

National insights on redesign options for regulatory reporting

EBF Workshop on BaFin's
Feasibility Study

27 September 2022

Contents

Current challenges,
Scope of the Study
and potential
Options

1

Preferred Scenario
and potential way
forward

2

Conclusion and
next Steps

3

Contents

Current challenges,
Scope of the Study
and potential
Options

1

Preferred Scenario
and potential way
forward

2

Conclusion and
next Steps

3

Goals and key questions of BaFin feasibility study

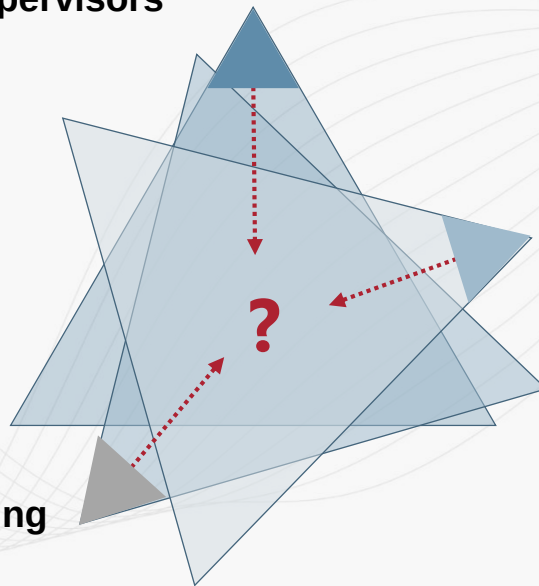
Explore proportional scenarios to resolve deadlock and find the right balance

