

# Regulatory Reporting Best Practices

April 28, 2009

# Regulatory Reporting Overview

Kenneth Lamar

# Objectives

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- What are the goals of regulatory reporting?
- Where are the pitfalls?
- How to mitigate these?

# Purpose of Regulatory Reports

- Regulatory reports are collected for many purposes:
  - Monitoring safety and soundness on the individual legal entity level (e.g., regulatory capital)
  - Monitoring systemic risk in the banking and financial systems
  - Monetary Policy (measurement and operations)
  - Cross border flows (individual exposures and position of countries)
  - Compliance

# Purpose of Regulatory Reports

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- This results in the Federal Reserve System collecting:
  - Over 80 reports
  - Different cuts
  - Different definitions
  - Different consolidation rules

# Purpose of Regulatory Reports

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- Report design focuses on
  - The need for data balanced by cost
- Robust review process is in place
- Dialogue with the financial services industry is key to good report design

# Pitfalls

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- Static databases
  - Often cause significant classification errors (e.g., CIFs, security databases)
  - Business lines need to:
    - Understand the regulatory reporting requirements
    - Be accountable
    - Have open communication and partnership with the regulatory reporting

# Pitfalls

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- Legal entities matter
  - Regulatory reporting is based on legal entities
  - This may differ from internal business line controls and measurements
    - The more complex a firm, the more difficult it is to report by legal entity
    - Accountability becomes difficult to identify

# Pitfalls

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- Regulatory reporting viewed as back office process
  - Not involved in new product development or accounting policy
  - This can result in misstatements and unintended consequences of regulatory rules

# Pitfalls

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- Mergers and acquisitions
  - Always a regulatory reporting challenge
  - Long term integration planning for regulatory reporting and source system are key
  - Communication with regulators before, after and during the merger/acquisition is critical
  - Planning and communicating work around (avoid significant errors)

# Best Practices

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- Automate
- Document
- Review
- Communicate (Ask and Learn)

# Best Practices

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## ■ Automation

- Data are only as good as their source
- Reg reporting software should interface with the G/L and related subsystems
  - Minimum manual intervention
  - Limit the use of spreadsheets
- Leverage business solutions for regulatory reporting

# Best Practices

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- Ensure quality of static databases
  - Are they:
    - In line with reporting requirements
    - Reviewed regularly
    - Clear to business lines

# Best Practices

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## ■ Documentation

- Procedures for preparing each report should be available
- Reconciliations and manual adjustments should be clearly documented
- Accounts, products descriptions and accounting policies should be clear and readily available to preparers
  - This includes reserves and valuation polices

# Best Practices

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- Review and approval
  - Data should be thoroughly reviewed before submission (including a management review)
  - Document reasons for unusual/significant changes
  - Include the ability to conduct analysis in regulatory reporting systems
  - 80/20 rule

# Best Practices

- Learning and communicating
  - Work closely with business lines, accounting policy and audit (both internal and external)
  - Stay apprised on accounting and regulatory changes (even though they might not seem to affect you)
  - Speak regularly with your supervisor and data collector
  - Complex issues should be documented
- Participate in the report design process
  - Industry Groups
  - Federal Register Notices

# Mitigating the Impact of Reporting Changes

- The analysis of effect should include:
  - What is the purpose of the request?
  - How available are data?
  - How are “like data” being used internally?

# Mitigating the Impact of Reporting Changes

- The analyses of the impact should include:
  - Are there ways to collect data that would be less burdensome?
  - Are business lines engaged?
  - What are the transition issues?
    - Lead time
    - Conflicts

# Mitigating the Impact of Reporting Changes

- Resources to follow reporting changes:
  - FRBNY Website
  - Federal Register Notice
  - BIS Website
  - Treasury Website

# What To Do After Reporting Changes Are Final?

- Involve all applicable business lines as early as possible
- Ensure resources are available
  - Automation resources
- Discuss with data collector any vague issues

# Regulatory Reporting Best Practices

Patricia Maone

# Regulatory Reporting Best Practices

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## Objectives

- Define Best Practices
- Internal Control Guidelines
- General Ledger

# Regulatory Reporting Best Practices

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- What are best practices?
- Failure to comply with regulatory reports
  - Civil money penalties
  - Legal and reputational risk

# Internal Control Guidelines

# Internal Control Guidelines

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- Definition
  - Methods and procedures to provide reasonable assurance for the accuracy of regulatory reports
- 1991 Federal Deposit Insurance Improvement Act
  - Audited financial statements
- 2002 Sarbanes-Oxley Act, Section 404
  - Internal controls over financial reporting

# Internal Control Guidelines

## Control Type

## Description

*Preventive*

Policies and procedures to prevent errors. Normally applied to **individual transactions** (customer information files, FX, interest rate swaps, etc.)

