

# SUPERVISORY TRANSPARENCY IN THE EUROPEAN BANKING UNION

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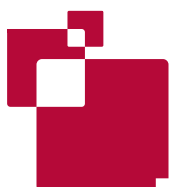
## Highlights

- Bank supervisors should provide publicly accessible, timely and consistent data on the banks under their jurisdiction. Such transparency increases democratic accountability and leads to greater market efficiency.
- There is greater supervisory transparency in the United States compared to the member states of the European Union. The US supervisors publish data quarterly and update fairly detailed information on bank balance sheets within a week. By contrast, based on an attempt to locate similar data in every EU country, in only 11 member states is this data at least partially available from supervisors, and in no member state is the level of transparency as high as in the US.
- Current and planned European Union requirements on bank transparency are either insufficient or could be easily sidestepped by supervisors. A banking union in Europe needs to include requirements for greater supervisory transparency.

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# SUPERVISORY TRANSPARENCY IN THE EUROPEAN BANKING UNION

CHRISTOPHER GANDRUD AND MARK HALLERBERG, JANUARY 2014

**AMERICAN INVESTORS** are rediscovering European banks. One reason is that markets seem to consider that the European Central Bank's upcoming asset quality review (AQR) will enable them to have greater faith in claims about the health of the banking sector because one regulator will have checked the books in a systematic fashion. Moreover, there will be more uniform standards for banks reporting of their accounts, and this should facilitate comparability across borders<sup>1</sup>.

But under Europe's future banking union's Single Supervisory Mechanism (SSM), headed by the ECB, will the level of transparency of the banking sector really approach the level taken for granted in the United States? A key player in providing this transparency in the United States is an inter-agency body, the Federal Financial Institutions Examination Council (FFIEC). It provides through a central repository timely, consistent and publicly accessible quarterly supervisory filing data on all American banks that receive Federal Deposit Insurance Corporation coverage – roughly 8,200 banks. Moreover, with minor exceptions, it makes this data public in consistent formats and it provides updated data from banks on its website generally within a week of receiving it. This data is far from perfect. Concerns in the United States that this data was not detailed enough during the global financial crisis led to the creation of a new Office of Financial Research (OFR) in the 2010 Dodd-Frank Act. The Office's mandate is to improve the data collection process (Flood *et al.*, 2012). Nevertheless, it is useful to compare the availability of data in Europe to the FFIEC benchmark.

In this Policy Contribution, we explain why it is important for democratic accountability and market efficiency that regulators provide publicly accessible, timely and consistent data, and we address common concerns about privacy. We review the US framework and we benchmark the current state of supervisory information from

European Union member states against the US system (see Table 1 on the next page for a summary comparison). We have contacted relevant supervisors in all EU member states in an attempt to access individual bank data. It is perhaps not surprising that none approach the level of regulatory filing transparency one finds in the United States – in fact, only five euro-area member states release any individual bank level data that is easily accessible (Estonia, Finland, Latvia, Portugal and Spain). Perhaps more surprising, however, is that not only do other regulators not make the data available, but several member states also treat the data as confidential.

Finally, we examine recent EU-level efforts to increase bank transparency. Many of these changes are still being decided, but the measures that have been implemented do not approach the minimal standards of consistency, timeliness and publicly accessibility found in the US. At minimum, we urge the ECB to make individual supervisory filing data for the banks that it directly regulates under the Single Supervisory Mechanism publicly available in a timely and consistent manner. It would also be helpful if there would be more information exchange between member states.

## WHY MAKE INDIVIDUAL BANK REGULATORY DATA AVAILABLE?

There are two major benefits from increasing bank regulatory transparency in the European banking union. The first is improving democratic accountability; the second is market efficiency.

On accountability, the literature generally holds that a process can be legitimate at two stages of the policy process, namely through inputs and outputs<sup>2</sup>. For 'input legitimacy', the issue is whether the people directly decide on the supervisor. If one focuses on bank supervision, it is unrealistic to expect much input legitimacy – it is

1. The *Financial Times* reported that Ruth Nagle, lead portfolio manager for the financial sector on BlackRock's Global Opportunities funds, said that the move towards a single regulator under the ECB "would help standardise financial reporting and enable investors [to] compare banks across the eurozone." 'US Funds Place Big Bets on Euro Bank Recovery,' *Financial Times*, 19 November 2013.

2. See especially Scharpf (1970, 1999).

**Table 1: Availability of individual bank supervisory filing data in the US and EU\***

	United States	EBA	ECB	EU member states
<b>Bank coverage</b>	All banks insured by the FDIC and bank holding companies.	64 banks from the European Economic Area included in the recapitalisation exercise.	None currently.	11 member states, five of which are in the euro area, make some data readily available.
<b>Timeliness</b>	Quarterly data release within 1 day to one week. Easily accessible as a bulk download from 2001 for banks and 1986 for bank holding companies.	Less than annually data (December 2012 and June 2013). June 2013 released December 2013.	N/A	Varies (see Table 2).
<b>Consistency</b>	Largely consistent quantities across banks and time. Where there are inconsistencies these are well documented.	Consistent over the two time points and across banks.	N/A	Considerable variation across countries and time.
<b>Level of Detail</b>	Almost complete regulatory filings, including detailed data on bank's balance sheets including asset's broken down by type, non-performing loans, and foreign exposure.	Detailed capital, composition, exposures to sovereigns, credit risk, market risk and securitisation, as well as Loan To Value across portfolios.	N/A	Varies, though always less than US.
<b>URL</b>	<i>Banks:</i> <a href="https://cdr.ffiec.gov/public/PWS/DownloadBulkData.aspx">https://cdr.ffiec.gov/public/PWS/DownloadBulkData.aspx</a> <i>Bank holding companies:</i> <a href="http://www.chicagofed.org/webpages/banking/financial_institution_reports/bhc_data.cfm">http://www.chicagofed.org/webpages/banking/financial_institution_reports/bhc_data.cfm</a>	<a href="http://www.eba.europa.eu/risk-analysis-and-data/eu-wide-transparency-exercise">http://www.eba.europa.eu/risk-analysis-and-data/eu-wide-transparency-exercise</a>	N/A	See Table 2

