Regulatory Reporting

Cast Off Complexity to Reveal Unexpected Silver Lining

ORACLE®

Disclaimer

The following is intended to outline our general product direction. It is intended for information purposes only, and may not be incorporated into any contract. It is not a commitment to deliver any material, code, or functionality, and should not be relied upon in making purchasing decisions. The development, release, and timing of any features or functionality described for Oracle's products remains at the sole discretion of Oracle.

Table of Contents

Introduction

Regulatory reporting and financial services have evolved to be an inseparable combination – for better or worse. Many in the industry would argue vociferously that it has been the latter in the years since the 2008 financial crisis.

Since that time, we've seen the introduction of sweeping new regulatory frameworks and requirements around the globe, including Basel III, Solvency II, Markets in Financial Instruments Directive 2 (MiFID2), Dodd-Frank, and the Foreign Account Tax Compliance Act (FATCA), to name a just few. Each new initiative brings an additional set of reporting requirements and consequently data requirements.

Today, banks and financial institutions are mandated to file hundreds of regulatory reports. For the U.S. Federal Reserve alone, institutions must file multiple submissions of FFIEC 101, call reports, stress testing reports, and the list goes on. (See Figure 1.) Reporting requirements increase rapidly in number and complexity for banks operating regionally or globally, where they must file in multiple jurisdictions. For example, a large international bank, depending on where it operates, might have to file not only with the U.S. Federal Reserve but with the European Banking Authority, Reserve Bank of India, Australia Prudential Regulation Authority, Saudi Arabian Monetary Agency, Japan Financial Services Agency, China Banking Regulatory Commission, and Monetary Authority of Singapore, to name just a few.

Regulatory Report Calendar

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
FR-Y14M	FR-Y14M	FR-Y14M FR-Y14Q	FR-Y14M	FR-Y14M	FR-Y14M FR-Y14Q	FR-Y14M	FR-Y14M	FR-Y14M FR-Y14Q	FR-Y14M	FR-Y14M	FR-Y14M FR-Y14Q FR-Y14A
		FR-Y 9C FFIEC-031 FFIEC-041			FR-Y 9C FFIEC-031 FFIEC-041			FR-Y 9C FFIEC-031 FFIEC-041			FR-Y 9C FFIEC-031 FFIEC-041
		APRA L1, L2			APRA L1, L2			APRA L1, L2			APRA L1, L2
		RCA India			RCA India			RCA India			RCA India
		HKMA - QRT			HKMA - QRT			HKMA - QRT			HKMA -QRT HKMA - Disclosures

Figure 1. US and Asia Pacific Bank Regulatory Reporting Timeline

In addition to a growing number of reports, regulators seek more detailed information from financial institutions as well as more frequent submissions and faster turnarounds. The Basel Committee on Banking Supervision (BCBS) 239: Principles for Effective Risk Data Aggregation and Risk Reporting are indicative of this trend. BCBS 239 was developed with several objectives in mind, including strengthening banks' infrastructures for risk data aggregation and reporting, enhancing decision making processes, and better aligning legal entity and group information. The principles also look to improve banks' timeliness in providing information, boost strategic planning capabilities, and, most importantly, reduce the impact of losses.

Financial services organizations are caught in a spiral of growing regulatory costs and complexity. At the same time, many are not able to realize the potential silver lining of more rigorous reporting requirements. While they are compiling significantly more data for reporting purposes, many organizations do not have adequate time and resources to fully analyze and gain new insight from this data – translating to a missed opportunity.

Today's firms seek reporting and compliance environments that enable them to gain more accurate data while minimizing manual intervention from source systems through report submission – ultimately driving down costs, facilitating compliance, and freeing more time and resources for running the business.