*Detective*

Policies and procedures designed to detect and correct errors that might preclude the achievement of the relevant process. Generally **applied more broadly** (review and analysis of regulatory reports).

# Internal Control Guidelines

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- Control Principles
  - Segregation of Duties
  - Review and Approval
  - Interpretation of Instructions
  - Documentation
  - Training Program
  - Accounting
  - Record Retention

# Internal Control Guidelines

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- Segregation of Duties
  - Preparation and review

*An inadequate segregation of duties could lead to misstated regulatory reports.*

## Best Practice

Design a system of checks and balances to decrease the likelihood of errors.

# Internal Control Guidelines

- Review and Approval
  - Management review and approval of regulatory reports

*As a result of an inadequate review and approval process, errors may be overlooked.*

## Best Practice

A review process of reports should be performed by a senior level to detect potential problems with data.

# Internal Control Guidelines

- Interpretation of regulatory reporting instructions
  - Understanding of instructions
    - Relationship between regulatory reports and public financial statements

*Limited understanding of regulatory reporting instructions and lack of reconciliation between reports/schedules result in inaccurate regulatory reports.*

# Internal Control Guidelines

- Interpretation of regulatory reporting instructions

## Best Practices

Review the report specifications for all regulatory reports and compare to regulatory reporting instructions to ensure specifications are in compliance with the instructions.

Obtain clarification of instructions in writing.

Attend FRB seminars.

# Internal Control Guidelines

- Documentation
  - Procedure Manual

*A lack of written or inaccurate procedures could result in inconsistent practices among employees and inaccurate and unreliable reports.*

## Best Practice

The procedure manual should include:

- (1) Procedures for all regulatory reports;
- (2) Adequate descriptions for any adjustments; and
- (3) Process to review new/complex banking products from regulatory reporting perspective.

# Internal Control Guidelines

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- Documentation
  - Regulatory Reporting Policy Manual
    - Provides guidelines and overall framework to ensure uniformity and standardization

*Inadequate policies could result in inconsistent practices leading to inaccurate regulatory reports.*

# Internal Control Guidelines

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- Training program
  - Regulatory reporting staff
  - Staff responsible for providing regulatory reporting information

# Internal Control Guidelines

- Accounting
  - Accurate posting
  - Adequate account review and reconciliation

*Inadequate controls result in misstated regulatory reports and inaccurate and unreliable financial records.*

## Best Practices

Employees are properly trained on performing accounting functions.

Automated accounting systems have adequate input and processing controls.

# Internal Control Guidelines

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- Record Retention
  - Comply with internal policies and procedures

*Inadequate policies could result in inconsistent practices leading to inaccurate regulatory reports.*

# General Ledger

# General Ledger

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- General Ledger (G/L)
  - Account titles and definitions
  - New G/L account approval process
  - Chart of accounts (example)
  - Issues
  - Review

# General Ledger

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- G/L account titles and definitions
  - Unclear or misleading
  - Missing
- New G/L account review process

# General Ledger

Example

## G/L CHART OF ACCOUNTS

### Cash and Due from Banks

Reserves with Federal Reserve Bank

Due from commercial banks in the U.S.

Due from banks in foreign countries

Deferred debits-DDA related

### Securities

U.S. Treasury securities-HTM

U.S. Government sponsored agencies-AFS

MBS-Pass through securities: guaranteed by GNMA-trading

### Deposits

Demand deposits-commercial banks in the U.S.

Demand deposits-IPC

NOW

### Stockholders' Equity

Common stock

Additional paid-in-capital (Surplus)

Retained earnings (Undivided profits)

# General Ledger

## Example

### G/L DESCRIPTION OF ACCOUNT

**Section:** Assets  
**Account name/#:** Deferred Debits-DDA related; 006-xxx  
**Applicable to:** Demand deposits in domestic offices

### Description

Deferred debits represent **cash items** in Bank's possession **drawn on Bank's demand deposit** accounts which **cannot be charged** to the proper account on the day received. The item may have been **received late** or with **insufficient/inaccurate information** to determine the proper account. Although the work cannot be processed to the proper G/L account on the day received, it will be **recorded on the books of the Bank by the use of a holding account**. The following day, the item will be debited to the customer's demand deposit account.

