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Integrated Reporting Framework (IReF) & Banks' Integrated Reporting Dictionary (BIRD)

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Financial Services Regulatory Advisory Update

In April 2018, the European Central Bank published a strategy paper on the Integrated Reporting Framework (IReF). IReF is part of the European System of Central Banks' (ESCB) long-term strategic approach to harmonizing data reporting by banks. On seven pages, the paper deals with the aims for a future integrated reporting framework as well as the advantages for banks and supervisory authorities at individual, national and European level. It also describes the relationship between IReF and BIRD, and presents the current and planned steps in the development of IReF.

Background

In response to the financial crisis in 2008, national and international supervisory authorities have implemented an ever growing number of laws and regulations in recent years which have increased the reporting obligations of financial institutions considerably. The provisions of the EU frameworks are supplemented in some cases by separate national reporting requirements. This abundance of reporting obligations poses a considerable challenge not only to banks, but also to the relevant supervisory authorities both in terms of consistency, scope and quality of the collated data as well as the transmission and assessment of that data.

Although in some European countries the existing reporting requirements are integrated, at least to a certain extent, a high level of integration remains the exception. As a result, banks are frequently obliged to provide a large number of separate reports to national central banks (NCBs) and national competent authorities (NCAs). These reports in turn differ with regard to their transmission frequencies and timelines as well as their level of aggregation and granularity. This leads to redundancies, overlaps and lack of harmonization, which gives rise to complex, costly and time-consuming reporting processes for banks. Cross-border banks are also facing the challenge of complying with national reporting arrangements in each country in which they operate. In turn, national central banks and supervisors, as recipients of the reports, are confronted by a wealth of different data from which they extract the data needed for their own purposes as well as for reporting to the ECB, which also has to be provided through different channels depending on the country concerned.

The current approach to data collection is shown in figure 1.