Source: Bruegel. Note: \* as of December 2013.

extremely rare for countries to have the people elect regulators or supervisors directly<sup>3</sup>.

For regulators in general and the SSM in particular, the focus of ensuring legitimacy is therefore on 'output legitimacy'. Do supervisors take actions that are in the best interests of the people they are supposed to serve? Or do they make decisions that, for example, favour the financial industry at the expense of the taxpayer?

There are two ways to monitor supervisors: 'police patrols' and 'fire alarms' (McCubbins and Schwartz, 1984). The former involves regular oversight, most commonly through a legislative committee that holds regular hearings in which the supervisor is expected to brief the legislators and answer their questions. In the US, regulators such as the Chairman of the Board of Governors of the Federal Reserve Bank testify before Congressional committees. The hearings are generally public.

In Germany, the Bundestag Finance Committee holds hearings that involve the regulators (namely the Federal Financial Supervisory Authority, or 'BaFin', and the Bundesbank). Given German privacy laws, the regulator is not allowed to divulge specific details about bank balance sheets even in confidence before the committee. This means that members of parliament do not have access to any more balance sheet information than members of the public. However, based on the passage of a recent law that implements Basel III in German legislation, this is about to change so that as of 2014 information is provided to parliamentary investigative committees on a need-to-know basis<sup>4</sup>. Rather than 'police patrols', such power amounts to 'police investigations', that is, there is an ability to check, but not to conduct regular oversight, of the books of specific banks.

There will be a similar arrangement to the Bundestag in the European Parliament. Based on an

3. The only example we know of is the election of Insurance Commissioners in many American states. Besley and Coate (2003), in a widely cited study, find that elected Insurance Commissioners are more pro-consumer than appointed Commissioners. We know of no examples of directly elected bank supervisors.

4. See Deutscher Bundestag, *Beschlussempfehlung des Finanzausschusses*, Drucksache 17/13524, 15/5/2013, p. 29; available at <http://dipbt.bundestag.de/dip21/btd/17/135/1713524.pdf>.

inter-institutional agreement between the European Parliament and the ECB<sup>5</sup>, under the SSM, the ECB will be required to attend twice-yearly hearings of a committee of the European Parliament. More specific hearings are confidential, as is potentially much of the information the ECB will give the European Parliament regarding specific companies and individuals. Moreover, the ECB has pledged to cooperate with the European Parliament when it carries out an investigation. Whether MEPs will have similar access to German Bundestag members to the detail of the balance sheets of specific banks is unclear, but it would appear that – like in Germany – this would be an agenda item only when there is an ‘investigation’<sup>6</sup>.

These ‘police patrols’ are certainly useful, but one should consider to whom they report and where they patrol. The information in both the German and European cases is often presented in a confidential forum, and only the members of the respective parliaments have a chance to participate. This means that European parliamentarians will have the chance to review what the ECB is doing, while the German parliamentarians can investigate the German supervisor. If current plans for the supervisory division of labour move forward, the ECB will supervise the 130 or so largest banks while the national supervisors will be responsible for the remainder. Taken together, the ‘police patrols’ will generally occur in isolation. This is fine if one thinks that supervisors will be equally tough in all member states. There may be concern, however, that national supervisors will choose forbearance with national firms; one country’s supervisor may give its banks more time. There will be no opportunity for, say, parliamentarians from other member states to evaluate or question another country’s supervisor. This is a fundamental problem of the ‘police patrol’ method of providing output legitimacy in a European banking union.

‘Fire alarms’ are another device to address output legitimacy. The idea here is that the public receives regular information about a given topic, and the public will set off an alarm if there really is a problem. This type of oversight works only if there is transparency – it must be possible for non-policymakers to evaluate what the supervisor is doing. Non-governmental actors cannot per-

form this function if individual bank filing data is secret. To make a judgement about regulators’ decisions, the public needs to be able to observe not only supervisory actions, but also the context in which they were made. And if supervisors know the public will have the same data, they might be more likely to act in the public interest in the first place.

For a fire alarm to work it needs to go off when the fire is occurring, not a long time afterwards. Analogously, supervisory data needs to be released in a timely manner, covering a fairly recent time period – such as the previous quarter – and should be released shortly after the data is submitted, perhaps with a slight delay for accuracy checks. This is especially important for bank supervisory data – one tool that the public might want to evaluate is the use of forbearance. If there is a significant delay in the release of data (say one year), then supervisors could effectively put a bank in forbearance without the public knowing this action had been taken.

It is in the context of ‘fire alarms’ that the supervisory transparency we investigate here contributes to increased democratic legitimacy. It allows the public and interest groups to evaluate the behaviour of supervisors.

