

Emerging trends of the regulatory reporting function operating model

2021 EY regulatory reporting
target operating model survey

March 2021



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Purpose and approach

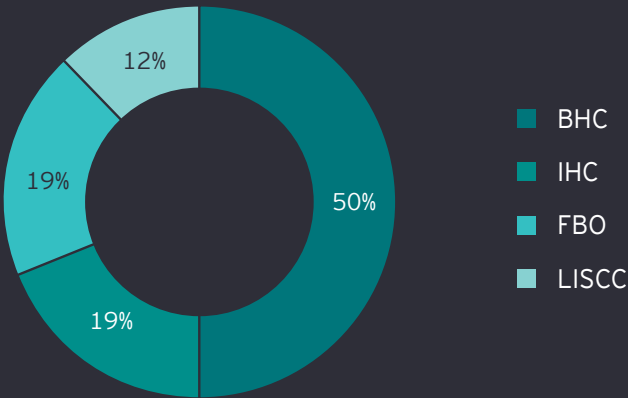
Ernst & Young LLP is pleased to present our target operating model industry survey of Regulatory Reporting Departments (RRDs). This survey supplements our broader industry regulatory reporting survey published in 2018 and was refreshed to identify current challenges and developments, focusing on industry trends and organizational structure. Survey respondents included seven out of eight Large Institution Supervision Coordinating Committee (LISCC) firms, US bank holding companies (BHCs), intermediate holding companies (IHCs) and foreign banking organizations (FBOs).

Responses indicate that the industry has undergone numerous changes due to continually increasing regulatory expectations and a desire to become more efficient. Additionally, the COVID-19 pandemic has forced firms to adjust their RRD target operating models by implementing work-from-home (WFH) policies and emphasizing a need for process improvement.

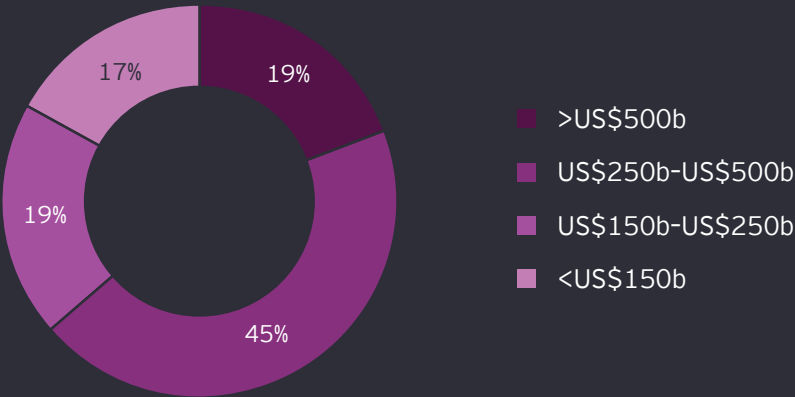


The 2021 regulatory reporting target operating model survey included responses from 36 firms. Our panel spans a variety of institution types and sizes.

Composition of survey respondents by firm designation



Composition of survey respondents by asset size (August 2020)



The survey consisted of 20 targeted online questions. The questions were aimed at understanding the regulatory reporting environment and identifying industry trends and practices with respect to the reporting operating model.

The individual responses of survey participants are confidential, and aggregated responses have been provided in this publication. We would like to extend our thanks to the participants of the survey.

For additional insights, please visit the [EY regulatory reporting](#) website, where you can find our 2018, 2015 and 2012 surveys.

Overview

Across the industry, RRD responsibilities have expanded due to increased reporting requirements and enhanced regulator expectations. As a result, firms are relying more heavily on nearshore and offshore resource models, increasing automation of report production, and leveraging shared services to support the production process. These changes, now combined with increased location flexibility due to WFH policies, triggered firms to review their target operating model and reassess their reporting structure. In addition, heightened regulatory focus on data quality has resulted in significant efforts to improve data quality and efficiency throughout the data life cycle.

The COVID-19 pandemic hastened an industry shift to a WFH environment in conjunction with hiring freezes and significant economic impacts around the world. Specific to RRDs, notable changes that were accelerated due to the pandemic include:

- ▶ Prioritizing future technology enhancements in coming years to expedite adoption
- ▶ Reassessing the physical location of employees, including increasing nearshore and offshore operations
- ▶ Responding to Federal Reserve Board (FRB) exams in a virtual, remote environment
- ▶ Fully transitioning to paperless reporting production, including electronic attestations and workpapers, which aided in a successful virtual close process

Roles and responsibilities

RRDs are continually evolving their team structures to support production and non-production activities.

