Office of Financial Research
Reporting Efficiencies Working Group

Presentation of Regulatory Reporting Charge & Discussion

TOPIC:
Reducing the Regulatory Data Reporting Burden

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Working Group Members:

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Reducing the Regulatory Data Reporting Burden

SUMMARY

The OFR is requesting the FRAC to provide examples and possible solutions to issues that arise due to inconsistent and/or overlapping regulatory reporting requests and inconsistent and/or overlapping data.

BACKGROUND

- Given the sometime overlapping regulatory framework in the federal and state agencies, U.S. financial institutions are often asked to provide similar data to a number of agencies.
- Differences in the definition of a particular data field can require independent work for each regulator request. Moreover, not all financial institution may have understood the data request in the same way creating the possibility for inconsistent data production across institutions.
- While this fragmented approach enables tailored regulations, it can also result in inefficient oversight and reporting.

Reducing the Regulatory Data Reporting Burden

QUESTIONS

- What industry wide examples can you provide of instances where the instructions from two different FSOC members require reporting of the same underlying data using different definitions, methodologies, or levels of granularity?
- How do these individual discrepancies cause a burden?
- Is there a straightforward solution that would address this challenge?

What we learned about Data From the Financial Crisis

What we learned about Data From the Financial Crisis

- The financial crisis of 2008 made it clear that neither regulators nor financial firms had the tools necessary to quickly and accurately identify and assess the outstanding exposures of failing financial institutions.

"Rapid change in the financial system driven by innovation and deregulation…has altered the mechanisms and pace of financial intermediation to such an extent that regulatory tools, processes and data have fallen behind".

National Academy of Sciences (2009)…

- International and national regulators knew that this information gap needed to be closed, and the industry agreed.

"…recent financial crisis revealed important gaps in data collection…greater standardization of data than exists today, is required."

Mr. Daniel K Tarullo, Board of Governors of the Federal Reserve System, testifying to the Subcommittee on Security and International Trade and Finance, Committee on Banking, Housing, and Urban Affairs, US Senate, Washington DC

What we learned about Data From the Financial Crisis

- At the G20's 2009 Pittsburgh summit, the FSB was strengthened to address the root causes of the crisis and transform global financial regulation including the need for improved data and information.

> **"Indeed, the recent crisis has reaffirmed an old lesson—good data and good analysis are the lifeblood of effective surveillance and policy responses at both the national and international levels."**

International Monetary Fund (IMF) report on *The Financial Crisis and Information Gaps*
October 29, 2009

Regulatory Reporting Challenge

Regulatory Reporting Challenge

What is the purpose of regulatory reporting?

It is the fiduciary responsibility of the regulatory system to ensure the health and wellness of the financial system. To achieve this objective, ***regulators must have access to accurate, timely and consistent data from the private sector.***

What is the challenge?

As the financial system continues to grow more complex, the regulatory reporting paradigm ***must evolve to meet this complexity.***

Regulatory Reporting Challenge

Current State of Regulatory Reporting

- The current reporting paradigm is, in many cases, outdated and inefficient
- Content is often overlapping, inconsistent and opaque
- Many reports requested by US regulatory authorities are focused on different goals, but end up asking for essentially the same data
- The data requested can differ slightly by definition, granularity, or interpretation
- Regulatory reporting requirements have been developed inconsistently across agencies and jurisdictions, making it difficult to build a truly complete picture of the market and to traverse the various reporting regimes.
- Well intentioned initiatives like swaps reporting have been less than effective, and have increased rather than decreased operational burdens due to the inconsistent reporting rules adopted by national authorities.

Regulatory Reporting Challenge

Examples of Overlapping, Inconsistent and Duplicative Reporting in the US

- Redundant data reported in CCAR 14A/Q
- Overlaps in FR 2510 and FFIEC 009
- Overlaps in the 2052A, FR Y9C, and FR Y-15
- Multiple reports collecting Top Counterparty information
  - OCC: Legal Lending Limit Report
  - FSB common data collection of Institution-to-Institution Credit Exposure Data,
  - FFIEC 031 (“Call Report”), new Fed Single Counterparty Credit Limit Top 50 Report

(See Appendix for additional details)

Regulatory Reporting Challenge

What is the Impact of Inconsistent and Duplicative Reporting?

