Delivering Integrated COREP and FINREP Reporting

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Welcome PRMIA Members

The Professional Risk Managers’ International Association
Agenda

COREP & FINREP: An Overview
Robert Driver, Policy Advisor, The British Bankers Association

The Challenges of Delivering Fully Integrated COREP & FINREP Reports

A Best-practice Framework for Delivering Integrated COREP & FINREP Reports
Eric Leman, Associate Director, Solution Specialist, Moody’s Analytics
COREP and FINREP: An Overview

Robert Driver

British Bankers’ Association
British Bankers’ Association

• We represent 200 banks from 50 countries
• Which have operations in 180+ countries
• 50 professional services members
• UK, EU and globally focused
• 65 staff
FINREP (Financial Reporting)

Objective

Comprehensive view of the risk profile“, "a view on the systemic risks posed by institutions”(art 95 CRR)

Templates

• Standardisation of IFRS disclosure
• “FINREP” templates
• Reported on a quarterly, semi annual, or annual basis
FINREP

Challenges

• Practical implementation issues
• Differences in FINREP and annual account methodology
• Data gaps
• Consistency
COREP (Common Reporting)

Templates

• Own funds: Capital adequacy, group solvency, credit risk, market risk, operational risk
• Liquidity
• Leverage ratio
• IP losses
COREP

Challenges

• Consistency of implementation
• Availability and quality of data
• Timelines
• 3rd party solutions
• XBRL and validations
• Alignment to other regulatory requirements
Delivering Integrated COREP and FINREP Reporting

Eric Leman, Associate Director, Solution Specialist
Moody’s Analytics
Agenda

1. The Challenges of Delivering Fully Integrated COREP & FINREP Reports

Increased Regulatory Reporting Demands & Challenges

» EUROPE
  - Basel III LCR & NSFR reports on liquidity risk, plus monitoring reports
  - COREP Basel III capital and leverage ratio reports
  - FINREP financial reports
  - Large Exposures
  - Forbearance and non performing loans reports
  - Unencumbered assets reports

» UK
  - Actual and Forecast FDSF reports for local SIFIs
  - Bank Of England reports

» USA
  - Update FFIEC101, 102 for Basel III Advanced reports
  - Update US call reports for Basel III Standardized
  - FRY-14 CCAR monthly, quarterly and annual
  - FRY-16 DFAST reports for smaller institutions
  - FRY-15 systemic reports for G-SIBs
  - FR2320 liquidity risk reports
Increased Regulatory Reporting Demands & Challenges

» More and more regulations and regulatory reports to file with regulators

» Enhanced scrutiny on consistent reporting (reconciliation when the same information is reported differently)

» Increased granularity of reports

» Increased reporting frequency

» Increased transparency of Pillar 3 disclosure requirements
Collectively, Basel III and stress testing are forcing banks to invest heavily in risk management infrastructure and software. These new regulatory requirements have redefined the quantity and quality of capital and have imposed new stress testing reporting requirements that are straining existing systems and personnel to the limit.

To effectively manage the balance sheet and comply with stricter regulatory requirements, financial institutions must select the risk technology infrastructure and risk management tools that are appropriate for the institution’s size, complexity and risk management objectives.

To remain competitive, banks must keep up with the latest developments in risk measurement and management.

Ultimately, firms that tie risk exposures to capital more effectively will be better able to integrate risk-taking decisions into their strategic and tactical decision-making.

Convergence between risk and finance is also one of the key challenges that institutions have to face to answer increasingly stringent regulatory reporting demands from regulators.
# Data Consolidation Challenge

For many banks, the greatest challenge in developing a COREP & FINREP reporting infrastructure is understanding how to integrate a broad array of datasets into a single, coherent dataset, in a central repository.

## Accuracy
- Accurate and consistent data management is core to integrated COREP and FINREP reporting, as well as broader Basel III regulatory compliance.

## Diversity
- The datasets that are used to calculate and populate COREP and FINREP reports are stored:
  - across a wide array of different source systems
  - in multiple formats
  - with differing standards of data quality

## Reconciliation
- The dataset must include fully reconcile transaction level risk and finance data so it can deliver fully reconciled COREP and FINREP reports.
Cleansing and Auditing the Data

Quality

- A consolidated dataset is only as good as the quality of its data
  - It is essential that all data is validated as it is imported into the central repository, to ensure that there are no errors, no missing data and that the quality of the data, such as its age, meets banks overall COREP and FINREP reporting requirements.
  - This process should be repeated during the calculation and reporting stage as well.