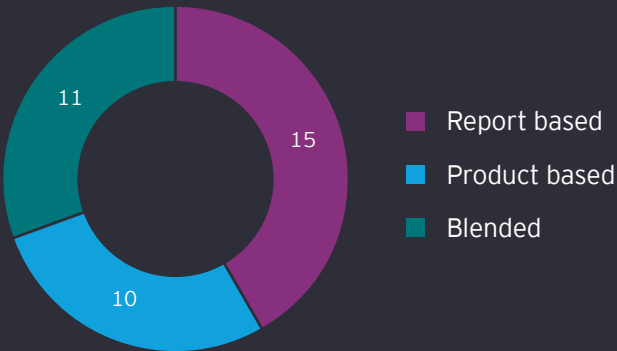


Survey respondents were asked how their production team is structured: report-based (i.e., resources aligned to specific reports), product-based (i.e., resources own products across reports) or blended (i.e., both approaches are leveraged) model. More than half of LISCC firms (57%) use a blended approach of both report- and product-based teams. Responses from firms with <\$200b in total assets were more varied:

- ▶ Report based – 38%
- ▶ Product based – 38%
- ▶ Blended – 24%

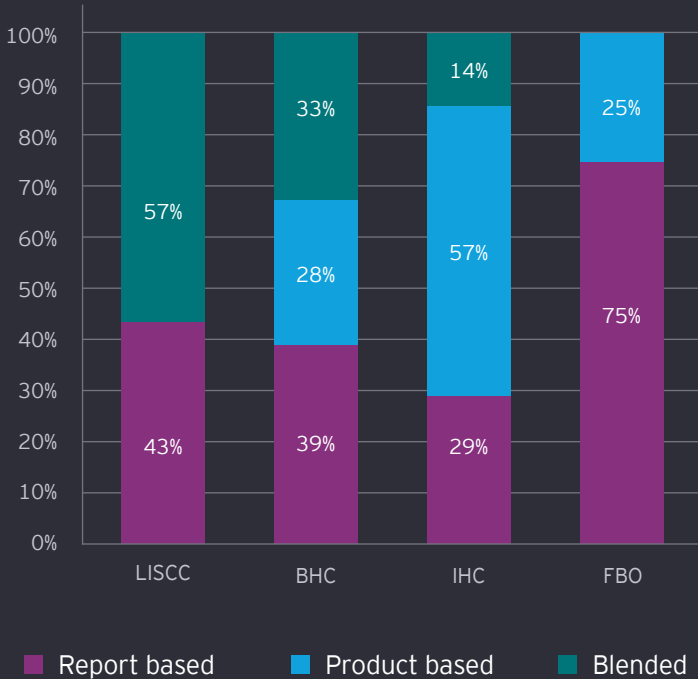
This appears to indicate limited to no consistent report production approach taken across similar-sized institutions.

Survey question: How is the production team structured?



Although survey results indicate that report-based production remains the most common method to execute work (41% of respondents), larger and more complex firms appear to be adopting a blended approach to take advantage of increased efficiencies and consistencies during the production process. As firms review their own regulatory reporting operating model, they will need to assess which methodology makes the most sense for their organization - taking into account the potential costs and benefits of transitioning to a blended model.

Production team structure by institution type



When comparing the 2021 and 2018 survey results, several firms indicated increased ownership of liquidity and Basel reporting with many RRDs owning the FR 2052a, FFIEC 101/102 and other risk-based reports. Additionally, broker-dealer regulatory reporting responsibilities have been consolidated under regulatory reporting in recent years, resulting in an increase in ownership.