- Aggregation of exposures by counterparty, product, and region is more challenging [data becomes unactionable]
- Identification of parties involved in financial transactions cannot be quickly and accurately accomplished [lack of standards inhibits linked risk analysis]
- Management of operational risk is more demanding as manual processes are needed to collect, clean, reconcile, and consolidate data to produce useable information [inability to respond in times of crisis]
- Analysis of financial information is time consuming, costly and inaccurate [OMB report on CCAR Reporting Annual Burden (hrs) – est. 600,000 hrs for CCAR FR Y-14M]

Assessment and management of systemic risk in a timely manner may be unachievable.

Addressing the Challenge

Addressing the Challenge: Modernize Regulatory Reporting

Growing Movement Across Industry

There are increasing number of activities taking place across the globe, involving public sector, private sectors, fintech and standards bodies, to modernize regulatory reporting.

Concept:
Shift from "report-based" paradigm
to a "data-based" paradigm

Deliver granular data (vs. reports), aligned to industry standards, utilizing advances in 'knowledge representation', and leveraging newest data capture and delivery technologies

Addressing the Challenge: Modernize Regulatory Reporting

Opportunities

- Harmonize data to common meaning
- Improve transparency and lineage
- Data can be requested just once for different purposes, representing a opportunity to increase efficiency in the financial sector as well as to improve regulatory oversight
- Improve surveillance capabilities of regulatory authorities by
  - Allow regulatory authorities to see a holistic, unified picture of risk rather than inconsistent views of the risk scattered among different reports
  - Allow for consistent and unambiguous communication about risk across different agencies and jurisdictions
  - Allow new technological automation applications (e.g., machine learning, AI) to scan and interpret data sets that are too large for human regulators to assess
  - Allow more timely production of new requested data, since the cost of producing the data has been lowered

Addressing the Challenge: Modernize Regulatory Reporting

Benefits

- **Dramatically REDUCE the regulatory report burden on the private sector** (less report generation; eliminate old and/or duplicate reports; improved transparency of content; reduced 'round tripping')
- **Significantly INCREASE the analytic capability of the regulatory community** (enabling virtually unlimited, customizable scenario analysis of granular data)
- **REDUCE operating costs across the supply chain** (minimize custom programming; encourage utility solutions)
- **MINIMIZE Barrier to Entry of new data sets** (new data sets could be easily added, lowering the cost and increasing 'time-to-market')

Addressing the Challenge: Modernize Regulatory Reporting

Global Efforts Already in Motion

- **European Banking and Regulatory Reform Group (12 banks; 6 regulators)**
    - Collaborating on a POC with 12 banks and 5 regulators to demonstrate the viability of delivering granular data, aligned to an industry standards, to be captured and accessed without modification or reconciliation

- **Regulatory "Tech Sprint" / FCA & Bank of England**
    - All regulators need to ensure that those they regulate are complying with the rules; public confidence in regulation depends on it.
    - However, the resulting collective burden on firms is significant. Every year, regulators receive over 500,000 scheduled regulatory reports from firms, as well as additional ad hoc reports.
    - Objective: develop a 'proof of concept' which could potentially make it easier for firms to meet their regulatory reporting requirements and improve the quality of the information they provide via Model Driven Machine Executable Regulatory Reporting.

Addressing the Challenge: Modernize Regulatory Reporting

Global Efforts Already in Motion

- **MAS610 Singapore Regulation**

  MAS 610 is a major balance sheet return for FIs in Singapore, reported monthly. MAS announced intention to revise the report, increasing granularity, complexity. Data ask went from 4000 points to 340,000 data points.

