

22 July 2020

Explanatory note to the EBA study of institutions' reporting costs under Article 430(8) CRR

Introduction and the objectives of the cost of compliance study

1. Article 430(8) CRR¹ asks the EBA to **measure the costs** that institutions incur when complying with the reporting requirements set out in the EBA's ITS on Supervisory Reporting². Such reporting costs should be assessed since the introduction of the common supervisory reporting in the EU in 2014. The EBA is also asked to **assess whether these reporting costs are proportionate with regard to the benefits** delivered for the purposes of prudential supervision and **make recommendations on how to reduce the reporting cost** at least for small and non-complex institutions. The findings from this analysis should be formulated in a report (hereinafter the 'cost of compliance study' or 'study') and delivered to the European Commission.
2. The recommendation on how to reduce the reporting costs will focus on the review of the EBA reporting requirements, in particular those set out in the ITS on Supervisory Reporting, and also would look at other ways to improve efficiency of the reporting requirements and reporting process, including from the wider use of technology. To this end, the information collected as part of the study will be also used by the EBA as evidence in other work aimed at improving reporting efficiency.
3. The cost of compliance study represents one element in the EBA's overall work on introducing greater proportionality into the regulatory and supervisory frameworks and reducing overall reporting costs for the institutions. The EBA is, in this context, also working on a feasibility study on a consistent and integrated system for collecting statistical data, resolution data and prudential data (hereinafter the 'feasibility study').
4. In contrast to the feasibility study, the cost of compliance study has a retrospective character, giving the EBA an opportunity to verify the effectiveness of the reporting requirements put in place, including the effectiveness of measures to achieve proportionality, and to revisit and revise those,

¹ Please see the following link for the full text of the mandate of Article 430 (8) CRR: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019R0876&qid=1581929680553&from=EN#d1e23788-1-1>

² Regulation (EU) No 680/2014, consolidated version as of 01/12/2018 available under the following link: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1581929929345&uri=CELEX:02014R0680-20181201>

where needed. The study may also contribute to a better understanding of the cost drivers of reporting and provide insights leading to an improvement of the future reporting design.

5. Both exercises, however, have visible synergies, especially when looking at the use of reporting solutions and impact on (reducing) reporting costs from the wider use of technology. The EBA is planning to capitalise on these synergies when interacting with the institutions and analysing the results and making recommendations.
6. In response to the analysis of the reporting costs and benefits, the cost of compliance study should contain recommendations on how to reduce the reporting costs. Some specific examples of such measures are already included in the mandate of Article 430(3) CRR, for example, a potential waiver of the reporting on asset encumbrance levels and a reduction of frequencies for certain areas of reporting. The EBA will also look into other areas, for example, regarding the reporting on additional monitoring metrics for liquidity reporting that is suggested in Article 415 (3a) CRR, and will aim at determining the potential for cost savings arising from measures other than 'cutting data points' or reducing reporting frequencies.

The scope of the exercise

7. The cost of compliance study aims at understanding the overall reporting costs of institutions, including ad hoc supervisory requests, with the core objective being understanding the costs and their drivers associated with supervisory reporting focused in the first instance on the **EBA supervisory reporting framework**, and in particular, the **reporting requirements laid down in Regulation (EU) No 680/2014** – the EBA's ITS on Supervisory Reporting (i.e. reporting on own funds and own funds requirements (COREP OF), large exposures (COREP LE), leverage ratio (COREP LR), liquidity (LCR, NSFR, additional monitoring metrics) as well as FINREP and reporting on Asset Encumbrance).
8. In the study, the EBA will also request some basic information on the costs associated with other supervisory reporting obligations, including the EBA's other reporting standards and reporting requirements set by other international, European or national bodies as well as 'ad hoc requests' from any type of authority. The assessment of reporting obligations is outside the EBA direct control (i.e. obligations that are not part of the EBA reporting framework) will not be explored prominently in the analysis nor the EBA will provide any recommendations in this regard. However, for the purposes of the complete understanding of the reporting obligations and reporting costs, the relative distribution of costs is important for the completeness purposes.
9. The cost of compliance study looks at the cost of reporting in relation to its **benefits for various stakeholders**, not limited to supervisory and resolution authorities, and therefore other users of supervisory reporting may contribute to providing information on benefits of the standardised supervisory reporting.

The EBA's approach to the study

10. In order to address the mandate as specified in the CRR, the EBA needs to collect and assess detailed information on the cost of compliance with the reporting requirements incurred since the application of the EBA ITS on Supervisory Reporting. This is necessary to understand which reporting requirements were and are particularly costly in terms of implementation and / or on-going submission, and which other features of the EBA's reporting framework contributed to the cost of compliance. Equally, the EBA needs to collect and assess information from both public authorities and institutions on the benefits of the standardised supervisory reporting, in order to understand if and to which degree the cost incurred may be justified in the light of the public (or other) interest.

11. To fulfil its mandate for this study, the EBA will organise the analytical work based on four components: (1) a questionnaire to institutions, (2) a questionnaire to the users of reporting, (3) interviews with selected industry associations and institutions, and (4) case studies (see picture below).



