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Data and reporting

Eurofiling – European Central Bank

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Good morning Ladies and Gentlemen,

I would like to thank the organisers of this event for inviting me today.

The key themes of this morning's discussion relate to data and the continuous work to improve quality and availability of data in the context of both supervisory reporting and financial reporting, to ensure more transparent and stable financial markets. ESMA has these objectives at the forefront of its work.

In the spirit of this conference, I will first discuss how ESMA's data strategy has evolved in recent times and what are the relevant outcomes. I will then briefly guide you through the relevant international developments to which ESMA is actively contributing. I will also present our current work on reporting under SFTR where we are actively working on turning the data into intelligence for authorities and useful information to the public. I will subsequently share with you our objectives and expectations regarding the implementation of the European Single Electronic Format for financial reporting, the ESEF. Finally, I will outline some practical examples of the use of data by ESMA and the national authorities for supervisory purposes.

ESMA's data strategy and ongoing work on standardisation

Data has become the fuel of today's economy. Most of the decisions made today require data. Data has changed radically our lives compared to one or two decades ago. The advances in information technologies have created a highly data-intensive environment and revolutionised business models, including in the financial sector.

Data is however a fuel which still requires a lot of refining. High data quality has been a purposeful objective for many authorities and private entities.

ESMA as a major EU authority for supervisory reporting has established a data strategy to ensure alignment of the different functions and objectives that the EU legislative framework has granted to ESMA.

Let me present you in a nutshell, the different faces of our data strategy.

As a data regulator, ESMA together with national competent authorities, pursues the following objectives:

(i) increased data standardisation, both in terms of contribution to the development and to the implementation of internationally agreed codes such as LEI, UTI and UPI, but also in terms of promotion and adoption of international reporting standards such as ISO 20022 XML and XBRL;

(ii) elimination of duplicate or overlapping reporting; and

(iii) streamlining of data submission.

As a data user, and with a view to ESMA's mandates to monitoring of financial stability in the EU and supervision of trade repositories, ESMA is working towards:

(i) the development of a financial data dictionary;

(ii) the enhancement of the internal data capabilities in terms of staff and systems;

(iii) the growth of data exchange with other EU institutions; and

(iv) the development of EU wide supervisory methodologies for data analysis

Furthermore, ESMA manages several systems that facilitate the access to or the exchange of data between authorities. ESMA plans to further strengthen these capabilities.

Finally, ESMA's activities as data publisher are probably the most visible ones for stakeholders, as they encompass:

(i) the publication of quarterly risk-monitoring reports, bi-annual financial stability reports, and since last year annual statistical reports using regulatory data;

(ii) the maintenance of multiple EU-wide public registers;

(iii) the provision of market-wide calculations required to perform transparency and authorisation assessments, to name a few - double-volume cap, ancillary activities, calculations to determine pre-trading transparency requirements, systematic internalisers and credit ratings.

Let me now share with you a specific example of ESMA's approach to data. MiFIR establishes that investment firms should test quantitatively whether they qualify as systematic internalisers for some financial instruments when compared to the overall EU trading activity in that instrument. Upon request from market participants and to support these tests, ESMA started publishing EU-wide measures of market activity, based on the information it collects to execute its transparency calculations. Therefore, by reusing data already available in-house, ESMA aimed to improve the compliance of market participants.

Whilst the last few years have been extremely productive and we have seen important advances in enhancing the transparency of EU markets, we are also aware that there is significant room for improvement. While ESMA is and has been giving a high priority to the work on data and there has been considerable progress at EU level, we know that there is still a long road ahead of us towards achieving high-quality data.

International work and application in the EU

A clear example of the efforts to achieve better quality of data are the codes for identification of entities, transactions and products, i.e. the LEI, UTI and UPI. LEI and UTI have become part of the industry jargon and UPI will join them soon.

The EU has been a key global jurisdiction in the development, introduction, implementation and use of those identifiers. This can be easily confirmed by the colossal proportion of LEIs for EU entities compared with the rest of the world. As of the end of May this year, we can praise ourselves that more than 68% of the LEIs (945K out of 1,5M) issued across the globe pertained to EU entities. The flip side of this good European progress is that many major jurisdictions outside the EU are still lagging behind and this hampers the outcome of the joint effort for more transparent financial markets.

SFTR reporting

Now let me move to the Securities Financing Transactions Regulation (SFTR), another example of how our data strategy is being implemented in practice. The implementation of SFTR in the EU is one of the final pieces in the post-crisis efforts by global regulatory authorities to bring what used to be known as “shadow banking activities” into the light and transform these activities into resilient market-based finance.

