Regulatory Reporting

Practical roadmap to implementing regulatory changes

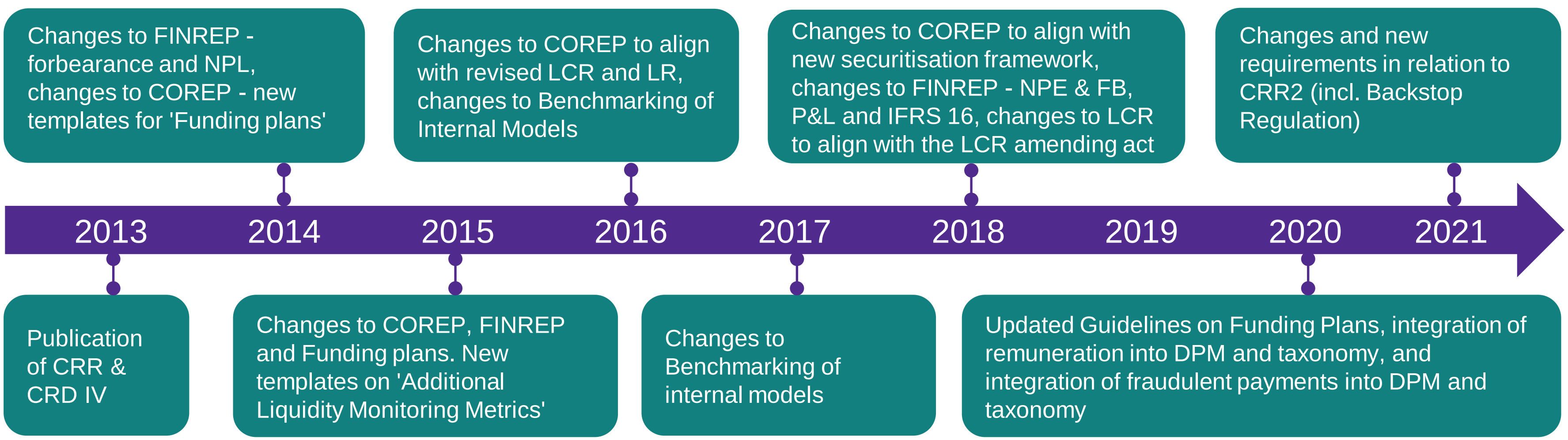
September 2021

Context

Regulatory Background

The European Banking Authority (EBA) is responsible for setting harmonised prudential rules for financial institutions throughout the EU. To achieve this objective, the EBA has developed Binding Technical Standards and guidelines commonly known as Implementing Technical Standards (ITS) for regulatory reporting – **standards that must be respected by all European financial institutions**.

Since its first publication in 2013, ITS have evolved almost continuously in response to regulatory and accounting developments and new risk environments. Although each update aims to provide simplifications, clarifications and/or improvements in terms of cross-report consistency, **implementing such frequent changes is burdensome for most institutions**.



Evolution of Implementing Technical Standards from 2013 - 2021

Due to ITS complexity and comprehensiveness, even minor changes in the reporting framework may lead to significant impacts (i.e. time and resources) and may become a challenge for institutions without a structured and appropriate approach in place.

This presentation summarises a **simple approach** that could be adopted by both, “small” (i.e. locally supervised) and “large” (i.e. ECB supervised) financial institutions to successfully implement required regulatory changes. It also highlights **main pitfalls** observed in the industry and presents potential **remediation actions**.

Methodology - Overview

Key Steps and Deliverables

The following three-step approach can be applied when implementing any changes to regulatory reporting. Each step provides the necessary basic goals and objectives which should be completed to ensure smooth progress of a change project.

1. Preparation & Assessment

- Assess the applicability of the newly introduced reporting requirements, i.e. qualitative gap analysis
- Perform the data gap analysis, i.e. quantitative gap analysis
- Assess the impacts, i.e. digital - IT tools and resources - time and personnel

2. Implementation & Control

- Organise workshops with impacted stakeholders to align on the activities to be undertaken
- Perform the necessary data sourcing, cleansing and storage to generate the information needed
- Ensure that relevant internal controls are developed, documented and tested

3. Testing & Validation

- Plan and develop the User Acceptance Testing (UAT) cases
- Perform the testing to identify any data quality issues
- Validate the qualitative and quantitative content of the report prior to its publication

Final deliverables

A list of applicable requirements along with the results of the gap analysis and the assessment of the impacts

A process/system which allows the institution to generate relevant reports while ensuring that proper controls have been implemented and performed

Tested and validated reports

Methodology - Detailed Steps

Envisaged tasks - Preparation & Assessment

1.