Goals

**Close information gaps
and increase insights for
supervisors**

**Ensure interoperability
with EU developments
and legal framework**

**Reduce the reporting
burden for banks
and supervisors**

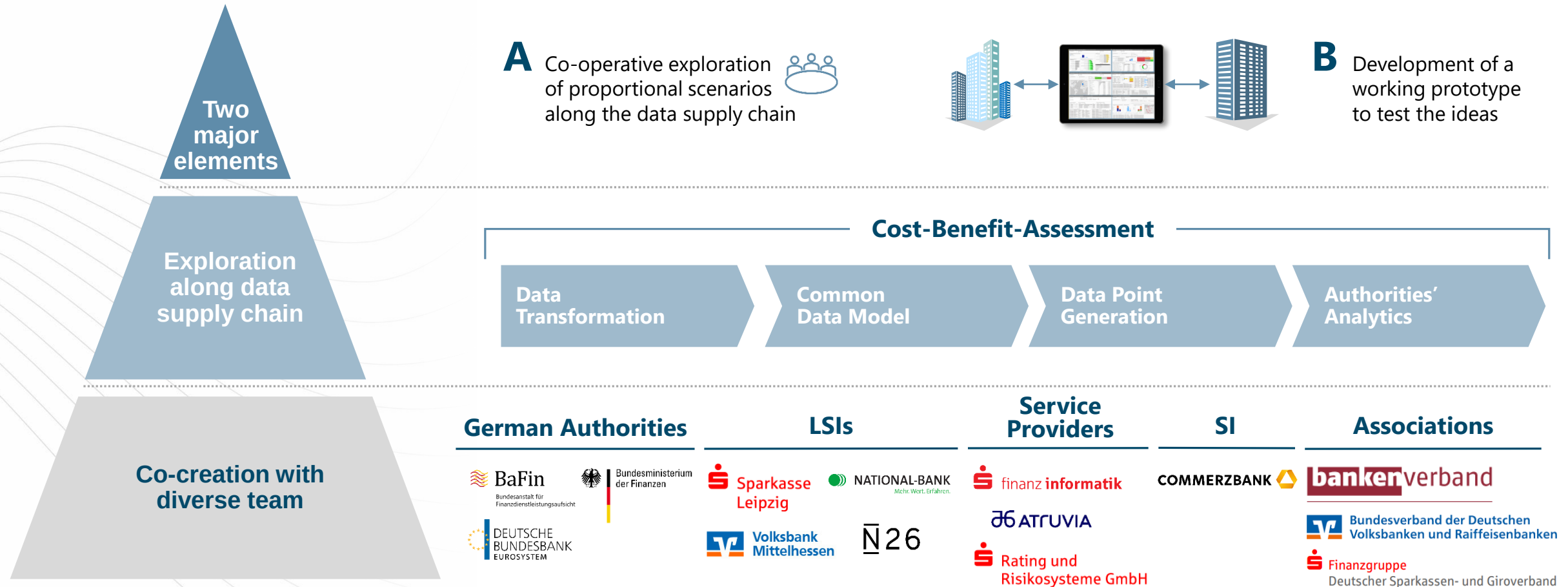


Key Questions / Vision

- How could the *deadlock* between technically possible and legally feasible be resolved?
- Could all regulatory figures be calculated centrally by supervisors using granular data?
- Which technological advances could help to digitally rethink the end-to-end reporting process?

Scope of BaFin feasibility study

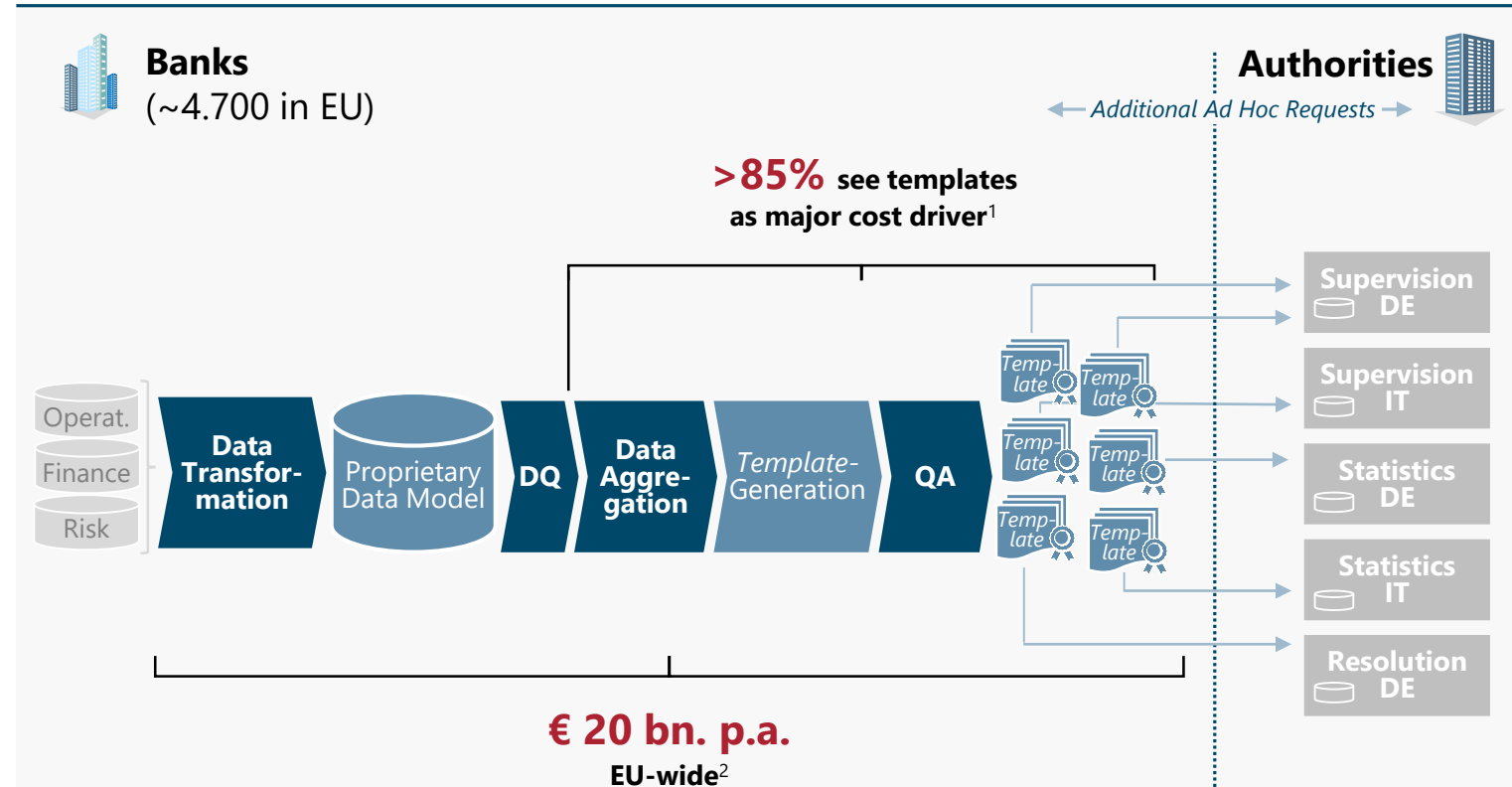
In co-creation with banks we have prototyped different scenarios along the data chain