SFTR covers the reporting of repos, buy-sell backs, securities lending and margin lending transactions and it leverages on the pre-existing market infrastructures, such as trade repositories. Based on our data strategy, and on all the experience gathered in past years in implementing extensive reporting frameworks such as EMIR and MiFIR, we modelled the SFTR data around four major data building blocks – counterparty, loan and collateral, margin and reuse data, sustained by pillars such as LEI, ISIN, UTI and ISO 20022. These building blocks aim at representing the business rationale and underlying economic drivers of the SFTs.

SFTR has been established as the first end-to-end ISO 20022 XML reporting regime. Counterparties reporting, data validations, reconciliation and data access – ISO 20022 XML messages are used to enhance data quality, streamline processing and standardise data access.

SFTs are also closely related to the banking sector and the implementation of monetary policy. As such, ESMA worked hand in hand with central banks in developing SFTR technical standards, ensuring that their data needs are covered whilst benefiting from their knowledge of SFT markets.

Following the positive experience with MiFIR guidelines on reporting, ESMA has recently published draft guidelines and validation rules on SFT reporting which are for public consultation until 29 July. The guidelines provide interalia a large number of use cases covering the relevant sections of the reporting tables.

My colleagues will discuss later today with you the guidelines in greater detail and ESMA will organise an open hearing in the afternoon of 15 July to discuss the guidelines. However, I wanted to flag to you the importance of your input on areas such as the full or partial submissions, the timeliness of reporting, the sequence and dependencies between the action types, the reporting in the phased-in period, the correct identification of issuers and securities, the calculation of haircuts as well as the detailed reporting examples.

SFTR is a multifaceted reporting regime and will require important market preparation. If you have not started yet, you should not further delay. Now is the time to get ready.

ESEF and iXBRL

Let me now move into an area of ESMA's work which has been very visible at Eurofiling in the past few years: the European Single Electronic Format, or ESEF. ESMA's RTS specifying the harmonised electronic format for annual financial reporting was published in the Official Journal of the EU at the end of May this year. So from 2020, the world of corporate reporting in the EU will finally start to go digital.

Why does the electronic format matter? Because financial reporting is a means of communicating and in the digital age the traditional formats of financial reporting are unsuitable for the speed and scale of communication needed between preparers and users. At ESMA we strongly believe that data and technology can result in more effective and efficient financial reporting. ESMA has chosen XBRL because of its potential to unlock the value of business data and enable investors to receive transparent, high-quality information on a timely basis. It also offers opportunities for cost savings, data integrity and improved reliability to all users of financial and business information. In the US, for example, where companies have been filing to the SEC in XBRL for more than 10 years already, the data sets relating to Financial Statements and Notes are the most heavily downloaded dataset on the SEC website by a factor of 10 over any other datasets[1]. On the basis of the usage patterns, we can infer that over 90% of the users of the EDGAR database are machines rather than humans and there is compelling evidence that end users are extensively using the big data made available by financial reporting in XBRL for large scale data analysis.

This of course does not mean that the traditional format of reporting will suddenly be of no interest and entirely supplanted by XBRL. With ESEF, the glossy-looking Annual Financial Report will legitimately continue to attract its dedicated audience of shareholders and investors. According to the ESEF Regulation, the human-readable layer and the machine-readable layer of financial reports will be combined into one single electronic document, which can be consumed by both humans and machines.

[1] https://www.sec.gov/dera/data/financial-statement-and-notes-data-set.html

So, if the promises are big, what are the key challenges which regulators and market participants will have to face? As the implementation effort enters into its crucial phase, there are in particular three critical areas on which I would like to focus.

Firstly: Data quality. XBRL has been a worldwide standard for years already. However, errors and inconsistencies in data tagging have prevented the user community to reap the full benefits of electronic reporting. Automated analysis becomes impractical and unreliable whenever data is inconsistent or inaccurate. ESEF requirements, we believe, go already a very long way in promoting a harmonized and consistent approach to data. Whilst ESMA remains open to hear feedback from market participants and to further improve the rules and guidance in future years, the private sector should now take the initiative to ensure data quality. And let me be clear, we cannot compromise on the quality of XBRL data filed with the Officially Appointed Mechanisms and the National Competent Authorities. Guidance for validation rules and warnings are already provided by ESMA in its taxonomy files and in the Reporting Manual, but ESMA thinks that there is an important role to play for industry best practice initiatives in providing peer-to-peer guidance in the wider interest of the XBRL community.

This leads me to the second challenge: the governance of electronic reporting. As you know, ESMA's mandate was only to specify the format for electronic reporting. However, for the ESEF to be a success, we need to think in terms of the different actors that constitute the 'Corporate Reporting Value Chain'.

