

SRB VALUATION DATA SET

Explanatory note



December 2020



Single
Resolution Board

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Print	ISBN 978-92-9475-248-2	doi:10.2877/160118	FP-01-20-714-EN-C
PDF	ISBN 978-92-9475-249-9	doi:10.2877/929962	FP-01-20-714-EN-N

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Luxembourg: Publications Office of the European Union, 2020

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SINGLE RESOLUTION BOARD

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PURPOSE

1. This document aims to provide guidance to the banks regarding their management information systems (MIS) capabilities to produce information that is as up to date and complete as possible and of adequate quality to carry out a fair, prudent and realistic valuation.

LEGAL BASIS

2. A robust valuation contributes to the effectiveness of resolution actions, including the legitimacy and soundness of the decision as well as the achievement of the resolution objectives. In order to be robust, a valuation relies on the timely provision of high quality data and information to the valuer. To ensure data availability and quality, there is the need to enhance institutions' readiness in the course of the resolution planning phase. As part of the resolvability assessment, the Single Resolution Mechanism Regulation (Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014, SRMR)¹ in combination with the Bank Recovery and Resolution Directive (Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014, BRRD) requires the Single Resolution Board to assess institutions' MIS. In particular, points (9) and (10) of Section C of the Annex to the BRRD² detail the type of assessment which the resolution authorities are expected to conduct, which is further developed in the Commission Delegated Regulation (EU) No 2016/1075 (CDR) further develops such requirements³.

¹ See in particular, Article 10(6) SRMR.

² "When assessing the resolvability of an institution or group, the resolution authority must consider the following [...]: (9) the "capacity of the management information systems to provide the information essential for the effective resolution of the institution at all times, even under rapidly changing conditions"; (10) "the extent to which the institution has tested its management information systems under stress scenarios as defined by the resolution authority".

³ Article 22(3)(a) of that CDR requires that a resolution plan contains at least "a description of the information, and processes for ensuring availability in an appropriate timescale of that information required for the purposes of valuation, in particular pursuant to Articles 36 and 49 of Directive 2014/59/EU [...]". Article 29(3) of the same CDR provides that, in assessing whether there are potential impediments to resolution, the resolution authority must consider "the capability of the institution or group to provide information to carry out a valuation to determine the amount of write-down or recapitalisation required".

BACKGROUND AND GENERAL OVERVIEW

3. In 2019, the SRB published its Framework for Valuation. The objective of this framework is to provide independent valuers with an indication of the SRB's expectations regarding the principles and methodologies for valuation reports as set out in the legal framework i.e. Valuation 2 - either provisional or definitive, as the case may require – as well as Valuation 3.
4. The Framework for Valuation aims at reducing uncertainty for both the independent valuers and the SRB, providing indications that are necessary for achieving the goals of the valuation, subsequently enhancing comparability and consistency of valuations across future resolution cases.
5. When exercising its expert judgement, especially when the above-mentioned expectations as set out in this framework are not met, the independent valuer will be expected to explain and justify clearly the assumptions and the methodologies adopted in the valuation report.
6. The SRB approach to valuation relies on the ability of banks' MIS to provide accurate and timely information in the context of resolution readiness. In this respect, the SRB believes in the importance of defining a standardised data set covering the minimum data needed for the valuation of a bank in resolution. The SRB has been working on defining the (minimum) set of data that the banks will, in principle, need to provide to the SRB and the independent valuer to perform a valuation. As part of its annual resolvability assessment, the SRB will evaluate the capacity of banks to collect and provide this information on a timely basis to resolution authorities and/or valuers. The SRB Valuation Data Set will ensure consistent implementation of the European Banking Authority's (EBA) data dictionary for the Banking Union⁴. It should be highlighted that the SRB and the EBA have been collaborating closely in their respective work on a standardised data set for valuation in resolution.

⁴ Annex to the EBA's "Handbook on valuation for purposes of resolution", March 2020.

What are the main differences between the EBA Data Dictionary and the SRB Valuation Data Set?