# General Ledger

## Example

### G/L DESCRIPTION OF ACCOUNT

**Section:** Assets  
**Account name/#:** Deferred Debits-DDA related; 006-xxx  
**Applicable to:** Demand deposits in domestic offices

### Accounting Entries

**Debit:** Deferred debits-DDA related 006-xxx  
**Credit:** Various accounts

**All deferred entries should be reversed on the following business day. Bank policy dictates items in deferred accounts may not be rolled over a fourth day.** Any deferred item that cannot be processed to the proper account at the end of the third business day must be **charged** off as follows:

**Debit:** Difference and Fine-Debit, Account 466-xxx (Expense)  
**Credit:** Deferred Debits-DDA related 006-xxx

# General Ledger

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## Best Practices

G/L accounts should contain clear titles, comprehensive account definitions and describe the nature of the account.

New G/L accounts should be in compliance with regulatory reporting instructions

- Correctly mapped on regulatory reports
- The account opening process should be described in the procedure manual

# General Ledger

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- G/L data integrity issues
  - Inter-company (related party transactions)
  - Reconciliation
  - Incorrect use of G/L accounts by business lines or cost centers

# General Ledger

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- G/L issues

- Best Practices

- Regulatory reporting staff should review the G/L daily and any discrepancies should be resolved prior to filing of regulatory reports.

- Management should ensure the integrity of information on the G/L by enforcing accountability.

# Regulatory Reporting Best Practices

Carolina Reyes

# Objectives

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- Internal Audit
- Accountability

# Internal Audit

# Internal Audit

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- Working with auditors is critical
  - Obtain valuable feedback
  - File high quality reports

# Internal Audit

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## Improving Communication with Auditors

- Communicate and coordinate with the Auditors
  - Appoint an Audit Coordinator:
    - Meet with the Audit Team
    - Compile the information requested
    - Discuss priorities with staff

# Internal Audit

## Internal Audit Adds Value to Regulatory Reporting

- Ensure senior management is aware of reporting risks not covered by the audit plan
- Add value to the regulatory reporting
  - Evaluate accuracy of reports by reducing the risk of misreporting
  - Effectiveness of the reporting process

# Internal Audit

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## Internal Audit Adds Value to Regulatory Reporting

- Continued education and training
- Maintain a dialogue with supervisors
- Follow-up on prior findings and recommendations

# Internal Audit

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- “Management self-assessments” or “control self-assessments”
  - Internal Audit involvement
- Frequency of regulatory reporting audits

# Accountability

# Objectives

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- Accountability
- Data Ownership
- Corrective Action

# Accountability

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- Collaborate to achieve high quality reporting
- Create a culture of accountability
- Establish Accountability Policy, including enforcement

# Accountability

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- Firm-wide awareness and involvement in the reporting process
  - Regulatory Reporting
  - Accounting Policy
  - Operations
  - Information Technology
  - Business lines

# Data Ownership

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- Individuals responsible for regulatory reporting data may not be well versed in regulatory reporting requirements

## Best Practice

Regulatory reporting management should distribute roles and responsibilities to data owners.

# Data Ownership

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- Individuals responsible for information
  - Accountable for data integrity provided
  - Responsible for analyses

# Data Ownership

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- Contact information of data owners may not be available or may not be current

## Best Practices

Create a contact list, including two levels of management

Keep current

# Corrective Action

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- Incorrect reporting by the business units and data owners

## Best Practices

Create an escalation process to identify and resolve issues in a timely manner.

Document all incorrect and inconsistent reporting.

Create an accountability model to enforce compliance with requirements.

# Corrective Action

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- Establish a system to ensure accountability
  - Timeframe
  - Initiatives to resolve the problem
  - Short and long-term action plan(s)
  - Individual(s) responsible
  - Consequences
- Meet with senior management regularly

# Systems and Data Collection Process

Vadim Tovshteyn

# Objectives

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- Information system controls
- Data collection process
- Systems' interface and legacy systems
- Data integrity
- Manual adjustments
- Early detection system
- Systems overview
- Transaction Level Data Base (Data Warehouse)

# Information System Controls

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- General Control – Systems (e.g., regulatory reporting, G/L) are appropriately implemented, maintained and operated and only authorized changes are made to the system
- Application Control – Specific application control, ensures that transactions are recorded and are processed completely, accurately and timely

# Information System Controls

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- Staff should have an adequate knowledge of regulatory reporting systems or software
- Backup or succession plan should be in place for key personnel
- New specifications or new systems should be formally reviewed, tested and comply with new requirements