The table below shows how ownership has changed since the 2018 EY regulatory reporting survey:

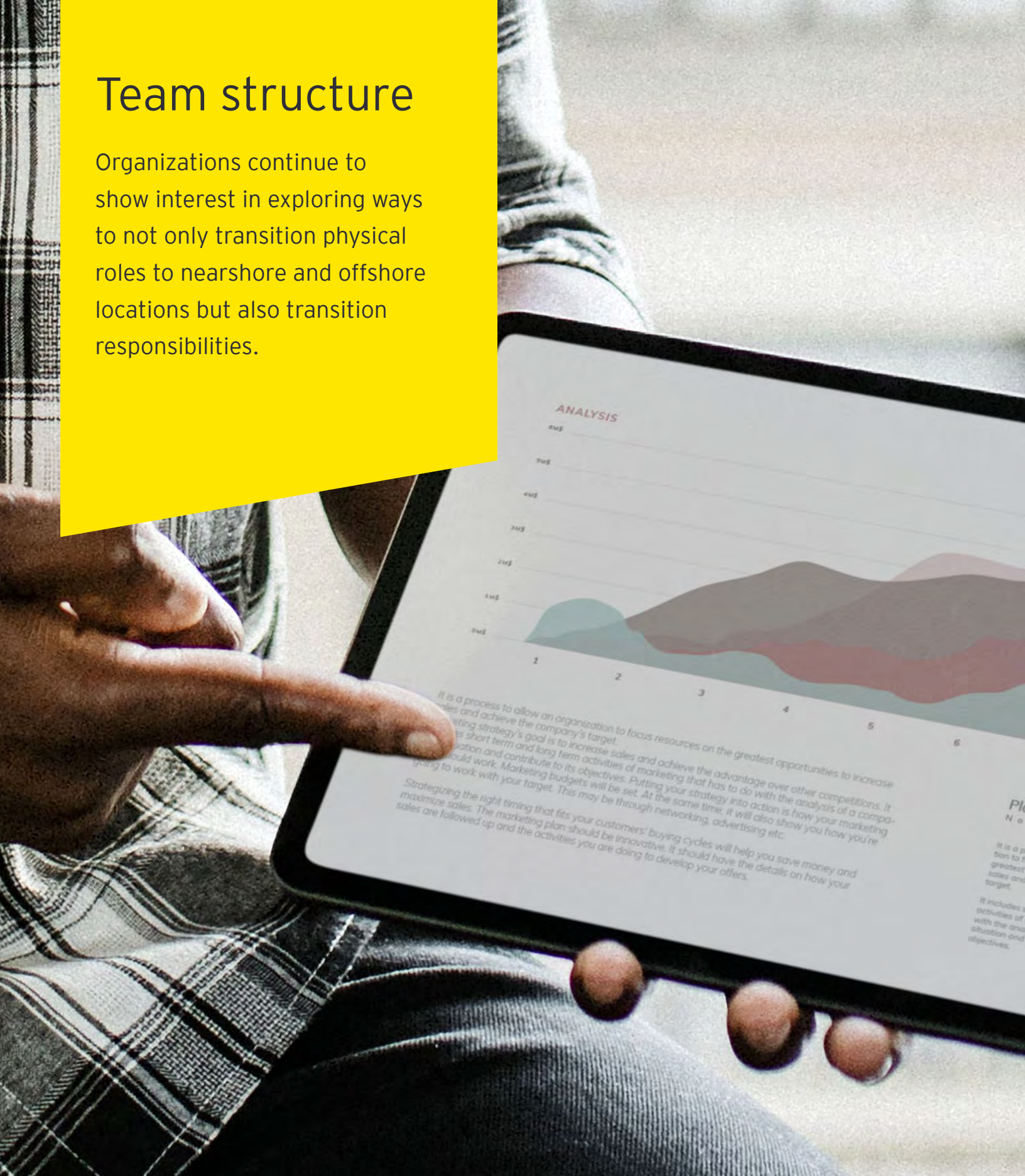
Report	2018	2021
Financial reports (FR Y-9C, Call, FR Y-11, FR Y-15, etc.)	100%	100%
FR Y-14Q/M	74%	96%
FR Y-14A actuals	52%	58%
FR Y-14A projections	35%	28%
Liquidity/treasury (FR 2052a/b, LCR)	46%	65%
Basel (FFIEC 101, FFIEC 102)	73%	89%
Structure FR Y-10	47%	57%
Broker-dealer	13%	38%
TIC reports	90%	94%

■ Highlights the most significant changes between the 2018 and 2021 surveys

Note: The figures above only include responses that identified the report to be applicable to the reporting firm.

