

# Regulatory reporting optimization through managed services

June 2021

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow diagonal line is positioned behind the 'Y', extending from the top right towards the bottom left.

Building a better  
working world

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## Introduction

Regulatory reporting (RR) departments today face challenges in adhering to a constantly changing regulatory agenda, making sustainable technology investments, reducing or minimizing overall costs and retaining functional-specific talent.

While proprietary and tactical solutions have been the preferred method in the past, firms' priorities around automation are increasingly becoming more apparent and firms are beginning to explore new options to transition to innovative solutions with increased transparency, better technology and enhanced processes (including engaging in managed services).

Below are key high-level statistics from a recent market survey, including a geographical shift in resources (FTEs):

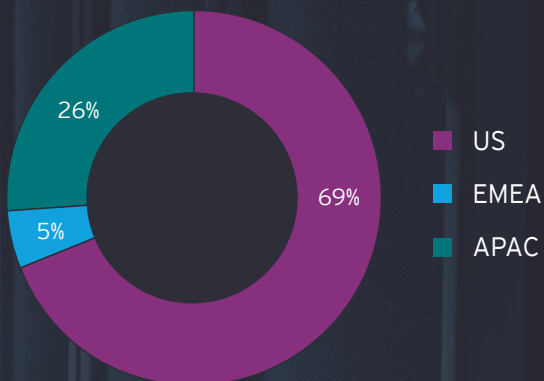
**49%**

of firms ranked implementation of advanced technology as a top three key challenge.

**91%**

of firms indicated that they are looking to implement technology enhancements including workflow tools, Axiom enhancements and various data analytic tools.

### Percentage breakdown of RR group FTEs by geographic location



- ▶ Firms are moving to shared service approaches, leading to an increase in automation and responsibilities outside of report preparation.
- ▶ Compared to 2018, team size continues to increase due to additional responsibilities.

## What are managed services?

Managed services focus on transitioning highly manual and repetitive processes that can be performed effectively through a third party while relying on end users to perform final reviews and approvals. In addition, managed services offer cost-saving opportunities for firms through innovative technology/data architectures and streamlined enhancements of the firm's operating model.

As it pertains to the regulatory reporting function, managed services address complex regulatory requirements focused on minimizing the risk of noncompliance and concurrently enhancing data quality overall through quality controls on data to enable completeness, accuracy and timeliness of critical data elements from multiple sources – an ongoing industry challenge.

The following sections provide a view into key industry challenges, overviews of the solutions developed to address the challenges, and the benefits across the three key functions (with change management processes as a central function across all three):



# Report production process automation



## Key industry challenges

Firms in the industry are struggling to identify effective, sustainable and economical solutions that address challenges related to the evolving regulatory environment and the high volume of internal changes. The reliance on legacy technologies and the lack of automation leads to significant dependency on human resourcing and reduced transparency to management. As a result, chief financial officers are beginning to focus on how technology-enabled solutions can reduce end-to-end reporting costs, increase scalability and resiliency, and provide real-time business insights and KPIs for enhanced executive decision-making.

### Dynamic regulatory environment

Regulatory changes lead to increased investment of time and money to ensure compliance

### High production volumes

High volume of output in upward of 1,000 distinct deliverables period to period

### Labor arbitrage

Difficulty taking advantage of labor arbitrage across the key global regions

### Lack of exception-based review

Inefficient exception identification processes lead to manual intervention

### Frequent change

Functions are subject to constant, high velocity internal and external change

### Rigid legacy technologies

Managing changes to data sources and providers is inefficient with current systems

## Objectives

Utilize enhanced processes and innovative technology to automate report production process. Shift from solutions that simply comply with business and regulatory demands to more innovative tools with enhanced analytics and visualizations to derive real-time business insights and enable enhanced executive decision-making. Although there are several reporting solutions and tools that can enhance the report production process, firms need to find the right solution to meet their overall reporting needs. At right are key considerations as firms begin to understand solutions available:

### Cost reduction and efficiency

- ▶ Acquire and validate data once, then use it across multiple functions
- ▶ Reduce technology spend while increasing resource capacity

### Scalability

- ▶ Predictable cost structure that remains competitive as the business grows
- ▶ Streamlined onboarding and cost certainty based on volume

### Transparency

- ▶ Real-time view into reporting status using interactive dashboards
- ▶ Prior period auditability and increased transparency for executive decisions

### Risk mitigation

- ▶ Operational automated controls for completeness and accuracy
- ▶ More timely deliverables and a compression of cycle times