The second reason why regulator transparency is desirable is that it increases market efficiency by improving the quality of information available to investors<sup>7</sup>. When investors have better information, banks make better decisions. If investors and depositors can observe banks’ decisions then they will ‘punish’ banks for risky decisions through higher borrowing costs<sup>8</sup>. Banks therefore have an incentive to decrease their risk profile when there is greater transparency. However, if the market cannot observe bank risk taking, banks will make higher risk moves<sup>9</sup>.

A common argument against regulatory transparency is that it is bad for financial stability. If investors learn that a bank is in trouble, there may be a run on it, and this could hurt the whole system. This would be especially troublesome for banks that suffer from exogenous shocks and that had not previously engaged in overly risky behaviour (Cordella and Yeyati, 1998). However, Nier

5. Available at: <http://www.europarl.europa.eu/document/activities/cont/201311/20131107ATT74064/20131107ATT74064EN.pdf>. Accessed December 2013.

6. Accessed 10 December 2013 at <http://www.europarl.europa.eu/news/en/newsroom/content/20130912IPR19704/html/Declaration-of-the-President-of-the-EP-and-of-the-President-of-the-ECB>.

7. The more and higher quality data companies make available, the better understanding analysts have of the companies. This improves their predictions about banks’ profits and losses thus improving investor decisions (Roulstone, 2003; Yu, 2010). The dataset’s format affects information efficiency. Liu *et al* (2013) find that making data available in the standard eXtensible Business Reporting Language (XBRL) increased the number of analysts following a given company and improved their forecast accuracy.

8. This assumes that creditors and depositors are not fully insured.

9. See Blum (2002), Cordella and Yeyati (1998), Baumann and Nier (2003).

(2005) found that more transparent banks – that is, those that reported data in their published accounts – were less likely to experience a crisis. This suggests that the net effect of transparency on stability is positive<sup>10</sup>.

There is an efficiency reason relevant especially for Europe given the introduction of tougher rules that require a significant bail-in of junior asset holders if a decision is taken to resolve a bank. Knowing this, why would investors willingly become junior asset holders in the first place? They will want transparent information on the health of each bank. If that information is not forthcoming, they will demand a premium. This, in turn, will make capital more expensive in Europe.

#### *Why should individual bank supervisory filing data be made available?*

One response to the arguments we have advanced is that data for banks is already available. Banks file reports with markets, often as a requirement of being publicly traded. European banks also file

reports under the Capital Requirements Directive (CRD) IV Pillar 3. Why insist that regulators make timely and consistent financial supervisory filing data centrally available, rather than rely on banks to release information on their own websites?

There are a number of reasons why a supervisor releasing filings data is preferable to voluntary releases (we will address Pillar 3 reports below). They include:

- Reporting requirements for publicly traded companies do not apply to private non-publicly traded banks, which may nonetheless contribute to financial instability.
- The type of data required for publicly traded companies might not give an accurate view of activities crucial to understanding a bank's health. This is one of the key reasons that financial regulators require banks to make additional filings to them.

One could also argue that banks self-report on their web pages. Data made available by banks ion

#### **BOX 1: WEIGHING PRIVACY CONCERNS**

We have approached the topic of making bank regulatory filing data available from the point of view of the public's interest in democratic legitimacy and effectiveness. Another way to approach the topic, however, is from the point of view of protecting private sector banking institutions' privacy, especially information that may reveal their private business models. In stark contrast to US regulators, a significant proportion of European supervisors do not release individual bank filing data because they treat this information as confidential and often regard it as commercially sensitive.

If banks did not create significant negative externalities, it would indeed be reasonable to not publicly release data on their activities. However, the line between private sector banks and the public sector is very blurred. As the recent financial crisis has reminded us, banks' liabilities are effectively contingent liabilities for the public. Private sector (and publicly owned) banks can create very significant negative externalities (De Nicolò *et al*, 2012) that can end up causing major public costs and severe disruption of economic sectors (Reinhart and Rogoff, 2009). Given the significant negative consequences of inadequate regulation to prevent bank failures, it is important for the public to be able to hold regulators accountable. This is difficult without an understanding of how decisions are made, ie access to the regulatory filing data on which they are based. Furthermore, as we have noted, more bank transparency reduces the probability of banks facing trouble. The public's interest in accountable financial regulation and market efficiency outweighs individual bank's privacy concerns.

One could, of course, consider something in between whereby information is released after a quarter, instead of immediately it becomes available. Knowing that this information is coming, a bank would have some time to make adjustments if there is a real surprise in the data that the supervisor will publish. To avoid unevaluated forbearance, however, the release should not be delayed any further than one quarter.

10. Granja (2012) also finds evidence from the United States that banks subject to more stringent public disclosure requirements can generally be wound down at lower cost to the public. One reason for this is that more information increases participation in asset auctions, and makes it more likely that potential buyers that value the assets highly will attend.

their websites, however, is less useful than official filing data made available on a central public site because:

- Data made available by banks individually may be less consistent and comparable than data provided to a financial regulator. Regulators will at least be more likely to be able to conduct minimal accuracy checks.
- Data released by a supervisor for all of a jurisdiction's banks in one place can be more easily collated for comparative analysis.
- The public will likely be especially interested in banks that fail. When a bank fails its website might be closed. Previously accessible data may then become inaccessible at precisely a time when the public is most interested in it. And a bank that is about to disappear may not provide the same detail about its accounts as a healthy bank.
- For output legitimacy, it is preferable to judge regulators actions relative to the information they have, which may differ from other sources.

are generally available the day after the regulator receives them, and they are freely available for download from the Federal Financial Institutions Examination Council's website<sup>12</sup>. Data is available for download in a variety of file formats that can be opened by a variety of software programmes. Quarterly data is available from 2001 to the present. The data is consistent and can be merged and interrogated in a range of ways. For example, banks' assets are broken down by class, including mortgages, agricultural loans and so on. This allows one to examine banks' exposure to specific sectors. Importantly, there is relatively detailed data on non-performing loans, a key indicator of bank health. Quantities are typically presented in three ways: domestic, foreign and consolidated between the two, allowing researchers to examine how exposed banks are to difficulties in foreign financial markets.

