Regulation now: the new standard and how firms are adapting

2015 Federal Reserve regulatory reporting survey
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Purpose and approach

In 2012, EY published a bank financial regulatory reporting survey of many of the largest US bank holding companies (BHCs) and foreign banking organizations (FBOs). The survey focused on organizational and process functions within the regulatory reporting department (RRD), as well as interactions with other groups involved in supporting the bank financial regulatory reporting process, such as risk, quality assurance and others.

In 2015, EY is refreshing this survey to track developments and gauge new challenges facing the RRD. The survey incorporates new questions for FBOs relating to the impact of the Intermediate Holding Company (IHC) rule and an enhanced focus on regulatory reporting governance.

The survey consisted of 68 questions, of which a selection is included in this report. These questions are aimed at understanding the regulatory reporting environment and identifying industry trends and practices with respect to the regulatory reporting operating model. Twenty-five US BHCs and FBOs were surveyed. EY would like to extend our thanks to the participants of the survey.
Regulation now: the new standard and how firms are adapting

Respondents reported that hiring resources with sufficient regulatory reporting experience was among their biggest challenges. Departments other than RRDs are playing a significant part in report ownership, most notably for structural reporting and the FR Y-14 series (FR Y-14A, FR Y-14Q and FR Y-14M).

Organizational structure

RRDs have expanded to adapt to new reporting requirements and heightened regulatory expectations.

Report preparation

Since 2012, firms have continued to spend >50% of their time preparing regulatory reports versus performing analysis and review.

60% of survey respondents indicated that they had fewer than five full-time employees dedicated to analytics and review.

64% of respondents noted that both RRD and the business units share responsibility for providing supporting documentation for both report preparation and manual adjustments.

The use of analytical procedures beyond variance analysis has increased as firms are using peer benchmarking, ratio analysis and other metrics to monitor completeness of reports.
Data and technology

56% of firms use a central data source for some reports, most notably the FR Y-9C and Call Report, representing an 11% increase since 2012.

2 of the greatest challenges faced by firms:
- Managing data quality
- Maintaining data granularity

56% of respondents reported that their regulatory reporting process is partially automated.

80% of firms describe their data quality as being medium level, requiring RRD to perform detective controls in an effort to identify data errors prior to report generation.

Governance and controls

56% of survey respondents have established regulatory reporting committees to review regulatory reports, discuss issues facing the firm and enforce accountability, partially driven by Federal Reserve expectations resulting from recent examinations and related leading-practice expectations.

88% of survey respondents incorporate a formal attestation process to cover data provided by groups supporting the reporting process, of which 71% use a tool to facilitate the attestation process.

87% of survey respondents update their RRD policies and procedures on a regular basis, either quarterly or annually.

Impact of IHC rule

In 2014, the Federal Reserve finalized rules for FBOs to implement enhanced prudential standards (EPS). The EPS rule is not explicit on the application of regulatory reporting requirements for the IHC. However, it is expected that IHCs would be subject to a similar regulatory reporting regime as US BHCs.

90% of FBOs are facing significant data sourcing challenges in meeting anticipated IHC regulatory reporting requirements.
The composition of firms that participated in the 2015 survey is included below

<table>
<thead>
<tr>
<th>Composition of reporting panel total assets</th>
<th>Composition of reporting panel firm designation</th>
</tr>
</thead>
<tbody>
<tr>
<td>52% $&lt; 150b</td>
<td>68% BHC</td>
</tr>
<tr>
<td>28% $150-$500b</td>
<td>32% FBO</td>
</tr>
<tr>
<td>20% $&gt; 500b</td>
<td></td>
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</tbody>
</table>

The graph shows the distribution of total assets and firm designation among the reporting panel firms.
Introduction

The global regulatory reform agenda continues to drive change in the finance function, as well as require finance and risk functions to jointly address increasing and overlapping requirements. In the US, new and complex regulatory requirements, including the Comprehensive Capital Analysis and Review (CCAR) and Basel III, and key organizational legal-entity structure changes for FBOs (e.g., IHC) have broad implications for organizations and will require the implementation of significant enhancements across the operating model.

Firms must consider current and planned initiatives to develop scalable and sustainable solutions to address evolving Federal Reserve financial reporting requirements. EY’s 2015 Federal Reserve regulatory reporting survey provides an overview of the current regulatory reporting practices of 25 of the leading US BHCs and FBOs. The results reveal that institutions subject to Federal Reserve financial reporting requirements are expanding the role of RRDs as well as relying on involvement from other functions across the organization, specifically risk, treasury, operations, technology and legal.

Based on results of the survey, the primary regulatory reporting challenges faced by institutions continue to center around adapting to the pace of regulatory change and more specific challenges related to a number of key organizational and functional areas, including:

- **Organizational structure** – Departments other than the RRD (compliance, internal audit, quality assurance, risk and treasury) play a significant role in report ownership of financial regulatory reports.
- **Report preparation** – Preparation of regulatory reports currently requires significant time, resources and manual intervention to meet requirements and reduces the time firms have available for review and analysis.
- **Data and technology** – In the context of rapidly changing Federal Reserve reporting requirements, key data and technology challenges include managing data infrastructure that incorporates multiple independent sources and systems that support the production of high-quality reconciled data at sufficient levels of granularity.
- **Governance and controls** – An enhanced focus by regulators on the establishment of an accountability framework and other controls over the reporting process, including formal attestation and regulatory reporting oversight committees, is driving firmwide accountability.
- **IHC** – Enhanced Prudential Standards (EPS) will require significant finance transformation across FBOs’ entire US operations and organizational legal-entity structure.

This survey has been grouped according to these five areas of focus.
Organizational structure

The evolving regulatory landscape continues to stress the need for institutions to report increasingly granular data with greater frequency, challenging organizations to meet this demand while providing high-quality information. This pressure has forced institutions to rethink their organizational structure and strengthen cross-functional cooperation in order to enable RRDs to keep pace with regulatory reporting needs.

2015 findings

- Respondents reported that hiring resources with sufficient regulatory reporting experience was among their biggest challenges.
- Departments other than the RRD are playing a significant part in report ownership, most notably for structural reporting and the FR Y-14 series (FR Y-14A, FR Y-14Q and FR Y-14M).
Cross-functional ownership exists across several key Federal Reserve financial reports for banks.*

The majority of US bank and holding company regulatory reports are prepared by RRDs. However, numerous departments outside of RRD, most notably legal and treasury, provide data for regulatory reports that are relevant to those groups. Departmental ownership of the FR Y-14 series varies across institutions and is discussed subsequently.