12. The main source of information for the study is a **questionnaire to credit institutions** to collect quantitative and qualitative information from institutions **on reporting costs** and cost drivers as well as benefits, to identify challenging areas of reporting³. The questionnaire also aims at understanding the degree of effectiveness of proportionality measures put in place so far. The questionnaire will also provide the possibility to test the respondents' views on potential future changes to the supervisory reporting requirements and the EBA reporting framework. Furthermore, the questionnaire also contains a number of questions on the reporting IT solutions employed by the institutions, with the answers to those question to be used by the EBA also for the purposes of the work on the feasibility study on the integrated reporting (see also below).

13. A second **questionnaire** aims to gather **understanding of the benefits of standardised supervisory reporting** for its various users. This survey's primary addressee are supervisory authorities across

³ The questionnaire can be also answered by service providers as long as answers are institution-specific.

Europe and other potential users of such regulatory reporting. This questionnaire is still being developed and supervisory part of the study will be launched later.

14. Based on the results of the questionnaire to institutions, the EBA is also planning to organise a **limited number of focused interviews with a sample of institutions** across Europe to gather a further understanding of the sources of cost and potential measures to reduce them. These interviews will be conducted in cooperation with relevant supervisory authorities, who will also contribute to the determination of appropriate sample of institutions, and with the involvement of relevant national industry associations.

15. To complement the three other components of the study, and with EBA acknowledging the challenge of retrieving quantitative data on reporting cost and breaking it down according to the various criteria defined in the CRR mandate, the fourth component of the methodology is **fact-finding case studies**. The EBA encourages interested stakeholders, including individual institutions, associations, software providers, academics to conduct their own quantitative evidence-based case studies on either reporting costs or benefits of certain cost reduction measures/options or both and share their results with EBA⁴.

Questionnaire to institutions

16. The questionnaire to institutions, which is the core source of information for the study, is split into two main parts that will follow separate timelines for answering:

- a. Qualitative information on the cost of compliance with reporting obligations, benefits of reporting requirements, assessment of views on the ways how to achieve proportionality and the assessment of the expected cost reduction for specific measures aimed at making the reporting more proportionate, and information on IT solutions and data management process and procedures.
- b. Quantitative information on the cost of compliance with reporting requirements (reporting costs and their various breakdowns).

17. This split of questionnaire with different deadlines for answering would allow institutions more time to prepare quantitative information on cost and cost drivers, whilst allowing the EBA to initiate the analysis based on the easier-to-provide responses to mostly qualitative questions.

18. The questionnaire mostly consist of multiple-choice questions. However, respondents will be also able to provide additional explanations to their responses or, for example, suggestions regarding possible changes in reporting and ways to reduce the reporting costs.

19. The EBA discussed a draft of the questionnaire, the specification for the fact-finding case studies and other supporting and explanatory materials with the major EU-level industry trade bodies as

⁴ Please see the document 'The EBA study of institutions' reporting costs ('cost of compliance study' under Article 430(8) of the CRR) – specification of fact-finding case studies' for further information about the objective and possible content of those case studies.

well as national trade bodies. Altogether the EBA received feedback from AFME, EBF, EACB, ESBG, and EAPB and 10 national trade bodies conveyed through the relevant competent authorities.

20. Based on the feedback received, the EBA has revised the questionnaire to address specific technical points highlighted. In order to address the concerns regarding the timeline of the exercise the EBA has split the questionnaire into two parts as described above, and apply different timelines for responding to each of the parts as explained below.

Overall indicative timeline for the study

21. The original intention of the EBA also considering the timelines specified in the CRR mandate was to complete the cost of compliance study and deliver the results to the European Commission by the end of 2020. **However, this timeline is severely affected by the COVID-19 pandemic, as the exercise involves significant interaction with the industry, which is expected to focus on operational priorities in dealing with COVID-19 pandemic response in Q2 and potentially also Q3 2020.**

22. Based on the industry feedback and their concerns regarding the deadlines for responding to the questionnaire, and balancing with the EBA information needs for the feasibility study on integrated reporting and the need to deliver the results of cost of compliance study with as little additional delay as possible, the following timeline will be applied to the study:

- a. Launch of the data collection and publication of the specifications for the case studies – **late-July 2020** (the questionnaire is launched as pdf document first with the IT tool for responses being made available later)
- b. Deadline for responses to all qualitative questions – **1 October 2020**
- c. Deadline for quantitative questions – **31 October 2020**
- d. Deadline for submitting fact-finding case studies – **31 October 2020**
- e. Interviews with selected institutions and associations – **late-September – October 2020;**
- f. Questionnaire for supervisors – **September-October 2020**
- g. Final report prepared and published – **31 March 2021.**

Communication with stakeholders

23. The EBA is working on the cost of compliance study together with relevant competent authorities across the EU. The competent authorities remain the primary point of contact of the individual institution or associations wishing to know more about the exercise, or wishing to contribute to the exercise and take part in the interviews.

24. The EBA has set up a dedicated webpage (<https://eba.europa.eu/regulation-and-policy/supervisory-reporting/cost-compliance-supervisory-reporting>) for the study and a project management office that can be contacted by means of email cost.of.compliance@eba.europa.eu with questions regarding methodology, timelines, participation in fact-finding case studies and with other general enquiries regarding the cost of compliance study. The EBA will also maintain a list of frequently asked questions to support the questionnaire that will be published the above webpage.