In addition to bank's Call Reports, the US Federal Reserve also requires larger and more diverse bank holding companies to submit so-called FR Y-9C reports every quarter. The reports are coordinated with the Call Reports and contain income and balance sheet information, and supporting schedules on quantities such as off-balance sheet items. The Federal Reserve uses them as "*a primary analytical tool [for monitoring] financial institutions between on-site inspections*"<sup>13</sup>. The FR Y-9C reports are generally public<sup>14</sup>, and can be accessed electronically either on an individual bank holding company basis from the FFIEC<sup>15</sup> or as a bulk download from the Federal Reserve Bank of Chicago's website<sup>16</sup> in a variety of formats. Usually the data is available within 24 hours of its submission or revision.

11. See Flood *et al* (2012) for a detailed overview of all microprudential supervisory data collected and made available in the United States.

12. See: <https://cdr.ffiec.gov/public/PWS/DownloadBulkData.aspx>. Accessed November 2013.

13. See: <http://www.federalreserve.gov/apps/report-forms/reportdetail.aspx?s0oYJ+5BzDal8cbqnRxZRg==>. Accessed December 2013.

14. A few items in the report are automatically treated as confidential and confidentiality can be requested to protect a significant competitive position or personal privacy.

15. See: <https://www.ffiec.gov/nicpubweb/content/help/helpFinancialReport.htm>. Accessed December 2013.

16. See: [http://www.chicagofed.org/webpages/banking/financial\\_institution\\_reports/bhc\\_data.cfm](http://www.chicagofed.org/webpages/banking/financial_institution_reports/bhc_data.cfm). Accessed December 2013.

Another important question is why is consolidated data – ie data for the entire banking sector of a given jurisdiction – not sufficient to enable accountability? To be able to hold supervisors accountable for their decisions, one needs to have data at the individual bank level. Individual bank data is also needed to improve market efficiency because it allows investors to distinguish between banks within a jurisdiction. See Box 1 for a discussion of the privacy concerns that arise from releasing individual bank filing data, and why they are insufficient to justify not releasing the data.

#### CURRENT PRACTICE IN THE UNITED STATES

The United States has adopted a highly transparent system of individual bank regulatory filing data dissemination. All banks that receive FDIC insurance are required to make Call Reports on the last day of each calendar quarter. Information includes earnings, balance sheet, asset quality, liquidity and capital (Flood *et al*, 2012)<sup>11</sup>. These

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straightforward. Though Levine (2012) argues that the United States needs a further independent and non-regulatory institution to gather and evaluate information on a wider range of bank activities, the existing data has been, and could be further, used in fairly extensive analyses conducted by academics, private investors and the media.

### CURRENT PRACTICE IN THE EUROPEAN UNION

To examine how timely, consistent and publicly available individual bank regulatory filing data is in the EU compared with the US, we first conducted a survey of national regulators based on a list created by the European Banking Authority (EBA)<sup>17</sup>. Table 2 on the next page summarises the results. We asked each agency<sup>18</sup> if it or any other agency in the country makes supervisory filing data available. We then examined the data and noted its basic characteristics. Of the 28 EU countries, the data is available electronically in 11. This includes Bulgaria, Denmark, Finland and Spain. Of the remaining 17, nine consider this data confidential and do not make it available. In some cases, such as in the United Kingdom and Germany, confidentiality has a legal basis. In others, such as Austria, confidentiality is based on the supervisor's professional obligations. Eight countries neither described the data as confidential to us nor made it available electronically<sup>19</sup> (see Table 2).

Of the 18 euro-area countries as of January 2014, only five (Estonia, Finland, Latvia, Portugal, and Spain) currently have any accessible data.

Moreover, among the countries that make some data available, both the frequency and quality of reporting varies. For example, data is available monthly for Spanish commercial banks, but only annually in Finland. The time span of the coverage also varies. The Czech Republic makes data available back to the year 2000, while Latvia has only released data from the third quarter of 2012. Different countries' data is not reported in a consistent file or language format.

Spain, through the Spanish Bankers Association<sup>20</sup> and Spanish Savings Bank Association<sup>21</sup>, makes the most complete data set available. Monthly filing data is available from 2002 for savings

banks and on a quarterly basis from 2004 for commercial banks, in standard formats.

Given current rules, it is up to national regulators to make any of this data available. If regulators or national governments felt it is in their interest to stop publishing the data, there is no European-level requirement to continue.

From this survey of minimal data availability practices, we have found that the majority of European countries do not make individual bank data electronically available to the public. Even among countries that do make data available, there are a variety of practices concerning the timeliness and consistency of the data. It is therefore difficult for the public to be able to hold their supervisors accountable. Though the data made publicly available through national regulators will likely be only a subset of data given to the ECB for its supervisory activities under the newly created Single Supervisory Mechanism, it will nonetheless be difficult for the public to hold the ECB accountable for its activities because it will be very unclear what minimal information they had about individual banks and when.