Fifty-six percent of respondents reported that the legal department owns organizational structure reporting (FR Y-10, FR Y-6, FR Y-7), with 60% of respondents reporting that legal-entity structure changes were the responsibility of the legal department. Treasury was also cited as a common owner of regulatory reports, including Treasury International Capital (TIC) reports and, more often, the FR 2052 and FR 2420, which is filed by the treasury function by 33% of the respondent firms.

RRD is also responsible for a myriad of other reports, including FR 2028, FR 2900, FR 2644, FR Y-15, FR Y-12, FR Y-8, FFIEC 009 and FFIEC 101. Other departments outside of RRD also own additional reports, including the FR 2004 (operations).

<table>
<thead>
<tr>
<th>*Financial report</th>
<th>Report name</th>
</tr>
</thead>
<tbody>
<tr>
<td>FR Y-9C Call Report</td>
<td>Consolidated Financial Statements for Holding Companies</td>
</tr>
<tr>
<td>Call Report</td>
<td>FFIEC 031 – Consolidated Reports of Condition and Income for a Bank with Domestic and Foreign Offices</td>
</tr>
<tr>
<td></td>
<td>FFIEC 041 – Consolidated Reports of Condition and Income for a Bank with Domestic Offices Only</td>
</tr>
<tr>
<td>FR Y-11</td>
<td>Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies</td>
</tr>
<tr>
<td>FR Y-7N</td>
<td>Financial Statements of U.S. Nonbank Subsidiaries Held by Foreign Banking Organizations</td>
</tr>
<tr>
<td>FR 2314</td>
<td>Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations</td>
</tr>
<tr>
<td>FR Y-10</td>
<td>Report of Changes in Organizational Structure</td>
</tr>
<tr>
<td>FR Y-6</td>
<td>Annual Report of Holding Companies</td>
</tr>
<tr>
<td>FR Y-7</td>
<td>Annual Report of Foreign Banking Organizations</td>
</tr>
<tr>
<td>TIC reports</td>
<td>Treasury International Capital System forms filed by Banks and Non-financial Firms</td>
</tr>
<tr>
<td>FR 2052</td>
<td>Complex Institution Liquidity Monitoring Report</td>
</tr>
<tr>
<td>FR 2420</td>
<td>Report of Selected Money Market Rates</td>
</tr>
<tr>
<td>FR 2028</td>
<td>Survey of Terms of Business Lending</td>
</tr>
<tr>
<td>FR 2900</td>
<td>Report of Transaction Accounts, Other Deposits, and Vault Cash</td>
</tr>
<tr>
<td>FR 2644</td>
<td>Weekly Report of Selected Assets and Liabilities</td>
</tr>
<tr>
<td>FR Y-8</td>
<td>Bank Holding Company Report of Insured Depository Institutions’ Section 23A Transactions with Affiliates</td>
</tr>
<tr>
<td>FFIEC 009</td>
<td>Country Exposure Report</td>
</tr>
<tr>
<td>FFIEC 101</td>
<td>Regulatory Capital Reporting for Institutions Subject to Advanced Capital Adequacy Framework</td>
</tr>
<tr>
<td>FR Y-12</td>
<td>Consolidated Holding Company Report of Equity Investments in Nonfinancial Companies</td>
</tr>
</tbody>
</table>

Q: Are certain reports owned by departments/groups other than RRD?
Departmental ownership of the FR Y-14 series varies across institutions.

The FR Y-14 series is handled by newly formed units within finance and risk, while RRDs maintain responsibility for more mature bank financial regulatory reports, such as the FR Y-9C. Forty percent of respondents reported that the FR Y-14A, Q and M are owned by several different departments, including the RRD, treasury and finance. The lack of centralized data sources and ownership results from complex reporting requirements, including granular data and the forward looking nature of projections required on the FR Y-14A.

The table below lists the top five owners reported for the FR Y-14 series of reports:

<table>
<thead>
<tr>
<th>FR Y-14M/Q</th>
<th>FR Y-14A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Regulatory reporting</td>
<td>1. Capital planning/reporting</td>
</tr>
<tr>
<td>2. Finance</td>
<td>2. Treasury</td>
</tr>
<tr>
<td>3. Treasury</td>
<td>3. Regulatory reporting</td>
</tr>
<tr>
<td>5. Controllers</td>
<td>5. Risk</td>
</tr>
</tbody>
</table>
Forty-six percent of respondents have RRDs consisting of more than 20 full-time employees (FTEs). However, 56% of firms with assets of less than $150 billion reported that they have RRDs consisting of 1 to 10 FTEs.

Fifty percent of respondents with assets greater than $500 billion have RRDs of 50 or more FTEs across functional groups involved in regulatory reporting, including finance, risk, product and legal entity controllers.
One of the greatest challenges facing RRDs is hiring resources with relevant experience.

Other concerns include adapting the report production process to changing regulatory requirements and having limited time to provide training.

FBOs, especially, cite heightened concern with finding resources who have CCAR experience, specifically experience in capital planning and modeling.

Q: What are your primary concerns in developing/maintaining your team?

- 34% Resources with general regulatory reporting experience
- 27% Turnover
- 16% Understaffed, no budget for incremental resources
- 13% Resources with CCAR experience
- 10% Other
Report preparation

Preparing regulatory reports is a cross-functional activity that requires numerous inputs of varying complexity. Survey results reveal that the preparation process currently requires significant time, resources and manual intervention to meet regulatory requirements. As firms attempt to move toward processes that allow more time for high-value activities, such as analytics and review, many are struggling with the pace of regulatory change, system and data integrity issues, staffing/expertise limitations and the need for continued manual adjustments.

2015 findings

- Since 2012, firms have continued to spend more than 50% of their time preparing regulatory reports versus performing analysis and review.
- Sixty percent of survey respondents indicated that they had fewer than five FTEs dedicated to analytics and review.
- The use of analytical procedures beyond variance analysis has increased, as firms are using peer benchmarking, ratio analysis and other metrics to monitor completeness of reports.
Maturity model

Survey respondents assessed their regulatory reporting program against the Capability Maturity Model (CMM). The model describes a five-level evolutionary path of increasingly organized and systematically mature processes.

Survey respondents were asked to refer to the CMM and select the level that best describes their current regulatory reporting program.

Several respondents that described their reporting processes as Level 3 reported having plans to address technology and data challenges by building more robust policies and procedures and through implementation of a quality review structure to manage and improve processes.

The number of firms that rated their programs as Level 3 increased to 60% from 45% in 2012 due to a number of factors, including changes in the survey panel, management/personnel changes, and increased scrutiny and regulatory pressures to build out stronger processes.

Q: How would you describe the environment around the regulatory reporting processes under the Capability Maturity Model (CMM)?