7. Firstly, the EBA Data Dictionary provides a European Union (EU) wide single benchmark of data and information in the form of data fields that are expected to be useful to valuers when performing an economic valuation before resolution - either directly or indirectly - when they underpin valuation results produced by internal valuation models.
8. In this respect, the SRB Valuation Data Set will ensure consistent implementation of the EBA's valuation handbook for the Banking Union and will be embedded in the resolution planning process of the banks falling under the SRB's remit. Therefore, from this perspective, the SRB Valuation Data Set can be understood as a subset of the EBA's Data Dictionary.
9. The EBA Data Dictionary is broad in scope and covers the information needs for all Resolution Authorities in the EU. As mentioned, the SRB Valuation Data Set should be understood as a subset of the EBA's Data Dictionary. In fact, the SRB Valuation Data Set includes the majority of data points of the EBA's Data Dictionary (e.g. derivatives, debt securities, equity instruments, Deferred Tax Assets (DTAs), intangibles). However, within those data points, the SRB Valuation Data Set does not include the ones already reported by banks under existing EU reporting obligations (e.g. data on legal persons to AnaCredit or data on derivatives under European Market Infrastructure Regulation (EMIR)) because SRB expects banks to already report those data fields to other authorities (i.e. European Central Bank (ECB), European Securities and Market Authorities (ESMA), etc.) with adequate timeliness, sufficient completeness and quality.

Nevertheless, the SRB Valuation Data Set still includes data points on legal persons that are not being reported by banks to the authorities (e.g. data points which allow mapping individual exposures with prudential reporting segments (FINREP and COREP)) and credit risk data parameters aimed at supporting valuers.

The largest data set is the SRB Valuation Data Set on exposures to natural persons. To avoid any multiplication of data points or definitions, the data set for exposures to natural persons is based on the AnaCredit data points and definitions for legal persons.

10. For conventional lending products the SRB Valuation Data Set follows the structure of AnaCredit database i.e. the data points are included in three main data sets: counterparty, instruments/loan and protection-received/collateral data sets.
11. Despite these differences in the structure of the data, the EBA Data Dictionary and the SRB Valuation Data Set are still requesting similar information although with a different scope of application. The SRB and the EBA mapped the common fields in order to simplify the benchmarking exercise.

12. To avoid imposing excessive costs on institutions, the SRB Valuation Data Set takes into account existing common EU definitions and other existing reporting frameworks – such as EBA financial and prudential reporting (FINREP and COREP) templates, ECB AnaCredit, EBA non-performing loan (NPL) templates, ESMA securitisation templates and SRB Liability Data Reports (LDR). Additionally, the SRB Valuation Data Set is for benchmarking purposes only and does not impose reporting obligations. In light of this, it does not require the use of a specific format by institutions to provide the data and information to the SRB. In fact, institutions are free to use any format for the data exchange. Nevertheless, in case of resolution, institutions are expected to report data (i.e. by setting up a Virtual Data Room (VDR)) to the resolution authorities in a single format or in a standardised and exportable way to make it easier for valuers to manage large amounts of data.

GENERAL PRINCIPLES

13. Banks are expected to have adequate MIS and supporting technological capabilities and infrastructure in place in order to provide the information necessary to perform a fair, prudent and realistic valuation in resolution. As part of the resolvability assessment, the BRRD requires that resolution authorities assess the institutions' readiness for valuation and MIS capabilities.
14. In line with the SRB Expectations for Banks⁵, institutions are expected to establish adequate governance, quality assurance and continuity arrangements to ensure that their MIS capabilities satisfy the principles set out below before, during and after the resolution event.
15. As part of their resolution governance arrangements, banks are expected to establish, under the direct responsibility of the management body, effective governance arrangements to ensure that their MIS are able to provide information necessary for resolution planning and execution on a timely basis.
16. In particular, banks are expected to demonstrate that their governance arrangements adequately address:
 - ▶ the processes for consistent data collection and aggregation across the different areas of the bank and group entities and for their timely delivery;
 - ▶ the processes, communication channels and clear allocation of responsibilities for the efficient coordination of the information exchange between the banks, resolution authorities, competent authorities, valuer and other relevant authorities and stakeholders; and
 - ▶ the framework and processes for quality assurance and the continuity of MIS capabilities.
17. Banks are expected to demonstrate that they have quality assurance arrangements in place and to ensure that their MIS capabilities achieve readiness for resolution. More specifically, banks are expected to demonstrate the periodic testing and upgrading of their MIS capabilities.⁶ The testing exercises aim to assess and validate MIS capabilities and should notably cover:
 - ▶ the swift provision of data and information to the SRB, competent authorities, valuer and other relevant stakeholders in the case of resolution;
 - ▶ the consistent aggregation of data across the different areas of the bank and group entities, also in compliance with any additional SRB guidance; and
 - ▶ the swift provision of information on their internal valuation models their internal valuation models.