Finally, it is important to emphasise that this survey was of minimal data sharing practices. We did not catalogue the range of quantities being recorded – eg breakdowns of assets by class and non-performing loans – in the individual bank filing data. Most countries that reported data reported fairly simple balance sheet data. Even in Spain, which has some of the most complete reporting, non-performing loans – a crucial indicator for determining a bank's health – are not included in any detail. No member state reports data at the level of detail one finds in the US.

### *Reporting by the European Banking Authority and future plans*

A number of initiatives are already in place to improve bank transparency. However, these initiatives have significant deficiencies in terms of making data publicly available in timely and consistent formats.

To promote greater “*market discipline and financial stability*,” in 2012 and 2013 the EBA con-

17. See: <http://www.eba.europa.eu/ris-k-analysis-and-data/credit-institutions-register>. Accessed November 2013.

18. We emailed each agency at least twice. If we did not receive a response, we followed up with telephone calls.

19. In these cases we received written or verbal confirmation from the relevant agency that the information is not regularly electronically available to the public. In some of these countries, such as Sweden, data can be accessed on a case-by-case basis by contacting the supervisor directly.

20. Asociación Española de Banca.

21. Sector Cajas.

Table 2: EU bank supervisors, data publication practices (as of December 2013)

Country	Agency	Availability	Period of electronic availability	Frequency	Format
Austria	Finanzmarktaufsicht	Confidential			
Belgium	Nationale Bank van België/Banque Nationale de Belgique	Confidential			
Bulgaria	Bulgarian National Bank	Available	Since 2004	Quarterly	Excel sheets by company-quarter
Croatia	Croatian National Bank	Available	Since 2001	Quarterly	Excel sheets by quarter. Also PDF.
Cyprus	Central Bank of Cyprus	Unavailable			
Czech Rep.	Czech National Bank	Available	Since 1999	Quarterly	Excel and PDF by quarter.
Denmark	Finanstilsynet	Available	2000-12	Yearly	Excel sheet by company-year
Estonia	Finantsinspektsioon	Available	1999-07	Yearly	Web form
Finland	Finanssivalvonta	Available	2002-12	Yearly	Web page (downloadable as CSV)
France	Autorité de contrôle prudentiel	Unavailable			
Germany	Bundesbank, Bundesanstalt für Finanzdienstleistungsaufsicht	Confidential			
Greece	Bank of Greece	Confidential			
Hungary	The Central Bank of Hungary	Available	2005-12	Yearly	Excel sheets by filing category
Ireland	Central Bank of Ireland	Confidential			
Italy	Banca d'Italia	Unavailable			
Latvia	Finanšu un kapitāla tirgus komisija	Available	Since Q3 2012	Quarterly	Excel sheet by quarter
Lithuania	Bank of Lithuania	Available	Since Q4 2012	Quarterly	Excel sheet by quarter
Luxembourg	Commission de Surveillance du Secteur Financier	Confidential			
Malta	Malta Financial Services Authority	Confidential			
Netherlands	De Nederlandsche Bank	Unavailable			
Poland	Polish Financial Supervision Authority	Unavailable			
Portugal	Banco de Portugal	Available	2006-present	Quarterly	PDF versions of bank filings in Portuguese
Romania	National Bank of Romania	Confidential			
Slovakia	Národná banka Slovenska	Unavailable			
Slovenia	Banka Slovenije	Unavailable			
Spain*	Banco de España	Available	S: since 2002; C: since 2004	S: quarterly; C: monthly	Savings banks: PDF and XBRL i; commercial banks: PDF, Excel and XBRL
Sweden	Finansinspektionen	Unavailable			
United Kingdom	Financial Conduct Authority, Bank of England	Confidential			

Source: Bruegel, survey of responsible regulatory institutions. See: <http://bit.ly/1efQ5jN> for more information. Where data is listed as 'Unavailable', the responsible authority told us that the data was not regularly released, but did not indicate that this was for confidentiality reasons. Note: \* S = savings banks; C = commercial banks.

Web addresses of authorities making information available:

Bulgaria: [http://www.bnb.bg/BankSupervision/BSCreditInstitution/BSCIFinansReports/BSCIFRForeignBanks/BS\\_Q\\_201306\\_EN](http://www.bnb.bg/BankSupervision/BSCreditInstitution/BSCIFinansReports/BSCIFRForeignBanks/BS_Q_201306_EN);

Croatia: <http://www.hnb.hr/supervizija/eindex.html>

Czech Republic: [http://www.cnb.cz/en/supervision\\_financial\\_market/information\\_published\\_issuers/](http://www.cnb.cz/en/supervision_financial_market/information_published_issuers/)

Denmark: <http://www.finanstilsynet.dk/da/Tal-og-fakta/Statistik-noegletal-analyser/Statistik-om-sektoren/Tidsserier/2012/Pengeinstitutternes-regnskaber-2000-2012.aspx>

Estonia: <http://www.fi.ee/index.php?id=1174>

Finland: <http://www.finanssivalvonta.fi/en/Statistics/keyfinancialfigures/Pages/Keyfinancialfigures.aspx>

Hungary: [http://felugyelet.mnb.hu/en/left\\_menu/pszafen\\_publication/golden\\_books.html](http://felugyelet.mnb.hu/en/left_menu/pszafen_publication/golden_books.html)

Latvia: [http://www.fktk.lv/en/statistics/credit\\_institutions/bank\\_public\\_quarterly\\_reports/2013-03-21\\_public\\_quarterly\\_reports/](http://www.fktk.lv/en/statistics/credit_institutions/bank_public_quarterly_reports/2013-03-21_public_quarterly_reports/)