Team structure

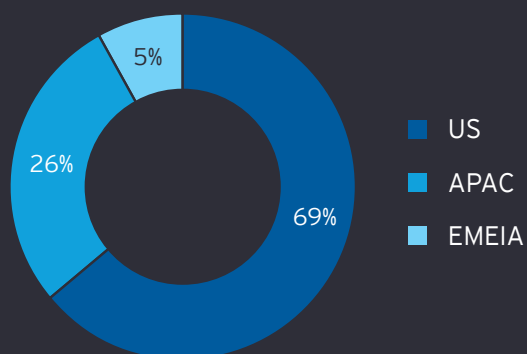
Organizations continue to show interest in exploring ways to not only transition physical roles to nearshore and offshore locations but also transition responsibilities.



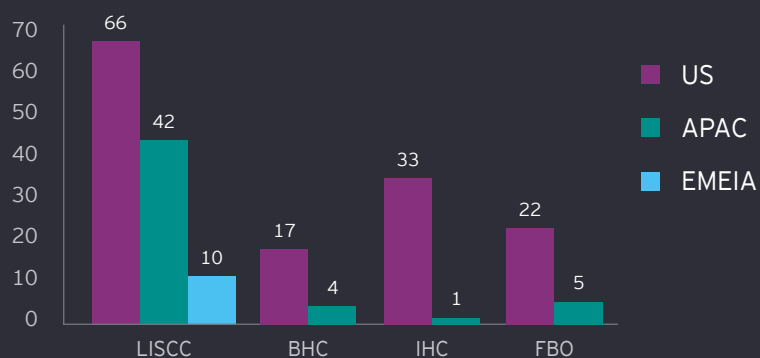
As firms review their team structure and location strategy, they need to assess their team's skill sets, identify gaps, and determine the feasibility of automation and nearshore and offshore opportunities. Survey results indicate:

- ▶ **71%** of LISCC firms use nearshore and 51% use offshore resources for their reporting processes, while 80% of BHCs with total assets of >US\$250b split resources between either nearshore or offshore locations.
- ▶ **16%** of BHCs <US\$250b use either nearshore or offshore resources. Lack of infrastructure to maintain a global footprint is a challenge for BHCs with <US\$250b of total assets, especially in regard to defining and enforcing accountability, issues management, and ownership of regulatory reporting capabilities.
- ▶ **86%** of IHCs leverage both higher- and lower-cost locations within the US, while only 14% leverage both nearshore and offshore resources.

% of full-time equivalents (FTEs) by location



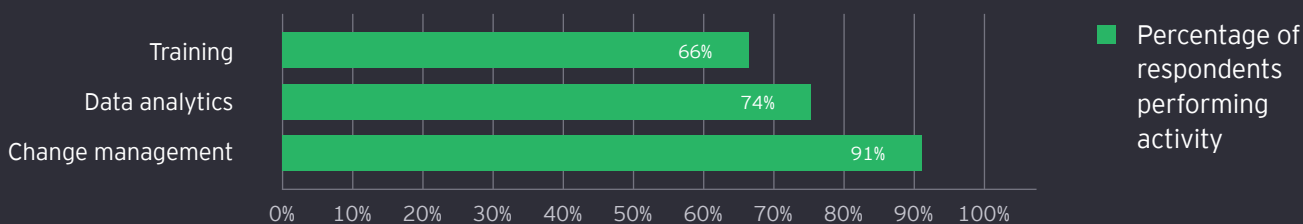
Average number of FTEs by location and institution type



Firms have typically experienced an overall successful transition to the WFH environment, demonstrating that successful arrangements for remote work are more feasible than originally anticipated. This new emphasis on remote work has opened up more flexibility in hiring as firms are no longer limited to typical higher-cost locations (e.g., New York City, San Francisco) and are able to leverage new nearshore locations that previously were not options. Several of the larger firms that participated in the survey are creating or growing nearshore operations.

