### Background

On 8 March 2018, APRA released the final RPG 702.0 ABS/RBA Data Quality for the EFS Collection, a new guidance to manage and enhance data quality for the Economic and Financial Statistics (EFS) data collection.

APRA, RBA and ABS (‘the agencies’) are mirroring similar international initiatives to enhance the quality of statistical data gathered from reporting institutions.

To ensure the fitness of the EFS data for the agencies use, the guidance:
- Prioritise the data based on its importance for the use of the agencies
- Indicate data quality benchmarks levels based on the defined data priority
- Outline CPG 235 Managing Data Risk principles that may support reporting institutions in managing EFS data quality

Reporting institutions should ensure their governance and controls framework are designed to meet the agencies’ data quality expectations. In particular, the following “levers” to drive quality should be considered:
- The accountability model for regulatory reporting
- Data lineage for critical data elements from provenance to report to understand key data risks and manipulations
- First line responsibilities and controls to provide sufficient coverage over the production, and sourcing of data
- Verification functions that provide an independent, effective challenge
- Attestation frameworks to enforce end-to-end accountability, from data providers to report owners

While RPG 702 and CPG 235 are practice guides, we note that APRA are simultaneously conducting surveys and workshops on global standard BCBS 239 Principles for effective risk data aggregation and risk reporting. We expect continued and increasing focus on initiatives to improve data quality with enforceable requirements.

### What are the key changes from the proposed guidance?

Consistent with the proposed guidance, the final RPG 702 inform ADIs on the criticality of the specific EFS data for the use of the agencies. This is intended to assist reporting institutions in meeting EFS quality control requirements and tailor data risk management practices outlined in CPG 235 Managing Data Risk. Based on industry feedback, the agencies have made the following clarification/changes:

- **Reporting errors**: The agencies have clarified that misreported items above the prescribed quantitative data quality benchmarks are considered as ‘reporting errors’ that should be notified to APRA. These errors should not trigger automatic resubmission, as the agencies will determine the need for resubmission.
- **Data priority and quality benchmarks**: A new very high priority’ category has been introduced, while ‘standard priority’ data items are now distinguished between a ‘high priority’ category and a ‘revised standard priority’. The latter are no longer subject to prescribed data quality benchmarks and a greater role for judgement is allowed in identifying reporting errors.

### What does this mean for audit/review requirements (APS 310 for ADIs / RRS 710 for RFCs)?

Auditors retain discretion in setting materiality levels and determining the extent of audit procedures required, however they are expected to take into consideration the data quality benchmarks.

The agencies acknowledge the likely increase of audit qualifications on the back book in the earlier stages of the EFS collection and will look to the auditors’ long form reports for details on their assessment of the data risk management framework and progress of data improvement programs.

### What does this mean for reporting institutions?

The agencies recognise that expected levels of data quality may not be achieved from the onset. They are encouraging reporting institutions to adopt better data quality management practices and will have continued engagement with the industry to review the effectiveness of RPG 702 in achieving the intended outcome. They are likely to pay particular attention to the following components of data risk management frameworks:

- **Risk appetite**: Some of the higher priority data may not be aligned on reporting institutions’ needs for management, prudential or financial reporting needs (e.g. counterparty residency, finance purpose).
- **Data validation throughout the data lifecycle**: Controls over the data capture should cover higher priority data, while controls over reporting shall operate within thresholds commensurate to the data quality benchmarks in order to ensure they detect reporting errors.
- **Monitoring and data issue management**: In addition to the completeness and accuracy of the data, data quality metrics should also measure timeliness, as the agencies expect reporting institutions to verify that counterparty and finance purpose classifications remain appropriate over time. Data quality metrics and root cause assessment of reporting errors will determine the need for data improvement program.
- **Independent assurance**: Programs should assess the appropriateness and effectiveness of the data risk management framework for EFS collection. Agencies expect themed deep-dive reviews of data, interpretations, systems, processes and controls for a given set of reporting forms or data domain.