## Solution overview

Based on industry demand, the global EY organization of member firms, including Ernst & Young LLP (EY US), has developed the EY Comply (EYC) solution, which focuses on increasing efficiencies throughout report production and related processes. The solution minimizes costs and mitigates production risks while enabling transparency throughout the data validation, enrichment and transformation process through to the final report production

EYC combines our core business capabilities of investment and financial accounting, corporate and fund finance, operational risk management and global regulatory compliance requirements across banking, asset management and insurance through innovative technology and a global service delivery model. The foundation of the platform is a data sourcing, data validation, data enrichment, data reporting architecture. These capabilities are applied across multiple domains to meet firm-specific objectives:

1

**Facilitate** enhanced data management capabilities

2

**Automate** critical finance reporting objectives

3

**Transform** critical reporting process oversight into actionable management analytics

### Core business capabilities

- ▶ Business solutions
- ▶ Delivery enablement
- ▶ Business capabilities
- ▶ Technology capabilities

We leverage our core competencies across accounting, finance, risk and compliance.



### Innovative technology platform

- ▶ Cloud-enabled web interface
- ▶ Timely, accurate data acquisition
- ▶ Systemic data controls using AI
- ▶ Automated enrichment and transformation

Our innovative use of technology drives automation and scale across multiple operational functions.



### Global delivery network



Our resource model is flexible and globally co-located to drive efficiency and effectiveness.

The modular design of the EYC platform enables process and system handoffs within existing ecosystems. EY is committed to continual investment and expansion of services and modulates for the finance executive to drive value and maintain the platform in line with regulatory requirements.

In addition, the EYC service model is based on a dedicated and experienced team of resources based on local support and a globally consistent service model. The operations

team conducts the first- and second-level reviews to confirm results conform with completeness, accuracy and timeliness requirements prior to end-user final review and sign-off. Reviews are driven by a workflow tool that aligns reports to roles within your organization and data visualizations and drill-down reports to enable comfort with data underlying the report components prior to final sign-off.

# EY regulatory reporting testing as a service





# EY testing as a service

## Key industry challenges

The industry is seeking to effectively perform regulatory reporting transaction testing and control testing activities that support quality assurance or internal audit program objectives and meet regulator and report production team expectations. Firms are struggling to find capable resources with the requisite level of regulatory reporting subject-matter knowledge and testing experience to effectively manage, execute and sustain these programs over a multiyear horizon. To address this, firms are seeking to identify tools and resourcing models that allow for a sustainable transaction testing program.

## Objectives

Objectives include enhancing the development, assessment and execution of regulatory reporting testing programs through internal transaction testing support in their quality assurance and internal audit functions.

However, goals across the industry for transaction testing efforts vary greatly in duration and scope. Activities range from program setup, to development of risk prioritization frameworks and multiyear coverage plans, to testing execution of targeted reports. Testing execution support primarily includes transaction testing and, in some cases, control testing.

<p><b>1</b></p> <p><b>Reduction of risk</b></p> <ul style="list-style-type: none"><li>▶ Reduction of regulatory risks with FRB and OCC</li><li>▶ Reduction in potential regulatory remediation costs</li><li>▶ Program risk is shifted to the managed service – execution and resource risks are mitigated</li></ul>	<p><b>2</b></p> <p><b>Scalability</b></p> <ul style="list-style-type: none"><li>▶ Ability to rightsize resourcing to align to plan</li><li>▶ Service model scales the volume of transactions</li></ul>	<p><b>3</b></p> <p><b>Industry regulatory insights</b></p> <ul style="list-style-type: none"><li>▶ Regulatory insight from former regulators and supervisors</li><li>▶ Industry insight across regulatory reports and testing</li></ul>	<p><b>4</b></p> <p><b>Cost effective</b></p> <ul style="list-style-type: none"><li>▶ Economies of scale around collateral and people, coupled with a blended onshore and offshore team, to minimize program and ongoing costs</li></ul>
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## Solution overview

The EY regulatory reporting testing-as-a-service offering was developed in response to an observed industry need and addresses several crucial client-specific objectives and benefits. The testing program leverages people and technology investments to meet requirements while reducing costs through efficiencies, accelerators and economies of scale. Testing-as-a-service efforts are multiyear in duration, and the scope of activities focuses on end-to-end testing program execution.

Key benefits include reduction of risk, scalability, predictability and cost effectiveness. These benefits are achieved using a proven process supported by seasoned EY onshore and offshore professionals who leverage a library of accelerators and templates, along with an array of subject-matter advisors, including former regulators.