# Information System Controls

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- New software or database package should meet all reporting requirements
- The software package should include adequate security and control features and it should be on the network with restricted access

# Data Collection Process

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- Establish a standardized data collection process with sufficient quality controls and accountability for data

*A process lacking standardization with high level of manual intervention is susceptible to significant errors.*

# Data Collection Process

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## Best Practices

Implement controls

Automate

Stream-line the process

Set and enforce regulatory reporting standards

Establish a process to monitor the accuracy of information submitted for regulatory reports

# Data Collection Process

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- Granularity of information required for regulatory reporting is not always available

## Best Practices

Design a system/process where sufficient level of detail is available

Design a system with an option to accommodate future changes

# Manual Collection Process

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- The information necessary to prepare regulatory reports is collected manually

## Best Practice

Establish sufficient internal controls to compensate for the weaknesses inherent in the manual data collection processes.

# Systems' Interface

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- Inadequate systems' interface  
(e.g., G/L, subsystems and regulatory reporting system)

# Systems' Integration

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- Multiple systems to capture the same information increases processing time, maintenance and support

# Systems' Integration

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## Best Practices

Consistent reporting of financial products from a single source or few sources

Reduce month-end closing period and eliminate or minimize reconciliation among systems

# Data Integrity

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- Implement sufficient controls to ensure information captured by subsystems is accurate

# Data Integrity

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## Best Practices

Review subsystems and identify and resolve any programming issues.

Ensure the integrity of the information housed by subsystems prior to pursuing an automated solution.

# Data Integrity

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- Coding of Customer Information Files (CIFs)

## Best Practices

Review the accuracy of data in CIF and identify discrepancies in coding on a regular basis.

Improve methodology for coding of new customers.

# Data Integrity

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- Incorrect assignment of risk characteristics
  - Market Risk
  - Credit
  - Domicile

# Manual Adjustments

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- Adjustments applied to the system generated information must contain sufficient details concerning the nature of the adjustment.

## Best Practice

Review adjustments to determine the cost-benefit of automating adjustments.

# Early Detection System

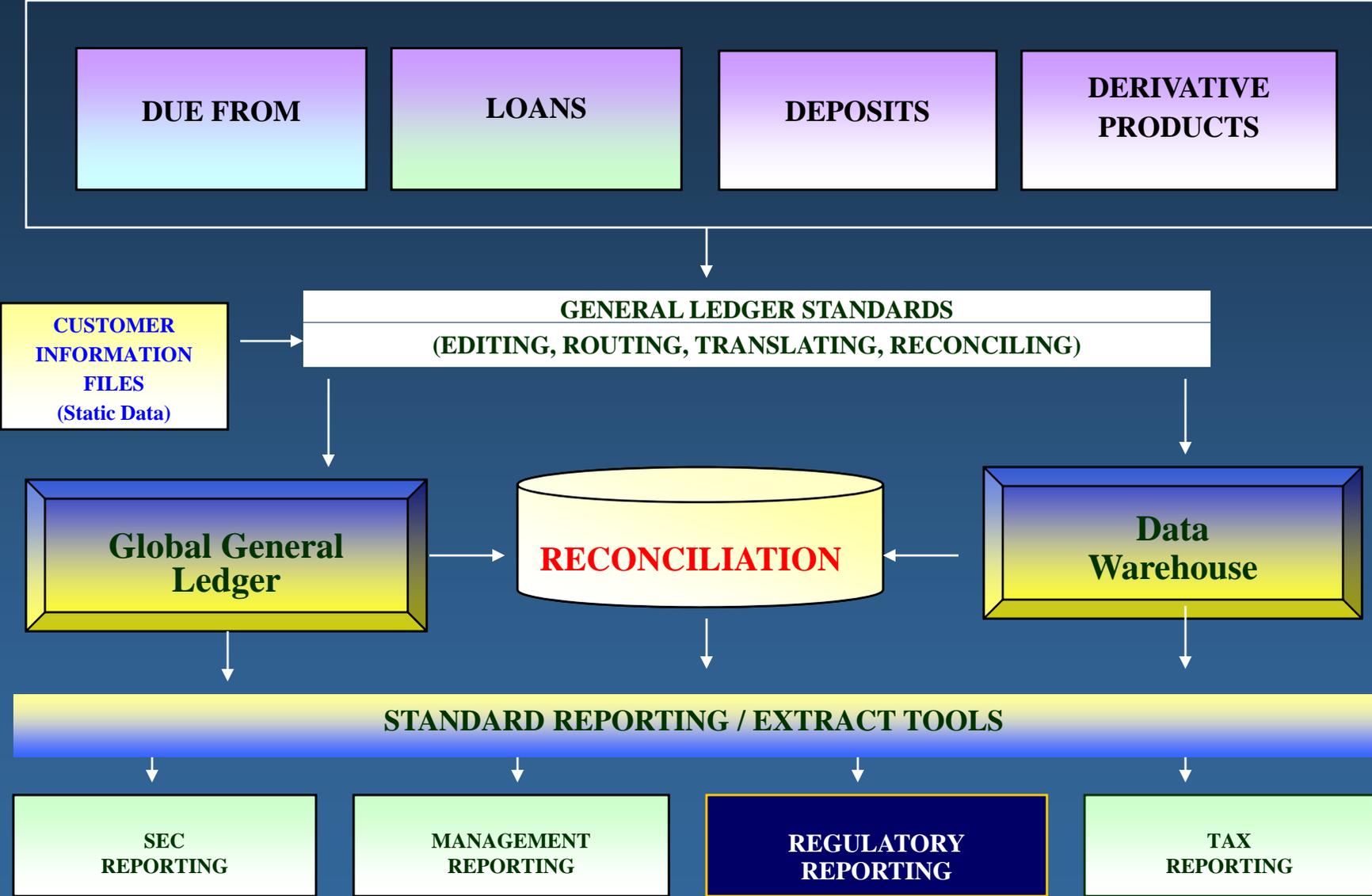
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- Analysis can detect potential issues with reporting