In addition to the above, a robust process should be in place for the definition and maintenance of data proxies and reporting assumptions to ensure the data submitted is fit for purpose.

The below diagram depicts a simplified governance and controls framework for reporting where we have highlighted some key components for the EFS collection on the following page.
Three lines of defence: Financial institutions traditionally rely on the three lines of defence model for risk management. Globally these models have been enhanced to satisfy increased regulatory scrutiny over data quality.

First Line  Controls and data quality monitoring
Process and data owners identify, monitor and manage data risks in accordance with policies and standards. Controls implemented throughout the end to end data lifecycle may be preventative (e.g., 4 eyes check) or detective (e.g., reconciliations, analytics, etc.) and should be tailored based on the priority of the data and data quality benchmarks.

Control activities typically process or function specific

Second Line  Risk and controls assessment Verification
Governance function provide standards and policies for reporting related processes and data risk management. They oversee the compliance with the defined framework and the effectiveness of controls and risk management activities. An independent verification function (e.g., QA) should review the end-to-end reporting process/controls and perform testing to verify balances reported.

Oversee source-to-report process effectiveness and provide an independent, effective challenge to reporting

Third Line  Assurance
Assurance function that provide periodic governance, control, and risk management reviews of the end-to-end reporting lifecycle.

Focus on verifying first and second lines are compliant with policies/requirements and function effectively

Verification: Independent, effective challenge to the regulatory reporting process and data quality is expected by a growing number of regulators as part periodic deep-dives and quality assurance programs

- Verification of controls effectiveness throughout the end-to-end reporting processes from transaction data capture to reporting
- Review of documentation/reports for evidence of successful execution of processes

Population testing
- Verification of data completeness and reasonableness by using metrics to monitor the end-to-end data movement
- Measurement of pre-defined metrics of completeness/reasonableness of the entire population of regulatory reporting data

Sample testing
- Verification of the integrity and accuracy of calculations by validating the results of records selected to business requirements
- Sample transactions to verify the completeness, accuracy and timeliness of data

Data lineage: Reporting institutions are expected to perform data lineage for key data items to be reported in order to identify the underlying critical data elements that will drive the quality of the reports

Reverse lineage process for identifying elements on a report

Hop 1  Hop 2  Hop 3
Final Report  Intermediary System  Intermediary System  Source System

Objectives
- Document the source of the data and data touch points for systems and processes and data transformations
- Establish ownership of data by identifying key data management areas such as origin, aggregation and reporting
- Strengthen effectiveness of data quality processes and identify data issues, mapping issues and transformation logic challenges

Benefits
- Technical benefits to be realised: Increased traceability, reduced analysis time, improved controls, greater data insights and improvements, identify redundancies and enhance data management
- Business benefits to be realised: Facilitates compliance, ease of access and reuse of information, empower business users and improved processes

Attestation framework: Attestations play a key role in reinforcing end-to-end accountability, from data providers to report owners, and evidencing compliance with requirements, effectiveness of controls as well as accuracy and completeness of data

Data Providers
- Accuracy, completeness & timeliness of source data

Financial Process & Control Owners
- Performance & outcome of relevant procedures & controls

Reporting Process/Control Owners
- Completeness, accuracy & compliance of returns
- Performance & outcome of relevant procedures & controls

Report Owners
- Preparation & authorise the submission of individual returns

EY Regulatory Reporting contacts

Douglas Nixon
Partner, Financial Services Risk Management
douglas.nixon@au.ey.com

Janine Donelly
Partner, Performance Improvement
janine.donelly@au.ey.com

Steven Ruggio
Director, Performance Improvement
steven.ruggio@au.ey.com

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies around the world. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organisation and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organisation, please visit ey.com.

© 2018 EY Australia | All Rights Reserved | APAC no. AU00003239 | ED None. | PH1831358 ey.com