Lithuania: [http://www.lb.lt/stat\\_pub/statbrowser.aspx?group=8070&lang=en](http://www.lb.lt/stat_pub/statbrowser.aspx?group=8070&lang=en)

Portugal: <http://www.bportugal.pt/pt-PT/Supervisao/Paginas/Contasdasinstituicoes.aspx>

Spain: savings: <http://www.cajasdeahorros.es/#/PAGffilestados>; commercial: <http://www.aebanca.es/en/EstadosFinancieros/index.htm>



ducted “*transparency exercises*” for the 64 banks that were part of the 2012 recapitalisation exercise. These provided fairly detailed data about banks, including their capital, risk weighted assets and sovereign exposure<sup>22</sup>. The data is downloadable in a variety of formats. This was certainly a good step towards making bank filing data publicly available. However, it had a number of limitations. The data was collected only for an important, but very small subset of European banks. Many key banks are not included, such as all of the banks in Spain that received public assistance to strengthen their capital during the recent financial crisis<sup>23</sup>. The data is not particularly timely. For example, the results of the 2013 exercise were published in December 2013, but only cover the first half of 2013. Because the EBA does not independently gather data, but relies on member state supervisors, the International Monetary Fund has raised concerns about the EBA’s ability to verify effectively the accuracy of this type of data (International Monetary Fund, 2013). Finally, because the recapitalisation exercise is a one-off<sup>24</sup> it is not clear how permanent these transparency measures will be.

The European Union’s Capital Requirements Directive (CRD IV) does mandate regular publication of bank information<sup>25</sup>. CRD IV implements Basel Pillar 3 and requires that banks publicly disclose information about their capital adequacy and risk exposure. The EBA will issue in 2014 further guidelines on how banks should make these disclosures. Though this is a very positive step at making important individual bank data publicly accessible, it has a number of drawbacks. As of 2013, banks have leeway to choose what information to report, what format to report it in and at what frequency.

Banks often use different strategies to mitigate risks. Therefore arguably one of the strengths of the rather loose requirements for what data banks report is that the requirement allows each bank to create a qualitative and quantitative report that reflects its risk positions given its particular activ-

ities. Nonetheless, this makes it difficult to compare banks’ activities and to evaluate the regulators<sup>26</sup>. Second, because banks are given considerable discretion to choose the format in which to present their disclosures, it is costly to even gather data that would be comparable. Third, institutions are allowed to choose their reporting frequency, as long as they report at least once a year. Annual reports are much less timely reflections of an institution’s health than quarterly or monthly reports.

We argue that the EBA should at the minimum consider more specific guidelines for the format and timeliness of Pillar 3 reports. A requirement could be included for a ‘quarterly quantitative appendix’ where information typically presented in Pillar 3 report tables is presented using a standardised XBRL taxonomy, ie a set of standardised definitions for each part of the regulatory filing<sup>27</sup>.

In addition to establishing guidelines for Pillar 3 reports, the EBA and its predecessor the Committee of European Banking Supervisors (CEBS), have gathered and released member state-level data required by the 2006 Capital Requirements Directive<sup>28</sup> since 2007<sup>29</sup>. Importantly, this data is only at the aggregate level; one cannot generally trace the health of any individual bank, which means that it is a less effective way to evaluate what the supervisor is doing. The type of data reported includes the number of credit institutions in each member state, overall asset and capital levels, key measures of credit, operational, and market risk, and national supervisory actions, such as the number of on-site inspections. This could potentially be used as a way of developing a basic understanding of regulators’ actions in the absence of bank-level data. However, even though the data is only reported in aggregate, it is up to member state regulators to determine if the data is confidential and therefore not reportable.

Figure 1 shows the number of EU countries that reported any information to the EBA regarding general banking system characteristics, credit risk<sup>30</sup>

22. See the EBA press release at: <http://andrewgelman.com/2013/12/17/replication-backlash/>. Accessed December 2013.

23. ‘European Banking Authority releases “transparency exercise” of Major EEA Banks Ahead of ECB Asset Quality Review’, *Euro Intelligence News Briefing*, 18 December 2013.

24. See the EBA description at: <http://www.eba.europa.eu/ris-k-analysis-and-data/eu-capital-exercise>. Accessed December 2013.

25. For the full text, see: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:0001:01:EN:HTML>. Accessed November 2013.

26. The EBA itself has been critical of the lack of information that banks provide in Pillar 3 reports. In its 2012 assessment of 19 banks’ reports the EBA said that, like the year before, “no institution has fully complied with all of the requirements assessed” (EBA, 2013). Apart from monitoring the reports and establishing best practices, the EBA is unable to sanction banks that do not follow its guidelines.

27. See for example: <http://www.eurofiling.info/fin-repTaxonomy/taxonomy.shtml>. Accessed November 2013.

28. Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:17:0001:01:EN:HTML>. Accessed December 2013.

29. See: <http://www.eba.europa.eu/supervisory-convergence/supervisory-disclosure/aggregate-statistical-data>. Accessed November 2013.

30. Market and operational risk is also gathered, but whether or not a country reports these is highly correlated with whether or not it reports credit risk.

