

TRANSFORMING DATA COLLECTION FROM THE UK FINANCIAL SECTOR

April 2021

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Data collection transformation

Overview

In 2019, the Bank of England (BoE) committed to a review of data collection from regulated entities.

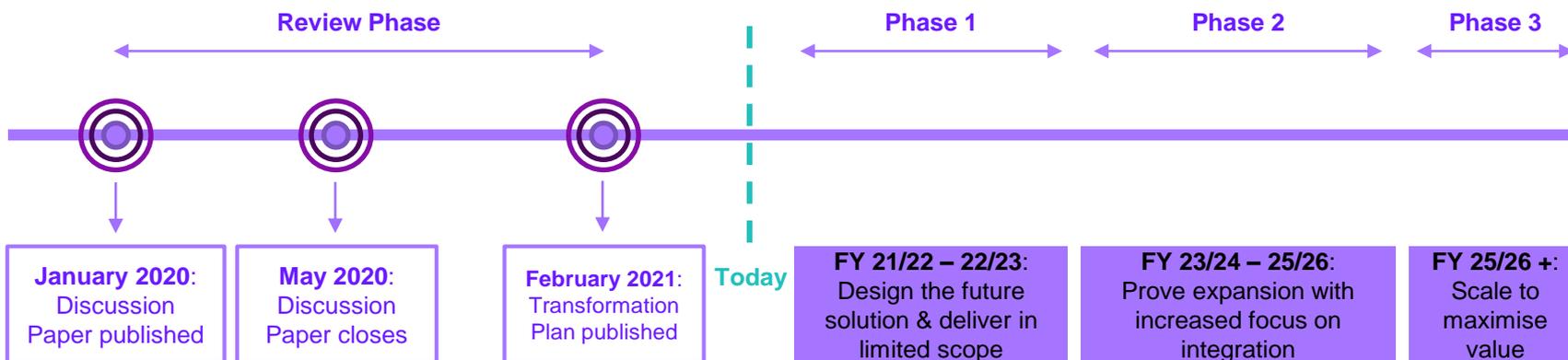
In January 2020, it published the discussion paper *Transforming data collection from the UK financial sector*. The aim was to shape the evolution of reporting over the next 5-10 years. The BoE started an open discussion with the industry by coordinating more than 260 internal and external events with over 130 organisations and received more than 60 written responses to the discussion paper. It also organised a series of working groups with representatives from the industry. In February 2021, it published its *Plan for 2021 and beyond*.

To address the issues faced by the UK financial sector, the BoE aims to answer:

- how it can ensure data collections are valuable exercises for regulators and industry to invest in;
- how the industry can best understand and interpret the BoE's reporting instructions to provide high quality data; and
- how the BoE can remove data, processes and technology siloes and streamline the reporting process.

The magnitude of impact and challenges that the businesses will face is variable, and is not categorised by sector type. It depends on each firm's business model, organisational complexity, data quality, data availability and modern operational solutions.

Transformation programme timeline



The Bank of England's vision

"The Bank gets the data it needs to fulfil its mission, at the lowest possible cost to industry"



BoE – Delivering the vision



Merging external and internal reporting through the union of currently separate regulatory reporting teams and the full consolidation of reporting within everyday operating processes



Agile reporting by enhancing the ability to rapidly deliver change in reporting, both in setting up a new regular report and ad-hoc reporting



A combination of solutions which will include delivering instructions as code, the creation of industry data standards, and an improved industry and Bank engagement process



A framework for open collaboration based on an eco-system of standards, developed independently to suit certain purposes or specific domains, that allows people and machines to talk more easily. The [European Commission](#) is exploring this concept in the design of its 'common data spaces'.

