EUROPEAN CENTRAL BANK
EUROSYSTEM

European Central Bank (ECB) update of the Regulation on monetary financial institution balance sheet statistics: summary of merits and costs

The ECB has been collecting statistics on the balance sheets of monetary financial institutions (MFIs) since 1999. These statistics – covering euro area credit institutions, other financial institutions carrying out "bank-like" business, and money market funds – provide the main input to the compilation of euro area monetary aggregates. They also allow policy-makers to analyse banks' lending activities, in particular to households and non-financial corporations. Data are currently collected from MFIs on the basis of ECB Regulation ECB/2013/33[1] which applied first to the December 2014 reference period. In line with the normal practice to periodically review statistical reporting requirements laid down in ECB regulations, the ECB has now completed an assessment of the existing requirements following a comprehensive merits and costs procedure (MCP)[2] that was initiated in the autumn of 2018. As a result of this review, a draft amending Regulation has now been put forward, which proposes some new reporting requirements (mostly limited in nature) and other changes to the reporting scheme and definitions. The following is a summary of the euro area results for the MCP in line with the ECB's commitment to transparency in developing regulations on statistics[3].

Background

The principal purpose of statistics on MFI balance sheets, which have been reported under ECB regulations since January 1999, is to provide policymakers with a comprehensive and timely picture of monetary developments in the euro area. As part of the ECB's aim to keep its statistical regulatory framework up to date and fit for purpose, the Statistics Committee of the European System of Central Banks (ESCB) has carried out a review of the MFI balance sheet statistics collected under Regulation ECB/2013/33 in liaison with data users and reporting agents using the MCP, which is the long-established approach for assessing the relative benefits of new statistical requirements against the costs for reporting agents.

The Statistics Committee anticipates that this update of the Regulation should have a limited impact on the reporting burden of MFIs. The review took place against the

[1] Regulation (EU) No 1071/2013 of the ECB of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector (ECB/2013/33).

[2] See: "The ECB's merits and costs procedure in the field of European statistics".

[3] See: "Transparency in developing new ECB regulations on European statistics".

backdrop of other statistical initiatives of the ESCB, including the implementation in 2018 of new granular credit and credit risk data on lending from credit institutions to legal entities as set out in the AnaCredit Regulation[4]. In addition, the ESCB aims to standardise and integrate existing statistical data requirements for banks through the Integrated Reporting Framework project, which is scheduled for implementation in 2024-27, subject to a review following the results of a cost-benefit analysis[5]. The new requirements resulting from this review therefore focus on the high priority needs for additional data for analysing monetary and credit developments and on amendments to requirements and definitions that would support the goal of enhancing data integration.

1 Summary of the user consultation

The Statistics Committee launched a consultation of other committees[6] which are the main users of monetary statistics in October 2018. The user committees were invited to indicate their new data needs which have arisen since the previous update of the Regulation[7].

The consultation resulted in the identification of the following high priorities:

- **Securitisations and other loan transfers:** MFI balance sheets can be affected by loan transfers (both off- and on-balance sheet) that hinder the interpretation of credit developments in the non-financial sectors. MFI balance sheet statistics therefore include requirements relating to securitisation and other loan transfers in order to "adjust" the headline series on lending to euro area residents to remove developments arising from those activities. Users emphasised the importance of enhancing the adjusted loans series in the assessment of the functioning of the transmission of monetary policy, within the broad credit channel, with respect to monthly data on loans to households broken down by purpose of the loan (i.e. loans for house purchase, consumer credit, and other lending). More broadly, users identified benefits for their analysis of increasing the scope of loans covered by the adjustment for loans sales and securitisation. This should help to fill some data gaps in the MFI balance sheet statistics reporting scheme as compared with the reporting templates which are used in the targeted longer-term refinancing operations (TLTROs).
- **Notional cash pooling:** Some banks provide cash pooling services that allow corporations to externalise their intragroup cash management. There are

4 Regulation (EU) 2016/867 of the European Central Bank of 18 May 2016 on the collection of granular credit and credit risk data (ECB/2016/13).

5 Further information on the ESCB Integrated Reporting Framework project can be found on the ECB's website.

6 These were the Monetary Policy Committee, the Financial Stability Committee, the Market Operations Committee, the Market Infrastructure and Payments Committee, the Banknote Committee and the European Systemic Risk Board's Advisory Technical Committee.

7 Users were also invited to express any new needs with respect to MIR statistics collected under Regulation ECB/2013/34; however, there were no specific requests at that time.

several types of cash pooling agreements[8], but the most relevant in terms of its impact on MFI balance sheets is notional cash pooling, whereby all accounts in the pool maintain a separate legal status and the participating entities are the direct counterparties of the bank. Under notional cash pooling agreements, banks may provide some entities of the group with liquidity by means of overdrafts to the extent that they are backed by the deposits of other entities participating in the pooling agreement, and the interest to be paid or received is calculated by the bank on the basis of a "notional" net position of all accounts in the pool. From an economic point of view, these loans do not constitute a genuine provision of additional financing to the economy provided by the MFI sector. The headline figures on euro area lending developments are already "adjusted" for the impact of notional cash pooling activities of MFIs resident in the Netherlands, which is by far the most relevant country in terms of volumes. However, users found that a consistent and harmonised picture of notional cash pooling in the euro area, which could only be achieved through collection under the Regulation, would be crucial to their analysis.

- **Financial corporations other than MFIs, insurance corporations, pension funds and investment funds:** These financial corporations comprise the European System of Accounts (ESA 2010)[9] statistical subsectors: other financial intermediaries (S.125), financial auxiliaries (S.126), and captive financial institutions and money lenders (S.127). However, in MFI balance sheet statistics and many other statistics produced by the ESCB, these three subsectors are typically combined in reporting schemes. In order to enhance data on non-bank financial intermediation, the Statistics Committee and user committees indicated the need, as a high priority, to identify these three subsectors separately. As a key input to the financial accounts for the euro area, additional breakdowns of assets and liabilities vis-à-vis subsectors S.125, S.126 and S.127 would therefore be necessary in MFI balance sheet statistics.