Current State of Regulatory Reporting

Burdensome for both sides, lack of proportionality and increasing complexity

Current reporting process mainly based on template-based aggregated data



Challenges increasing

- Prohibitive cost burden and increasing
- Lack of proportionality for small banks
- Little insight for supervisors
- Long and complex change cycles
- 20y old technologies
- Unsustainable and unscalable data process, also for supervisors

But also a massive opportunity to transform the ecosystem as per EU's digital finance strategy³.

1: EBA Cost of Compliance Study 2021: >85% of the institutions consider the scope, complexity, heterogeneity and frequency of changes of template-based reporting to be one of the major causes of high costs

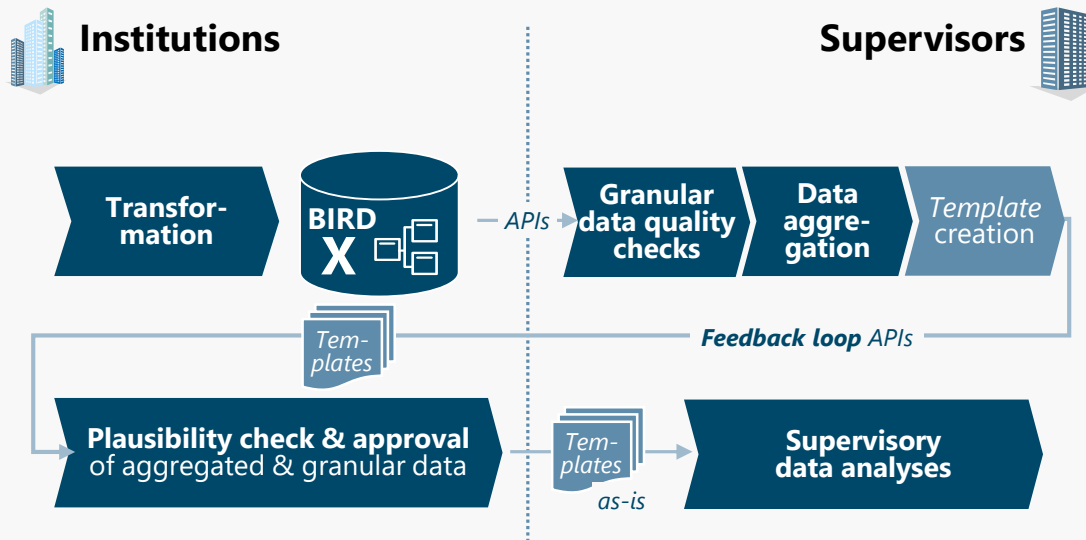
2: EBA Cost of Compliance Study 2021 based on EU-wide survey of average run and change costs between 2018 and 2020 across 4,700 banks in the EU; w/o UK; w/o statistical reporting, w/o costs of authorities