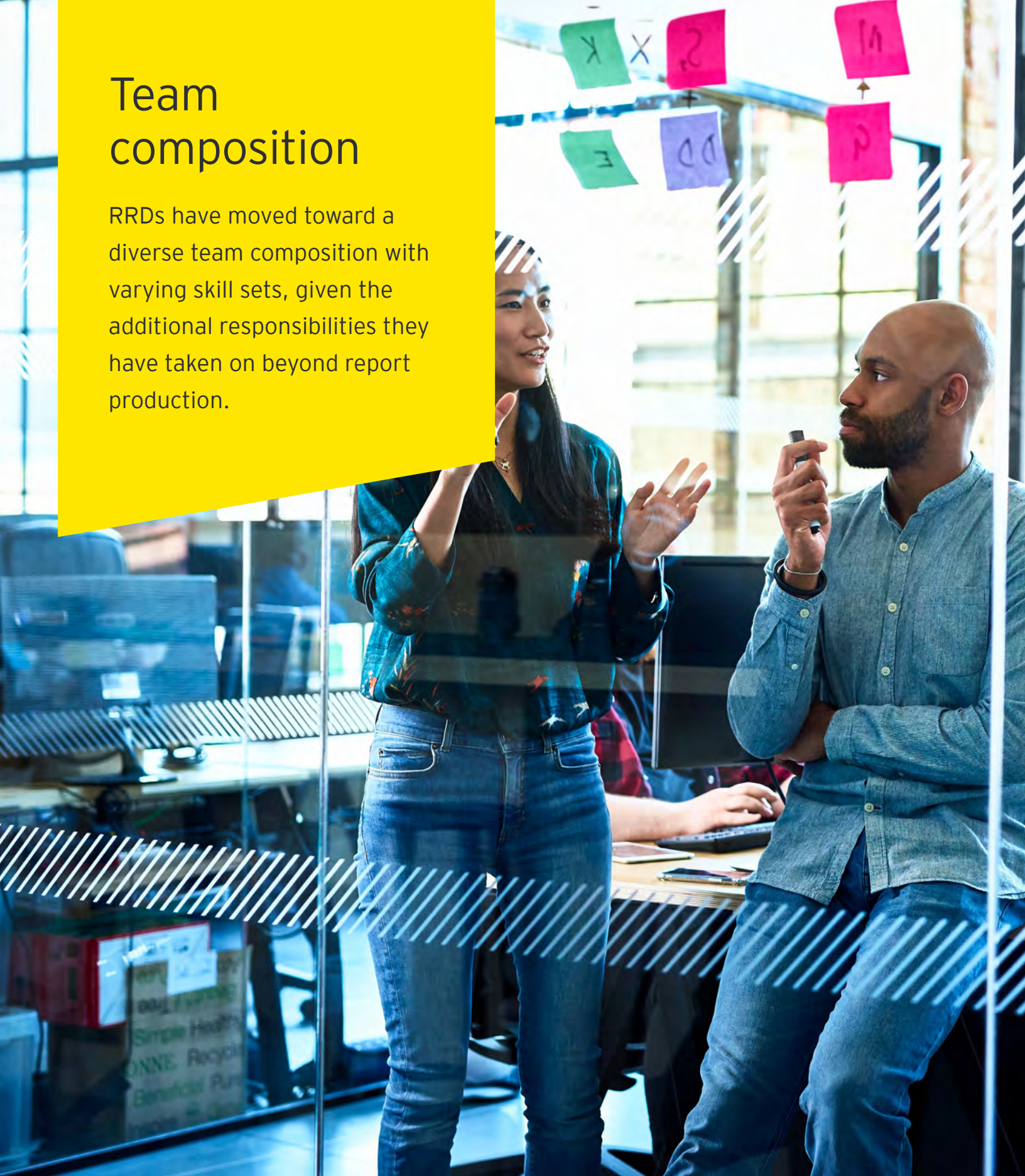
RRDs have seen an increase in responsibilities outside the report production process. Firms also identified interest in increasing their RRD sizes due to expanding reporting requirements, heightened FRB exam focus and increasing non-production responsibilities. The survey indicated these additional responsibilities include the following:

Survey question: Which of the following activities are performed by the regulatory reporting production team?