The BoE's view on current problems with data collection

Complexity, legacy and strategic planning

- **Key sources of complexity**
 - *Firms*: Data collection from several legal entities, business lines and systems
 - *Authorities*: Request for similar data, across multiple reports at different breakdowns within the group
- **Impact of complexity caused by legacy operational systems**
 - Increasing the cost of financial services
 - Holding back innovation
 - Posing risks to operational resilience
- **Funding and strategic planning**
 - Insufficient longer-term investments due to a lack of resource for data collection and short-term focus

Value and collection rationale

- **Cost-benefit analysis**
 - Difficulty in quantifying the value or cost of data collection
- **Disruption and change management**
 - Issues including the high costs of setting up a project to deliver small changes and having to pause internal projects as BoE's mandatory changes take priority
- **Collection rationale**
 - Lack of clarity about the rationale for specific collections is making hard the interpretation of the instructions for these collections

Interpretation

- **Usability**
 - Reporting instructions including irrelevant parts for some users and often containing cross-references with other documents
- **Understanding**
 - Overly verbose instructions with ambiguous parts, written in over-complex legal language
- **Guidance and clarification**
 - Slow response rates for clarifications

Finding and sourcing data

- Challenges in finding and extracting specific data points, particularly for larger firms
- High costs and low speed when sourcing requested data that is not readily available

Reconciliation and data quality

- Difficulty in reconciling similar data across multiple reports
- Ambiguity around the use of seemingly similar data points
- Costly and inefficient data quality control procedure checking data both at the input layer and at the report or output level



Key proposed reforms

Common data standards

Common data standards are collectively adopted methods for describing equivalent operational data

Potential solution areas:

- *Common data inputs*, which can help with managing reporting complexity, finding and sourcing data etc.
- *Industry data standards*, which can be reused as the basis of authority reporting

Challenges:

- Questions around the feasibility or desirability of standards for operational data
- Difficulty in defining common data inputs
- Additional complexity for firms with bespoke products

Modernised reporting instructions

Modernising reporting instructions requires to reform how these instructions are written and published and how firms consume and interpret them

Potential solution areas:

- *Annotated instructions*, which can be used by third party applications
- *Standardised language*, which can make instructions more consistent
- *Early engagement with legal drafters and policymakers*, which can make regulation easy to implement
- *Instructions as code*, which can automate the execution of reporting instructions

Challenges:

- Caution about the delivery of complex technical solutions at scale
- Concern about the elimination of firm interpretation from the reporting process
- Need for skills and cultural changes to modernise reporting instructions

Integrated reporting approach

The integration reform has three dimensions:

- 1) The data collection should be consistent regardless of which authority firms are reporting to
- 2) Every step in the reporting process should be better integrated with every other step
- 3) The data itself should be integrated both at the input level, within firms, and in the final data sets the BoE receives.

Potential solution areas and challenges:

- *Pull- vs current push-model*, which can reduce reporting costs but many financial firms disagree with the BoE having direct access to their systems
- *Central service provider*, which can act as an intermediary between financial firms and the BoE but no consensus has been achieved on its optimal role
- *Increasing data granularity*, which can reduce the ambiguity of instructions but has raised concerns from larger firms relating to quality assurance and the technical challenges of supplying granular data

Implementation timeline

- *Phase 1*: Common data standards, Modernised reporting approach
- *Phases 2 & 3*: Integrated reporting approach

Other solution areas

- Using alternative data sources
- Changing the mix of regular and ad-hoc data collections
- Better alignment with business processes and outcomes