3: https://ec.europa.eu/info/publications/200924-digital-finance-proposals_en

Potential evolution

There were essentially two major scenarios¹ to be compared

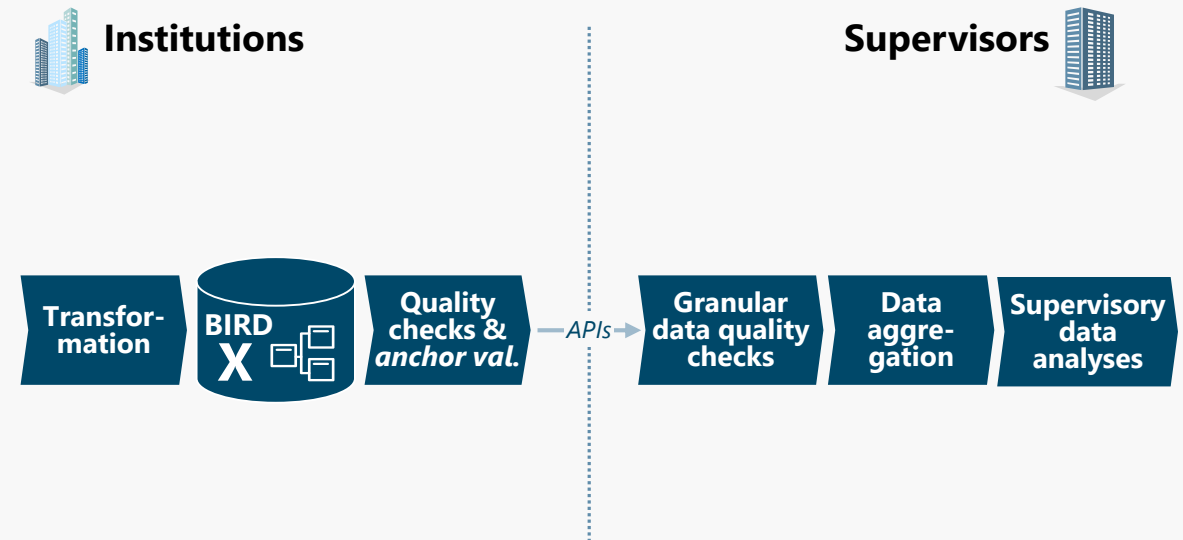
A Template generation as a service



- Keeping *template-based* reporting requirements
- Centralised shared service for *templates* data with feedback loop
- Banks responsible for granular and aggregated

➔ Possible without changing the EU legal framework

B Data-driven Approach without templates



- “Rethink” reporting in the sense of *data-driven reporting*
- Translate reporting requirements into mixed granular data model
- Banks responsible only for granular data and *anchor values*

➔ Only possible with changes to the EU legal framework

1: the project team assessed several sub-scenarios

*How could the preferred scenario
„Data-driven Reporting w/o templates“
actually work in detail?*