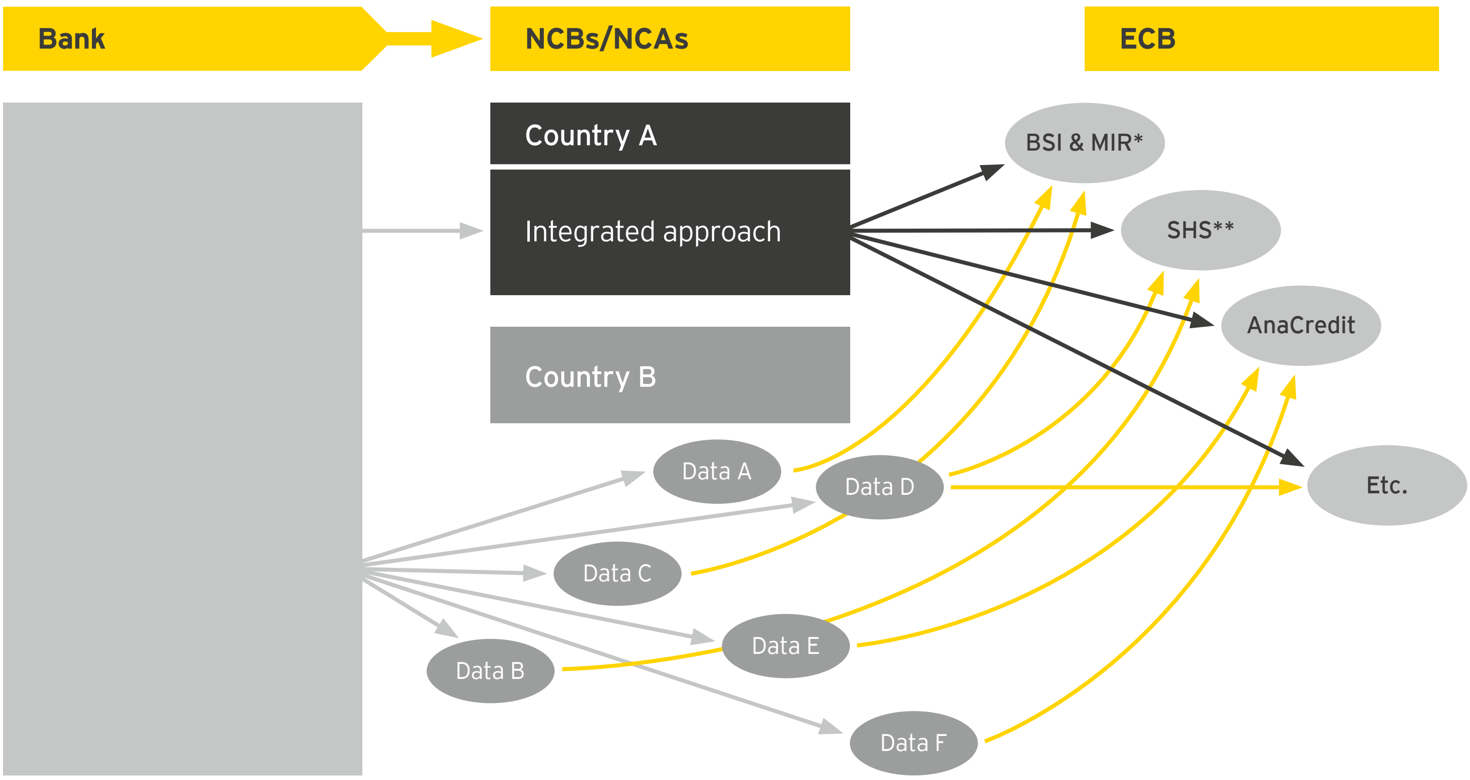


Figure 1
Own chart based on ECB (04/2018). The ESCB Integrated Reporting Framework (IReF) – An overview (page 2)

* *Balance Sheet Items (BSI) & MFI Interest Rates (MIR)*
** *Securities Holding Statistics (SHS)*

Idea

The idea behind IReF is to integrate, as far as possible, the different existing reports into a single framework. Furthermore, the integration aims to standardize the reporting process and to reduce redundancies thus in particular simplify data transmission and process across countries and data domains. IReF will consist of two main components:

- an integrated set of reports for banks, aimed in the long run at replacing national reporting templates and
- a unique set of transformation rules for compiling the derived statistics required by authorities

For the time being the ECB does not mean to introduce new reporting requirements for IReF. However, it may add some additional granularity compared to the current datasets in order to ensure the integration of the existing reporting lines and avoid a duplication of the requirements. IReF envisages focusing on statistics collected for monetary, macroeconomic and macroprudential purposes.

