ⇒ Not always “more” is better...

II. Challenges for an effective regulatory reporting regime

II.4. The distance between supervisory information/reporting and management information

- The closer supervision reporting is to management information, the greater the quality.
- But also inverse \Rightarrow if too distant, quality will be worse, and deterioration will continue over time.
- Need to put yourself in the management shoes!
- But inverse is also true \Rightarrow sometimes reporting raises the awareness of managers to relevant information/issues.

II. Challenges for an effective regulatory reporting regime

II.5. The need for a wider picture

- Macroprudential perspective.
- Flows information are more important than static, balance sheet type of information.
- Also, dynamic element \Rightarrow evolution over time (for instance, under the new regulatory regime).
- Finally, regulated vs. unregulated \Rightarrow a lot of information on chartered banks, but no information on **shadow banking sector**.

II. Challenges for an effective regulatory reporting regime

II.6. The importance of harmonisation (1)

- Given the diversity of stakeholders, this is key.
- EU ⇒ early adopters ⇒ CEBS ⇒ COREP, FINREP
⇒ XBRL Taxonomies
- But being critical ⇒ took longer than initially expected
⇒ complex ⇒ 29 COREP
⇒ 31 FINREP
⇒ Asset encumbrance
⇒ Forebearance

II. Challenges for an effective regulatory reporting regime

II.6. The importance of harmonisation (2)

- ECB ⇒ go further into this avenue.
- FSB, etc. ⇒ LEI ok
 - ⇒ Interoperability of Trade Repositories, a challenge.
 - ⇒ We need greater ambition.
- Not just financial information ⇒ exchange of fiscal information ⇒ US vs. OCDE vs. EU...

II. Challenges for an effective regulatory reporting regime

II.7. Accounting elements: IFRS

- Best news in last 10 years in simplification / harmonisation / comparability.
- EU Regulation for market information purposes, but wider and wider used is selfevident: supervisory reporting, national GAAPS, corporate taxes,...DEPTH OF USE IS KEY!
- Optionality; at the expense of comparability, but not a big deal in the end...

II. Challenges for an effective regulatory reporting regime

II.7. Accounting elements: IFRS vs. US GAAPs

- Big disappointment: lack of agreement in two key areas:
 - Derivatives \Rightarrow Gross (IFRS) vs. Net (US GAAPs).
 - Provisions/ Reserves \Rightarrow Both working on EL provisioning but with material differences.
- Was it worth?

II. Challenges for an effective regulatory reporting regime

II.8. Technological aspects: Cloud computing

- New developments.
- What is safer? Open question:
 - Centralised data hubs.
 - Diversified cloud “hubs”.

II. Challenges for an effective regulatory reporting regime

II.8. Technological aspects: XBRL

- Started by CEBS more than 10 years ago.
- Experience, positive:
 - Homogeneity
 - Interoperability
 - Integrity of information/reporting
- But also:
 - Continuous update of taxonomies
 - Permanent moving target: new regulations and definitions.

Thank you very much