



FEDERAL RESERVE BANK *of* NEW YORK

Regulatory Reporting Best Practices

April 26, 2012

Regulatory Reporting Introduction and Overview

Kenneth Lamar

Objectives

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

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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

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Purpose of Regulatory Reports

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

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Purpose of Regulatory Reports

- 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

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Pitfalls

- Static databases
 - Often cause significant classification errors
 - Business lines need to:
 - Understand the regulatory reporting requirements
 - Be accountable
 - Have open communication and partnership with the regulatory reporting area

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Pitfalls

- 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

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Pitfalls

- 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

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Pitfalls

- 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)

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Best Practices

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

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Best Practices

- Automation
 - Data are only as good as their source
 - Regulatory 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

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Best Practices

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

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Best Practices

- 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

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Best Practices

- 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

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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

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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?

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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

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Mitigating the Impact of Reporting Changes

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

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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

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Regulatory Reporting Best Practices

Patricia Maone

Regulatory Reporting Best Practices

Objectives

- Define Best Practices
- Internal Control Guidelines
- Accountability
- Data Integrity Issues

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Regulatory Reporting Best Practices

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

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Internal Control Guidelines

Patricia Maone

Internal Control Guidelines

- Definition
 - Methods and procedures to provide reasonable assurance for the accuracy of regulatory reports
- 2002 Sarbanes-Oxley Act, Section 404
 - Internal controls over financial reporting

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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).

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Internal Control Guidelines

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

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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.

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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.

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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.

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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 Practices

The procedure manual should include:

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

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Internal Control Guidelines

- 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.

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Internal Control Guidelines

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

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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.

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Internal Control Guidelines

- Record Retention
 - Comply with internal policies and procedures

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

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Data Integrity Issues

- Data integrity issues
 - Inter-company (related party transactions)
 - Systems integration/interface issues
 - Reconciliations
 - Incorrect use of G/L accounts by business lines or cost centers

Best Practice

Management should ensure the integrity of information by enforcing accountability.

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Accountability

Patricia Maone

Objectives

- Accountability
- Data Ownership
- Corrective Action

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Accountability

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

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Accountability

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

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Data Ownership

- 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.

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Data Ownership

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

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Corrective Action

- Incorrect reporting by businesses 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.

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Corrective Action

- 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

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General Ledger

Bruce Pueschel

General Ledger

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

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General Ledger

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

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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)

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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**.

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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

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General Ledger

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

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General Ledger

Best Practices

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

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Internal Audit

Bruce Pueschel

Internal Audit

- Working with auditors is critical
 - Obtain valuable feedback
 - Improve controls

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Internal Audit

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

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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 regulatory reporting
 - Evaluate accuracy of reports by reducing the risk of misreporting
 - Effectiveness of the reporting process

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Internal Audit

Internal Audit Adds Value to Regulatory Reporting

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

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Internal Audit

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

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Quality Assurance

Bruce Pueschel

Quality Assurance

- The objectives of Quality Assurance (QA) processes include the validation and enhancement of regulatory reporting data integrity
- QA effectiveness is directly linked with:
 - Technical and business skill sets of QA staff
 - Top-down corporate and business executive management understanding of, and commitment to, QA over the long term

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Quality Assurance

- Comprehensiveness of QA review procedures – scope/timing/granularity/end-to-end/cross-report impacts
- Reporting forums – reports/committees/metrics
- QA organization reporting lines
- Governance and consequences to identified weaknesses/ability to enforce corrective actions
- Alignment/coordination of scope with Internal Audit, as appropriate

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Quality Assurance Process

Best Practices

QA staff are independent of corporate regulatory reporting management

QA staff are technically competent and possess business acumen

QA review procedures are standardized across processes and customized as necessary

Appropriate reporting mechanisms are in place to enforce fixes to identified errors and weaknesses

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Disclaimer

The views expressed today are those of the speaker, and do not necessarily represent the views of the staff or members of the Board of Governors.