No Surprise Here

The cost of regulatory compliance has soared since the financial crisis. A study by policy analyst firm Federal Financial Analytics found that, between 2007 and the end of 2013, regulatory costs rose by 102% for the six largest U.S. banks – totaling $70.2 billion for those institutions alone.[1]

In many cases, rising costs are indicative of both expanded requirements as well as residual challenges. For example, many organizations continue to struggle with data amalgamation and report creation. A 2012 Ernst & Young regulatory reporting benchmark survey of many of the largest US banks, foreign banks, and bank holding companies (BHCs), looked at the "time spent by those involved in the production of regulatory reports in low level tasks, such as data gathering and report preparation," versus "higher level tasks such as analysis, review and sign off."[2]

"Three quarters of all respondents spent 50% of their time involved in low level tasks – this even included those who had said they had mostly automated systems. The remainder of respondents spent a massive 80% of their time in these same low level activities."

A 2015 study conducted by the Centre for Financial Professionals on behalf of Oracle Financial Services bolsters these findings. The survey of 166 senior executives and risk management professionals at financial institutions in North America and EMEA ranked data availability as the leading challenge in addressing regulatory reporting requirements with 46% of all respondents citing it as a hurdle. In addition, nearly 60% of respondents indicated that they were either very unconfident or slightly unconfident that their data is defined, harmonized, and appropriately aligned to critical business and risk operation.

---

1 "The Regulatory Price Tag: Cost Implications of Post-Crisis Regulatory Reform," Federal Financial Analytics, Inc., July 30, 2014, http://www.fedfin.com/images/stories/press_center/Press_Release_PR_073014.pdf.
2"Setting the Pace of Change: Bank Regulatory Reporting Survey," Ernst & Young, January 2012, http://www.ey.com/Publication/vwLUAssets/Federal_Reserve:_bank_regulatory_reporting_survey/$FILE/ErnstYoungFRBsurveyreportfinal.pdf.

In the Ernst & Young study, it was more telling that none of the respondents were meeting the Federal Reserve's recommendation of spending 80% of the time for bank regulatory reporting on analytics/reviews and 20% on data compilation.

These findings illustrate lagging capabilities as regulators seek more frequent, as well as faster, reporting. They also demonstrate that many organizations continue to struggle not only with aggregating information but with data quality. In many cases, firms turn to third-party vendors to manage the final stages of report preparation and submission, creating further costs and complexity from an operational and IT perspective.

Bringing It All Together

Many organizations continue to address regulatory compliance and reporting with multiple, and often non-integrated, point solutions. For example, data and analytics for risk management are siloed from information for capital management. Enterprise performance management and operational risk are also managed independently. This reality amplifies data integrity issues and fuels the need for additional manual intervention, especially in the data staging and report preparation areas, which, in turn, leaves less time and resources for analysis.

Financial services organizations must consider regulatory compliance as a holistic process and seek end-to-end automation throughout with an integrated environment that includes:

» **Staging Area** – Regulatory reporting requires data from many different source systems, such as core banking, accounts, customer information, general ledger, and more. To alleviate the impact of siloed systems, banks need a platform that will consolidate all required data, creating a golden source for customer, performance, and regulatory information. The creation of a single repository and unified staging environment is the first step in addressing reporting data integrity and complexity issues.

» **Processing Environment** – This area forms the analytical core, powered by data from the staging area. It includes the analytical applications required to complete calculations for regulatory reporting, including liquidity risk, market risk, credit risk, Basel regulatory capital, economic capital, operational risk, and anti-money laundering, to name just a few.

» **Results Production** – Capturing the metrics and analysis from the processing phase, the reporting environment automates the process of populating reporting templates as well as managing distribution and submission. Report production is often the point at which manual intervention reaches its peak, even when working with a third-party firm, due to the need to validate, reformat, and even rekey data. Tight integration between the processing and reporting environments is essential to achieving truly automated reporting, which, in turn, can drive down costs, accelerate submissions, and free more time for analysis.

» **Governance Layer** – The creation of a golden source of data is a first step in improving data integrity, but it is not the sole solution. Data must be interrogated throughout the analytical and reporting process. As such, banks require an integrated governance environment that supports general ledger reconciliation, enables additional data quality checks, defines issues and action plans, and identifies key indicators.

Many financial institutions have made incremental progress on integration within and between some of these functional areas. End-to-end automation, however, has eluded the industry in the absence of a complete commercial solution. As a result, firms have faced the costly and complex challenge of fully aligning these critical and far-reaching processes with costly custom integrations.