## Best Practice

Implement an early detection system for a business related analysis and detection of potential errors and inconsistencies.

# Systems Overview



# Transaction Level Data Base

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- Consolidated source for bank's subsystems
- Allows the firm to move from a manual to an automated process
- Required data are centrally stored
- Drill-down capability
- Granular information can be easily extracted

# Analysis

Patricia Selvaggi

# Analysis

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- Review data prior to submission (including a management review)
- Analyze and document reasons for significant changes or trends
- Reconcile data to the G/L, other regulatory reports and SEC reports

# Analysis

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- Ensure data are reasonable and reflect current business activity
- Analyze data at the legal entity and business level
- Prepare guidance for preparing high quality explanations for regulatory reports

# U.S. GAAP and Regulatory Compliance

- Regulatory Reports are based on U.S. Generally Accepted Accounting Principles (U.S. GAAP)
  - In 1997, regulatory reports were reviewed and the majority of RAP vs. GAAP differences were eliminated
  - Some differences still exist but they are primarily related to presentation

# U.S. GAAP and Regulatory Compliance

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- Loans

- Is loan information entered into the data-processing systems timely and independently tested to ensure accuracy?

# U.S. GAAP and Regulatory Compliance

- Are loans classified correctly?
  - Does adequate mapping exist to map loans to report breakouts?
  - Are loans that are originated or purchased with the intent to sell in the future classified as held for sale?
  - Are loans held for sale reported at the LOCOM and re-valued each reporting period?
  - Are purchased impaired loans reported in accordance with AICPA SOP 03-3 including
    - Ensuring ALLL is not “carried over”
    - Initially recorded at fair value
    - Only undiscounted cash flows over initial investment are accreted

# U.S. GAAP and Regulatory Compliance

- Are payments due for principal and interest monitored for their receipt, aging of delinquencies, and follow-up with late payments?
- Are procedures periodically performed to ensure the calculation and maintenance of the ALLL and specific reserves are consistent with the stated policies and procedures, U.S. GAAP and applicable supervisory guidance?

# U.S. GAAP and Regulatory Compliance

- Derivative products
  - Are methodologies for valuation of derivative products and assessing hedge effectiveness documented and comply with FAS 133?
  - Is information relating to derivative products complete and accurate when entered into the accounting and trading systems?
  - Are derivative activities monitored?

# U.S. GAAP and Regulatory Compliance

- Fair Value Measurement (FAS 157)
  - Does the methodology for identifying fair value comply with FAS 157?
    - Are current fair values obtained and are the levels reviewed by management?
    - Are policies in place to identify the appropriate fair value for specific assets/liabilities, identify the principal market and identify the inputs that are significant to valuation?
    - Have current market conditions resulted in a need for alternative valuation procedures?