⁵ 'Expectations for Banks', SRB; for the purpose and scope of the Expectations for Banks, see, in particular, Section 1.2 thereof.

⁶ Point (10) of Section C of the Annex of the BRRD.

18. Banks are expected to report the results of testing exercises to the SRB. These reports should identify possible shortcomings and remedial actions. Any relevant internal or external audit reports, or reports from supervisory and/or resolution authorities in relation to banks' MIS and valuation capabilities⁷, may also be requested. In order to obtain the necessary information and to conduct related assessments, the SRB will closely cooperate with competent authorities, taking into account information that is already available as well as assessment performed under supervisory tasks (e.g. on site inspections).
19. Banks are also expected to maintain up-to-date documentation describing how these capabilities can be relied upon. The documentation should describe the source systems used for the production of the data and how these systems operate, the controls in place and the stakeholders involved in the preparation and validation of the data.
20. Banks should have MIS capabilities in place to produce information that is as up-to-date and complete as reasonably possible, to carry out a fair, prudent and realistic valuation. Among other things, banks are expected to:
 - ▶ Self-assess the availability of data and their data aggregation capabilities during the resolution planning phase, as defined in the SRB Valuation Data Set for valuation complementing the SRB Framework for Valuation. As a first step, banks will need to perform a self-assessment and determine how long it would take (timeliness) to deliver quality information (gap analysis) with its current MIS. Banks are also expected to submit a feedback with the conclusions of such analysis and, where needed, to engage in dialogue with the SRB to discuss any remedial actions to fill potential gaps or enhance data aggregation capabilities; It is important to note that the SRB Valuation Data Set does not introduce new reporting obligations.
 - ▶ Based on the results of the above mentioned self-assessment and the follow-up discussions with the Internal Resolution Teams (IRTs), institutions will be required to set up a multi-annual work programme addressing the main shortcomings of their MIS. This work programme should enable banks to increase the efficiency of its MIS capabilities progressively. Specifically, the work programme should include remedial actions that address shortcomings regarding the availability, quality, accuracy, completeness and timely delivery of the information for valuation. The IRT will review the content and timeline of the programme and provide feedback, and monitor its implementation.
 - ▶ Banks are expected to play an active role in the process of identifying and removing impediments. Measures proposed in the bank's work programme are the most efficient way to progress towards resolvability. When the SRB, taking into account the discussions with the banks, determines that there are substantive impediments to resolvability, it will follow the formal substantive impediments procedure. When drafting its report in accordance with Art. 10 (7) SRMR, the SRB will take into consideration the discussions with the bank, including any measures proposed in the bank's work programme but not yet implemented.

⁷ E.g. regarding the bank's internal valuation models.

RESOLUTION PLANNING: NEXT STEPS

21. The SRB Valuation Data Set is the starting point for launching a dialogue between the IRTs and the banks regarding readiness for valuation and MIS capabilities.