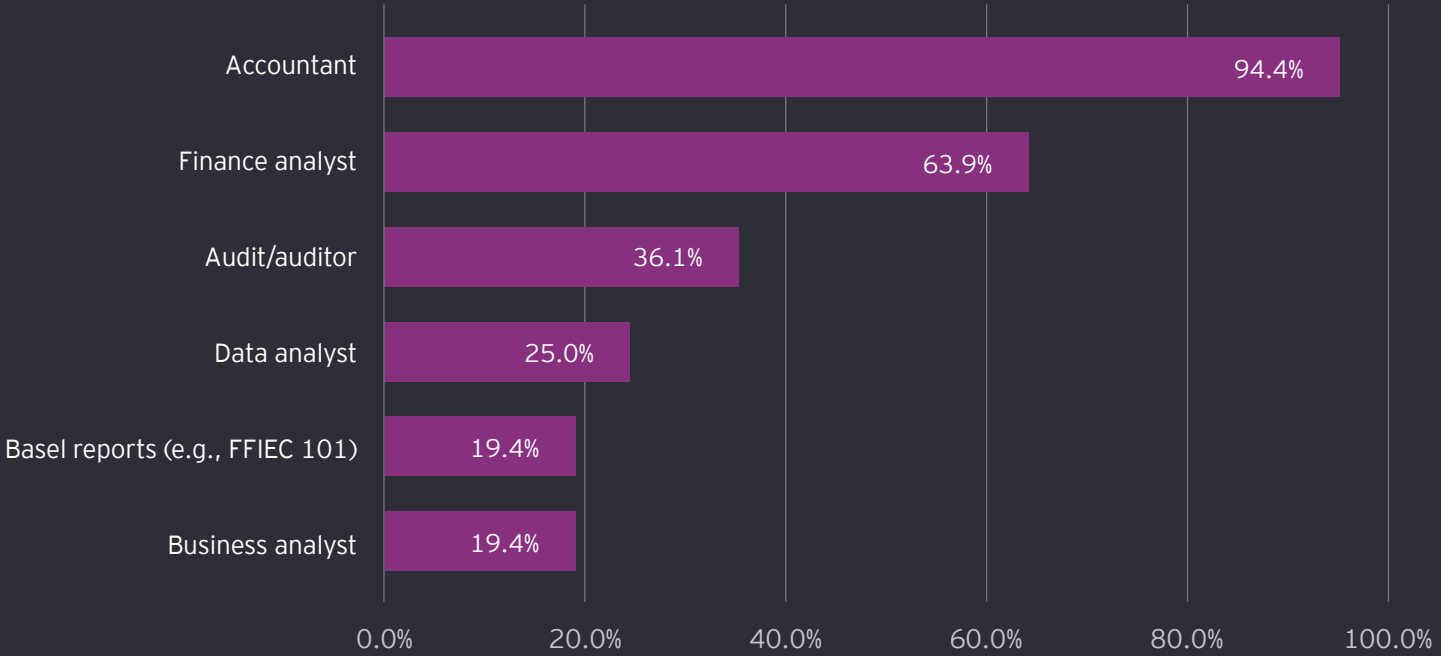
Team composition

RRDs have moved toward a diverse team composition with varying skill sets, given the additional responsibilities they have taken on beyond report production.



Participating firms indicated the need for more specialized regulatory reporting expertise as RRD functions may be required to support risk reports, capital reporting and/or liquidity reporting. As such, firms are enhancing training programs to target the nuances of challenging and ambiguous reporting requirements. In addition, as regulators have begun making more data-specific requests, RRDs are looking to supplement their existing team skill sets with data science and engineering experience.

Firms were asked to identify the top three skill sets representing the composition of their team. Below are the top six skill sets reported by firms:



Like surveys in the past, firms indicated a continued struggle with balancing the need for additional headcount with their budget constraints. Some other key resource challenges include:

- ▶ Balancing supporting the production cycle and the non-production work expected to be completed by the RRD (e.g., not enough resources to support production, time spent on non-production initiatives)
- ▶ Finding resources and time to support automation activities (e.g., user acceptance testing (UAT) support, defining report requirements)
- ▶ Addressing independent verification findings (e.g., quality assurance, internal audit, FRB) and restatement activities
- ▶ Improving the accountability and control environment to meet the FRB's expectations
- ▶ Hiring resources with the required skill set and other technical knowledge of regulatory reporting

Below is a ranking of the most common resourcing concerns by reporting institution:

Ranking	Concern		Institution type
1	Not enough resources	>	LISCC, BHC, IHC, FBO
2	Non-production activities	>	LISCC, BHC, IHC, FBO
3	Resources lacking required skill set	>	BHC, IHC, FBO
4	Attrition	>	LISCC

Innovation and technology

Automation continues to be a priority, with a focus on streamlining the report production process.