  - 9 banks and regulators collaborated on developing a common taxonomy. The result:
    - Report Centric: Over 340,000 Data Points -
    - Data Centric: 70 dimensions, 1000 concepts, 30 measures
  - Impact:
    - Reduced time spent on data sourcing; mapping; change management
    - Better understanding of return requirements
    - Less errors in submission / increase in data quality
    - Agreed upon common language increased cooperation across all market participants

Recommendations

Recommendation of the Working Group

- We recommend that FSOC initiate a review of the current state of data and reporting within the U.S. to identify overlapping and duplicative reporting requirements,
- We recommend the FSOC initiate a review to identify the opportunities to move from proprietary data standards to national and global standards.
- We recommend US regulatory authorities implement the use of existing international standards (LEI, UTI, UPI, and CDE) in all of its regulatory reports over the next several years
- We recommend US regulatory authorities join the movement of international regulatory bodies and banks in exploring the opportunities and benefits that can be realized through modernizing regulatory reporting

THANK YOU

Appendix
Modernize and Harmonize

Modernizing Regulatory Reporting

Global Efforts Already in Motion

- FSBs Data Gaps initiative started in March 2013 collecting G-SIB exposures to their largest counterparties, key granular data about funding assets and liabilities to provide a framework for assessing interlinkages and concentrations and granular balance sheet data broken down by country, sector, instrument, currency and maturity. All data is aggregated at the BIS International Data Hub (IDH) and used for financial stability purposes.

In its invitation for comments on the U.S. proposal to implement the Phase 3 collection, the Report of Institution-to-Aggregate Granular Data on Assets and Liabilities on an Immediate Counterparty Basis (FR 2510), the FRB writes:

- "…from a supervisory perspective, IDH reports would provide important comparative information across G–SIBs, detailed information on G–SIB exposures to central counterparties (CCPs) and fuller information than is otherwise available on how foreign banking organizations (FBOs) fund their U.S. operations. From a financial stability perspective, IDH reports help to reveal risks associated with key common counterparties (*e.g.,* sovereign exposures) among G–SIBs, and illuminate volumes and patterns by which non U.S. G–SIBs manage their dollar-based funding (and which in turn can have implications for dollar-based funding markets)."

Modernizing Regulatory Reporting

Global Efforts Already in Motion

- EMIR REFIT (a legislative proposal for targeted amendments to EMIR) is proposing to introduce harmonised procedures and reporting standards for trade repositories to ensure the completeness and accuracy of reports that they receive, as well as harmonised procedures for reconciliation of data between trade repositories. This re-do of the existing EMIR TR reporting environment is stemming from the limitations ESMA has found in the current data collection which does not use a common data template across the TRs.
- European Commission 'Fitness Check on Supervisory Reporting' which is designed to streamline reporting regimes in the EU, with the goal to improving the quality of data and reducing the burden on reporting entities.
- In responding to the consultations, the industry proposed a 'report once' framework, where firms could provide a potentially larger data set to regulators, to allow them to cut and dice the data as they need.

Recent Efforts To Harmonize Data Elements

How should financial entity names be written uniquely?

- **Following a November 2010 statement of policy from the OFR, The G-20 at its 2011 Cannes Summit, called upon the Financial Stability Board (FSB) to take the lead in developing recommendations for a global LEI and supporting governance structure.**
- **The resulting FSB recommendations were endorsed by the G-20 at their 2012 Los Cabos summit. The G-20 and FSB endorsed the charter of the Regulatory Oversight Committee (LEI ROC) in 2012 and the FSB Plenary founded the Global Legal Identifier Foundation (GLEIF) in 2014.**
- **The GLEIF oversees the process of over 30 Local Operating Units assigning Legal Entity Identifiers (LEIs) to uniquely identify legal entities involved in financial transactions.**
- **In May 2017, the Global LEI System was extended to collect reference data on immediate parent and ultimate parents of the legal entities involved in financial transactions.**
- **To date, over 1.3 million LEIs have been issued, with only 195,000 for legal entities from the United States.**
- **Although the LEI is required for some U.S. regulatory reporting, especially related to OTC Derivatives, it is not broadly mandated by U.S. regulators, as has been called for by the OFR in its Annual Reports to Congress.**
- **In February 2017, the FRAC Data, Technology and Standards Committee recommended a plan to OFR to document and attempt to address obstacles cited by U.S. regulators preventing them from mandating LEI.**
- **In January 2018, MiFID II became effective in Europe and mandated that all legal entities anywhere in the world that look to transact in Europe with a European investment firm, obtain an LEI which and supply it to the investment firm before the investment firm can execute a transaction for that legal entity.**

Recent Efforts To Harmonize Data Elements
What data elements should be included?