# U.S. GAAP and Regulatory Compliance

- Fair Value Option (FAS 159)

Do accounting and trading policies align to ensure whether:

- Non-trading securities (AFS and HTM), that are fair valued can be moved to trading assets?
- Certain loans can be moved to trading assets?
- Certain loans held for sale, elected to be accounted for under the fair value option, can be reclassified as trading assets based on the 'new definition'

# U.S. GAAP and Regulatory Compliance

- Fair Value Option (FAS 159)
  - Trading assets (‘new definition’)
    - BHCs may classify assets as trading if the bank applies fair value accounting and manages these assets as trading positions, subject to the controls and applicable regulatory guidance related to trading activities.

# U.S. GAAP and Regulatory Compliance

- Netting/Offsetting
  - Offsetting of assets and liabilities is improper unless a valid right of set-off exists
  - Regulatory reports generally require reporting gross
  - However, if a firm does net:
    - Are policies and procedures in place for reviewing the transactions and supporting documentation to ensure the firm is in compliance with FASB Interpretations No. 39 and No. 41?

# Reconciliation

- Several regulatory reports contain similar data and balances and/or fluctuations should be similar
- Call Reports vs. FR 2900
  - Excluding several known definitional differences between these reports, several data items should be the same. Differences should be researched and documented.
  - Legitimate definitional differences are in the FR 2900 instructions and can be found at:

<http://www.newyorkfed.org/banking/reportingforms/index.html>

# Reconciliation

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- Call Reports vs. BHC reports
  - Banks are components of the consolidated BHC therefore, significant account balance variances at the bank level should be compared to variances at the BHC level and instances with small or negative correlation explained

# Reconciliation

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- Public Financial Statements vs. Regulatory Reports
  - Are differences between reports analyzed, explained and documented?

# Business Units

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- Non-bank Subsidiary reports (FR Y-11, FR Y-7/7N)
  - Is organization (FR Y-6, FR Y-7) and financial information reviewed quarterly to ensure reports are submitted for subsidiaries meeting reporting thresholds?

# Reasonableness

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- Do variances correspond to business activities?
  - Mergers
  - Purchases, acquisitions or asset sales
  - Earnings announcements
  - Accounting changes
  - New financial instruments or markets

# Call/BHC Modernization

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- Call and BHC reports must contain explanations for published edits that are flagged
- High quality explanations include:
  - The business reason for the fluctuation
  - Relevant amounts, dates, and total amounts
  - Offsetting activity
  - Types of counter parties
  - Instruction/policy citations

# Call/BHC Modernization

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- Unacceptable or low quality explanations
  - Contain comments about the quality of the data such as confirmed and verified
  - Missing information (e.g., amounts, counterparty)
  - Partial explanations

*Perspective from Washington, D.C.*

Bob Maahs

**Bank Supervision & Regulation  
Board of Governors**



# Discussion Topics

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- What we do at the Board of Governors?
- Importance and uses of regulatory reports
- Supervisory Topics

# What we do at the Board of Governors

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- Update many of the System's regulatory reports
- Coordinate with vendors
- Answer questions from Reserve Banks and industry
- Negotiate with other banking agencies about changes to FFIEC reports

# “Clearance Process”

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- Compile potential changes
- Meet and discuss with internal committee
- Receive Board of Governors’ approval to issue for comment
- Initial comment period in *Federal Register*

# “Clearance Process”

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- Evaluate comments
- Finalize proposal
- Receive Board of Governors’ approval
- Final publication in *Federal Register*

# Importance and Uses of Reports

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- Peer comparisons on a national level
- Monitor compliance and supervisory concerns
- Answer inquiries from Congress

# Importance and Uses of Reports

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- Monitor effects of natural disasters
  - Hurricane Katrina
- TARP funding evaluations

# Supervisory Topics

# Mergers

Brian Osterhus

# Multiple Business Areas Are Involved

- Banking Applications
- Accounting (overall coordination)
  - Billing, FedMail, Federal Reserve Stock, Official Authorization List (OAL)
- Operating areas: Fedwire Funds & Securities, ACH, TT&L, Savings Bond, Check, Cash
- Discount, Credit and Risk Management

# Multiple Business Areas Are Involved

- Statistics
  - Deposit Reports and Reserves
  - Regulatory Reports
  - International Reports
  - Banking Structure

*Effective communication and coordination are critical to a successful merger.*

# Communication

- The FRBNY requires detailed information, as noted in the Information Needed for Upcoming Depository Institution Mergers document

[http://www.frbservices.org/files/forms/account\\_services/pdf/newyork\\_upcoming\\_mergers.pdf](http://www.frbservices.org/files/forms/account_services/pdf/newyork_upcoming_mergers.pdf)