Survey results found that 46% of RRDs indicated their overall regulatory reporting production process is greater than 60% automated, and 14% indicated greater than 80% automation. No LISCC firms indicated having greater than 80% automation.

While RRDs continue to increase their level of automation, they are also beginning to see a corresponding increase in the amount of time resources allocated to supporting those automation efforts (e.g., requirement development, UAT support).

91%

of firms indicated that they are looking to implement technology enhancements, including workflow tools, vendor reporting tool (e.g., Axiom) enhancements and various data analytic tools.

49%

of firms ranked implementation of advanced technology as a top-three key challenge, citing limited management support, data quality issues and partnerships with IT.

40%

of firms indicated that their resources spend 25% or more of their time supporting automation efforts.

Current automation enhancement plans include implementing various data initiatives focused on improving data quality through data sources, onboarding workflow and reconciliation tools, and widening the scope of automated reports. Firms have indicated in-flight activities aimed at improving functionality and standardization across the enterprise, including:

- ▶ Shifting from on-premises storage to the cloud and adopting cloud reporting tools
- ▶ Increasing data quality by moving to centralized data warehouses

Although firms still struggle with data quality and data capture issues, enhancements over the past several years have allowed firms to also focus on strategic automation and analytics.

In addition, there has been an increased emphasis on the adoption and enhancement of methods to perform intra-report reconciliations. To facilitate reconciliation across multiple reports, firms are exploring building in-house solutions and leveraging third-party tools to develop more robust intra-report reconciliation processes. Increased automation also presents several challenges related to the implementation of advanced technologies, which include:

- ▶ Integrating advanced technologies with existing processes
- ▶ Balancing budget and growing resourcing needs
- ▶ Determining best fit, design and functionality alongside other departments
- ▶ Implementing and/or expanding the use of Robotic Process Automation (RPA), workflow tools and visual analytics platforms

Future of the regulatory reporting landscape

Regulatory reporting requirements continue to evolve in light of heightened regulatory expectations.



As the future of finance evolves, new challenges have emerged that impact the regulatory reporting landscape. These challenges have influenced themes that many RRDs have added to their agenda for 2021 and beyond. Firms continue to look for resources with the correct skill sets necessary to support automation efforts, data analytics and technical reporting requirements. Further, RRDs need to challenge their current operating model and look to identify opportunities for additional efficiencies including outsourcing lower-value activities, automating manual tasks, and streamlining report production roles and responsibilities.

By enhancing the level of report automation and streamlining processes through workflow tools, firms have increased the efficiency of their operations. Additionally, many firms have further supported their automation efforts by addressing data quality and granularity issues through training and the use of data lakes. Moving forward, firms are also looking to advance their digital agenda through digital tooling and increased migration of on-premises data-to-cloud storage solutions. The recent emphasis on these areas will enable teams to easily leverage advanced analytic tools due to decreased manual intervention previously needed to clean and transform the data.

With regulatory reporting expectations increasing, firms must balance their focus to efficiently manage activities. By utilizing managed service options, many processes that internal teams may struggle to deliver cost-effectively can be outsourced. These providers can deliver scalable solutions to many areas, including training, data analytics, transaction testing, interpretive office and data dictionary. Other flexible operating models may opt to increase shared service delivery and/or develop teams in nearshore and offshore locations to address these areas.

The COVID-19 pandemic pressured firms to quickly adapt to extreme circumstances, putting technology and flexibility at the forefront of necessary adaptations. With the transition to remote working, IT operations became more efficient and firms improved their environmental footprint by traveling less and moving to paperless reporting. Although this transition to remote working has been mostly successful, many employees are feeling pressured to be on call indefinitely, now that the clear break between work life and home life has dissolved. This has created new challenges with employee burnout and higher employee turnover.



Conclusion

As digitalization and automation continue to put pressure on operating models, we expect that continued automation and innovation, as well as exploration of new, lower-cost work locations, will be key areas of focus for many firms in future years, helping the industry keep pace with upcoming changes as the broader regulatory environment continues to evolve in 2021 and beyond.

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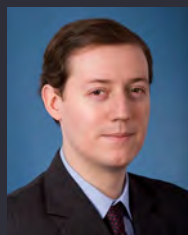
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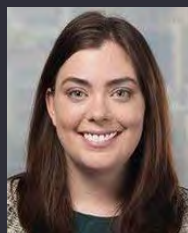
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