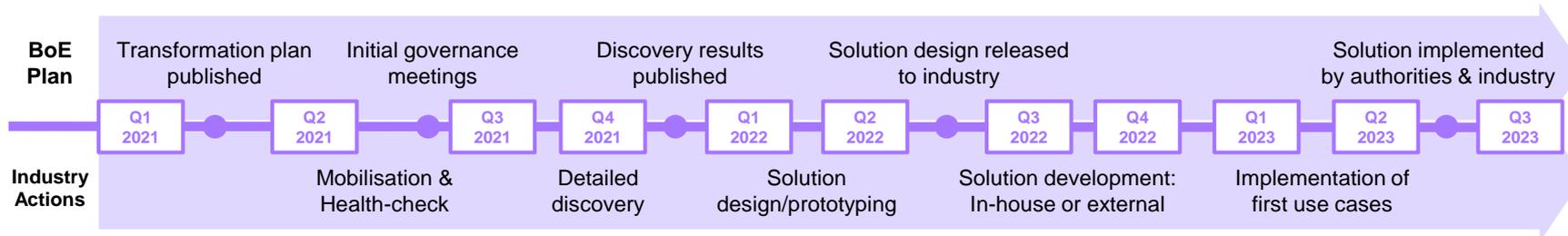


Transformation programme – Phase 1 plan

Aims

- 1) Translation of design prototypes into early versions of functional solutions
- 2) Delivery of tangible change for a limited number of use cases

Key milestones



Planned Phase 1 use cases

- **Reform the quarterly derivative statistics return:** Alignment with existing industry and global authorities' work on data standards for derivative reporting
- **Deliver a commercial real estate (CRE) database:** Development of common data standards in two core areas – loans and property
- **Optimise the liquidity monitoring metrics (LMM) tool [start Q4 2021]:** Understanding of how the BoE might deliver "instructions as code"

Other possible early use cases

- Loan book data submitted by non-systematic supervised UK-focused firms
- Crisis lending scheme data
- Asset encumbrance
- Definitions in COREP and FINREP reporting
- Collection of net spread earnings
- Non-economic trade data in post-trade processing
- Mortgage data reporting

Alignment with other initiatives

- Alignment with private sector initiatives to standardise wholesale market processes and data
- Learning from similar reforms that were implemented in other industries
- Coordinating with other international reporting change work



How can Reply help

01

Impact Analysis & Interpretation

- Interpretation of requirements and identification of business areas, people, processes and systems which are affected by the data collection request
- Support firms with their data transformation journeys

03

Validation & Assurance

- Reply can provide exhaustive validation and assurance services around data lineage and regulatory reporting reviews (See our 9-lenses framework)
- We have also developed an in-house fully customisable validation tool which tracks and provides preventative diagnostics, trend analysis and MI to validate firms' regulatory reporting submissions

02

Solution Development & Implementation

- Identification and sourcing of data across business areas to meet regulatory and internal requests
- Develop solutions to integrate, cleanse and aggregate the data and enable report submission
- Collaborate with leading solution vendors to facilitate reporting automation

04

Change and Review

- Establish processes for review and sign-off of data submissions
- Review efficiency of reporting process and propose viable improvements





APPENDIX

Our understanding of the key regulatory reporting challenges

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
- This is exacerbated when there are specific thresholds attached to certain reports (e.g. PRA111) or where firms enter new business lines or products
- Some data fields may be subject to regulatory interpretation or adjustments beyond currently reported numbers
- These factors mean firms may miss out on their regulatory obligations or perform them in an inappropriate manner.

Control Weaknesses

- Fragmented technical solutions, fragmented systems and manual processes mean inefficiencies are rampant
- Sub-optimal process design, plagued by typical patchworks of tactical solutions to achieve compliance in time (and mostly in a hurried fashion)
- Limited time and appetite for strategic investments in robust solutions
- Data limitations that persist across firms prevent robust solutions from being implemented

Volume of Reporting

- Volume of reporting has continued to rise, with several additional reports added each year based on market dynamics and regulatory priorities
- Firms have to grapple with UK specific reporting (e.g. PRA reports), EU driven reporting (CRR) which includes COREP and Pillar 3 disclosures, and broader regulatory mandates (e.g. responses to FSB G-SIB data requests or BIS QIS studies)
- 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 makes 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 control environment for periodic vs ad-hoc regulatory reporting



The 9 lenses of regulatory reporting reviews

This slide outlines our framework when we review regulatory reporting for our clients. Each lens represents one particular aspect of a typical regulatory reporting framework.



Our people



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