Automation

- The large number of sources that COREP and FINREP reports draw upon demand an automated approach to highlight any data quality issues:
  - Easily highlight issues
  - Fix them quickly

Auditability

- The ability to audit these changes is central to maintaining the bank’s data integrity standards. To maintain data integrity, auditors, security staff and regulators must be able to identify and manage changes applied
  - when a single cell is altered
  - when a comprehensive data patch is applied

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### Consistent Calculation Process

| Same Sources | » COREP and FINREP reports cover different areas. However they must share the same data source to ensure that banks report their risk and finance results with consistency  
» Therefore, calculation engines should use this data foundation to produce COREP and FINREP results. |
| Volumes | » These engines need to be powerful to handle huge volumes of calculations based on the vast range of transactions they handle. |
| Flexibility | » These engines need to be flexible to fully capture supervisors formulas and to maintain them as regulations evolve. |
Consistent Calculation Process

**Broader Scope**

- These same engines should also calculate other Basel Pillar 1 and Pillar 3 reports, leveraging the same data and the appropriate formulas for these results.
  - This ensures that the results are fully consistent across the broad range of reports that a bank must submit.
  - Leverage Ratio, Liquidity Ratio, Large Exposures calculations
- Other local regulatory reports should use the same results.

**Stress Testing**

- An additional complexity is that regulators in the US and EU are enhancing their stress testing regimes
- This can involve financial institutions providing more granular reports.
  - For example in the UK, the Prudential Regulatory Authority’s (PRA) Firm Data Submission Framework (FDSF) requires this level of detail.
## Complex Reporting Requirements

### Solo and Consolidated

- In line with Pillar 1 reports, COREP and FINREP reports have consolidated and solo reporting requirements.
  - EU-headquartered banks need to report their group COREP results to their primary regulator, and individual country COREP results to the relevant regulators.
  - FINREP reports are typically submitted on a consolidated basis, except where a solo entity issues its own securities.

### Alignment

- In parallel to this, COREP and FINREP reports must be consistent and aligned with other regulatory reports banks submit to their supervisors and stakeholders:
  - Annual Reports to Shareholders
  - Local Regulatory Reports
## Complex Reporting Requirements

### National Specificities

» An additional complexity is that the EBA mandates the collection of a core set of FINREP reports, while allowing national discretion over the collection of non-core reports, which varies from country to country

» For instance, some banking groups may produce IFRS FINREP where some of their subsidiaries produce Local GAAP FINREP

### Various Formats

» Furthermore, each national regulator has wide latitude over how they draw up their COREP and FINREP templates. While the core taxonomy will remain consistent there will be variation in how these results are submitted:
  - the titles used in the returns may vary to accommodate languages issues,
  - the sign off and feedback procedures may be different per country.

» The templates must support the XBRL models, as well as other electronic formats (Microsoft Excel®, XML, ASCII, Online) as required by each of the local regulators.
While the advent of COREP and FINREP reporting present significant challenges for institutions, there are a set of best practice principles that ensure that a bank can comply fully, cost effectively and on-time.
Agenda

1. The Challenges of Delivering Fully Integrated COREP & FINREP Reports

Leverage An Open Model

**Openness**

» The data needed to populate COREP and FINREP reports will come from a wide range of source systems.

» The solution needs to be open and flexible so that any data type can be pulled from any system with a minimum of systems integration effort, to reduce time and cost.

**Modularity**

» Moreover, the solution should be flexible enough to accommodate a modular approach to data management, calculation and reporting.

  - Banks should be able to leverage their existing investment in technology, and add modules as needed to create the optimal solution to meet their needs.

  - In a changing regulatory and business environment, flexibility should be at a premium.
Risk Platform: Integrated Risk and Finance Data

Comprehensive Data Model
## Deploy a Centralized Data Platform

<table>
<thead>
<tr>
<th>Unsilooed</th>
<th>For COREP, FINREP, National Regulatory Reports, Pillar 3 Reports and Stress Testing, having the data needed to calculate the results spread across multiple silos is no longer realistic.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Quality</td>
<td>A centralized data platform allows for the data to be cleansed, validated and patched if necessary, ensuring that the final calculations and reports are accurate and consistent.</td>
</tr>
<tr>
<td>Reconciliation</td>
<td>Importing balance sheet information into the data platform ensures that the risk and finance data is fully reconciled at the transaction level. This provides a platform for fully integrated and reconciled COREP and FINREP reports.</td>
</tr>
<tr>
<td>ERM</td>
<td>This type of centralized data approach can be leveraged further to encompass liquidity risk management, economic capital management and stress testing, to provide an end-to-end to enterprise risk management platform for a bank.</td>
</tr>
</tbody>
</table>

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Quickly Identify and Fix Data Errors

» More than 3,000 data quality checks built-in
» Capacity to edit data with audit trail
General Ledger Reconciliation

» Model the GL structure
» Mapping transaction to GL Accounts
» Check the results and find discrepancies
### Use Automated Calculations

<table>
<thead>
<tr>
<th>Automation</th>
<th>The scale and scope of COREP and FINREP reports (now with over 35,000 data points), alongside other Basel III calculations, means that manual, or even semi-automated calculations that banks might have used in the past are no longer feasible.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Highly automated processes, leveraging built-in calculation formulas, should be used as widely as possible to meet the demands of accurate, consistent, auditable and timely results.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Maintenance</th>
<th>The enhanced scale and scope of COREP and FINREP reporting means that maintaining the calculation formulas might best be outsourced to a third-party, to maintain accuracy.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Maintaining the currency of formulas is a significant overhead for banks that can prove exceptionally costly if errors and oversights find their way into the calculation process.</td>
</tr>
</tbody>
</table>
Built-in Basel I, II & III Rules Per Regulator

» Out-of-the-box regulatory parameters
» Fully auditable
» Regulatory Maintenance
Automate COREP & FINREP Reporting

End-to-end process

» Alongside the automated data consolidation and the calculation of the results, the solution should also seamlessly integrate regulatory reporting, to create a comprehensive, automated and consistent end-to-end process.