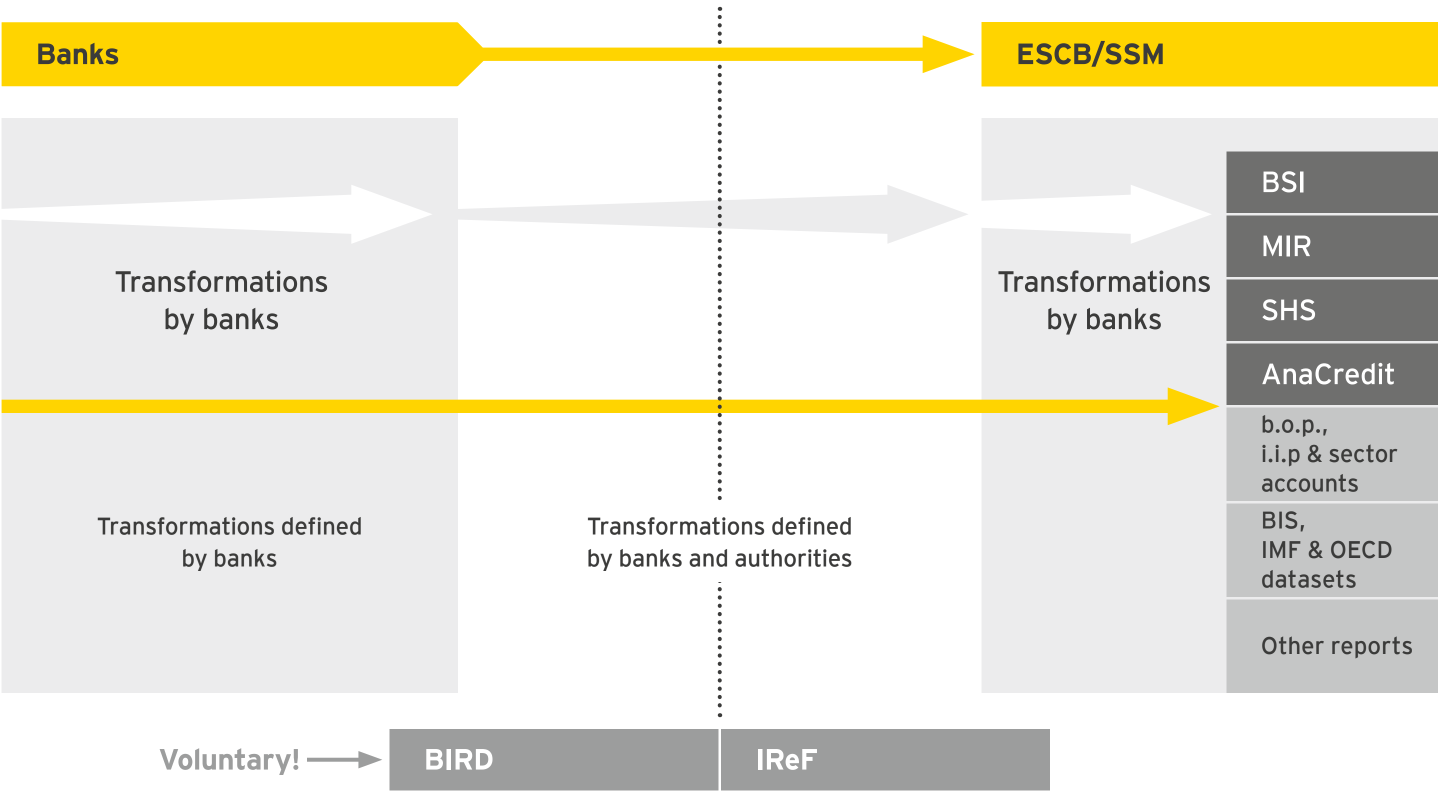


Figure 2
Own chart based on ECB (04/2018). The ESCB Integrated Reporting Framework (IReF) - An overview (page 5)

Advantages of an integrated reporting framework

For NCAs and NCBs as well as the targeted financial institutions, IReF is intended to reduce redundancies and overlaps, minimizing the reporting burden in general and increasing standardization, harmonization and automation within the reporting processes. Reporting institutions can expect:

Simplified reporting schedules and processes.

Only one standardized set of reports to be populated to meet existing regular reporting requirements.

Cost savings: while there are one-off fixed costs related to implementation, the run costs will be reduced.

Time savings with reporting requirements becoming more stable over time.

Harmonization: the cross-country standardization of the reports may particularly benefit large banking groups that operate cross-border in the euro area. The gains for individual banking groups will differ from country to country depending on the reporting model and the degree of integration of the current national frameworks.

NCBs and NCAs will benefit from IReF as they will receive only one integrated set of reports rather than a large number of separate reports. This in turn will simplify processing and collation as well as the reporting processes of the individual NCBs to the ECB, leading to efficiency improvements and cost savings. Data quality and consistency in particular will be improved through the use of standardized processes. These processes are leading to more transparency and thus enhanced oversight and risk assessments, as well as greater comparability of data across datasets and across financial institutions. IReF also builds on the results of the implementation of BCBS 239.

The same applies at the level of the ECB. Both improved data consistency and more flexible and versatile data analysis in a standardized and uniform format lay the foundation for improved transparency, simpler cross-country comparisons and more flexible analysis of transmitted data. Processing and collation of the data, particularly in the ECB's Register of Institutions and Assets Database (RIAD), will be simplified in terms of processing time and key functions, such as drill-downs from aggregated data to the underlying granular information, and data will be easier to analyze and compare. The ECB's progressive expansion of usable identifier formats (e.g., legal entity identifier (LEI), unified transaction identifier (UTI)), aims at simplifying the recording of legal entities and complex legal constructions and allowing the monitoring and tracing of individual activities. This in turn will improve oversight and control as well as the responsiveness of the ECB.

What is BIRD?

BIRD (Banks' Integrated Reporting Dictionary) is a harmonized data model that describes precisely the data that should be extracted from the banks' internal IT systems to derive reports demanded by supervisory authorities. In addition, this data model includes clearly defined transformation rules to produce specific reports. The adoption of BIRD by banks is voluntary. It was and is being (further) developed jointly with representatives from major European banks. The current BIRD release 2.1 (dated August 2018) covers the complete methodology in addition to requirements from AnaCredit (analytical credit) datasets and SHS (Securities Holding Statistics) as well as, for the first time, FinRep (Financial Reporting) requirements.