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Discussion Topics

- What we do at the Board of Governors
- Importance and uses of regulatory reports
- Possible reporting initiatives stemming from Dodd-Frank and Basel III

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What we do at the Board of Governors

- 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

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“Clearance Process”

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

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“Clearance Process”

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

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Importance and Uses of Reports

- Peer comparisons on a national level
- Monitor compliance and supervisory concerns
- Monitor effects of natural disasters
- Answer inquiries from Congress
- Prepare for testimony to Congress
- Answer inquiries from the public

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Dodd-Frank Act

State of Play

As of the end of 2011, a total of 200 Dodd-Frank rulemaking requirement deadlines have passed. This is 50% of the 400 total rulemaking requirements, and 70% of the 286 rulemaking requirements with specified deadlines.

(Source: December 2011 Davis Polk Progress Report)

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Dodd-Frank Act

State of Play

Of these 200 passed deadlines, 149 (74.5%) have been missed. 51 (25.5%) have been met with finalized rules. 25 of the 149 missed rules have not yet had proposals released.

(Source: December 2011 Davis Polk Progress Report)

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Dodd-Frank Act

Supervisory Assessment Fees

The Board expects to request comment on plans to implement the requirement that the Board impose fees on BHCs and SLHCs with assets of \$50 billion or more and nonbank financial companies supervised by the Board that are sufficient to cover the cost of supervising and regulating these organizations. (DFA Section 318(c))

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Dodd-Frank Act

Financial Sector Concentration Limit

The Board expects to request comment on proposed rule to implement concentration limits, which prohibits a financial company from making an acquisition if the liabilities of the combined company would exceed 10 percent of the liabilities of all financial companies. (DFA Section 622)

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Dodd-Frank Act

Savings and Loan Holding Company Reporting Requirements

On December 23, 2011, the Board issued a final notice to require most savings and loan holding companies (SLHCs) to file Federal Reserve regulatory reports with the Board, along with an exemption for some SLHCs from initially filing existing regulatory reports. Reporting will begin with the March 31, 2012 reporting period. (DFA Section 312)

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Dodd-Frank Act

Stress Tests

- **Board Conducted:** requires annual stress tests by the Board using three economic and financial market scenarios; a summary of the results, including company-specific information, would be made public (DFA Section 165(i))

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Dodd-Frank Act

Stress Tests

- **Company Conducted:** requires companies to conduct one or more stress tests each year and to make a summary of the results public (DFA Section 165(i))

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Dodd-Frank Act

Single-counterparty Credit Limits

Limits credit exposure of a covered financial firm to a single counterparty as a percentage of the firm's regulatory capital; credit exposure between the largest financial companies would be subject to a tighter limit (DFA Section 165(e))

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Dodd-Frank Act

Volcker Rule Activity Restrictions

On October 11, 2011, the Board requested comment on a proposed rule, developed jointly with other Federal financial regulatory agencies, to implement Volcker Rule requirements that restrict the ability of banking entities to engage in proprietary trading and to invest in or sponsor private equity funds and hedge funds. (DFA Section 619)

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Goals of Basel III Reforms

- Strengthening the Basel I definition of capital
- Increasing the Basel I minimum capital requirements
- Introducing additional capital requirements in the form of minimum capital buffers
- Imposing new minimum global liquidity standards

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Changes to Definition of Capital

- New common equity tier 1 to risk weighted assets requirement
- Regulatory deductions made from common equity tier 1
- Quality of tier 1 capital increased
- Changes are subject to transitional arrangements
- Non-qualifying instruments that are currently part of regulatory capital are subject to phase-out

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In Conclusion....

While reporting is proliferating due to legislation and regulation...

High quality, accurate reporting is still essential to the work performed by analysts of the Federal Reserve System

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Systems and Data Collection Process

Vadim Tovsheyn

Objectives

- 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)
- Systems overview
- Challenges

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Information System Controls

- 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

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Information System Controls

- 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 and controls

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Information System Controls

- 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

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Data Collection Process

- 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.

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Data Collection Process

Best Practices

Automate and stream-line the process

Set and enforce regulatory reporting standards

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

Implement controls over the reporting process

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Data Collection Process

- 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

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Manual Collection Process

- 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.

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Systems Interface

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

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Systems Integration

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

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Systems Integration

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

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Data Integrity

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

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Data Integrity

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
- Develop mechanism to maintain integrity of the system (periodic review, training and support)

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Data Integrity

- Coding of Customer Information Files (CIFs) and general report mappings

Best Practices

- Review the accuracy of data in and identify discrepancies in coding on a regular basis.
- Improve methodology for coding of new customers/financial products.

