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.

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.

Evolution of Implementing Technical Standards from 2013 - 2021

- Changes to FINREP - forbearance and NPL, changes to COREP - new templates for ‘Funding plans’
- Changes to COREP to align with revised LCR and LR, changes to Benchmarking of Internal Models
- Changes to COREP to align with new securitisation framework, changes to FINREP - NPE & FB, P&L and IFRS 16, changes to LCR to align with the LCR amending act
- Changes and new requirements in relation to CRR2 (incl. Backstop Regulation)
- Publication of CRR & CRD IV
- Changes to COREP, FINREP and Funding plans. New templates on ‘Additional Liquidity Monitoring Metrics’
- Changes to Benchmarking of internal models
- Updated Guidelines on Funding Plans, integration of remuneration into DPM and taxonomy, and integration of fraudulent payments into DPM and taxonomy
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.

<table>
<thead>
<tr>
<th>1. Preparation &amp; Assessment</th>
<th>2. Implementation &amp; Control</th>
<th>3. Testing &amp; Validation</th>
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</thead>
<tbody>
<tr>
<td>• Assess the applicability of the newly introduced reporting requirements, i.e. qualitative gap analysis</td>
<td>• Organise workshops with impacted stakeholders to align on the activities to be undertaken</td>
<td>• Plan and develop the User Acceptance Testing (UAT) cases</td>
</tr>
<tr>
<td>• Perform the data gap analysis, i.e. quantitative gap analysis</td>
<td>• Perform the necessary data sourcing, cleansing and storage to generate the information needed</td>
<td>• Perform the testing to identify any data quality issues</td>
</tr>
<tr>
<td>• Assess the impacts, i.e. digital - IT tools and resources - time and personnel</td>
<td>• Ensure that relevant internal controls are developed, documented and tested</td>
<td>• Validate the qualitative and quantitative content of the report prior to its publication</td>
</tr>
</tbody>
</table>

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

- 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

<table>
<thead>
<tr>
<th>“Large” Credit Institution</th>
<th>“Small” Credit Institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Often, larger institutions have a well-established internal audit and control functions which help facilitate and enforce controls implementation</td>
<td>• 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</td>
</tr>
<tr>
<td>• Most of the processes are automated via different systems with controls built-in to them</td>
<td>• In a smaller structure, the process can be easily isolated and a change would have less impact on other IT systems</td>
</tr>
<tr>
<td>• However, the changes can and usually do impact multiple teams and systems, so being aware of the downstream impacts is highly important</td>
<td>• Due to the processes being manual, the risk of having data errors is higher and requires more robust controls</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
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<th>“Large” Credit Institution</th>
<th>“Small” Credit Institution</th>
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<tbody>
<tr>
<td>• 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</td>
<td>• As the IT architecture might be simpler with less interaction between different software, the root cause analysis can be easier</td>
</tr>
<tr>
<td>• 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</td>
<td>• 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</td>
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<td></td>
<td>• These manual workarounds can lead to additional operational risks</td>
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</tbody>
</table>
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.

<table>
<thead>
<tr>
<th>Phase</th>
<th>Headcount</th>
<th>Data &amp; Systems</th>
<th>Governance &amp; Organisation</th>
<th>Change Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Preparation &amp; Assessment</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>2. Implementation &amp; Control</td>
<td>Moderate</td>
<td>Major</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>3. Testing &amp; Validation</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Major</td>
<td>Moderate</td>
</tr>
</tbody>
</table>

Impact level:  
- Major
- Moderate
- Low
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.

<table>
<thead>
<tr>
<th>Topic</th>
<th>Client</th>
<th>Main Pitfalls</th>
</tr>
</thead>
</table>
| 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.

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Success Factors</th>
</tr>
</thead>
</table>
| **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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