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Capability Maturity Model (CMM)

**Level 1** – Initial: the new and undocumented process is often chaotic and ad hoc, uncontrolled and reactive.

**Level 2** – Repeatable: the process is sufficiently documented; repeating the process may generate inconsistent results.

**Level 3** – Defined: the process is defined and documented and is confirmed as a standard business process in place.

**Level 4** – Managed: the process is quantitatively managed and controlled in accordance with agreed-upon metrics. Management is able to adjust and adapt the process for particular changes without measurable losses of quality.

**Level 5** – Optimized: the process includes a focus on continuous process optimization/performance improvement through incremental and innovative improvements to supporting technology.

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Current regulatory reporting challenges

System limitations and data integrity were the most commonly cited challenges to completing regulatory reports.

The pace of change in regulatory reporting requirements and the need for increases in staffing to handle these heightened requirements were noted as challenges by several respondents.

The other commonly cited challenges from survey respondents, including system limitations, data integrity and data availability, are mostly in line with the 2012 results. However, a notable increase from 2012 is data integrity challenges (from 65% to 72%), possibly resulting from data quality issues being uncovered due to more stringent and granular reporting requirements.

Q: What particular challenges exist with respect to completing regulatory reports?

- Systems limitations: 76%
- Data integrity: 72%
- Data availability: 64%
- Shortage of resources: 60%
- Other: 32%
Analytics

Reporting analytics should be part of the overall review process to assess accuracy and completeness of information before management review and sign-off. Analytics is a form of quality control and includes activities such as variance analysis and reconciliations. This helps validate that the data reported is an accurate representation of the institution’s financial position. The Federal Reserve encourages organizations to spend 80% of time on reporting analytics; however, institutions continue to grapple with time spent on report production.

**Firms continue to spend more time on report preparation than on analytics, review and sign-offs.**

New and complex regulatory reporting requirements, such as CCAR and Basel III, have constrained existing resources and their ability to progress toward a regulatory reporting program that is more focused on analytics, review and sign-offs than report production. Only one firm reported spending 80% of its time on analytics, while 68% of firms reported spending greater than 50% of their time on regulatory report preparation. The 12% of respondents that cite spending more time on analytics have independent quality assurance teams dedicated to report review and analysis, which typically conduct transaction testing to detect errors in bank financial regulatory reports.

Additionally, 60% of survey respondents reported having less than five FTEs dedicated to analytics and review of regulatory reports. Many institutions reported that RRD FTEs perform both preparation and analytical activities simultaneously throughout the end-to-end production of regulatory reports.

Twelve percent of respondents (all with assets greater than $500 billion) reported having more than 20 FTEs dedicated to analytics and review. Forty-seven percent of respondents that have fewer than five FTEs focused on analytics are institutions with less than $150 billion in total assets.

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**Q: What percentage of time is spent on preparing regulatory reports versus conducting analytics, reviews and sign-offs?**

- > 50% preparation: 68%
- 50% preparation; 50% analytics/review/sign-off: 20%
- < 50% preparation: 12%

**Q: How many FTEs are dedicated to analytics/reviews?**

- > 20 FTEs: 60%
- 11–20 FTEs: 20%
- 6–10 FTEs: 8%
- < 5 FTEs: 12%
Since 2012, survey respondents have increased the use of analytical procedures to assess completeness and accuracy of regulatory reports.

Internal controls are best applied in two forms: preventive (e.g., spot-checking individual balances) and detective (variance analysis, trend analysis, ratio analysis, etc.). All respondents reported using variance analysis as an analytical tool (same as 2012) to assess completeness and accuracy of regulatory reports. Additionally, spot-checking of individual balances increased from 45% to 76% from 2012 to 2015 as firms continue to seek ways to enhance their analytical procedures. Thirty-six percent of respondents stated that they use additional analytical procedures, including peer benchmarking, ratio analysis and reconciliations.

Q: Which analytical procedures are performed to ensure completeness and accuracy of regulatory reports?
Automation and manual adjustments

Survey respondents continue to struggle to provide increasingly granular financial data, relying on manual adjustments to report data in line with regulatory requirements. Firms continue to plan for automation in an effort to reduce significant manual intervention; however, the continued pace of change coupled with a shortened implementation time frame proves this to be a difficult challenge.

Despite reported progress since 2012, with some firms assessing their processes as more mature, firms still perform a significant volume of manual adjustments.

Forty percent of firms indicated that the RRD performs in excess of 500 manual adjustments to regulatory reports, including primarily the FR Y-9C/Call Report, FR Y-14 series and legal entity financial reports, while only 16% of firms perform fewer than 50 manual adjustments.

Q: What is the approximate number of adjustments that must be made to regulatory reports before filing?

Q: What plans are in place to automate manual adjustments?

In 2012, 75% of firms surveyed developed either high-level plans or detailed plans to automate recurring adjustments within the next 12 months.

This year, 84% of firms state the same plans for automation.

Detailed automation plans include system upgrades to resolve certain types of manual adjustments, while high-level plans consist of development of business requirements and vendor selection, with plans to begin automation beyond this year.

Despite the considerable efforts and progress in the automation of regulatory reports, firms are continuing to spend a significant amount of time and resources in performing manual adjustments to produce accurate and timely regulatory reports.

Detailed action plan exists to automate within the year
High-level plans exist to automate some but not all of the manual adjustments
No plans exist to automate in the near future
Respondents cited reclassification adjustments and post-close adjustments as the most common types of manual adjustments, similar to responses in 2012. Due to the growing need for more granular information on a more frequent basis, significant, time-consuming manual adjustments are no longer sustainable considering the move toward detailed, transaction-level reporting (i.e., FR Y-14 series reporting).

Forty-four percent of firms ranked system limitations as the most commonly cited reason for topside adjustments, followed by 32% ranking insufficient data granularity. Respondents noted that the lack of available transaction-level data pulled from source systems resulted in additional manual adjustments to populate regulatory reports. Systems constraints and the availability of granular data are the driving force for recurring topside adjustments and the motivation behind detailed automation plans and investment in data sourcing strategies and solutions.

Review and substantiation of manual adjustments are performed solely by the RRD at 63% of firms surveyed. Sixty-four percent of respondents noted that both the RRD and the business units share responsibility for providing supporting documentation for both report preparation and any manual adjustments.

*Some FBOs indicated that they rely on significant manual intervention to convert from their home basis of accounting (i.e., IFRS) to US GAAP. Half of the FBOs surveyed noted that the different GAAP basis of accounting has been a cause for manual adjustments.
Data and technology

As data requirements for regulatory reporting become more demanding, many firms are establishing data governance programs. To assist in automating the regulatory reporting process, firms are relying on vendor solutions and have invested in the architecture feeding those solutions as compared to 2012.