As a first step banks will need to self-assess at least the following using the SRB Valuation Data Set template:

- ▶ availability of data⁸ (gap analysis) in bank's records;
- ▶ source of data points (physical records or records in bank's systems);
- ▶ data update frequency;
- ▶ quality assurance process of data;
- ▶ if and with which frequency, the data point is already reported in national database

Additionally, the following items will form part of the overall self-assessment exercise:

- ▶ data aggregation capabilities;
- ▶ governance of data collection and provisions

22. Banks and IRTs will then discuss the main results and lessons learnt from the self-assessment.

23. Actual expectations should be calibrated by the IRTs based on several considerations including an institution's internal valuation capabilities, balance-sheet material positions, business models, size, systems and complexity. Data sets should be considered as a good starting point to provide the IRTs with an overview of the bank's preparedness for valuation and MIS capabilities. Nevertheless, it should be clear that for the purpose of the self-assessment the IRTs might request other information and data that is not comprised in the SRB Valuation Data Set e.g. data as defined in the EBA Data Dictionary.

24. The self-assessment report should comprise at least the institution's assessment of the elements mentioned above (data availability, data source, frequency of the data updates, quality of the information, potential reporting of the data to national database, data aggregation and availability and use of internal models). The report should include a description and analysis of the readiness of the institution's MIS and finally a chapter on next steps comprising preliminary proposals to address the main shortcomings and weaknesses revealed during the self-assessment phase.

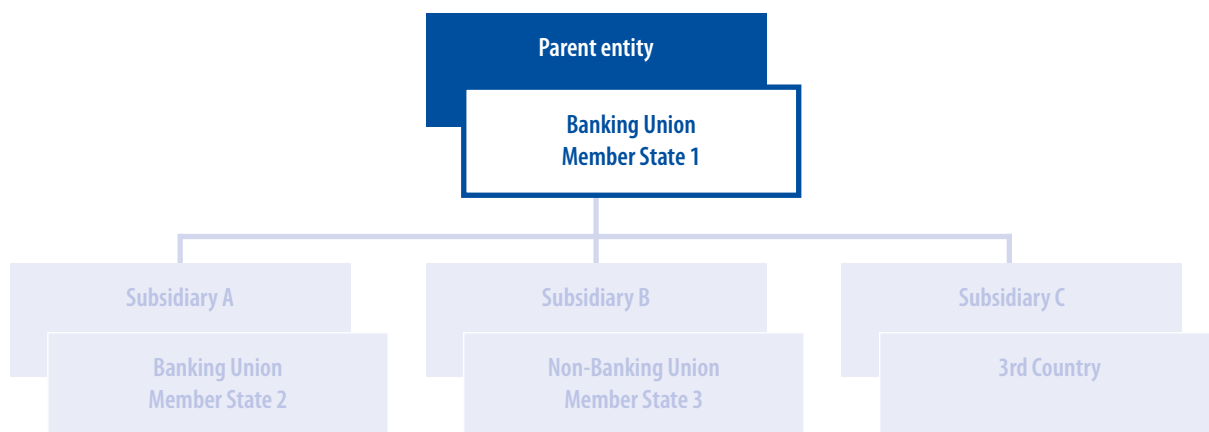
⁸ As referred to in paragraph 9 the SRB Valuation Data Set does not include the ones already reported by banks under existing EU reporting obligations. As a result, banks are not expected to perform the 'gap assessment' based on the data reported under those frameworks.

25. Based on the results of the self-assessment and the follow-up discussions with the IRTs, the banks should propose a work programme addressing the main shortcomings of their MIS.
26. In general, the banks should propose remedial actions regarding the availability, quality, accuracy, completeness and timely delivery of the information.
27. The SRB expects this working programme to be a multiannual project allowing the banks to increase the efficiency of their MIS capabilities progressively.
28. The institutions and IRTs will agree on the content of the work programme and on the follow-up of the implementation in the future (monitoring). The monitoring of the work programme may include the performance of dry-runs (or iterations of the self-assessment by the institutions).

IMPLEMENTATION

29. This section provides guidance when discussing with the institutions about the implementation of the SRB expectations on MIS capabilities necessary to produce the relevant, critical, minimum information for the execution of valuations in resolution, as described in the Expectations for Banks. It takes into consideration the complexity of the group structure and the link with the preferred resolution strategy. This chapter also comprises SRB's preliminary ideas regarding cross-border coordination, cooperation and information sharing for valuation in resolution colleges, crisis management groups (CMGs) and with non-EU Member State authorities.

