Transforming Data Collection – The joint transformation programme

Introduction

On Wednesday the 13th October 2021, the Bank of England (BoE) and the Financial Conduct (FCA) have announced the launch of the joint transformation programme on Transforming Data Collection, officially kicked off at the beginning of July 2021: this initiative follows the letter published on 23 February 2021 from the two authorities.[1]

This phase one kicked off in July 2021, will see the following steps:

- Discovery and design phase, ending in March 2022. The two authorities are expecting the industry to progress the work beyond March 2022.

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[1] Khanna, V., van der Vaeren, H., Wilson, R., & Ioannidis, A. (2021, April). Transforming data collection from the UK financial sector. Avantage Reply. https://www.reply.com/avantage-reply/en/Shared%20Documents/transforming-data-collection-from-the-UK-financial-sector.pdf

- Implementation phase, from July 2022 to July 2023: the authorities are planning to publish detailed project plans for this stage in Q2 2022. To do so, they are expecting that some of the current participants will stay from March 2022 to July 2022. In Q4 2021 and Q1 2022, will be clear which solutions are taken forward for further investment and implementation.

The programme will design and test solutions to address the issues that the regulators and financial firms are facing in today's data collection process. Alongside BoE and FCA staff, the programme considers knowledge and experiences from financial firms of all dimensions (including banks, building societies, insurers and trade bodies).

The Joint Transformation Programme will sit alongside other initiatives. An example of initiative for the Regulators is the set-up of the Reporting and Data Standards Transformation Board, which will consider issues and relevant initiatives, of common concern relating to reporting and the development of data standards, beyond the scope of the joint transformation programme. For firms, internal initiatives should include urgent work to fix issues identified in the recent PRA supervisory letter on regulatory reporting.

Four use cases

There are four use cases in the scope of phase one:

- **Reform the Quarterly statistical derivatives (DQ) return:** The quarterly derivatives return, submitted by 20-odd firms with liabilities over £10billion, summarise marked-to-market valuations of derivative positions at the end of each quarter.
- **Deliver a commercial real estate (CRE) database:** The CRE industry have a long-running project looking to create a database on the CRE market. Aligning with this project will allow developing common data standards loans and property sectors.
- **Optimise the liquidity monitoring metrics (LMM) tool:** Upgrading the tool provides an opportunity to understand how the regulators might deliver 'instructions as code' – potentially a key component of a more flexible reporting process in future.
- **Maximising the value of RegData (FCA use case):** This use case will focus on opportunities to improve data quality, increase transparency about how the data is analysed, and consider how to transition the survey into RegData.

Outputs

The Joint transformation programme team have achieved the following:

- **Engagement level**: over 100 participants from more than 50 firms across two committees, a delivery team, design advisory group and product owner group.
- **Started the Discovery Phases** for the DQ, CRE and RegData use cases: Conducted DQ user interviews with 7 firms, the Bank of England and the ONS, as well as researched a wide range of initiatives related to these data collections.
- **Started to identify a series of issues**, and possible approaches to manage those issues, for the DQ use case.

Next steps

The next steps for both the regulators are the following:

- BoE and FCA will be providing regular programme updates to share outputs and to provide opportunities to be involved with the joint transformation programme and Transforming Data Collection work and to give feedback.

- BoE and FCA are going to develop a roadmap showing how the Transforming Data Collection initiatives are taken forward. The first version of the roadmap is expected to be defined and shared with the industry by the middle of 2022.
- BoE and FCA will require industry resources to progress the work beyond March 2022.

Our understanding of the key regulatory reporting challenges – And how can we assist?

We see four significant challenges that firms typically face in responding to increased regulatory scrutiny:

- **Scope interpretation:** Many firms struggle with determining the applicability of key regulatory returns, entailing missing out on their regulatory obligations or performing them in an inappropriate manner
- **Control Weaknesses:** Fragmented systems and manual processes, sub-optimal process design, limited time and appetite for strategic investments in robust solutions and data limitations that persist across firms prevent robust solutions from being implemented
- **Volume of Reporting:** The volume of reporting has continued to rise, with several additional reports added each year based on market dynamics and regulatory priorities. In addition, the reporting is not limited to historical data; several new reports focus on forward-looking information
- **Solution Inefficiencies:** The volume and complexity of returns make processes prone to errors. Some common control weaknesses include:
  - a) Lack of documentation or end to end process mapping
  - b) Risk and finance data reconciliation processes
  - c) Inadequate governance processes
  - d) Controls over data quality, including source systems
  - e) Challenges from legacy systems
  - f) Differences in a control environment for periodic vs ad-hoc regulatory reporting

In this context, Avantage Reply supports clients with:

- **Scope:** review scope of reporting and confirm universe of reports, review coverage of data fields in each covered report and identify potential scope changes based on business plan changes;
- **Regulatory Interpretation:** assess whether regulatory interpretations applied to reports and field are appropriate and assess if regulatory interpretations are in line with observed industry practice;
- **Numerical Accuracy:** Sample assessment of numerical accuracy or key reports and fields, undertake sample validation check and focus on known areas of challenge;
- **Governance:** Reviewing specific and general governance arrangements around regulatory reporting;
- **Documentation:** Reviewing the appropriateness around underlying documentation and identifying any gaps in the quality and volume of underlying documentation
- **Process control:** review key controls and process steps (including reporting and validation controls) for potential gaps and review the nature of manual overlays and adjustments;
- **Data flow:** review key data flows from source to report on a sample basis to identify gaps, review manual interventions and review against timeliness and accuracy considerations;
- **System/Solution:** review the current state system/solutions and contextualise against industry practice and highlight any known gaps or limitations of implemented solutions;
- **Integration and Use:** review how regulatory reports are used for decision making and review the integration of regulatory reports with other internal and external reports.

Contents

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