- Merger effective date, names, ABA number of institution involved
- Specific instructions for applicable business lines

# Statistics Function Reports

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- Confirm effective date for financial and structure reports:
  - FR 2900
  - Bank Credit
  - TIC
  - Call/BHC reports
  - FR Y-10

# Statistics Function Reports

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- Consolidated reporting begins on the day after the nonsurvivor is no longer in existence
  - If the nonsurvivor ceases to exist effective at close of business on Friday, the survivor begins to report consolidated data effective open of business on Saturday, even if the survivor is not open for business on Saturday or does not typically post entries to its G/L on Saturdays

# Statistics Function Reports

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- Common reporting problems
  - Inconsistent effective dates used
  - Reclassification of accounts
  - Timing of sweeps, disclosure statements
  - Inter-company eliminations

# Required Reserves Issues

- Ensure pass-through agreements, changes to master/sub-account designations and changes to clearing balance requirement (if any) are submitted prior to the maintenance period in which the merger takes place
- Consolidation of required reserves occurs effective the first day of the maintenance period in which the merger takes place

# Required Reserves Issues

- Clearly state the disposition of nonsurvivor's Federal Reserve account
  - Transition account: nonsurvivor's account remains open, balances are used for the nonsurvivor's clearing balance requirement only
  - Convert to subaccount: balances roll up to the survivor for use to satisfy combined required reserves

# Treasury International Capital (TIC) Data

Anthony Cirillo

# TIC Reporting-Typical Problems

- Consolidation rules
- Identifying foreign and domestic clients and counterparties
- Identifying foreign and domestic financial instruments
- Including data on the correct report and in the correct column
- No comparison of data for various TIC Reports

# TIC Consolidation Rules

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- Include only U.S. resident subsidiaries, branches and offices
- TIC D, SHC and SHL require single report filed by the top level U.S. entity
- TIC B and S require separate reports from the BHC, bank, broker/dealer
- TIC C requires separate report from top level non-bank entities

# TIC Consolidation Rules

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## Best Practices

Ensure foreign subsidiary, foreign branch, and foreign office data (including foreign conduits) is separated from the U.S. parts of your organization's data

Keep apprised of changes to organization's structure and incorporate changes into the relevant TIC reports

# Identifying Foreign and Domestic Clients and Counterparties

- Residency determines whether client or counterparty is foreign or domestic
  - Country where client or counterparty is incorporated, licensed or organized
  - For individuals, based on the IRS Forms W-8 and W-9

# Identifying Foreign and Domestic Clients and Counterparties

## Best Practices

Verify that sources used to determine residency (e.g., client information files) meet TIC reporting requirements

Implement procedures to review new accounts created and to properly maintain existing information

Reconcile data stored on multiple databases for the same client or counterparty

# Identifying Foreign and Domestic Financial Instruments

- Determined based on the country where the issuer of the financial instrument is incorporated, licensed or otherwise organized.
  - A negotiable certificate of deposit (CD) issued by a foreign branch of a U.S. bank is a foreign CD
  - A debt security issued by a U.S. subsidiary of an Asian company is a U.S. security

# Identifying Foreign and Domestic Financial Instruments

## Best Practices

Verify that sources used to determine residency (e.g., security databases) meet TIC reporting requirements

Implement procedures to review new financial instruments created and to properly maintain existing information

Reconcile data stored on multiple databases for the same financial instrument

# Including Data on the Correct Report and in the Correct Column

- All cross-border banking, derivatives, and portfolio investments collected on the 12 TIC reports
- Categorize data by country (over 200 foreign economies and organizations)
- Categorize data by counterparty and/or financial instrument

# Including Data on the Correct Report and in the Correct Column

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## Best Practices

Document procedures for proper reporting

Ensure business areas understand TIC reporting requirements

Review data for reasonableness prior to submitting to FRBNY

# Including Data on the Correct Report and in the Correct Column

## Best Practices

Create mechanisms that enable researching questions and providing clear and complete explanations (including an explanation of why a reporting error occurred)

Maintain open lines of communication with FRBNY and business lines

- Training
- Clarify reporting for complex transactions
- Incorporate data from new business lines and products into TIC reports

# Comparing Data for Various TIC Reports

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## Best Practices

Ensure consistency between the annual detailed data and the monthly/quarterly aggregate data

Similar data submitted for various reports should come from the same source within your organization

# Feedback Letters

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## ■ Goal

- Improve future submissions of TIC SHCA and TIC SHLA reports by identifying systemic issues in the current data.