2015 findings

- Two of the greatest challenges faced by firms are managing data quality and maintaining granularity in the context of rapidly changing regulatory requirements.
- In response to the need for increased granularity and availability of data, there has been an 11% increase since 2012 in the number of firms that have migrated to a central data warehouse platform to support bank financial regulatory reports, while other firms are considering similar enhancements over the next several years.
- Although automation of the regulatory reporting process is a key initiative for the industry, many firms indicated their reliance on manual processes.
- Key technology challenges include managing multiple independent data sources and source systems.
- Fifty-six percent of respondents reported that their regulatory reporting process is partially automated, consistent with survey results from 2012.
Data

Common regulatory reporting challenges faced by firms include managing data quality and meeting data granularity requirements as firms continue to rapidly evolve. Central data sources are being adopted to increase access to granular data and enable risk and finance data alignment and reconciliation.

Fifty-six percent of respondents use a central data source for some regulatory reporting efforts, an 11% increase since 2012.

There is a recent shift to centralize data sources as a method to enhance source system capabilities and incorporate additional data sources. The FR Y-9C, Call Reports and FFIEC 101 reports are most commonly sourced from a central database. In addition, respondents that do not currently use a central data source indicated that plans exist to develop one.

A majority of firms continue to rely on ad hoc data sources to achieve required granularity for regulatory reporting.

In order to meet granular reporting requirements, firms are required to source detailed information for certain reports, including attributes for counterparty risk and collateral information, and to support risk-based capital calculations.

Respondents were asked to rate the sufficiency of their current level of data granularity on a scale of high, medium or low. A majority of firms indicated reliance on ad hoc data sources and Excel, in order to meet Federal Reserve data granularity requirements (medium). As a result of insufficient data granularity, more topside adjustments are required to populate regulatory reports.

Levels of data granularity:

**High** – No, or few, topside adjusting entries are needed to get to the required level of detail.

**Medium** – Granularity is available from ad hoc data sources, but a number of topside adjustments are required.

**Low** – Granularity is not available, and either simplifying assumptions are made to report at a granular level or fields requiring granularity are estimated or not populated in certain regulatory reports.
Eighty percent of firms indicate that data providers do not perform detective controls for data quality.

Respondents indicated that improving data quality remains a challenge due to complex and changing regulatory requirements. More than half of the respondents have a dedicated chief data officer (CDO) charged with managing this effort. However, regulatory reporting is only one of a number of issues on the CDO’s agenda.

Quality of data measures:

**High** – Data originators (front office, client onboarding, others) own the quality of the data and understand the downstream implication of the information provided on reporting and attest to this.

**Medium** – Data originators are aware of downstream uses of the data but rely on operations or the RRD to perform detective controls to identify data errors prior to report generation.

**Low** – Data is often incomplete or not sufficiently granular, or the granularity does not align with regulatory reporting needs.
Technology

Regulatory reporting requires processing large volumes of complex data. Implementing vendor tools and automated processes allows firms to reduce risks by mitigating certain forms of manual intervention and providing traceability and other forms of controls around data lineage.

Firms with greater than $500 billion in assets reported multiple independent data sources and source systems as key technology challenges, while firms with less than $500 billion in assets most commonly reported system constraints as a challenge. Legacy infrastructure and data mapping to support bank financial regulatory reporting was a consistent key technology challenge faced by all firms.

Another key challenge was the competing technology agenda within the firm. Most often, RRD technology initiatives are not prioritized ahead of other firmwide technology efforts. Additionally, some firms noted limited technology budgets to address regulatory reporting challenges.

Fifty-six percent of firms described their RRD processes as partially automated.

No respondents reported having a fully automated process, and only 28% of respondents reported that their regulatory reporting process was mostly automated, a slight increase from 2012. Fifty-six percent of respondents reported that their regulatory reporting process is partially automated (in line with 2012 survey results), and 16% of respondents reported that their process is manual, a slight decrease from 2012. All respondents noted that additional manual processes are required to develop their reports, including manual feeds (100%), transformations (92%), spreadsheets (76%) and data manipulation (60%).

**Q: What are some of the key technology challenges faced by your organization for regulatory reporting?**

**Q: How would you describe the regulatory reporting process?**
Vendor tools are relied upon by the industry to support the regulatory reporting process.

Firms have turned to external vendors for regulatory reporting tools to automate the regulatory reporting process. Eighty percent of survey respondents use strategic reporting tools that allow for drill-down capabilities, provide workflow tools or other analytical functions (Axiom, Lombard Risk/REG-Reporter, WKFS*), while the remainder use other vendor tools (Fidelity, Jack Henry). Since 2012, when only 55% of respondents were using strategic tools, there has been an industry-wide shift toward strategic vendor solutions that offer greater capabilities. All respondents with more than $500 billion in assets use strategic vendor tools in their reporting process.

Axiom and Lombard Risk/REG-Reporter have gained greater acceptance by the industry over the last three years, increasing their footprints in the survey population respectively from 15% and 10% in 2012 to 28% and 22% currently. FRSGlobal and FinArch, tools that make up the current WKFS* suite, were implemented by 25% of 2012 survey respondents. Thirty percent of survey respondents now report WKFS, inclusive of FRSGlobal and FinArch legacy platforms, as their current vendor solution.

2012 survey results:

Q: Does your organization use third-party vendor software to generate regulatory reports? If so, which vendor is used?

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Axiom</td>
<td>15%</td>
</tr>
<tr>
<td>Lombard Risk/REG-Reporter</td>
<td>10%</td>
</tr>
<tr>
<td>WKFS*</td>
<td>25%</td>
</tr>
<tr>
<td>Jack Henry</td>
<td>15%</td>
</tr>
<tr>
<td>Fidelity</td>
<td>20%</td>
</tr>
<tr>
<td>Other</td>
<td>15%</td>
</tr>
<tr>
<td>FinArch</td>
<td>10%</td>
</tr>
</tbody>
</table>

2015 survey results:

Q: Does your organization use third-party vendor software to generate regulatory reports? If so, which vendor is used? (Reference page 40 for IHC results)

<table>
<thead>
<tr>
<th>Total assets</th>
<th>2012</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; $500b</td>
<td>43%</td>
<td>36%</td>
</tr>
<tr>
<td>$150-$500b</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>&lt; $150b</td>
<td>31%</td>
<td>15%</td>
</tr>
</tbody>
</table>

*The WKFS suite consists of FRSGlobal, FinArch and OneSumX vendor solutions.
Vendor tools are relied upon by the industry to support posting of adjustments.