Regulatory  
reporting  
interpretive  
function/technical  
advisory office



## Regulatory reporting interpretive function/technical advisory office

### Key industry challenges

The industry continues to face challenges resulting from the numerous regulatory reporting changes, including new requirements, changes to existing reports and regulator guidance. The pace, volume, complexity and ambiguity of these changes has resulted in the increased need for dedicated resources responsible for formally reviewing and providing interpretive guidance to various internal stakeholders. Many reporting functions, however, lack the resources with the requisite level of technical subject-matter knowledge to effectively assess the reporting and provide guidance across the reports. In addition to evolving requirements, there is limited transparency surrounding industry standards and leading practices for establishing a formalized interpretive function and around applied guidance.

Numerous regulatory requirements with increased complexity and ambiguity

Lack of resources with required subject-matter knowledge/technical knowledge given the ever-increasing breadth and depth of requirements

Limited transparency into industry standards and leading practices

Ability to meet surge demand for reporting guidance as a result of new filings, regulatory examinations and instruction changes

Logistical challenges to centralize, track and archive reporting advice

### Objectives

Improve regulatory reporting processes broadly, inclusive of intake, analysis and review of regulatory reporting interpretative issues. As part of the ongoing efforts to enhance overall data quality, including report accuracy, consistency and timeliness, firms are beginning to implement regulatory reporting interpretative functions. The interpretive office function is responsible for reviewing, assessing, interpreting and drafting formal guidance for the firm's various stakeholders (e.g., regulatory reporting owners, business areas, quality assurance functions, internal audit). In this capacity, the function eliminates inconsistency in how reporting requirements are interpreted and implemented across the organization. The interpretive office also serves as an intermediary, facilitating communications and submitting interpretative questions to regulators and/or presenting related topics to industry peer groups for discussion and soliciting feedback.

Given the ever-increasing volume and complexity of regulatory reporting requirements, along with increased regulatory scrutiny, the timely ability to provide interpretive guidance because of requirement complexity and ambiguity is critical for accurate reporting. As firms consider implementing interpretive office functions or aligning dedicated resources to this process, it is essential to account for effective resource planning, cost management, standard processes and alignment of practices with regulatory expectations to establish and implement a sustainable function.

Additional challenges or considerations when deciding to implement this type of function is dependent upon the level and nature of the demand for interpretative guidance across the various stakeholder groups, and the technical subject-matter knowledge of the resources employed to implement and manage this function on an ongoing basis.

1

Create a sustainable process to submit, discuss and resolve interpretative questions.

2

Develop and maintain an interpretative library housing interpretative questions and guidance.

3

Provide timely guidance and escalation needs for interpretative questions.