## ■ Ratings

- Based on the quality and timeliness of the data and responses to data inquiries
- Ratings categories
  - Very good
  - Fair
  - Poor

# Summary

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- Best practices for regulatory reporting apply to TIC reporting
- Understanding reporting aspects unique to TIC reporting is the first step in ensuring requirements are fully met

# FRBNY Contacts

- Contact us for reporting guidance or to set up a training session:
  - **Anthony Cirillo**, Assistant Vice President  
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# Best Practices for Structure Reporting

Violet Cumberbatch

# Structure Reporting Issues/ Problems

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- Misreporting
- Unfamiliarity with tools
- Synchronize financial and structure reporting
- Communication

# Best Practices for Structure Reporting – Avoid Misreporting

- Use reporting instructions as a tool
  - Contain information to enhance reporters understanding of data and reporting such as:
    - Specific guidance on when, what and how to report
    - North American Industry Classification System (NAICS) activity codes and descriptions of commonly reported activities
    - Federal Reserve legal authority codes and activities
    - Definitions of reporting terms

# Best Practices for Structure Reporting – Utilize Available Tools

- FR Y-10
  - An electronic alternative to paper reporting
  - With use of the on-line application, reporters can:
    - Review tiering reports, which are based on the transaction report data provided to the FRS
    - Identify and resolve possible reporting discrepancies
    - Check for errors prior to report submission
    - Obtain instant confirmation of reports received by the FRS
    - View and retrieve previously submitted reports

# Best Practices for Structure Reporting – Utilize Available Tools

- FR Y-10 on-line
  - Find links to BSD training materials and useful websites such as:
    - Board of Governors
    - U.S. Census Bureau for NAICS codes
    - National Information Center
      - Retrieve tier reports
  - Retrieve Structure Report Instructions

# Best Practices for Structure Reporting – Utilize Available Tools

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## ■ Tier Report

- Sent to reporters by the FRB annually
- Contains the respondents' structural information as of a specific date
  - Based on information provided by reporters on the FR Y-10 reports

# Best Practices for Structure Reporting – Utilize Available Tools

## ■ Tier Report

- Incorporate a tier report review process into the annual review process
- A tiering report review should include:
  - A thorough review of the tier report
  - Identification of discrepancies between the tier report and the reporter's organization chart for the same time period
  - Resolution of the identified discrepancies usually through the submission of a new or revised FR Y-10 report

# Best Practices for Structure Reporting – Utilize Available Tools

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## ■ Tier Report

- Benefits of an annual tier report review include:
  - Fewer reporting issues with the annual reviews
  - Fewer or no follow-up questions from the FRB

# Best Practices for Structure Reporting – Utilize Available Tools

## ■ Branch Reconciliation

- Annually, as part of the FR Y-6 submission
  - ▶ Access the following website:
    - <http://structurelists.federalreserve.gov>
  - ▶ Download organization's branch information to a spreadsheet
  - ▶ Reconcile organization's branch information to the downloaded branch information and on the spreadsheet annotate the downloaded information for changes
  - ▶ Submit the annotated spreadsheet to the following electronic mailbox:
    - [ny.frb.branchinformation@ny.frb.org](mailto:ny.frb.branchinformation@ny.frb.org)
  - ▶ Submit an FR Y-10 to report any changes to organization's branch information
- Benefits include verifying that organization has submitted the necessary FR Y-10 reports to support changes

# Best Practices for Structure Reporting – Utilize Available Tools

- Attend Training Seminars
- Training
  - It is critical that reporters provide employees with the tools needed for accurate reporting as follows:
    - Ensure current reporting instructions are used
    - Make Regulations K and Y available

## Best Practices for Structure Reporting – Understand Structure and Financial Reporting Relationship

- Understand the relationship between structure and financial reporting
  - Changes to banking structure data reported to BSD directly affect financial data reported to various areas of the FRB
  - For example, an FR Y-10 must be submitted to BSD with the acquisition of any non-banking subsidiary with reportable financial data

# Best Practices for Structure Reporting – Communicate at All Levels

- Communicate with BSD analysts
  - Build a relationship with the BSD analyst assigned to review your organization's reports
- Reporters should
  - Ensure the existence of effective communication among the various regulatory reporting areas at their organization
  - Ensure that the FRB is contacted with reporting questions **prior** to submitting its report

# Structure Reporting Issues Solutions

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- Avoid misreporting
- Utilize available tools
- Understand structure and financial reporting relationship
- Communicate at all levels