Content

Current challenges,
Scope of the Study
and potential
Options

1

Preferred Scenario
and potential way
forward

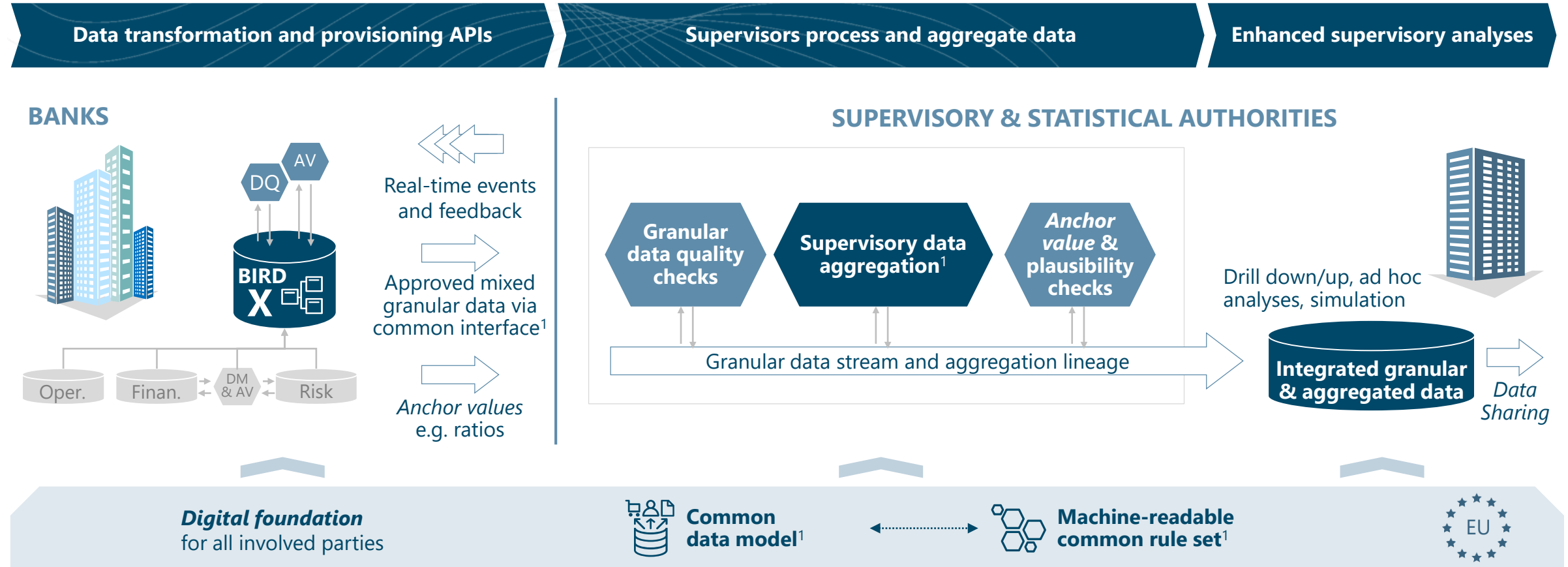
2

Conclusion and
next Steps

3

Vision “Data-driven Reporting without Templates”

In future, banks could report quality-assured mixed granular data and anchor values; authorities gain flexibility for analyses & data lineage enables data aggregation as needed



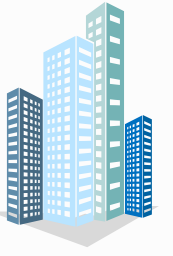
Demo of Prototype

Feasibility of the vision
and new capabilities for
supervisors and banks
demonstrated in a unique
end-to-end prototype



Benefits for banks

“Report once” realized, savings around templates, but more granular DQ assurance



Value added		New requirements
 Simplified interpretation of reporting requirements via common data model and rule set	 More granular feedback on reported data in real time	 Necessity to invest in granular BIRD X interfaces and possibly to source more granular data
 Elimination of complex <i>template</i>-based reporting requirements¹ Reduction of ad hoc queries	 Improved analytical capabilities and interaction between banks and supervisors	 Necessity to intensify quality assurance of granular data
 Data reported once efficiently and consistently for supervisors and statistics	 Subscribe, don't implement e.g. DQ rules and common/ central methods <i>as code</i>	 Limited decommissioning of local methods in first step due to <i>anchor values</i> and daily monitoring

DQ: data quality | *as code*: machine-readable, data model-based description | 1: >85% of banks consider scope, complexity, heterogeneity and change frequency of template-based reporting as one of the major cost drivers

Benefits for authorities

Significant increase in analytical capabilities and efficiency through synergies



Value added		New requirements
 Increased analytical capabilities through integrated granular and aggregated data lineage (ad hoc, drill down/ up)	 Define once synergies (e.g. CRR3, EU taxonomy) and more efficient communication of requirements	 Resources and responsibility for common data model (RDD/ BIRD X) distributable on EU "shoulders"
 Strengthening European integration by sharing common services and boost to innovation	 No losses, but gains: Data points can still be generated and expanded or modified as desired w/o banks	 Resources and responsibility for DQ and data aggregation rule set
 More efficient interaction with banks (via data model) and between authorities (via <i>data sharing</i>)	 Flexible changes and updates to data point logic "at the press of a button" w/o involvement of banks	 Resources for new components esp. granular data interfaces, DQ checks and data aggregation