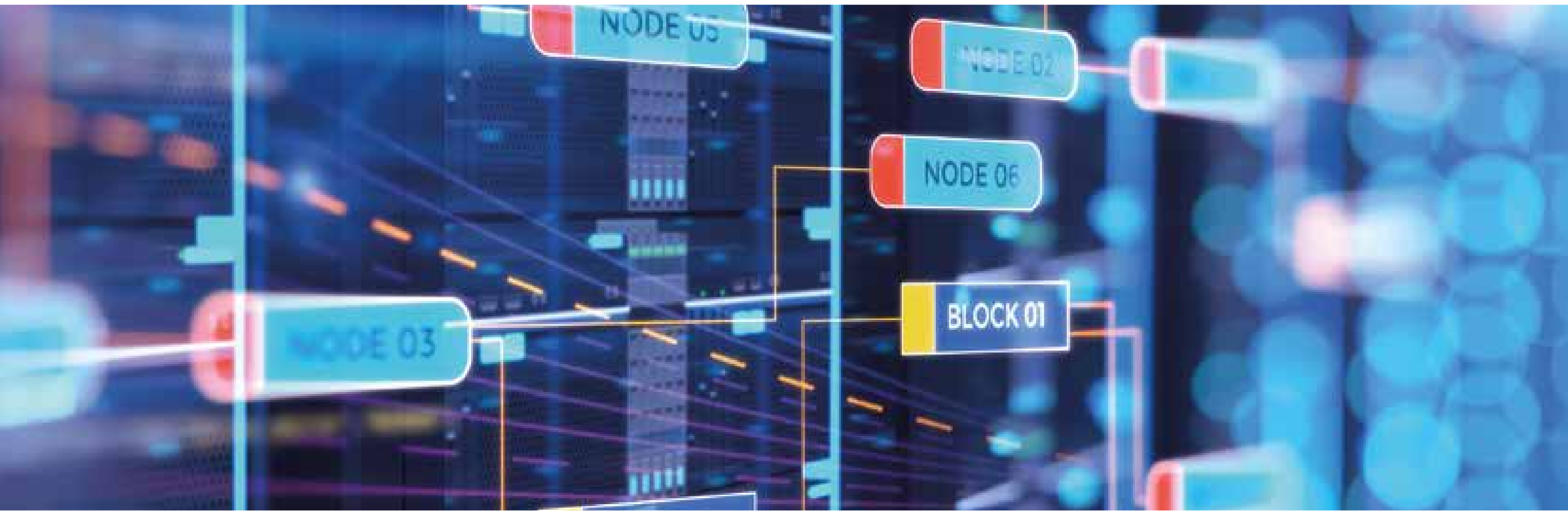
IReF and BIRD

Consistency between BIRD and IReF is key for achieving the stated objectives of harmonization, standardization and automation. BIRD offers banks a way of creating a uniform "input layer" for IReF with the following functions:

- As a data dictionary, BIRD describes precisely the data which should be extracted from the banks' internal IT systems to derive reports required by authorities, ensuring consistency in the extraction and input of reporting data.
- BIRD also sets forth clearly defined transformation rules which are specified in a single formal language in order to standardize their implementation by banks and provide them with a standardized implementation framework.

Based on BIRD, a logical data model can be developed and implemented in a bank's technical architecture, such as a bank-wide data warehouse. The target architecture should allow the swift processing of all consolidated IReF datasets at granular transaction level.

Naturally the data collected based on this architecture would also be ideally suited for a bank's own planning, budgeting and forecasting purposes as well as for simulations (e.g., stress scenarios). Moreover, requirements for the proper processing of data, stemming from BCBS 239, for example, would also be met.



BIRD's standardization at input data level fosters the harmonization of regulatory reporting across Europe. At present, harmonization is only possible to a limited extent for secondary statistics due to the manifold differences between individual reporting formats in different countries. To break down these barriers, it is recommended that IReF and BIRD are implemented together. However, implementing BIRD is not a necessary condition for implementing IReF. Adoption of BIRD is fully voluntary. However, mandatory application of IReF is conceivable.