Vendor reporting tools are utilized to facilitate adjustments. Eighty percent of survey respondents manually post adjustments or upload spreadsheet templates directly into their reporting tool. Twenty percent of respondents post manual adjustments directly into source systems, which ultimately flow to their reporting tool.

Q: If a regulatory reporting tool is used, how are adjustments posted to the tool?

- Manually in the regulatory reporting tool: 20%
- Spreadsheet templates upload into the regulatory reporting tool: 36%
- Other: 44%
Governance and controls

Regulators are setting increasingly high standards for regulatory reporting and expect a transparent, controlled and consistent reporting process with sufficient levels of governance and oversight. In addition to meeting quantitative reporting requirements, banks have been increasingly responding to heightened qualitative expectations, including independent verification. Well-documented controls covering providers of data used for report preparation and activities such as reconciliations between various data providers are essential to maintain a reliable reporting process and are expected by regulators. More recently, the Federal Reserve requested that BHCs provide documentation to meet regulatory expectations.

To satisfy Federal Reserve expectations for more granular reporting, finance and risk departments will need to coordinate efforts to implement a strong governance framework, which will include fostering a culture of accountability and strengthening controls for the regulatory reporting process.

2015 findings

- Eight-eight percent of survey respondents incorporate a formal attestation process to cover data provided by groups supporting the reporting process, of which 71% use a tool to facilitate the attestation process.
- Since 2012, more firms have established regulatory reporting committees to review regulatory reports, discuss issues facing the firm and enforce accountability, partially driven by Federal Reserve expectations resulting from examinations and leading practices.
- Eight-seven percent of respondents update their RRD policies and procedures on a regular basis.
Attestation

As part of the move toward greater accountability, executive management and data providers have taken on more responsibility for the quality of information that is reported by their institutions. Among industry practices, some organizations have taken steps to establish an attestation process, including establishing data standards and certification for data provided for regulatory reports. The development of a certification process requires individuals to certify that the information being provided is complete and accurate to the best of their knowledge.

Eighty-eight percent of survey respondents incorporate formal attestation in the regulatory reporting process.

The attestation process, including underlying data standards and certification, plays a role in evidencing end-to-end accountability of data providers to regulatory reports. Ninety-five percent of respondents that stated they have an attestation process in place noted that data providers provide sign-off throughout the report preparation process.

Of the survey respondents that have a formal attestation in place, 71% indicated a tool is used to facilitate attestations. Seventy-six percent of survey respondents indicated that their attestation tool is automated (e.g., in-house-developed system, third-party vendor) and 24% are manual (e.g., Excel, certification form). Respondents indicated that the attestation process is leveraged for multiple reports filed (e.g., Call Report/FR Y-9C, TIC and FR Y-14 series).

It is important to note that although many firms incorporate an attestation process, the level of certification and overall effectiveness of the process may vary across firms.

Final sign-off on regulatory reports varies depending on the report type, and, in some cases, there are multiple signers for reports. For US bank and holding company reports, the CFO is the authorized signer for 84% of survey respondents, of which 19% is signed in conjunction with board members, a representative of the RRD or an audit committee member.

Q: Who signs off on US bank and holding company reports?

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFO</td>
<td>84%</td>
</tr>
<tr>
<td>RRD</td>
<td>36%</td>
</tr>
<tr>
<td>Other</td>
<td>36%</td>
</tr>
<tr>
<td>Controller</td>
<td>8%</td>
</tr>
</tbody>
</table>

Q: Is there a formal attestation process in place?

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>88%</td>
</tr>
<tr>
<td>No</td>
<td>12%</td>
</tr>
</tbody>
</table>

Q: Does the attestation process use a tool to facilitate attestations throughout the close process?

<table>
<thead>
<tr>
<th>Response</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>29%</td>
</tr>
<tr>
<td>No</td>
<td>71%</td>
</tr>
</tbody>
</table>
Monitoring and oversight

As reporting requirements become more complex, regulatory reporting groups are becoming more involved with governance decisions that indirectly affect their reporting processes. This is fostering heightened coordination between the regulatory reporting groups and various other functions and businesses within firms.

Regulatory reporting is playing an increasing role in governance decisions.

Since 2012, the number of respondents who reported that the RRD participates in new product review sessions increased from 75% to nearly 90%, with the RRD providing perspective on the impact of new products to the regulatory reporting process.

Eighty-eight percent of respondents reported that the RRD had a medium to high level of involvement in governance decisions. Out of those respondents, 48% suggested that the RRD had a high level of involvement in decisions that indirectly affect the group, such as participation in new product approval processes and new general ledger account openings.

Ninety-six percent of respondents indicated that multiple departments are involved with product classification decisions. These departments include front office, operations, product controllers, accounting and the RRD. Some respondents noted that while several departments contribute to regulatory reporting, there is a single decision-maker.

Firms with larger asset bases and more complex organizational structures require a higher level of transparency among different groups within the firm. Only 38% of the RRDs from firms with total asset profiles of $150 billion or less were highly involved in governance decisions, while approximately 60% of firms with asset profiles greater than $150 billion had RRDs that are highly involved in governance decisions.

<table>
<thead>
<tr>
<th>Level of RRD involvement in governance decisions:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High</strong> – The RRD participates in major governance decisions.</td>
</tr>
<tr>
<td><strong>Medium</strong> – Finance is represented in new-product review sessions and communicates considerations/details to the RRD.</td>
</tr>
<tr>
<td><strong>Low</strong> – The RRD learns about new governance decisions that may affect regulatory reporting on an ad hoc basis.</td>
</tr>
</tbody>
</table>
Fifty-six percent of firms rely on regulatory reporting committees to discuss issues and emphasize accountability.

Since 2012, there has been a significant increase in respondents that stated their firms have regulatory reporting committees. It’s important to note that several firms have established regulatory reporting committees in recent years in response to findings from a Federal Reserve examination.

These cross-functional committees usually meet quarterly and include regulatory reporting, controllers, internal audit, risk, finance and operations (data providers). The role of these committees is to review regulatory reports, discuss issues identified during the reporting process and address changes and/or concerns communicated by the Federal Reserve. The key executive attendees include CFOs, COOs, CIOs and CDOs. Having a variety of departments that affect the regulatory reporting process at the committee meetings provides a platform for escalating issues that arise during the quarterly filings.

Q: Does a regulatory reporting committee exist to provide monitoring and oversight over regulatory reporting?
Quality assurance, compliance, internal audit

Quality assurance, compliance and internal audit teams continue to play a role in regulatory reporting by monitoring and overseeing compliance with Federal Reserve requirements and expectations. Quality assurance and internal audit are viewed by the Federal Reserve as second and third lines of defense, respectively, in the governance framework, after finance, risk and treasury – the key data providers and report preparers most often responding to Federal Reserve requests. Quality assurance teams typically have an independent role in assessing the quality of regulatory reports, often through transaction testing and/or qualitative reviews of processes. Internal audit can sometimes play this role but most often is focused on assessing the controls around the regulatory reporting process.