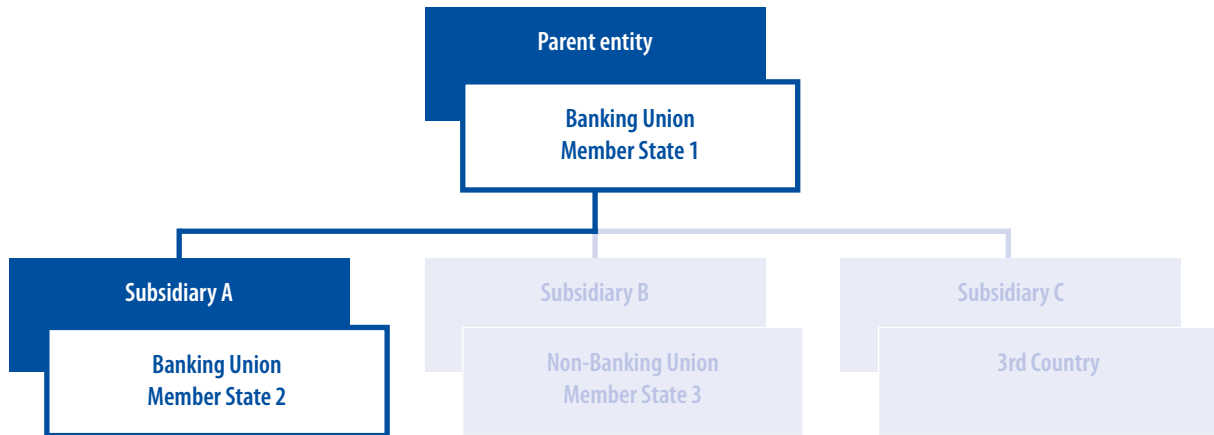
BU groups: parent and subsidiaries in the same Member state



30. For entities with subsidiaries only in their country, the parent entity is responsible for providing all relevant information for valuation in resolution. Relevant information might comprise data based on:

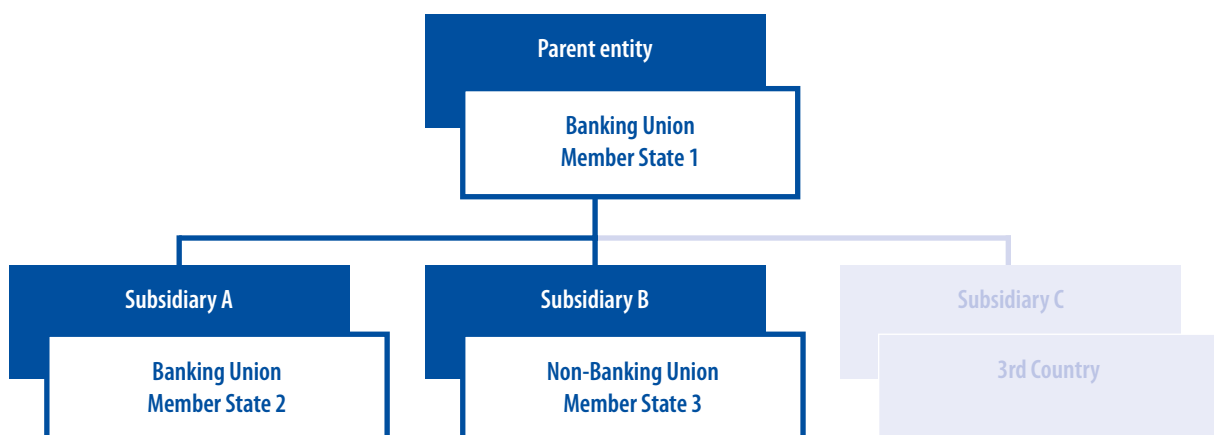
- ▶ the SRB Valuation Data Set.
- ▶ other data and information that, in IRT's opinion, satisfy the definitions of the SRB Data Set, EBA Data Dictionary or the definitions laid down in the EU reporting standards (e.g. Anacredit).
- ▶ information available via other sources or required under local regulations.
- ▶ information available via other sources.