Maintenance

» Automatically populating the reports, by leveraging built-in reporting templates, overcomes the significant challenges of reporting COREP and FINREP results. This approach also allows the straightforward updating of reports, as regulators’ requirements develop.

Perimeter

» These templates should cover all the various COREP and FINREP reports that national regulators require, covering both core and non-core reports, on both a group and solo basis.
Group and Solo Entity Monitoring

» Manage inter-company deals
» Monitor Reports production for the group
## Automate COREP & FINREP Reporting

### Broader Scope

- The reporting solution must also be able to manage all other regulatory reports to ensure consistent results:
  - Basel III Pillar 1 and 3 Reports
  - Stress Testing Reports
  - National Reports
  - Internal Business Reports

- Leveraging templates across all reports can enable banks to provide an accurate and consistent picture to all of their regulators, in the most effective way.

### Better Decision Making

- This approach can provide a bank’s management with a single, fully integrated, fully reconciled perspective of its risk and finance position. It can enable managers to make fully informed risk and finance strategic business decisions.
Regulatory Compliance Best Practices
Data Modeling, Capital Requirement Calculation & Regulatory Reporting

**Data Platform**: Gather Data from any Data warehouse

**Calculation Engines**: Capital requirement calculation engines for all risk types, for any national regulation

**Regulatory Reporting Module**: Deliver Basel III supervisory reports, drill-down audit features and reconciliation

**Bank operational Data** → **Financial Data Platform** ← **General Ledger**

**Risk Calculation**
- Credit Risk
  - Calc Engine
  - Calculation Setup
- Market Risk
  - Calc Engine
  - Calculation Setup
- Liquidity Risk
  - Calc Engine
  - Calculation Setup
- Large Exposure
  - Calc Engine
  - Calculation Setup

**Capital Evaluation**
- Own Funds
  - Classification
  - Setup

**Third Party Engines**

**Consolidation and Ratios**

**Reporting & Audit**
- National compliance
  - US CCAR
  - UK FDSF

**Core Engine**
- Reporting & Audit Setup
  - COREP, FINREP, Large Exposure, Leverage Ratio, Liquidity Ratio

**Excel and XBRL outputs**

**Scenario Analysis & Stress Testing**
Utilize Drill-Down and Validation Capabilities

<table>
<thead>
<tr>
<th>Auditability</th>
<th>The optimal solution also needs to have drill-down capabilities, allowing managers to drill-down into the results to gain insight into the reports and the business.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>This capability allows banks to respond quickly to enquiries from regulators about their results, reducing the compliance overhead.</td>
</tr>
</tbody>
</table>

| Understanding The Business | It also allows managers to quickly and easily drill-down into the risk and finance details of the business, enhancing their insight into the business and helping them to generate strategic options for the business. |

<table>
<thead>
<tr>
<th>Validity Check</th>
<th>Validation rules should also ensure the consistency intra- and inter-reports.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>– EBA provides consistency rules for COREP and FINREP</td>
</tr>
<tr>
<td></td>
<td>– Banks should also be able to create their own validity checks</td>
</tr>
</tbody>
</table>
Drill-Down into the Granularity

TOTAL EXPOSURES

11,500,000
0

BREAKDOWN OF TOTAL EXPOSURES BY EXPOSURE TYPES:

On balance sheet items

11,500,000

Auditing « On balance sheet items »
11,500,000
Users Perform Quality Checks – Validation

» Supervisor Validity Checks are delivered out-of-the-box.

» Custom validity checks can be implemented
## Comprehensive Change Workflow

### Adjustments
- Consolidating data, calculating results and submitting COREP and FINREP reports is highly complex, often requiring changes and amendments as issues and errors are identified and fixed.
- The amendment process needs to be carefully controlled, so that a bank’s management can be assured that what they formally submit is a true reflection of its position.

### Workflow
- Central to this is having an automated change approval process that both controls and records who can make and approve changes.
- Automation ensures speed and accuracy, and can be leveraged to provide management control and audit capabilities to highlight what changes were made and on whose approval.
- This audit capability is now a requirement for many regulators.
## Error Detection & Correction

- Adjustments may be completed manually or by Mass Update
- Other metrics are recalculated on a pro-rata basis
## Approval/Submission Workflow

### Entities

<table>
<thead>
<tr>
<th>Entity</th>
<th>Adjustment Characteristics</th>
<th>Timestamp</th>
<th>User</th>
<th>Adjustment Infos</th>
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Q&A
Thank You

For More Information go to

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