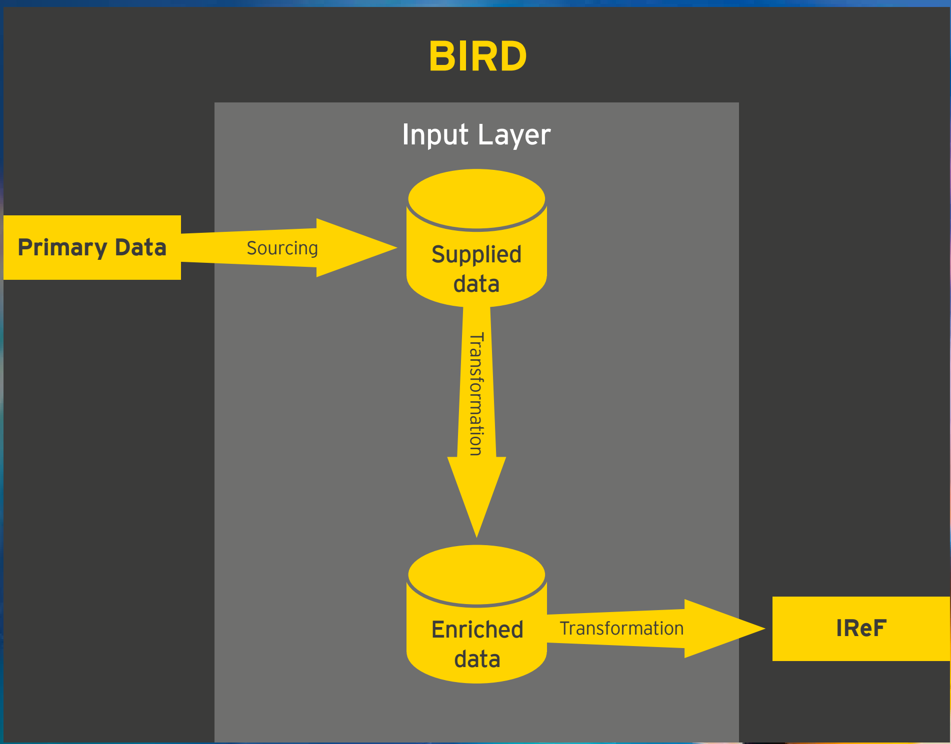


Figure 3
Own chart based on BIRD (2017). About BIRD. BIRD: Input Layer (Harmonized Data Model) + Transformation Rules. Retrieved from: http://banks-integrated-reporting-dictionary.eu/whatisbird

Target population

IReF aims primarily at covering credit institutions, particularly deposit-taking institutions, applying the principle of proportionality to meet financial institutions' various reporting requirements. This applies on the one hand for the transmitted data itself as well as for the granularity of the transmitted data in line with current guidelines. Furthermore, IReF will also indicate the requirements for money market funds (MMFs); however, it is expected that NCBs will retain discretion on whether to apply the scheme to MMFs directly or to integrate IReF data requirements for MMFs into the national collection framework in line with the existing practice.

Scope

In its initial phase, IReF is focusing primarily on ECB statistical datasets relating to banks and, as such, will cover the BSI and MIR statistics, SHS-S, AnaCredit and FinRep. Other ECB statistics that do not directly relate to banks' balance sheet items are currently not in scope. National requirements that go beyond the requirements laid down in ECB statistical regulations may also be considered, mainly to assess the conditions under which IReF could become feasible and relevant for all stakeholders. This is in line with IReF's aim of developing a standardized set of statistical reporting requirements that would be applicable across the euro zone, and in some cases beyond, to the benefit of all stakeholders, and replacing existing national reporting templates.

Timeframe and next steps

While BIRD is already further advanced, IReF is still in the starting blocks. Over the next few months, the ideas gathered on the technical design and scope of IReF will be assessed using different methods. In a first step, a qualitative stock-taking questionnaire across domains and countries is planned to identify the main cost factors and potential benefits of IreF. The results will support the design of possible scenarios for IReF with regard to various data collection aspects (including data to be transferred, data frequency, transmission, etc.). A subsequent cost-benefit analysis (CBA) is envisaged to identify the approach that would best suit the banking industry and the ESCB. Based on the results IReF could be detailed by mid-2020. Subject to the outcome of the CBA, the ESCB considers it likely that IReF could be implemented starting from 2024.
The expected time horizon for the implementation is four years. Technologies such as the SAP HANA based Financial Services Data Platform (FSDP) in combination with integrated regulatory reporting functionalities can enable financial institutions to comply efficiently with ECBs regulatory requirements. The data model for BIRD/IReF should be implemented as flexibly as possible across the organization in order to meet data governance and data quality requirements (including BCBS 239) as well as future requirements.

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