Ninety-six percent of survey respondents reported that internal audit plays a role in regulatory reporting.

This represents an increase of 16% since the 2012 survey was conducted.

For those firms where internal audit is involved, more than half of institutions are on an annual review plan, while 38% are on a rotational plan that cycles every few years. Eight percent of firms perform internal audit reviews quarterly. Fifty percent of respondents stated that there is limited regulatory expertise among internal audit.

Sixty-eight percent of respondents stated that they have a separate quality assurance team. In 2012, only 31% of respondents reported having a separate quality assurance team. Institutions primarily use the quality assurance team to assess adherence to specific firm policies, review interpretive issues, field questions from the Federal Reserve and perform transaction testing of regulatory reports. It is important to note that the responsibility of the quality assurance team varies across firms, and transaction testing was reported as being performed by 47% of those firms that have a quality assurance team.
Eighty-six percent of survey respondents indicated that compliance plays a role in regulatory reporting, specifically to monitor compliance Regulations D, K and W\(^1\). This represents an increase of 17% from the 2012 survey. Some respondents stated that compliance has a seat on committees for regulatory reporting, and many indicated that compliance plays a more significant role during Federal Reserve exams.

Q: Does compliance testing include compliance with Regulations D, K and W?

Sixty percent of survey respondents indicated that they engage the Federal Reserve on a regular basis (monthly, quarterly) to discuss interpretive questions and/or participate in ongoing dialogue to present quarterly regulatory reporting variances and issues identified; thirty-six percent only contact the Federal Reserve occasionally as interpretational questions arise.

Q: How often are conversations initiated with the regulators by the RRD related to treatment of complex reporting requirements/questions?

\(^1\) http://www.federalreserve.gov/bankinforeg/reglisting.htm
Training

Educating groups across functional areas about reporting requirements informs them of their role in the regulatory reporting process, with the goal of achieving high-quality regulatory reporting.

Seventy-six percent of respondents reported that specific guidance is provided by the RRD.

Guidance provided by the RRD to data providers includes specific guidance (e.g., regulatory reporting training sessions) and general guidance (e.g., annual announcement updates) and is communicated to the groups that will be impacted by changes to regulatory reporting instructions.

Seventy-one percent of respondents indicate that they have a training program in place.

The extent and depth of training programs varies considerably, consistent with 2012 survey results. Only 17% of respondents reported having a comprehensive program in place that includes periodic and ad hoc training. Of those respondents that provide training, all identified data providers as the audience for training.

Sixty-four percent of respondents indicated that training is tailored based on functions or product area. Seventy percent of respondents indicated that training is mandatory. Regulatory reporting training is geared toward the role of the individuals involved in the process and varies across firms but involves both general and specific training among most.

Q: What type of guidance is given to departments and business lines that provide regulatory reporting information?

Q: What type of training is offered?
Federal Reserve examinations

Examinations are a method for the Federal Reserve to assess the accuracy and completeness of regulatory reporting information. Firms must continually demonstrate an established, reliable, mature and controlled reporting process.

A majority of survey respondents have been reviewed by the Federal Reserve within the past 12 months.

Eighty percent of survey respondents have been reviewed by the Federal Reserve within the past two years and 12% over two years ago. Only 8% of survey respondents indicated that they have never been reviewed by the Federal Reserve.

BHCs and FBOs have cited that the FR Y-9C and FFIEC 002 reports are the most frequently examined regulatory reports, followed by the FR 2314/7N/11 reports. For those respondents filing the FR Y-14 series, the Federal Reserve has started to closely review the FR Y-14Q/M/A with increased scrutiny in 2014 and 2015. The Federal Reserve has focused recent examinations on assessing regulatory reporting governance, control frameworks and infrastructure.

Q: When was your organization last reviewed by the Federal Reserve, and what reports did it review?

![Chart showing the frequency of Federal Reserve examinations](chart)

Q: What reports were in scope for your firm's last examination?

- FR Y-12: 4%
- FFIEC 101: 4%
- FR Y-10: 12%
- FR Y-14: 16%
- FR 2900: 20%
- FR 2314/7N/11: 28%
- FR Y-9C/Call Report: 68%
Controls – reconciliations and documentation

The governance framework for regulatory reporting includes well-defined, enforceable policies and procedures that foster a culture of accountability and commitment to maintain quality reporting. One aspect of maintaining data integrity is reconciling data sources to mitigate the risk of inconsistent reporting across the organization. Quality documentation is also an essential component of a well-managed and controlled regulatory reporting process.

All respondents incorporate reconciliations into their regulatory reporting process.

Nearly all respondents reported performing at least two types of reconciliations; larger institutions, those with greater than $150 billion in total assets, reported performing more than four major types of reconciliations.

The most commonly cited reconciliation type is financial to regulatory reporting (such as the 10Q or other audited US GAAP financials to FR Y-9C/Call Report) and is performed by 84% of respondents, a 14% increase since 2012. Roughly 60% of firms perform source system to subledger and data warehouse to general ledger reconciliations.

With respect to BHC reconciliations between regulatory reports, the FR Y-9C was the most commonly cited control point, used in reconciliations to FR Y-14 series, Call Reports, SEC 10K/Q reports and other regulatory reports.

Nearly 90% of respondents reported that the RRD is responsible for performing reconciliations, with over a third of all respondents indicating that the broader finance function also participated in the reconciliation process.

Other functions that participated in the reconciliation process include business area data providers. Although risk often provides data for regulatory reporting, it was not identified as being responsible for performing reconciliations; however, some institutions noted this as a future plan.

Q: Which major reconciliations are performed as part of the regulatory reporting processes?

<table>
<thead>
<tr>
<th>Reconciliation Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial reporting (SEC) to regulatory reporting</td>
<td>84%</td>
</tr>
<tr>
<td>Data warehouse to general ledger</td>
<td>64%</td>
</tr>
<tr>
<td>Source systems to subledgers</td>
<td>60%</td>
</tr>
<tr>
<td>Source systems to data warehouse</td>
<td>48%</td>
</tr>
<tr>
<td>Management reporting to regulatory reporting</td>
<td>44%</td>
</tr>
<tr>
<td>Other</td>
<td>16%</td>
</tr>
</tbody>
</table>

Q: Who performs the reconciliation(s) indicated above?