- **Commercial real estate investment:** The Advisory Technical Committee of the ESRB expressed the need for data on MFIs' Commercial Real Estate (CRE) investment in line with its Recommendation 2016/14 on closing real estate data gaps, which is addressed to the national macroprudential authorities in the EU. Specifically, the Advisory Technical Committee indicated a lack of harmonised data necessary for the monitoring of direct and indirect CRE investment by the financial sector.

- **Data provided under the Guideline on monetary and financial statistics (ECB/2014/15):** In addition to the data collected from MFIs under the Regulation, Guideline ECB/2014/15 includes some supplementary items which are already transmitted, where available, by NCBs to the ECB. These items are used to complement the analysis of data collected under the Regulation and

[8] For an overview of the different types of cash pooling and the implications for statistics, see "The statistical classification of cash pooling activities", *Statistics Paper Series*, No 16, European Central Bank, July 2016.

[9] Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union.

often help to support other statistics, such as MFI interest rate statistics (MIR) on deposits from and loans to euro area households and non-financial corporations, and as an input to the quarterly integrated economic and financial accounts for the euro area. Compilers considered which items would most benefit, potentially, from the enhancement in coverage and harmonisation which would result from collection under the Regulation. These investigations also found that most of the relevant items were often already incorporated into the national reporting schemes for banks, and hence adding some of the items to the Regulation would have a minimal impact on the overall reporting burden.

Based on the outcome of the consultation, consideration was given to how the above requests could be potentially addressed by amending the existing reporting scheme of Regulation ECB/2013/33, or by alternative sources. The proposed new Regulation requirements were compiled in a list of features when drafting a cost assessment questionnaire addressed to the NCBs and reporting agents who would participate in the cost assessment in accordance with national practices.

2 Assessment of costs and merits

The **cost assessment** was conducted by the NCBs, which liaised with the reporting agents, particularly when assessing costs to those agents of reporting the new statistics. The cost assessment comprised both the set-up costs associated with the storing and processing of data within the reporting institution and the regular costs of reporting in terms of the marginal impact compared with the current workload[10]. The cost assessment also included fact-finding questions on notional cash pooling and CRE investment in order to investigate the relevance of the phenomena.

The cost assessment confirmed that many of the proposed features had, on average, limited costs in terms of implementation and regular increase in workload, in particular where they are already reported by MFIs to NCBs under national reporting frameworks. Some further items were deemed to have set-up costs which are moderate, while the regular costs were assessed to be limited to moderate.

Proposed features relating to notional cash pooling and CRE investment had higher estimated costs: set-up costs were assessed to be sizeable on average, with a moderate increase in workload for regular reporting. In addition, the results were more heterogeneous across countries than for other features. In particular, in certain countries the set-up costs of these features were assessed to require significant or fundamental changes.

The **merits assessment** of the proposed new reporting requirements was carried out by the same user committees that expressed data needs in the user consultation. The proposed features which relate to the high priority needs in the user consultation were found to have high merits, and the users overall welcomed

[10] NCBs also provided responses to the cost assessment with respect to their costs as compilers of statistics, and as providers of statistics on the NCB's own balance sheet (these were analysed separately to the costs of reporting agents).

how these had been addressed in the draft reporting scheme. In addition, some of the lower-cost items which relate to data already transmitted to the ECB under Guideline ECB/2014/15 were also assessed to have higher than average merits, which helped in the prioritisation of proposed new requirements.

The **matching of merits and costs** was the last step before drafting the amending Regulation.

In order to manage the cumulative costs of new reporting requirements, some items with relatively low costs were excluded where the merits were not high. Alternative data sources were also considered when excluding some proposed features; for example, loans to the ESA 2010 subsectors S.125, S.126 and S.127 were excluded as these data could instead be derived from AnaCredit.

Regarding the features which were assessed, on average, to have moderate to sizeable costs, i.e. notional cash pooling and CRE investment, the results of the fact-finding questions and mitigating measures were also considered:

- **Notional cash pooling:** These activities are highly concentrated in certain countries, and tend to be offered by relatively few reporting agents. In order to reduce the reporting burden, the draft amending Regulation proposes thresholds below which NCBs may grant derogations to reporting requirements. Those thresholds are defined in terms of total gross notional cash pooling loan and/or deposit positions at a country level, as well as at the level of individual MFIs.

- **CRE investment:** Estimates based on the fact-finding questions on CRE investment indicate that MFIs' total real estate holdings, and CRE holdings in particular, were low in relative and absolute terms, and were negligible in most euro area countries.[11] It was concluded that total real estate holdings would be included in the proposed update, which would allow NCBs to monitor overall assets, but not to collect additional detailed breakdowns which would increase the costs without providing significant gains in merits.

Due to the low costs of most of the new reporting requirements proposed for the updated Regulation, as assessed by reporting agents, and the mitigating measures that have been proposed for those items which were assessed to have higher costs, the package of new reporting requirements provides a good balance between enhancing the availability and quality of data to the users of these statistics, while not substantially affecting the reporting burden of MFIs. The amending Regulation was drafted on this basis.

The draft amending Regulation is now open to a public consultation to be concluded by 13 March 2020.

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[11] This result may be partly attributable to the fact that the MFI balance sheet statistics are at the level of the solo balance sheet of the institution and so some holdings by other entities within banking groups may not be covered in the scope of the statistics/fact-finding.

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For specific terminology please refer to the ECB glossary (available in English only).