BU groups: parent and subsidiaries in different Member states



31. For entities with a subsidiary in another Member State within the Banking Union, the parent entity is expected to channel the collection of information for valuation in resolution, as defined in paragraph 30. Additionally:
- ▶ Single Point of Entry (SPE) strategies: the parent company needs to provide information and data sets for the parent and for each of its subsidiaries.
 - ▶ Multiple Point of Entry (MPE) strategies: each point of entry and its subsidiaries are expected to deliver information and data sets for each of its subsidiaries.

Banking Union entities with subsidiaries in non-Banking Union Member States



32. For Banking Union entities with a subsidiary in a Member State outside the Banking Union, the following scenarios might be envisaged:
- ▶ SPE strategies: the parent company is expected to provide all the information necessary to perform a valuation including information/data regarding non Banking Union subsidiaries:
 - For all entities in the Banking Union: this means information for valuation both at the parent level and for each subsidiary.
 - For non-Banking Union entities: coordination is expected in the context of the resolution college for these entities. Authorities in the resolution college should agree on a common implementation of a data and information framework e.g. based on the EBA Data Dictionary or on local databases.

The objective is to reach an agreement on the valuation data approach in the resolution college in order to perform one single independent valuation based on common data sets.

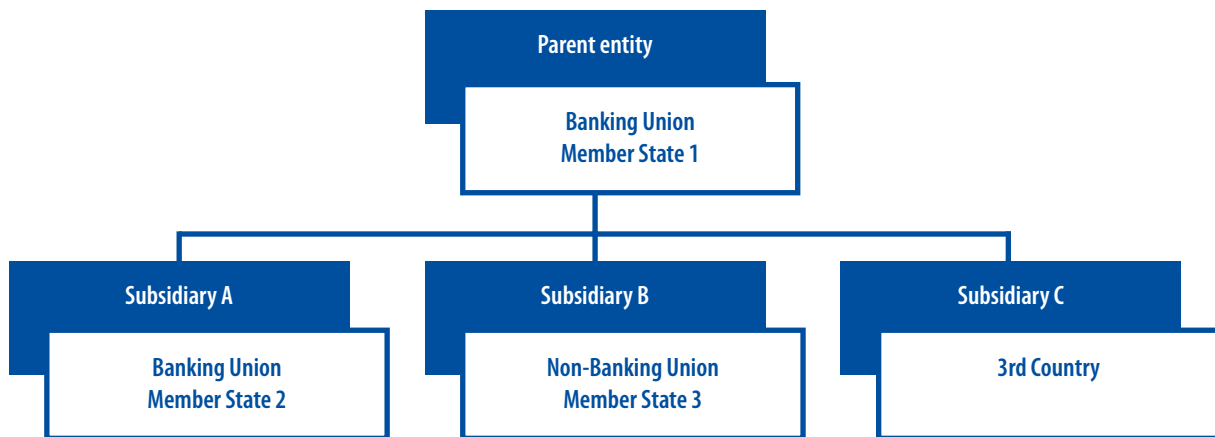
- ▶ MPE strategies:
 - For all points of entry in the Banking Union: each point of entry and its subsidiaries not belonging to other resolution groups are expected to deliver information and data sets for each of its subsidiaries.
 - For points of entry outside of the Banking Union: the non-Banking Union resolution authority may wish to decide to use a specific data set (e.g. implementation of the EBA templates for its corresponding point of entry). However, there should be coordination in the context of the resolution college for these entities.

As a minimum, for the remaining resolution groups, information on the impairment of the participation plus all other intragroup exposures is needed. If the parent institution fails and the conditions for adopting a group resolution scheme are not met with regard to the subsidiary resolution groups fail, i.e. the resolution scheme is limited to SPE, a valuation of the wider group beyond a mere equity valuation will require additional data⁹.

