

From data reporting to data-sharing: how far can supotech and other innovations challenge the status quo of regulatory reporting?¹

Executive summary

Regulatory data are the backbone of effective financial sector supervision but regulatory reporting is a complex and costly process and bogged down by several obstacles. Financial authorities need access to timely and good-quality data in order to exercise their regulatory and supervisory functions. The current pandemic, through its limitations to on-site supervisory reviews, has reinforced the importance of robust and flexible regulatory data frameworks in crisis situations. However, multiple factors complicate the regulatory reporting process. These include heterogeneity in how internal data are defined across financial institutions, the complexity of regulations and inclusion of reporting instructions across different regulations. These complicating factors introduce not only a degree of uncertainty about the accuracy and completeness of regulatory reports but also complexity in the process of transforming internal data into reported data. This complexity necessitates significant investment from financial institutions in running their regulatory reporting systems.

Innovations in regulatory reporting are aimed at mitigating the complexity and addressing the obstacles that exist at the different points in the regulatory reporting process. Innovations have taken place at the level of either operational data (ie data from business operations) or “input data” (ie data elements needed to populate regulatory reports) by way of standardisation across the industry (eg through the use of data dictionaries). They have also taken place in the way transformation rules (ie description of the steps for generating regulatory reports) or reporting instructions are defined/written. The format and granularity of the required reporting data have also evolved over time. Moreover, the technology used for transmitting data has obviously been progressing over recent years. Lastly, there are initial experiences and experimentations aimed at enabling financial authorities to actively access data from financial institutions.

This paper covers regulatory reporting initiatives at 10 financial authorities that are implementing or have implemented innovations in their data collection frameworks. Most authorities are implementing innovations in terms of data standardisation and granularity of required reporting data. Around half are implementing innovations in the means of data transmission and transformation rules. Only a few authorities, however, are implementing innovations in the format of required reporting data or actively accessing data from financial institutions. As data standardisation provides a foundation for improvements in the regulatory reporting process, innovations in transformation rules always occur alongside data standardisation and almost all of the authorities aiming at granular reporting are also implementing data standardisation.

Innovations are enhancing the quality of regulatory data and setting the basis for achieving the ultimate objective of moving towards the concept of “data-sharing”. Authorities’ initiatives are

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The authors are grateful to the representatives from the authorities and institutions interviewed, and to Patrick Armstrong, Rodrigo Coelho, Puneet Pancholy, José María Serena, Ken Taniguchi and Joy Wann for helpful comments. We are also grateful to Dung Tran for valuable support with this paper.

enhancing regulatory data quality by either ensuring consistency in data through standardisation or embedding data validation rules in the data transmission solutions. Other common benefits expected from these initiatives include straight through data processing, more timely reports and reports that can be used flexibly for different types of analyses. More advanced regulatory reporting initiatives are expected to result in automatic generation of reports and enabling authorities to shift away from the concept of regulatory data reporting to that of “data-sharing”. This refers to the ability of financial authorities to extract the information they need directly from financial institutions’ databases. “Data-sharing” can therefore help realise on-demand monitoring of financial institutions’ condition and allow authorities to act swiftly if the situation calls for it, thus contributing to greater financial stability.

However, authorities face a number of issues and challenges in the implementation of their regulatory reporting initiatives, key among which are reconciling the different interests of various stakeholders and addressing legacy systems. Shepherding the different views, practices, resources and cultures of different stakeholders is the challenge most cited by financial authorities. In particular, the relative burden facing smaller financial institutions in terms of financial and technical resources could make the implementation of ambitious initiatives more challenging. Financial authorities are addressing these constraints by either tailoring the new reporting approaches to different types of financial institutions or providing financial grants or technical support to assist with implementation. In terms of technology, the complicated process of disentangling closely intertwined legacy systems causes a strong preference for the status quo, which in turn makes it challenging to get buy-in.

Based on the experience of authorities covered in this paper, there may be certain preconditions for a regulatory reporting initiative to succeed. These include:

- a. Strong commitment and support from top management at both financial authorities and financial institutions;
- b. Alignment of vision by engaging transparently, collaboratively and openly with key stakeholders;
- c. A culture of innovation that relies on data-driven decision-making, openness to experimentation and questioning “legacy thinking” within financial authorities;
- d. A well defined centralised data strategy and data governance framework within financial authorities; and
- e. Effective management of the transition to new regulatory reporting processes, particularly by taking a step-wise approach.

Looking ahead, while a shift to a “data-sharing” concept may take time, the trend towards more granular and integrated reporting is very likely to continue. For the “data-sharing” concept to become a reality, the right technology and data standardisation are critical. But the technology to implement this concept is still being developed, and while data standardisation is certainly attractive since it can significantly simplify the regulatory reporting process, implementing it particularly on a wider scale raises financial, practical and competition issues. So a widespread shift to the “data-sharing” concept is unlikely to happen in the near term. That said, many authorities have already started their journey towards more granular and integrated reporting and more will possibly follow. But implementation may take different forms. Smaller financial institutions will likely generate required granular reports in a more traditional way but aided by a more modern format of reports and means of data transmission. Larger financial institutions are expected to be subject to more data standardisation, especially for reporting areas with cross-border elements in which data interoperability is important (eg in the area of derivatives reporting). Several initiatives towards data standardisation are already under way at the regional (particularly in Europe) and international level. FSB (2020), which calls for potential international collaboration in evaluating the scope for common data standards for relevant regulatory areas, provides a boost to these important initiatives.