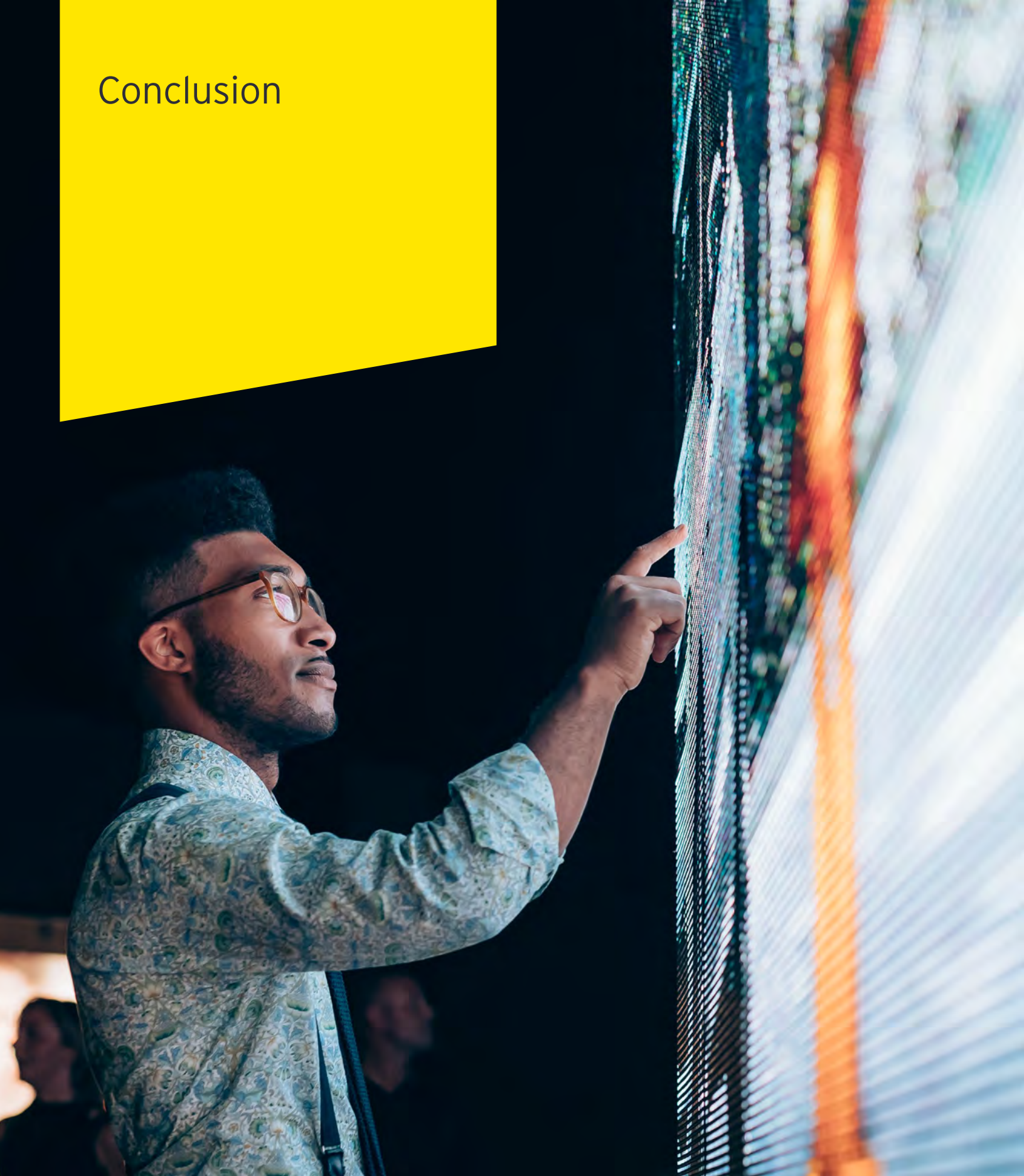
### Solution overview

In response to industry demand, EY teams have supported and continues to support firms in building and, in some cases, providing longer-term support for designing and managing regulatory reporting interpretive offices. These services range from a full-service interpretive function to more limited on-call advisory support.

EY teams brings a proven process supported by seasoned professionals, including former regulators, with an understanding of industry practices and regulator expectations. Through economies of scale, process templates and a library of existing guidance, EY teams can help firms achieve cost improvements relative to building and operating an in-house function, while simultaneously mitigating risk, providing industry perspective, avoiding ongoing resourcing challenges and addressing subject-matter knowledge gaps.

To best support industry needs and further achieve economies of scale and cost improvements, EY teams are working on introducing a regulatory reporting technical advisory function as a service that would offer the ability to submit and receive guidance related to regulatory reporting interpretive questions through an online portal, along with access to a centralized library of interpretive guidance that incorporates regulatory expectations and industry practices, where applicable.

# Conclusion



In summary, managed services are evolving to become an essential asset for institutions as they continue focusing on transformational priorities. By migrating targeted business functions to third-party vendors, firms can realize the benefits of extensive industry knowledge and speed-to-implementation leading practices, resulting in reduced costs, reduced risks and overall enhanced processes. Additionally, by implementing managed services that are scalable within the regulatory reporting function, firms can further maximize their return on investment.

## Other related topics

Based on industry conversations and demand, EY teams have developed additional services to provide continuous support to organizations we serve.

### Change management

Emerging challenges for firms regarding change management processes will require collaboration across all teams to be successfully executed. Both external and internal changes are likely to affect regulatory reporting processes, and it's important for organizations to implement formalized processes to track, review and communicate any changes that impact regulatory reporting.

### Data analytics

Emerging trends in the usage of regulatory reporting data analytics provide increased comfort around the data accuracy prior to regulatory submission. The *Future of data analytics in regulatory reporting: Art of the possible* brief discusses how dynamic analysis can optimize financial institutions' regulatory reporting processes.

### Data dictionary

Report-specific data dictionaries help provide transparency, consistency and accuracy of the regulatory reports. The *Spotlight on the regulatory reporting data dictionary* brief discusses:

- ▶ Conformance with instructions process and report data dictionary
- ▶ Key challenges in conforming with instructions
- ▶ Benefits/sustainability of the report data dictionary

### Training

A strong regulatory reporting program includes a sustainable training program capability. The *How to build an effective regulatory reporting training program* brief discusses how a strong regulatory reporting training program reduces errors, enhances accountability and improves the overall control environment at organizations.

# Key contacts



To learn more about how the changing regulatory reporting environment might affect your organization and how Ernst & Young LLP can help, please contact one of our professionals:



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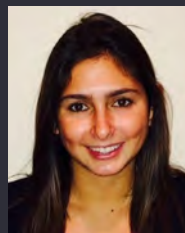
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