- Review and analyse the relevant and latest regulation, e.g. EBA, ITS, RTS, EUR-Lex
- Assess which new requirements are applicable to the business and the impacts they have incl. report templates and systems
- Assess the scope and impact of the changes
- Present and receive approval of the changes which are applicable to the bank
- Conduct a data gap analysis incl. data governance, data architecture, data sourcing, availability and feeding, data quality
- Assess if the available resources have the capacity to perform the actions needed for the change project and, where required, plan the allocation of additional resources, both, internal and external
- Propose, finalise and approve the proposed approach with all stakeholders

Key differentiating factors

"Large" Credit Institution

- Project governance should already be in place
- More formalisation required:
  - complex process to introduce changes into IT systems, often maintained by head office
  - longer "preparation" phase due to a higher number of stakeholders involved
  - slower decision making process due to a greater number of impacted teams and/or complexity of internal processes involved

"Small" Credit Institution

- Less documentation available:
  - performing a gap assessment may be more difficult
  - internal documentation might be incomplete
  - key staff might not be available
- Faster decision making process due to a more "flat" corporate structure
- Greater reliance on external experts
- Usually, smaller institutions have a narrower list of offerings than their "Large" counterparts, which limits the scope of applicable regulations

Methodology - Detailed Steps

Envisaged tasks - Implementation & Control

2.

- Set up of a proper governance structure by setting up a task force and assigning roles and responsibilities to relevant stakeholders
- Describe the general process or data to be delivered:
  - setting up bi-weekly operational meetings
  - build process maps, if needed
- Propose, discuss and agree on the schedule regarding items like:
  - the workshops and follow-up meetings
  - the relevant implementation deadlines (e.g. development, test, production)
- Develop and implement appropriate control environment

Key differentiating factors

"Large" Credit Institution	"Small" Credit Institution
• Often, larger institutions have a well-established internal audit and control functions which help facilitate and enforce controls implementation • Most of the processes are automated via different systems with controls built-in to them • However, the changes can and usually do impact multiple teams and systems, so being aware of the downstream impacts is highly important	• The processes are often manual or maintained by a locally developed tool (i.e. Excel, Access), so the updates and adjustments could be performed directly by the business • In a smaller structure, the process can be easily isolated and a change would have less impact on other IT systems • Due to the processes being manual, the risk of having data errors is higher and requires more robust controls

Methodology - Detailed Steps

Envisaged tasks - Testing & Validation

3.

- Set up the testing strategy :
  - prepare planning for testing phase - milestones should be clearly defined in order to monitor potential delays
  - prepare the UAT testing and End-to-end testing
  - prepare validation criteria - materiality threshold should be set to allow prioritisation of defect resolution
  - ensure the availability of the resources in order to test and remediate any identified issues
  - validate the report(s) produced to ensure compliance with new requirements
- Keep track of all the changes in a change/issue log and agree on a deadline to resolve the issues and implement the additional changes

Key differentiating factors

"Large" Credit Institution

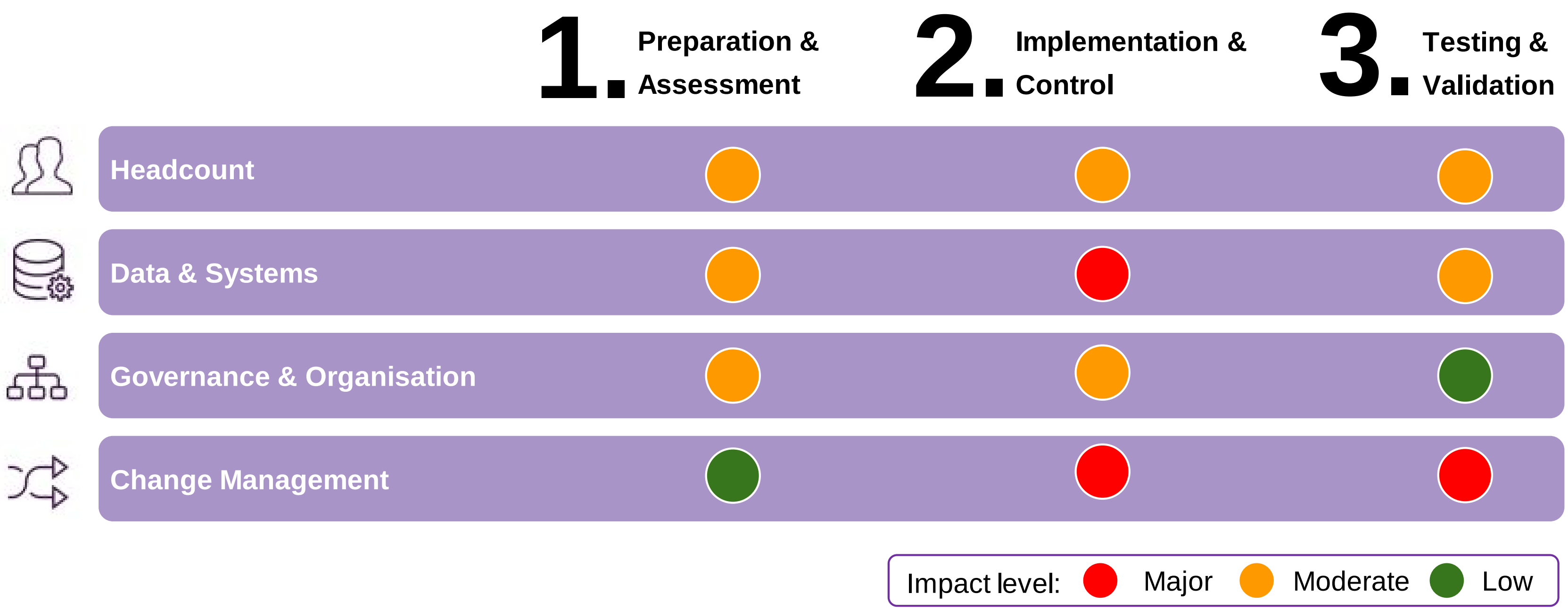
- Larger institution are usually better equipped to tackle the abovementioned tasks due to better IT systems in place and vast experience with systems update or implementation
- Reporting tools may be used by multiple departments so the testing activities have to be coordinated across all the impacted departments, which can lead to multiple custom testing exercises for each of the teams

