



Regulatory Reporting Operational Processes - Getting It Right, First Time, On Time, and Every Time

Xcina Consulting White Paper
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Challenging Demands

Financial services firms face increasingly challenging demands from regulators to provide complete, accurate and timely information to enable them to effectively discharge their oversight responsibilities. The volume, granularity, complexity, frequency and timelines of the regulatory reports have put additional burden on reporting teams.

Finding more efficient ways to prepare and deliver complete and accurate regulatory reports has become even more important especially with the cost pressures across businesses and threat of regulatory sanctions.

The many regulations brought in following the financial crisis in 2008, the numerous financial product scandals, the perception of lax oversight, and the pace of innovation in the financial markets including the cross-border nature of transactions have led to more pressure on regulators to do more.

Regulators have embraced "Big Data" and technological advances have resulted in increased capability of regulators to handle large amounts of data, and perhaps more importantly to make more sense of it.



Reporting Requirements

Examples of regulatory reporting include the following:

- MiFID II and MiFIR Transaction Reporting;
- MiFID II Trade Reporting;
- Solvency II Reporting;
- EMIR Derivatives Trade Reporting;
- Short Selling Reporting under EU Short Selling Regulation (No.236/2012);
- ICAAP (Internal Capital Adequacy Assessment Process) / ILAAP (Internal Liquidity Adequacy Assessment Process) Reporting;
- COREP and FINREP / CRD IV Reporting.



Key Considerations

The ability of the regulators to process and scrutinise the submitted reports more effectively than before requires that firms do more to ensure that their internal processes for regulatory reporting are sound.

Key considerations in this respect include:

- Full buy-in from senior management and collaboration across business functions and teams including Operations, Risk, Compliance, Finance and IT;
- Efficient and effective workflow processes and procedures, including robotic process automation designed to address the completeness, accuracy and timeliness requirements;
- Robust systems to identify regulatory reporting requirements, implement effective internal controls and oversight arrangements;
- Scalable operational regulatory reporting process which can be flexed to accommodate additional requirements.



Cornerstones For the Development Of a Robust Regulatory Reporting Framework

1. Data Management

Financial services firms generate vast amounts of structured and unstructured data. Key characteristics of this data are volume, velocity and variety. Integrating data usefully from different systems is complex and time-consuming due to the lack of standardised data standards. Ensuring consistency across all reporting is also extremely challenging.

The lack of data integrity results in inaccurate and incomplete regulatory reporting. The challenges around data management are compounded by the ever-evolving data landscape including system changes, upgrades and migrations, changes to a firm's operating model, strained internal resources or staffing inadequacies, and requirements for multi-jurisdictional reporting.

Also, many financial services firms face other challenges: new and legacy systems that do not work well together; multiple data feeds into and out of the data estate; user defined solutions; and spreadsheets and macros thrown to contend with.

Strategy

An effective data management strategy for regulatory reporting should encompass the following components:

- Data Integration – combining and consolidating data residing in different systems which may need to be performed frequently depending on the specific reporting needs;
- Data Quality – ensuring data is complete, accurate and relevant which will require data cleansing and enrichment for the specific regulatory reporting needs;
- Master Data Management (MDM) – creating one single master reference source for all critical business data;
- Data Analytics – diagnostic tools that enable the organisation and arrangement of large volumes of data in a meaningful manner;
- Data Governance – covers the strategies and technologies to ensure business data remains updated and includes everything needed to comply with regulations and corporate policies. This includes defining roles and responsibilities for data within the business; and
- Data Ownership – clearly assigned for all datasets.

Each of these components will support firms in complying with their regulatory reporting objectives including data access, security, processing and storage.

2. Roles and Responsibilities

Roles and responsibilities of individuals and the business functions should be clearly articulated, assigned and documented. There should be a clear understanding of the impact of the various activities on the regulatory reporting and feedback mechanisms should be implemented to ensure continued awareness of the impact of their activities.

Furthermore, new regulatory requirements such as the incoming Senior Managers & Certification Regime (SM&CR), which becomes mandatory for all financial services firms by the end of 2019 will help to embed responsibilities and accountabilities.

3. Risks and Controls

For many firms, the regulatory reporting process is fragmented into reporting silos with distinct tools, database structures, and data formats required to service specific regulatory reports. This approach may result in inconsistencies for how data is presented and reported.

To mitigate this risk, a possible solution is to invest in a centralised and comprehensive data repository that holds all the business data including enriching the data with the required parameters and attributes to meet specific reporting criteria.

A consolidated dataset is only as good as the quality of its data sources, and therefore all data must be validated at the point of import into the central repository from source systems. Appropriate controls over the centralised data repository may include:

- Robust IT controls such as those around logical access and change management so that all changes to data are monitored and approved;
- Reconciliations between the source systems, data repository, and the data outputs. Additional controls should reconcile for accuracy, completeness and consistency between the final output, the downstream systems and the different regulatory returns;
- Detailed review and sign-off by appropriate levels of management.

4. Deadlines and Priorities

Regulatory reporting is a culmination of many activities, from front office to back office, the interaction with the technologies, the operation of business processes by many functions, and the desire to do the right thing for the client. It is therefore a complex process and requires an understanding of the potential mis-steps to ensure complete, accurate and timely reporting.

One unavoidable challenge around the nature of the regulatory reporting schedule and deadlines is that regulatory reporting typically coincides with the financial reporting cycle which adds to urgency and conflicting priorities so that there may only be a limited timeframe for management to review and check across the different regulatory reports.

Additionally, the sheer volume of data included in the regulatory reports makes it difficult for senior management to gain reasonable assurance that the regulatory reports are complete and accurate.

A possible solution to this challenge is to place reliance on the controls in the reporting process and produce MI which includes appropriate metrics and details of exceptions including how the exceptions have been addressed, for review by management. This will enhance the management oversight arrangements.

5. Governance and Oversight

Problems often occur when there is a lack of governance and oversight. The bedrock of any critical reporting process needs to be a robust governance and oversight framework structure to achieve the following:

- Enforcement of accountability;
- Escalation to appropriate governance bodies and senior managers;
- Mitigating the reporting and operational risks;
- Measuring data quality with qualitative and quantitative metrics (completeness, accuracy and relevance);
- Execution of remediation activities;
- Timely performance in accordance with obligations;
- Implementation of a purpose driven culture that encourages good conduct; and
- Allocation of appropriate resources.

How Xcina Can Help

Our "experienced staff" model means we only deploy consultants with many years of relevant experience to assist you:

- Performing an end-to-end review of your regulatory reporting process and providing you with tailored recommendations;
- Performing deep-dive analysis of a sample of regulatory reports to ensure completeness and accuracy, as well as compliance with the requirements of the relevant regulations, both UK and international;
- Performing gap analysis of the regulatory reporting risks, functionality and processes to determine whether controls are in place to mitigate those risks;
- Mapping the regulatory requirements for completeness and accuracy between the inventory of regulations, their respective reporting requirements and the operational process outputs including regulatory reports;
- Executing remediation initiatives in response to any regulatory findings including post-implementation testing to provide assurance that the remediation is effective.



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