<table>
<thead>
<tr>
<th>Department/Group</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory reporting department/group</td>
<td>88%</td>
</tr>
<tr>
<td>Finance</td>
<td>36%</td>
</tr>
<tr>
<td>Operations</td>
<td>20%</td>
</tr>
<tr>
<td>Other</td>
<td>12%</td>
</tr>
</tbody>
</table>
Forty-four percent of respondents reported having a manual reconciliation process.

Automated controls reduce risks associated with using data from multiple sources. Only 12% of respondents reported that their reconciliation process was automated, while the remainder was evenly split between having a semiautomated or manual process. Institutions with less than $150 billion in total assets tended to rely on more manual processes, while those with greater than $500 billion were mostly semiautomated.

Slightly more than 50% of respondents perform additional reconciliations outside of the regulatory reporting process between risk and finance data.

Regulatory changes have driven financial services firms to focus greater attention on the convergence of risk and finance data, specifically as it relates to converged risk and finance reporting requirements on the FR Y-14 series and other reports, such as the FR Y-15. More than half of all firms extract finance and risk data from a single source.

In addition to reconciliations, respondents incorporate system controls, or controls that manage access to systems and monitor data integrity, in order to maintain integrity between risk and finance data.

Twenty percent of respondents indicated that no controls exist for aligning risk and finance data. Of the respondents that have controls in place, 75% reported that the risk function is the control owner. Roughly 40% reported that controls are owned by both the risk department and the RRD.

Institutions with less than $150 billion in total assets relied more heavily on the risk department for controls related to the alignment of risk and finance data. Larger institutions tended to incorporate the RRD more heavily into their control framework. Note that respondents chose more than one response, and this is reflected in the chart.
Documentation of procedures

Key components of a leading governance framework include RRD documentation that outlines the regulatory reporting process. This documentation includes but is not limited to an accountability policy; end-to-end process flows; and operating, procedure and policy manuals. RRD documentation should sufficiently demonstrate an enforceable and well-controlled process.

Half of respondents do not have RRD operating manuals that detail step-by-step activities for performing regulatory reporting activities.

Nearly all respondents reported having procedure manuals that describe the high-level regulatory reporting process, and 76% reported having policy manuals. Forty percent of respondents have policy manuals, operating manuals and procedure manuals.

Almost 90% of respondents rated their manuals as current and up to date, an improvement over the 2012 environment where 75% of respondents reported that manuals were current (defined as reviewed within the past 12 months).

Respondents were split evenly between characterizing their regulatory reporting documentation as very detailed or somewhat detailed.

Most respondents have more extensive RRD documentation that includes either end-to-end process flows or narratives. Sixty percent of respondents update this documentation either quarterly or annually. Of these, several also noted that updates were made on an ad hoc basis, in conjunction with scheduled intervals for changes to requirements or RRD processes. Forty percent of respondents do not update their detailed RRD documentation on a regular basis.
More than 60 percent of departments that provide inputs to regulatory reports have policies and procedures related to regulatory reporting.

Of those firms that indicated policy, operating and procedure manuals existed for departments that provide regulatory reporting inputs, 44% reported that these documents were very detailed and 56% reported that they were somewhat detailed. Of those respondents that described their documentation as somewhat detailed, it was noted in many cases that the level of detail varied depending upon the data provider group.

Q: For other departments/groups that provide inputs to regulatory reports, do similar policy, operating and procedure manuals exist?

![Chart showing distribution of policy, operating and procedure manuals](chart1)

Q: If yes, how detailed are these policy, operating and procedure manuals?

![Chart showing distribution of detail levels](chart2)
**Forty-four percent of respondents have a regulatory reporting accountability policy.**

Although 56% of firms do not have a regulatory reporting policy, these firms noted that development of this policy is planned for the future. Additionally, 16% of these firms rely on a global accountability policy or data governance policies to enforce accountability within the regulatory reporting process.

Of those respondents that have an accountability policy specific to regulatory reporting, 45% reported that the accountability policy covers a number of major functional areas involved in regulatory reporting, such as finance, front office, client onboarding, risk and operations. Thirty-six percent of respondents reported that their accountability policy covers only data providers, and roughly 20% of regulatory accountability policies covered the finance function.

**Nearly 20% of respondents that have a regulatory reporting accountability policy do not have a mechanism for enforcement.**

Of those respondents that have a regulatory reporting accountability policy, enforcement is most commonly achieved via a combination of escalation and performance review metrics.
Intermediate Holding Company rule

Impact of Intermediate Holding Company (IHC) rule

On February 18, 2014, the Federal Reserve finalized rules for FBOs to implement requirements of section 165 of the Dodd-Frank Act, namely enhanced prudential standards (EPS) covering corporate governance, risk-based capital and leverage requirements, capital and liquidity planning.

The rule is not explicit on the application of existing US BHC regulatory reporting requirements for the IHC. However, the expectation remains that IHCs would be subject to a similar regulatory reporting regime as US BHCs. IHC requirements will require significant finance transformation across FBOs’ entire US operations and related legal-entity structure, affecting the financial and regulatory reporting infrastructures. Requirements, including FR Y-9C, FR Y-14 series, FFIEC 102 and FFIEC 009 reporting, necessitate significant granular data beyond current capabilities, and the framework for current FBO reporting has limited scalability for the IHC.

With implementation plans already filed with the Federal Reserve in January 2015, firms are now facing the challenge of implementing solutions for the IHC framework to address expected organizational structure, capital and regulatory reporting requirements. EY’s survey reflects results of 10 firms that are required to establish an IHC.
IHC top-tier entity and re-parenting

Sixty percent of firms surveyed have already identified the top-tier IHC entity, while some firms are planning to elevate a current BHC to an IHC. Many firms that have not yet identified the top-tier IHC entity are undergoing significant re-parenting in 2015 (including re-parenting or restructuring of greater than 10 legal entities). Some FBOs that have an existing BHC are considering dissolving the BHC entity as they undergo re-parenting to establish the IHC organizational structure.

Firms have had to undergo a significant review of control under Regulation Y for US-domiciled legal entities. Given that the definition of Regulation Y control under the Bank Holding Company Act (BHCA) is broader than the definition of control from a US GAAP perspective, firms have had to coordinate across regulatory reporting, accounting policy, legal and corporate secretary groups to perform this exercise. Additionally, the IHC formation requires a coordinated process and review of all implications across tax and capital groups.
EPS have broad implications on FBOs that require significant enhancements across the finance and risk operating models.

One of the greatest challenges firms face in meeting the July 1, 2016, IHC implementation date is data sourcing and availability to prepare for regulatory reporting requirements.

Establishing ownership of reports is a significant challenge, specifically, determining whether the risk or finance function will own FR Y-14 A, Q and M reports. Other key challenges firms are facing include establishing the organizational structure of the IHC and adding the IHC legal-entity structure to the general ledger and subsystems. FBOs in particular are facing the challenge of merging liquidity and capital management functions for legal entities that are not already under a common parent.

