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**Speaking points**
**Session 3 - financial integration and financial stability: statistical implications**

- Let me begin by stressing the importance of information in financial markets, from the economic perspective:

- Financial markets are efficient when prices reflect all of the available information about the relevant financial asset. The most efficient markets are, therefore, those where the right volumes of information flow with accuracy and speed.

- But information is costly to generate and send, as well as to receive, process and analyse.

- Putting myself in the shoes of a large financial institution for a second, it is clear that, apart from the information it needs to collect for internal purposes to run its own business, it may be required to provide financial information to a number of third parties, including:

    - The marketplace
    - Market supervisors
    - Prudential supervisors, perhaps with different sectoral approaches
    - Central banks
    - Fiscal authorities
    - Statistical bodies
    - Etc.

- But the information demanded (in terms of purpose, format, level of detail and volume) is different for each audience. It is not easy to use the same report for different purposes or share it with other parties.

- At this point, I should note that, so far, I have only referred to the situation at national level.

- Now multiply these complexities by the number of countries in which the institution is present and you have a very complex, costly and inefficient situation.

**The approach taken by European banking supervisors – common reporting**

- This is particularly an issue in the EU context, where the fact that we have 25 countries asking for different information with different definitions, and in incompatible formats, is clearly incompatible with the objective to promote integration in the financial services sector. So the question is how to address this inefficiency.

- Within the EU banking sector, we have been blessed with a combination of events which have served as a catalyst for making progress.

- The first of these has been the creation of the Committee of European Banking Supervisors (CEBS).

- CEBS is a high-level committee comprised of representatives from the banking supervisory authorities and the central banks of the EU. It was created in 2004 as part of the extension of the so-called Lamfalussy approach to all sectors and has three main tasks:

    - To advise the European Commission on matters in the banking field;

    - To promote consistent implementation of EU legislation and convergence in supervisory practices; and

    - To promote cooperation and exchange of information between supervisors

- The fact that CEBS' objectives are public, and the Committee has strong obligations on consultation and transparency, coupled with a responsibility to report to the European institutions on its progress, all contribute to promote progress. CEBS takes its objectives to promote convergence very seriously.

- But apart from the physical creation of CEBS, there are two major international regulatory developments which have provided the perfect opportunity to make progress towards streamlining reporting requirements and enhancing information flows:

    - Basel II: the new capital adequacy regime, to be implemented in the EU via the Capital Requirements Directive, from January 2007; and

    - IFRS: applied in the EU banking sector since the beginning of 2005.

- These two developments mean that all supervisory authorities have to change their reporting requirements, and have acted as a driving force for moving towards a more convergent approach.

- CEBS has, accordingly, taken two initiatives to promote common reporting for the EU banking sector:

- COREP: a common reporting framework for the solvency ratio under Basel II. The final framework was published on 13 January 2006; and

- FINREP: a common reporting framework for financial information under IFRS. The final framework was published on 16 December 2005.

- Both projects consist of a set of common reporting templates that can be used by banks across the EU when reporting to their supervisors. The result is that a firm should be able to comply with its reporting requirements for different supervisors using one set of reporting forms.

- And both projects also harness technological developments in order to bring even more benefits.

- CEBS has decided in both initiatives to promote the use of XBRL – eXtensible Business Reporting Language. CEBS has developed two "taxonomies" or sets of definitions that are used to "tag" data and facilitate the generation, use and analysis of reports.

- XBRL means that financial information from entities can be easily understood and assimilated in other parts of the world, as well as facilitating supervisory cooperation and sharing of information.

- I have to say that the development and finalisation of these projects was not an easy task, despite the fact that the conditions were probably as good as they could be. We have had not only to bring together the needs of 25 countries but also to try to manage the expectations of the industry. We have tried to make sure that our efforts will really lead to savings, while resisting a certain tendency on the part of the industry to want to use the initiative to reduce their reporting requirements to practically zero!

**What are the benefits that we can expect from these initiatives?**

- As a result of these two initiatives, I believe that there will be clear benefits, both for reporting institutions and for us, as supervisors receiving information. Let me mention some of these:

    - Enhanced competitive equality as a result of having common reporting formats across the whole EU;

    - Reduced administrative costs for banking groups - mainly cross-border groups, but not exclusively so. Even smaller institutions can benefit, especially from the economies of scale derived from the XBRL taxonomy produced by CEBS;

    - Easier exchange of information between supervisors - the compatibility of formats, content and information systems supported by XBRL will allow supervisors to collect information in a decentralised way, while at the same time providing the functionalities as if there were a centralised database, and benefiting from additional flexibility. This will also contribute to increased cost-effectiveness of supervisory activities;

- o A more flexible framework over time - the costs of making changes to the information required within the framework should be rather low;

- o Increased quality of information flows, especially with the use of XBRL which should reduce reporting errors;

- o In general, smoother functioning of the markets, thereby reducing obstacles to greater integration.

**Conclusions**

- It will be clear from my comments that I am a great supporter of the work that has been carried by CEBS, and also of XBRL as a tool for promoting the efficient and high-quality flows of information.

- What's more, I believe that the kinds of initiatives could also be useful elsewhere, and broadened to other sectors and also outside of the EU, in the sense that they can permit the same raw information to be easily used for other purposes.

- Today, have focused on initiatives we are taking in the EU banking sector. But, as I mentioned at the beginning of my intervention, there are a number of sources of reporting and information demands, of which banking supervisors are only one. I think it is also important to look at the bigger picture to see if there are ways to achieve greater efficiencies and effectiveness of information flows across these different needs.

- The challenge is to obtain the best quality information, at the right time, and at the least cost to all sides. This is complex but we may find there are "quick wins".