*‘The EBA will issue further guidelines on how banks should make disclosures about their capital adequacy and risk exposure. Though this is a very positive step, it has a number of drawbacks. Banks have leeway to choose what to report, what format to report it in and at what frequency.’*

and supervisory activities – even if the data was recorded as ‘non-applicable’, ‘non-material’ or ‘confidential’. At the height of the financial crisis, most countries did report something to the EBA. Particularly, in 2009, all EU member states except Denmark reported basic data on their national banking sectors – eg how many banks they have and their basic asset structure – and credit risk. Only Denmark and Greece did not also report supervisory measures for this year. However, in 2012, six countries did not report national banking sector data, and 11 did not report credit risk data<sup>31</sup>.

Though aggregate data is certainly important to have during a banking crisis, the relative lack of reporting outside of crisis periods makes evaluating supervisors’ outputs difficult. To hold a regulator accountable for their actions, the public needs to be able to evaluate how they responded to conditions before they developed into a full crisis.

Beyond reporting national aggregate data, shortly after its creation in 2011, the EBA surveyed 57 banks from 20 EU countries for data on what they identified as ‘Key Risks Indicators’. This data is not publicly available. It was only made available to the European Systemic Risk Board (ESRB) – a part of the ECB charged with macro-prudential oversight – on an aggregate country-level basis. These indicators have been described as “*very basic indicators, with limited breakdowns*” (Enria, 2012). The ECB and ESRB supplemented this coarse data with *ad-hoc* data collected for a

31. Note that these are countries that not only did not report data, they also did not even declare the data to be non-applicable, non-material, or confidential. We verified this in an email exchange with EBA officials.

32. See: <http://www.eba.europa.eu/regulation-and-policy/supervisory-reporting/implementing-technical-standard-on-supervisory-reporting-corep-corep-large-exposures-and-finrep-/-/regulatory-activity/press-release>. Accessed November 2013.

33. The full list of banks can be found at: <http://www.ecb.europa.eu/pub/pdf/other/notecomprehensiveassessment201310en.pdf>. Accessed December 2013.

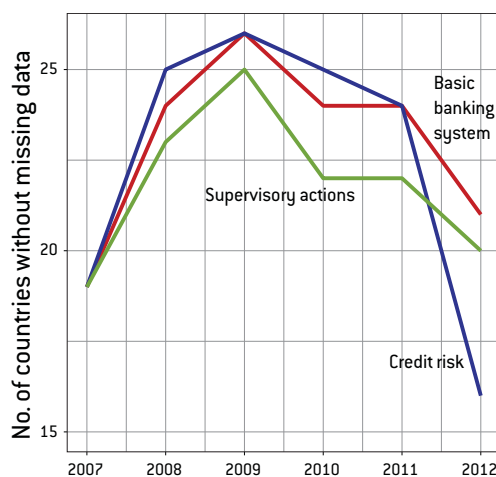
subset of EU banks’ ‘bottom-up’ stress tests. This data was primarily used by the ECB and ESRB to perform ‘top-down’ stress tests. The data was made available to the ECB/ESRB under “*strict confidentiality agreements*” (Enria, 2012). This clearly limits the public’s ability to evaluate the ECB and ESRB’s actions and hold them accountable.

There are recent moves at European level – particularly at the European Banking Authority – to standardise individual bank regulatory filing data collection and dissemination. The Common Reporting (COREP) standards for capital adequacy and the Financial Reporting (FINREP) standards for financial information aim to, for the first time, establish standardised requirements for European banks’ quarterly regulatory reports. Clearly these programmes should facilitate the gathering of data that is consistent across the European Union and can be used for common supervision<sup>32</sup>. The reporting requirements come into effect at the beginning of 2014. They also stipulate uniform frequencies and reporting dates. The current standards do not apply to the reporting of asset encumbrance, non-performing loans and forbearance. The EBA expects to develop these standards in 2014.

Clearly having common reporting standards will improve the ECB supervisors’ ability to monitor European banks under the SSM. Nonetheless, though common reporting standards will be adopted by all EU member states, and the ECB will develop its own capacity to gather information on some of the euro area’s major banks, there will likely be little impact on the public’s ability to access the data unless the regulator makes it publicly available. To improve its accountability, the ECB should go a step further and release the individual bank supervisory filing data that it collects in a timely and consistent manner.

Doing so will be a considerable and important change from the status quo. Table 3 on the next page shows the countries included in the SSM. They are ordered by how banks in their jurisdiction have been deemed large and important enough to be part of the ECB’s October 2013 Comprehensive Assessment<sup>33</sup>. We can clearly see that member states with relatively many banks tend to either make their data unavailable or confidential. Only 23 percent of the institutions included in the

Figure 1: Number of member states without missing aggregate banking data reported by the EBA



Source: Bruegel.

Comprehensive Assessment (29 of the 124) are primarily located in countries that make any individual bank supervisory data available. 60 percent of the banks (75 of the 124) are primarily located in countries that provided some credit risk information to the EBA in 2012.

There will be a major improvement to supervisory transparency and potential accountability if the ECB publicly releases individual supervisory filing data for the banks that it directly supervises under the SSM.

## CONCLUSION

Making individual bank filing data publicly available in a timely and consistent manner does not guarantee that banks will not fail and financial crises will not happen. Spain, which compared to its European counterparts has regular, though minimal, data reporting, nonetheless has been through a difficult banking crisis. Despite availability, the data certainly did not prevent Spain's banking crisis, nor did it prevent the crisis in the United States. Perhaps part of the problem is that the level of detail available even in these two countries is still inadequate. For example, the public and regulators continue to lack sufficient

data on shadow banking activities. Furthermore, just because data is available to the public to be used to hold regulators accountable does not mean they will actually do so. This lends support to Levine's (2012) argument that bank regulatory filing data needs to be not only publicly available, but that there needs to be an independent and skilful institution that regularly evaluates banking system health and raises issues that might be of concern to the public. This argument, in turn, is justification for the creation of the Office of Financial Research under the United States' Dodd-Frank Act.