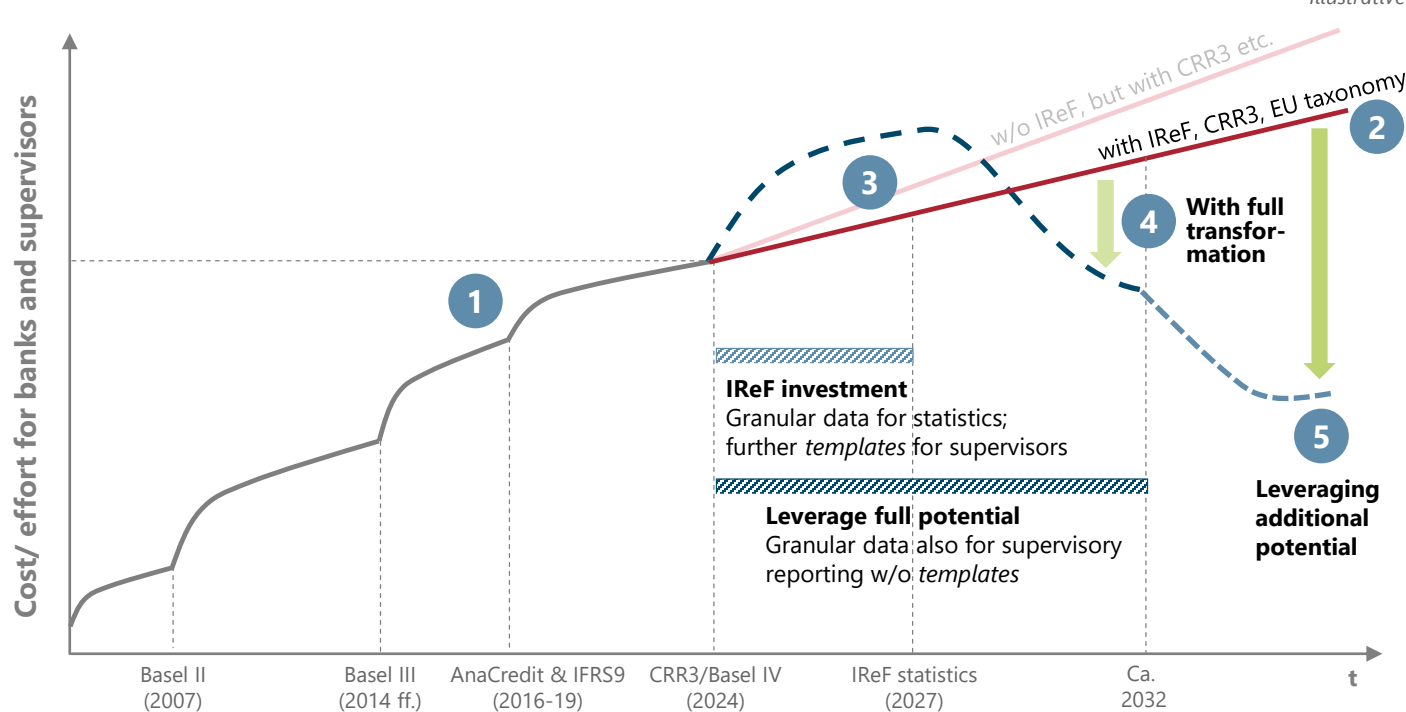
DQ: data quality | RDD: holistic regulatory data dictionary acc. to EBA study, 2021

*Vision is feasible.
But would it also be economically viable?*

Results of the cost-benefit analysis from the banks' viewpoint

Full potential must be leveraged; additional benefits can enable further efficiency gains

Waves of cost increases with and without transformation



Cost-Benefit Impact

- (1) Costs for regulatory reporting has increased for institutions and supervisors in the last decade.¹
- (2) *IReF*, *CRR3* and *EU taxonomy* will further increase costs; double burden due to granular data for statistics and *templates* for supervisors.
- (3) Synergies from investment in granular *IReF* could also be used to leverage full integration potential.
- (4) *Data-driven reporting* leverages full potential also for supervisors and establishes new *foundation*.
- (5) With the *digital foundation* additional potential benefits are unlocked to be leveraged.

The vision “data-driven reporting w/o templates” is the only economically viable scenario; primarily due to opportunity costs (“do nothing after IReF”) and the leveraging of additional potential on the new foundation².

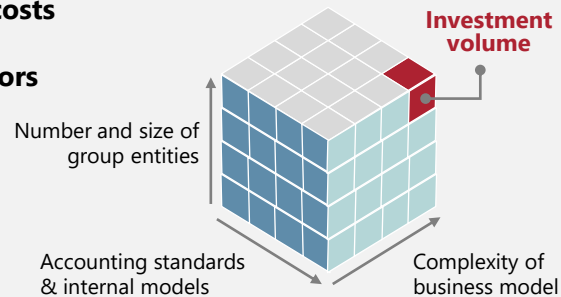
1: Current *baseline* approx. EUR 14 bn operating costs and EUR 6 bn change costs p.a. across 4,700 EU banks; without statistics and supervisors' costs (EBA CoC, 2021) | 2: incl. synergies for supervisors

Elements of cost-benefit analysis from banks' point of view

Investment in new foundation necessary for further development

Necessary investments in the new digital foundation

Transition costs depend on several factors



Transition period post IReF implementation approx. 5 years if all preconditions are met

No big bang – stepwise transition required:

IReF as possible MVP (synergetic first step), then gradual expansion into other reporting areas

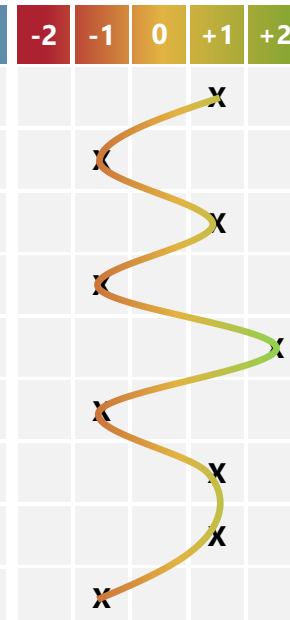
Significant investments necessary, thus emphasis only to invest once in sustainable vision

Resulting in positive and negative effects on reporting operations & change costs

Cost drivers in the institution

Adjustments to reporting systems					
Data collection & source system DQ					
Interpretation of new requirements					
BIRD X data repository					
Ad hoc queries					
Quality assurance of granular data					
Report creation & plausibility checks					
Reporting system and calc. engines					
Data pre-processing & interfaces					

← More burden Less burden →



Various positive effects are accompanied by few more burdensome tasks – new ways of working!

New foundation unlocks multitude of new potential services for all parties

Increasing the reporting frequency (*streaming*)

Over-the-air updates of new regulation

Centralised calculation methods

Simulating new regulation

Centralised reference data for securities and ETDs

Service sharing betw. authorities

Data sharing

Centralised master data for corporates

Supervisors' value-added services, APIs

Single entry point and format

Common, jointly defined DQ rules for central & local use

Common data model and rule set as *digital foundation*

A great deal of additional potential can only be leveraged after the transition to the new *foundation*

*Preferred scenario functionally and economically viable.
How does it fit to European initiatives?*

Strategic Fit with European initiatives

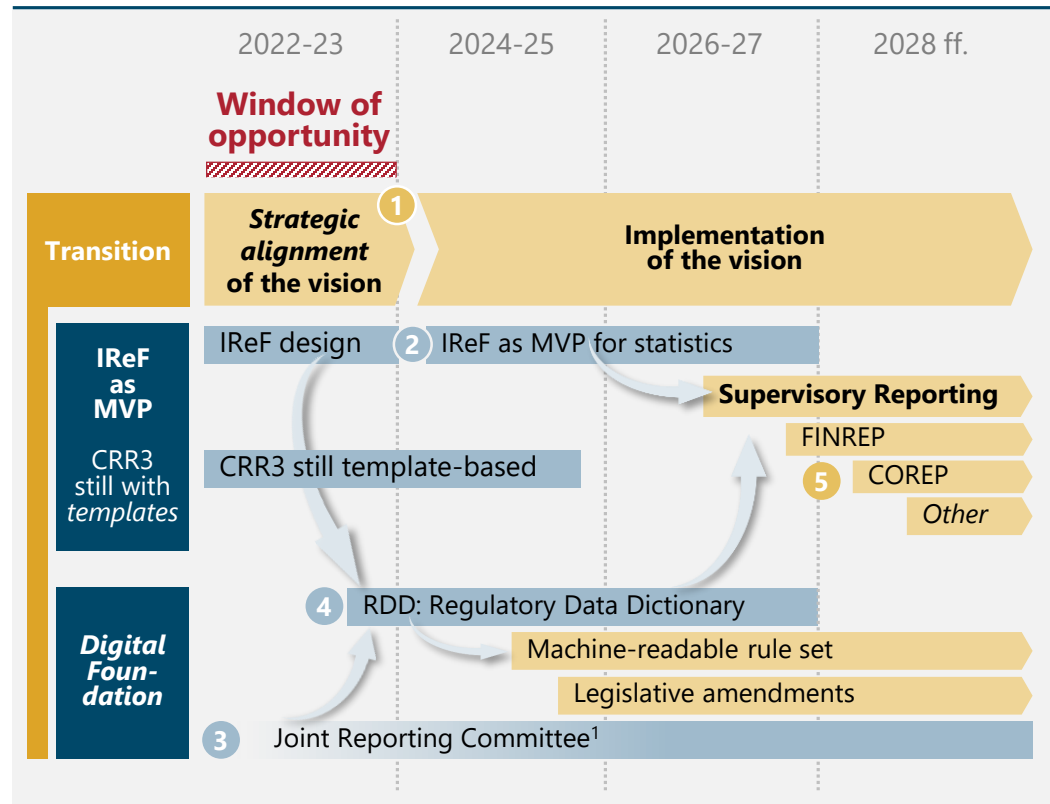
Vision builds on findings of leading initiatives, but integrates and enhances them