The objective is to reach an agreement in the resolution college on the exchange of information for valuation. Alternatively, the SRB could request that the parent company develop capabilities for all points of entry regarding non-Banking Union subsidiaries.

⁹ The SRB Valuation Data Set includes a specific set with a minimum set of information to perform valuations of equity participations.

Banking Union entities with subsidiaries in third countries



33. For Banking Union entities holding a subsidiary in a third country, the following scenarios might be envisaged:

- ▶ SPE strategies: the parent company is expected to provide all information necessary for performing a valuation, including information/data regarding non-Banking Union subsidiaries. For the entities located within the EU, please see paragraph 32. For subsidiaries in third countries, coordination is desirable in the context of the resolution college/CMG or in the relevant forum¹⁰ for these entities. The SRB could request that the parent company develop capabilities for all subsidiaries in third countries based on the information as defined in paragraph 30 (it could be a reference but this needs to be discussed with the institution and with the third country authority).

In any case, coordination is needed with third country authorities in order to execute a SPE strategy and with the goal of performing one single independent valuation for the group.

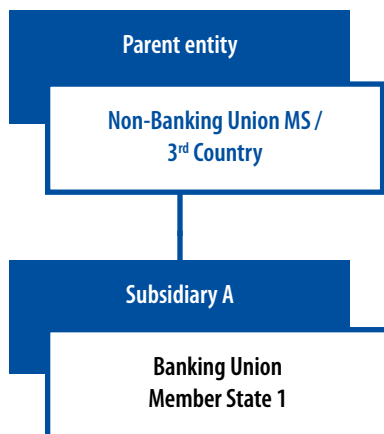
- ▶ MPE strategies:
 - For entities within the EU, please see paragraph 32.
 - The third country resolution authority may have its own dedicated methodology and associated data requirements for its corresponding point of entry. However, there should be coordination in the context of the CMGs or in the relevant forum¹¹ for these entities. As a starting point, the set of information as defined in paragraph 30 can be used to agree with each corresponding third country resolution authority.
 - As a minimum, for the remaining resolution groups, information on the impairment of the participation plus all other intragroup exposures is needed. If the parent institution fails and none of the subsidiary resolution groups fail, i.e. the resolution scheme is limited to SPE, a valuation of the wider group beyond a mere equity valuation will require additional data.

¹⁰ Either by means of bilateral communication or via the appropriate coordination forum in which the IRT discusses any resolution-related topic with non-EU Member State authorities.

¹¹ Idem.

- The objective is to reach an agreement in the CMG or in bilateral cooperation on the exchange of information for valuation. Alternatively, the SRB could request that the parent company develop capabilities for all points of entry based on set of information as defined in paragraph 30 – regarding subsidiaries in third countries.

Banking Union subsidiaries of EU or third country groups



34. For Banking Union subsidiaries of EU or third country groups, the following scenarios might be envisaged:
- ▶ SPE strategies: the SRB's goal is to assure that the single valuation process conducted by another EU resolution authority where the point of entry is located is adequate for the Banking Union subsidiary. In principle, it is reasonable to expect that the subsidiary will be able to provide the SRB with the set of information (e.g. the information as defined in paragraph 30). Whether in resolution colleges or in CMGs, arrangements would have to be made regarding valuation.
 - ▶ MPE strategies: for points of entry located within the Banking Union and their subsidiaries, the SRB will define the set of information e.g. based on the data sets as defined in paragraph 30.

ABBREVIATIONS

BRRD	Bank Recovery and Resolution Directive
CDR	Commission Delegated Regulation
CMG	Crisis Management Group
COREP	Common Reporting framework
EBA	European Banking Authority
ECB	European Central Bank
EU	European Union
FINREP	Financial reporting framework
IRT	Internal Resolution Team
LDR	Liability Data Report
MIS	Management Information Systems
MPE	Multiple Point of Entry
NPL	Non-Performing Loan
SPE	Single Point of Entry
SRB	Single Resolution Board
VDR	Virtual Data Room

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