In the European case, the EBA could possibly take on such a role. The EBA already plays this role to some extent through, for example, its short commentary adjoining the 2013 transparency exercise. Similarly it has a specific responsibility to raise concerns about financial innovations that are potentially harmful to consumers, as it recently did when it issued a warning about the risks of virtual currencies<sup>34</sup>. However, its ability to access data necessary for this role is limited. As we have shown, it has little ability to independently gather information from banks or member states<sup>35</sup>.

**Table 3: Individual bank data dissemination practices in SSM countries (as of December 2013)**

Country	No. of banks in SSM comprehensive assessment (Oct. 2013)	Indv. bank data confidential/available	Reported credit risk data to EBA in 2012
Germany	24	Confidential	Yes
Spain	16	Available	Yes
Italy	15	Unavailable	No
France	13	Unavailable	Yes
Netherlands	7	Confidential	No
Austria	6	Confidential	Yes
Belgium	6	Confidential	
Luxembourg	6	Confidential	No
Ireland	5	Confidential	Yes
Cyprus	4	Unavailable	No
Greece	4	Confidential	No
Portugal	4	Available	No
Estonia	3	Available	No
Finland	3	Available	Yes
Latvia	3	Available	Yes
Slovenia	3	Unavailable	Yes
Malta	3*	Confidential	Yes
Slovakia	3**	Unavailable	Yes
% of banks in countries with available/reported data		23	60

Source: Bruegel. Notes: \* One of Malta's top three banks is a subsidiary of another institution already part of the SSM in another country. \*\* All three of Slovakia's top three banks are subsidiaries of institutions already part of the SSM in another country.

34. See: <http://www.eba.europa.eu/documents/10180/15971/EBA+Warning+on+Virtual+Currencies.pdf>. Accessed December 2013.

35. In a recent assessment, the International Monetary Fund found that banks and Member States were often not forthcoming with the EBA's data requests. The EBA has also been reluctant to use its limited powers to compel the release of requested data (International Monetary Fund, 2013, 9-10).

A number of concrete steps are needed to increase minimal transparency across the European banking union. Careful consideration should be given to the determination of common rules and practices that protect individuals' privacy while allowing adequate supervisory accountability. These rules will need to be applied at both European and member-state levels. As a minimum, there should be a requirement for the ECB and member state supervisors to publish the data on their own using standardised rules set out by initiatives such as FINREP and COREP. Ideally, resources would also be allocated to create a single European data repository, such as the United States' FFIEC. The EBA is a natural home for such a repository.

One way forward would be for policymakers to consider European-level legal changes in the form of an addition to the SSM Regulation requiring the ECB to release the data it collects via an EBA repository, and a new directive instructing supervisors in SSM member states to do the same. Requiring only the ECB to release the data on the approximately 130 banks it directly supervises could place it in conflict with member states that either for legal reasons or in practice do not release individual bank data. National supervisors might, for example, be reluctant to share information with the ECB if it uses different transparency standards. Only requiring the ECB to release the data would also leave the vast majority of the European banking system opaque. It would not apply to most banks in SSM countries, because national supervisors regulate them directly. A European-level legal framework to release the data that applies to both the ECB and member-state supervisors would solve these two problems.

European Union directives that require member-state transparency to improve the internal market's efficiency have precedents. For example, though not involving individual company information, the Mutual Information and Transparency Directive requires member states to inform the European Commission of all draft laws regarding technical regulations on goods and some services (see Correia de Brito and Pelkmans, 2012).

If the EBA is to become the data repository then European-level legal change is also needed to

enhance its powers. As we have seen, EBA efforts to increase very minimal, often aggregate-level transparency through persuasion and other tools currently at its disposal, have led to inconsistent results. Member states have found it too easy to simply not report anything and the EBA has little ability to determine the veracity of data it does receive.

Finding agreement on an EU legal change that requires the ECB and member-state supervisors to open their books to greater scrutiny will surely be a difficult task given the current diversity of practices and interests – eg banks, national supervisors – that benefit from this diversity.

But greater supervisory transparency will facilitate more efficient distribution of capital and increase market discipline. It will increase the legitimacy of actions that the regulator takes against banks. The European Union receives justified flak that there is a great distance between European citizens and the institutions that make decisions on their behalf. There is real suspicion of the financial sector and distrust that public money goes only to help out political friends. Transparency in terms of the data the supervisors themselves use to make decisions would allow the public, and more realistically the various interest groups one finds in civil society, to judge whether regulators did choose actions consistent with protecting the public interest. Such 'fire alarms' therefore represent one small step towards addressing the democratic deficit that most citizens think exists in Europe.

If such transparency is not possible, for purposes of increasing 'output legitimacy' more work should be done to strengthen the role of parliaments. For the European Parliament, the autumn 2013 inter-institutional agreement with the European Central Bank represents a good start. Under all current proposals, national regulators will continue to play an important role especially for any bank resolution. As discussed earlier, the German Bundestag gains the ability in 2014 to investigate specific banks as part of the national implementation of Basel III. Such parliamentary powers should become standard in all European Union member states. Moreover, such a procedure should be not only a theoretical power, but also one that is used.

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