"Small" Credit Institution

- As the IT architecture might be simpler with less interaction between different software, the root cause analysis can be easier
- However, smaller institutions usually lack spare resources to dedicate to the testing phase which can lead to users performing the tests as well as remediations via manual workarounds
- These manual workarounds can lead to additional operational risks

Industry insights
Impact matrix

Regulatory reporting is a complex process that involves multiple sub-processes, tasks and operations. Thus, every financial institution will have its own way to organise the change process.
Nevertheless, some common trends can be observed among European financial institutions when it comes to the required effort and complexity of each of the regulatory change project.
The diagram below outlines how each of the phases impact the key resources, systems and processes across the organisations.



Industry insights
“Main pitfalls”

For many years, evolving ITS, guidelines and regulations, continue to distract financial institutions from business as usual activities and related change projects are seen as disrupting. That may be explained by multiple factors which still heavily impact the roadmap and outcome of any regulatory reporting-driven project. Some of the key pitfalls are summarised below.

Topic	Client	Main Pitfalls
AnaCredit implementation	**Luxembourg based universal bank**	▪ Tight deadline caused by the relative delay of the final regulation issued by the local supervisor ▪ Integration of the new data items into the existing reporting framework posed a significant challenge ▪ Due to the budget constraints and short deadline, the development of the procedures and policies in line with the regulatory requirements, was rushed into completion
Pillar 3 implementation	**Luxembourg based private bank**	▪ Recent employee turnover led to only a few people who understood the process ▪ Project coincided with summer holidays which put additional strain on project owners who had additional workload ▪ Lack of dedicated resources
BCBS 239 implementation	**Paris based investment bank**	▪ User’s reluctance to accept the change ▪ Lack of existing documentation and/or procedures ▪ A great dependency on others departments which considerably slowed down the project
CRR2 Reporting implementation	**Luxembourg based financial institution**	▪ Underestimation of the effort required to fully implement and test the changes ▪ Initial neglect and lapse of interest in the change ▪ Inflexible legacy systems which a) don’t communicate with each other or b) require significant manual workarounds
Resolution planning	**Luxembourg based systemic bank**	▪ The wide scope of the project led to some stakeholders feeling “left out” due to the relative size of the department, yet the input from them was still required and valuable ▪ Significant time needed to communicate and engrain the sense of significance of the project and the SRB’s expectations

Industry insights

"Success factors"

In order to efficiently anticipate previously mentioned challenges deriving from the regulatory reporting change project, financial institutions should consider the following good practices and actions.

Challenges	Success Factors
Under estimation of the required effort required	▪ Consult internal/external experts prior to the launch to adjust the workload, if necessary ▪ Beware of the dependencies between the tasks ▪ Take into consideration the development phase, the testing and the parallel runs when implementing any change to the tool(s)
Lack of dedicated resources	▪ Prior to launch, discuss and agree on the team composition with relevant skills and experience ▪ Plan and agree on the availability of key resources and dedicate back-up personnel to the project ▪ If necessary, research any backup options, i.e. additional hires or external consultants
Lack of involvement	▪ Create awareness among the key stakeholders prior to project to a) assess the interest and b) identify key stakeholders which should be involved ▪ Set up a proper governance structure with clear roles and responsibilities ▪ Get all the levels of the hierarchy involved ▪ Plan regular follow-up meetings
Inflexible legacy systems	▪ Analyse thoroughly the functionalities of the tool and, if needed, get the assistance of the provider ▪ Look for alternatives (new provider or internally developed solutions)
Fear of changes	▪ Inform the users and involve them early ▪ Fear comes from not knowing or understanding the need to change, explain the reasoning behind the change ▪ Build dedicated training or information sessions to educate the users on the new tool

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