Elements	BaFin Feasibility Study	ECB IReF Statistics (incl. BIRD)	EBA Feasibility Study Integr. Report.
Scope of Initiative	Develop a feasible win-win vision and prototype ideas in co-creation with banks	Focus on statistical reporting with granular, EU-wide common data model to be implemented by 2027	Open review of options to redesign and integrate regulatory reporting with specific focus on governance and data model
Data Transformation	by banks	by banks	by banks
Data Model	EU-wide common <i>mixed</i> granular model based in BIRD for statistics, prudential and resolution reporting	<i>Mixed</i> granular model based on BIRD <u>for statistical reporting</u>	<i>Mixed</i> granular <u>common</u> regulatory data dictionary (RDD)
Machine-readable Rule Set	Technical & functional DQ-rules and regulatory data aggregation rules in central repository; potential for central calculation methods	technical DQ-rules; data point generation rules for statistical purposes	Pilot for machine-readable <i>instructions</i>
Reporting Requirement (Template)	Reporting w/o Templates: bank submits mixed granular & <i>Anchor Values</i> ; NCB aggregates	bank submits mixed granular & <i>Anchor Values</i> ; NCB aggregates	banks accountable for granular and aggregated data (Templates)
Push/ Pull Data Delivery	Push-approach with harmonized submission deadlines (min. monthly); Push- <i>Streaming opt.</i>	Push-approach with harmonized submission deadlines for statistical scope	Push-approach preferred

Integrating and leveraging existing European initiatives

Synergies could be leveraged if vision and goals were aligned on EU-level

Transition possible through synergies with EU initiatives



Legend: ■ Planned activities ■ Recommended new activities → Interdependency

¹JRC initially informal "iJRC" (ECB, EBA, EU COM, SRB and NCBs/NCAs)

To realize the full potential the transition must leverage synergies

- 1 Strategic alignment:** Vision must be aligned multilaterally and strategically; creation of the *digital foundation* must leverage synergies from planned activities.
- 2 IReF as MVP** would create technical and legal basis for granular reporting w/o templates for statistics by 2027, but also the nucleus for *digital foundation*.
- 3 Joint Reporting Committee (JRC)¹** should coordinates and recommend vision, creation of the common data model (RDD), rule sets and legislative amendments.
- 4 RDD** as the common model should be available by 2027 at the latest to also enable seamless transition for supervisory reporting, minimizing parallel operations.
- 5 Not a "big bang":** Transition to be coordinated on EU-level; after IReF, e.g. completion of FINREP, then COREP and then remaining frameworks on roadmap.

Window of opportunity must be leveraged to ensure sustainable investments in a common worthwhile vision.

Content

Current challenges,
Scope of the Study
and potential
Options

1

Preferred Scenario
and potential way
forward

2

Conclusion and
next Steps

3

Conclusion and need for action

Vision is compelling and economically viable but foundation only feasible at EU-level

Conclusion



"Reporting without templates" identified as win-win vision for banks and supervisors



Advantages and feasibility illustrated and tested with prototype



High level economic viability of cost-benefit effects conducted



Digital Foundation to realize the vision can only be created at EU-level

Topics for EU-level



Common vision, data model and governance as foundation

IReF EBA



Joint effort required to **balance granularity** of the data model

IReF EBA



DQ and data point rule set based on the data model

IReF EBA



Necessary legislative amendments only possible at EU-level

IReF EBA



Second-level reporting by NCBs also to be considered

EBA



IReF and EBA approaches need to be integrated by JRC for sustainable long term design and investment

EBA

Contact

Eric Freund

Project Leader Feasibility Study
+ 49 (0) 228 4108-4095
eric.freund@bafin.de

Lars Gutsche

Project Leader Feasibility Study
+ 49 (0) 228 4108-1048
lars.gutsche@bafin.de