Technology and data

IHC regulatory reporting requirements will have architecture impacts on general ledgers, subledgers and data warehouses. Additional data sources are needed in order to support more granular data for IHC regulatory reporting requirements.

Q: As part of meeting reporting requirements for Federal Reserve reports for the EPS that impact your organization, what areas present the biggest challenge to meeting the Q3 2016 implementation timeline?

![Bar chart showing data sourcing gaps and availability, ownership of reports, accounting policy convergence, and other challenges.]

Q: What technology infrastructure changes is your firm considering as they relate to increased reporting requirements under the IHC rule?

![Bar chart showing significant data sourcing required, developing consolidation systems, developing new data warehouses, and other changes.]

Ninety percent of FBOs are facing significant data sourcing challenges in meeting IHC regulatory reporting requirements.

Although only 70% of FBOs are developing consolidation systems for IHC regulatory reports, the remaining firms either already prepare US GAAP consolidated financial statements or already have a BHC and related consolidation processes in place. Other infrastructure initiatives firms are undergoing include risk and finance data sourcing and reconciliations, and implementation of an IHC regulatory reports vendor solution. Some FBOs hesitate to move forward on any of these initiatives due to the uncertainty of IHC, pending further guidance on regulatory reporting requirements from the Federal Reserve.
Seventy percent of FBOs are considering implementing Axiom as the IHC regulatory reporting vendor solution, while 40% are considering other vendors, including Lombard Risk/REG-Reporter, WKFS, FRSGlobal, Moody’s and FinArc (note that some firms have not yet chosen a vendor and are considering multiple vendors, which is reflected in the chart). This represents a potential 40% shift from the vendor solution used for current FBO reporting (FFIEC 002 and other regulatory reports required for US branches and subsidiaries of foreign banks) to a new vendor for IHC regulatory reporting. Reference page 22 for current FBO and BHC vendor use.

**More granular data sourcing is a key undertaking to meet expected IHC regulatory reporting requirements.**

Seventy percent of FBOs are considering developing or enhancing a current data warehouse for data required for IHC regulatory reports. A key challenge in establishing a data warehouse is that some legal entities are outside of the current infrastructure and will need to be sourced into the ledgers feeding the warehouse.

Sourcing granular data required for IHC reporting has forced firms to rethink referential data and data governance practices. Forty percent of firms are establishing centralized data governance programs focused on defining ownership, data standards, policies and procedures for the creation, movement and usage of regulatory reporting information.

Q: Has your organization considered the use of third-party vendor software to generate IHC regulatory reports? If yes, please indicate which vendor.

![Vendor Choices Bar Chart]

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Axiom</td>
<td>70%</td>
</tr>
<tr>
<td>Lombard Risk/REG-Reporter</td>
<td>10%</td>
</tr>
<tr>
<td>WKFS</td>
<td>10%</td>
</tr>
<tr>
<td>FRSGlobal</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
</tbody>
</table>

Q: What are key initiatives your firm is undertaking around data sourcing to increase the level of granularity and scope of data required for IHC reporting?

![Initiatives Bar Chart]

- Single sources of data (i.e., data warehouse): 70%
- Centralized data governance program: 40%
- Referential data management programs: 30%
Seventy percent of FBOs plan on having IHC audited financials.

A majority of FBOs are planning for an annual audit of IHC financial statements, either in anticipation of a Federal Reserve requirement to keep alignment with current BHC audit requirements, or because the FBO is considering whether the IHC will become an SEC registrant.

Q: Is your firm planning on an audit of IHC financial statements by an external auditor to meet expected or anticipated audit requirements of the IHC as part of the Fed’s EPS on FBOs?

- Yes: 70%
- No: 20%
- Maybe: 10%
Daily balances required for regulatory reports are a common challenge for IHCs.

The Federal Reserve requires daily or weekly average balance sheet reporting on FR Y-9C: Schedule HC-K - Quarterly Averages. Daily spot and average balances are also required for FR Y-14, risk-based capital and liquidity risk management reporting purposes.

Seventy percent of FBOs are planning to use daily balances consistently across IHC regulatory reports, while the remainder plan to use a combination of daily, weekly and monthly balances. Some firms are considering multiple approaches for meeting this requirement, and this is reflected in the chart.

Fifty percent of firms consider such challenges as how to account for adjustments and a lack of guidance from the Federal Reserve as pain points in approaching potential requirements for average balances on IHC regulatory reports (referenced in “other” category in chart at right).

Forty percent of firms see data availability as a key concern, particularly in firms in the asset management sector, where some data from fund entities is only available on a quarterly basis on a lag.

FBOs continue to wait for the Federal Reserve to issue final regulatory reporting requirements for IHCs, but in the meantime are implementing solutions, assuming IHCs will be subject to the same regulatory reporting as BHCs.
Conclusion

Despite significant regulatory challenges that BHCs and FBOs are facing, firms are adapting to the pace of global regulatory change. RRDs have grown slightly to meet the new standard of requirements; however, resource limitations continue to be a challenge. Additionally, organizations have increased their reliance on functions, including risk, treasury, operations, technology and legal, to respond to new requirements. In response to increased reporting requirements and other legacy limitations on systems and data, firms are seeking ways to automate reporting through vendor solutions in order to reduce time spent on manual processes and adjustments so as to allow more time for analysis. Establishing data standards and a central data warehouse, often times through a chief data office, is an area of focus for many firms in 2015.

In its latest communication, the Federal Reserve stressed the importance of an enhanced governance and control framework with a focus on accountability. Firms must maintain robust procedures designed to mitigate risks related to report inaccuracies. Although firms have made improvements since 2012, organizational processes that involve management oversight such as regulatory reporting committees with executive representation and attestations are becoming the new standard.
How EY can help

EY has developed services and go-to-market solutions that address the governance framework, business processes, data quality, data governance and technology architecture to support the regulatory reporting processes. We understand the short and long-term priorities and have proven methodologies to address the regulatory reporting requirements for these needs. Short-term priorities include the centralization of regulatory reporting data, centralization and standardization of mappings/business rules to improve traceability and change control, establishment of reporting integrity controls, auditability and transactional testing to verify data integrity. Long-term priorities include the migration to strategic data sourcing, minimization of adjustments performed within the regulatory reporting application, standardization of regulatory reporting workflows and automation of reconciliations within regulatory reporting systems architecture.
Regulation now: the new standard and how firms are adapting
To learn more about how the changing regulatory reporting environment might affect your organization and how EY can help, please contact one of our professionals.

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