While generally the focus is on the nodes that stand at the two extremes of this chain, i.e. preparers and users, we should not forget the key role that both accounting enforcers and Officially Appointed Mechanisms (OAMs) play. While financial reports will continue to be filed to OAMs and supervised and enforced by National Competent Authorities (NCAs), the respective human and technological capacities will need to be adapted to the new needs arising from electronic reporting. NCAs for instance will need to prepare to enforce electronic reporting, but should also have the ambition to use the new data available in their own risk models and analyses – ESMA plans to contribute and coordinate this work within the constraints of our limited resources and of the current legislative framework. It is worth highlighting that in the current legislative framework OAMs are required to operate as mere repositories of regulated information, including the future ESEF financial reports. Most are not empowered to run validation checks on the submitted electronic filings. We therefore wish that in the context of future work on the EU data strategy, the new Commission reconsiders the role of OAMs. They can contribute significantly to promoting data quality of financial reports prepared in ESEF, similarly to how Trade Repositories run validation checks and reject incompliant submissions under EMIR and SFTR.

The third challenge is maintenance of the ESEF. As the IFRS taxonomy is used as a basis for ESEF, the ESEF Regulation will require yearly updates to reflect changes in the underlying IFRS standards and taxonomy. Therefore, ESMA will propose every year to the European Commission a draft amendment to the RTS on ESEF reflecting any necessary changes to the ESEF Taxonomy, with the objective of allowing the new taxonomy to be applicable at the beginning of the following year. In this regard, two weeks ago ESMA issued its first proposed amendment to the RTS on ESEF reflecting the 2019 IFRS Taxonomy. While this process will inevitably be somewhat burdensome, we deem it necessary to ensure the highest comparability of electronic financial statements drawn up in accordance with IFRS at European and at global level.

In conclusion, electronic reporting is set to change the financial reporting landscape, but this will be a gradual process and not one without difficulties. ESMA's ESEF is only the starting point of what is likely to be a long road towards digitalization of corporate reporting. We hope that a successful implementation of the ESEF, and most importantly one which does not compromise on the quality of the data, will strongly support further progress in the area of digital financial reporting.

Data uses

Let me offer a few examples of how data are being used. The implementation of post-crisis transparency requirements has made a wealth of information available to regulators and central banks. As the authority in charge of implementing many market-wide data standards, ESMA is in a unique position to exploit this information.

First, I would like to draw your attention to our on-going efforts to bring information to the investment community and the broader public. In addition to our regular risk reporting outlets, we have launched a series of annual statistical reports that aim to publish summary information using supervisory data. The first ESMA annual derivatives report highlighted last year that the size of the EU derivatives markets amounted to €660 trillion in gross notional outstanding.

In addition, authorities increasingly rely on EU-wide quantitative information for their supervisory activities. For example, information reported under AIFMD is used to monitor the alternative investment fund market. A recent ESMA annual statistical report based on AIFMD data highlighted a high degree of liquidity mismatch within some real-estate funds. Supervisory cooperation has improved too, as illustrated in ESMA's recent work on "closet indexing", a practice whereby some investment funds replicate an index while charging large fees normally justified by active stock-picking. Through data analysis, ESMA identified a number of potential closet-indexers, leading to supervisory follow-up by the national authorities in charge.

Third, quantitative information is increasingly used as a key input for policy decisions. One example is the derivatives transactions data reported under EMIR, used to determinate which classes of derivatives should fall under the central clearing obligation. In a similar vein, bans on dark pool trading and some of the transparency obligations are now the result of recurring calculations performed by ESMA, using MiFID II supervisory data reported by EU trading venues.

Finally, a wealth of standardised information has enabled cross-border data exchanges between authorities, contributing to supervisory convergence across EU Member States. ESMA systems allowing for encrypted information exchanges on individual transactions across countries (the so-called TREM system) has empowered authorities, allowing them to pursue more effectively market abuse cases.

As I hope I have made clear, large amounts of data now sit within securities markets regulators. Unfortunately, the development of analytical capabilities has lagged, mainly due to the limited resources available at both EU and national level. This has hampered a more widespread reliance on quantitative information, which has not been exploited so far to its fullest extent. Hence, building up analytical capabilities both at national and EU level should be a priority in the years ahead.

Conclusion

Ladies and Gentlemen, ESMA truly believes in a proactive and holistic approach to standardise data reporting, streamlining the existing processes and ensure the highest standards of transparency and data quality in the EU, while reducing the reporting burden for market participants.

Moreover, following the continuous engagement and interaction with the reporting community ESMA has established itself as a major EU supervisory reporting standard-setter, as a key global authority in the data reporting arena and as a front-runner in the digitalisation of financial reporting.

I am convinced that the supervisory community, both at a global and EU level, as well as all the stakeholders involved have been and will be actively working towards increasing the value of the data reported, both for the entities and the authorities.

We therefore intend to leverage on fora, as the Eurofiling event, to continue the dialogue and the exchange of information to improve market transparency, increase the quality and use of data and facilitate the monitoring of financial stability.

Thank you for your attention.