Oracle Financial Services Approach

Oracle Financial Services Analytical Applications (OFSAA) Regulatory Reporting solution is a first-to-market solution that automates reporting from data input through regulatory submission. It features core OFSAA elements as well as a reporting portal that integrates Lombard Risk Reporting for final-mile automation.

OFSAA's solution empowers financial services organizations to manage and execute regulatory reporting in a single integrated environment. It automates end-to-end processes from data capture through submission with industry-leading solutions, and includes a powerful governance studio that enables firms to elevate data integrity to new levels while streamlining and reducing the resource burden of compliance. The solution frees firms to focus more time on analyzing and gaining new insight from their growing stores of data instead of simply preparing data and reports with the sole objective meeting submission deadlines. In essence, it helps firms find a much-welcome silver lining in today's prescriptive regulatory climate.

OFSAA's solution includes five components:

» **Oracle Financial Services Data Foundation** – The bedrock for OFSAA solutions, Oracle Financial Services Data Foundation leverages Oracle's financial services domain expertise to deliver a ready-to-deploy, end-use proven, practical platform for managing analytical application data. The platform has three key differentiating features:

  » Comprehensive financial services physical data model based on more than 15 years of real-world experience. Institutions can deploy their analytical data warehouse in a fraction of the time typically required to develop a warehouse from a conceptual or logical data model.

  » Integration with an industry-leading analytical application infrastructure. The unified platform of application frameworks helps manage the end to-end lifecycle of data within a data foundation and provide complete metadata management, business-driven data quality checks, reconciliation with the general ledger, data mart management, and workflow capabilities.

  » A highly optimized and tuned Oracle physical infrastructure ecosystem consisting of Oracle Database running on Oracle Exadata, an engineered system. The tight integration between Oracle Financial Services Data Foundation and Oracle Exadata not only ensures that the platform takes full advantage of built-in analytical capabilities and performance enhancing features of the underlying database ecosystem, it also allows line of business IT departments to rapidly deploy functional warehouses that fully meet enterprise IT standards.

» **Oracle Financial Services Data Integration Hub** – This component enables firms to streamline and simplify loading data from various source systems into the solution's analytical application staging environment. The mappings can be one-to-one, one-to-many, or many-to-many for the utmost flexibility. The solution provides an abstraction layer and insulates upstream ETL processes from staging model changes – saving time, cost, and effort.

» **Analytical Applications** – Oracle Financial Services delivers a complete suite of industry-leading analytical applications that enable integrated risk, performance, customer insight, and compliance management. Delivering enterprise-class scalability, they provide the analytical foundation for regulatory reporting. They also empower firms to actively incorporate risk into decision making and gain pervasive intelligence about the business and market.

» **AgileREPORTER** – The solution's reporting portal enables firms to automate the final mile of the reporting process. It provides pre-built integration to Lombard Risk Reporting, one of the industry's leading reporting packages, eliminating the need for further manual intervention and the cost and time spent working with a non-integrated third-party solution.

» **Data Governance** – Data governance is an important step in a Regulatory Reporting solution to help to ensure data integrity and compliance at every step of the analysis and reporting process. It plays a critical role in validating data and managing workflow and is also designed to facilitate compliance with BCBS 239 requirements, which go into effect in 2016. The 14 BCBS principles are intended to strengthen banks' infrastructures for risk data aggregation and reporting – enhancing decision making processes and better aligning legal entity and group information. They also look to improve banks' timeliness in providing information, boost strategic planning capabilities, and, most importantly, reduce the impact of losses.

Conclusion

It is a virtual certainty that regulatory requirements will continue to proliferate and evolve in the coming years. Each additional initiative puts new pressure on the bottom line. As such, financial organizations seek to drive costs out of the regulatory cycle wherever possible, including reporting, without compromising compliance. At the same time, forward-looking organizations see an upside to this new regulatory reality – an opportunity to leverage rapidly expanding data stores to drive new business insight. OFSAA Regulatory Reporting empowers firms to confront each of these challenges head on and secure a course for profitable growth.