- The CPMI and IOSCO have developed a standard for Critical Data Elements (CDE)
- The CDE standard does not specify which data elements should be included in specifying the details of a transaction
  - the decision as to which data element must be reported is left to the regulatory authority
- Rather, if a regulatory authority does require a specific data element to be reported, the CDE specifies
  - the definition
  - the existing industry standard that governs the data element
  - the format of the data element
  - allowable values of the data element
  - related data elements
  - dependencies between data elements

Recent Efforts To Harmonize Data Elements

How can data be aggregated?

- The CPMI and IOSCO also recently developed a standard for a Unique Product Identifier (UPI)
- The UPI uniquely identifies an OTC derivative product in order to facilitate data aggregation
- The UPI has the following design principles
  - it is jurisdictionally neutral
  - a transaction should maintain the same UPI over its life unless it is modified
  - it should be extensible to new product types

Recent Efforts To Harmonize Data

How should a specific transaction be identified?

- The Financial Stability Board asked the CPMI and IOSCO to develop a global data harmonization standard to uniquely identify OTC derivatives and enable them to be aggregated transparently and objectively
- The Unique Transaction Identifier (UTI) is used to identify OTC derivatives
- UTIs are designed to be
  - Invariant to jurisdictional differences
  - unique, so that double counting is prevented
  - persistent unless a transaction is modified, in which case the new transaction's UTI should be traceable to the old
- UTIs allow the same transaction to be unambiguously reported to satisfy different regulatory needs

Appendix

Examples of duplicative and overlapping reporting

Overlapping Reporting - FR 2510 and FFIEC 009 Into One Report

- Both reports are balance sheet reports that request essentially the same data but they differ in data definitions, aggregation, and required data elements
  - Asset balances are requested in both reports by counterparty, country, and sector but sector definitions are inconsistent
  - FR 2510 requests additional data elements in asset balances while FFIEC requests additional products
  - Requests for commitment and guarantees data in both reports are at inconsistent aggregation levels
  - Foreign office liabilities are requested in both reports but FR2510 also requests domestic office liabilities as well as currency, sector, instrument, and maturity band cuts
  - Cross border assets and liabilities are requested in both reports although FFIEC requires foreign and local currency to be aggregated

Overlapping Reporting - 2052A, FR Y9C, and FR Y-15 Into One Report

- **FR 2025A is a comprehensive liquidity report that presents opportunities to combine it with other reports**
- **Loan and trading activity reporting is duplicative is 2052A and Y9C**
- **FR 2025A and FR Y-15 require transactional and non-transactional retail deposits to be reported, but 2025A also requires that non-transactional deposits be disaggregated into relationship and non-relationship accounts**
- **Schedule G in Y-15 and 2025A are duplicative**

Eliminate Redundant Data Reported in FR Y-14A/Q

- **In late 2018, the Securities and Exchange Commission issued a final rule that eliminated redundant or duplicative data as GAAP, IFRS, or other in other requirements (17 CFR Parts 210, 229, 230, 239, 240, 249, and 274)**
- **CCAR 14A could be similarly simplified**
  - **Some parts of FR Y-9C HC-R must be re-reported in 14A**
  - **FFIEC 101 Schedules A&B must be re-reported in 14A**
  - **The Supplementary Leverage Ratio (SLR) is re-reported in 14A**

Top Counterparty Reporting

Top Counterparty Reporting: There are multiple reports that collect information about a firm's top counterparties including the Office of the Comptroller of the Currency (OCC) Legal Lending Limit Report, FSB common data collection of Institution-to-Institution Credit Exposure Data (a.k.a. Top 50 Counterparty Report), FFIEC 031 ("Call Report"), new Fed Single Counterparty Credit Limit Top 50 Report, and others. Each of these reports have a slightly different scope and use different definitions for aggregation of exposures resulting in significant work to produce the overlapping reports and explain the differences in the reported results.[6]

[6] **Links to report references:** https://occ.gov/topics/credit/commercial-credit/lending-limits.html; http://www.fsb.org/policy_area/data-gaps/page/3/; http://www.fsb.org/wp-content/uploads/r_140506.pdf; https://www.newyorkfed.org/banking/reportingforms/FFIEC_031.html; https://www.federalreserve.gov/reportforms/formsreview/FR2590_20180620_f_draft.pdf)