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Data Integrity

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

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Manual Adjustments

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

Best Practices

- Review adjustments to determine the cost-benefit of automating adjustments.
- Develop a centralized facility to control, streamline, review and control manual aspects of the reporting process with a direct feed to the Reporting Application.

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Early Detection System

- 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.

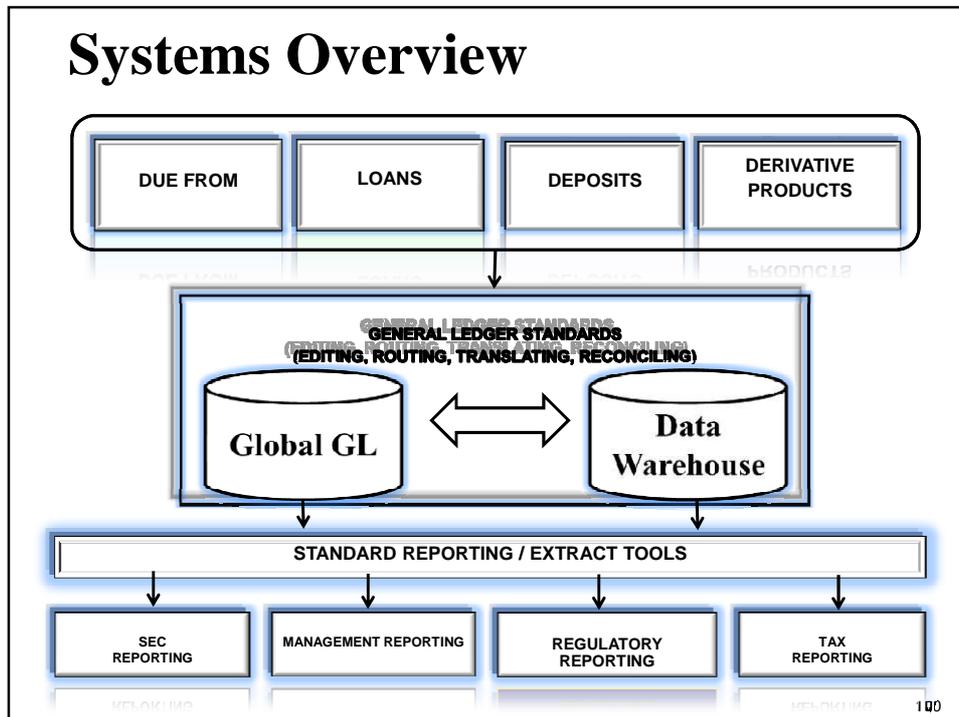
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Transaction Level Data Base

- 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

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Systems Overview



Controlled and Unconsolidated Entities

- Challenges in reporting controlled and unconsolidated entities meeting filing requirements for nonbank legal entity reporting.
- Although entities are controlled based on the Regulation Y definition, the ability to influence timely reporting is a challenge.

Best Practice

Develop a single reporting platform, including incorporating firm's general ledger chart of accounts for non-consolidated controlled nonbank entities

Data Analysis

Patricia Selvaggi

Common Data Challenges for Reporters

- Aligning Data Across Different Business Lines
- Maintaining Data Quality
- Addressing Different Accounting and Valuation Requirements
 - GAAP, IFRS, SEC, BIS, BCBS

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Common Data Challenges for Reporters

- Consolidation Rules
 - Consolidation rules are driven by the use of the data.
 - Monetary Policy reports focus on U.S. offices
 - Reports that cover broad market risk or banking are consolidated globally.

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Common Data Challenges for Reporters

- Legal Entity Reporting
 - Regulatory reporting are based on legal entities.
 - This may differ from internal business line controls and measurement.
 - The greater the complexity of an institution, the greater the difficulty in reporting by legal entity.

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Common Data Challenges for Reporters

- Data Splits
 - Critical to Data Users and ensuring comparability and measurement
 - Burdensome

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Best Practices

- Data should be thoroughly reviewed by regulatory management and business lines before submission.
- Include ability to conduct analysis in regulatory reporting systems.

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Best Practices

- Reconciliation
 - Differences among reports should be analyzed, explained, and clearly documented.
 - Regulatory Reports
 - External Reports (SEC, GAAP, IFRS)
 - “Like” data collected internally
 - Accounting policies and account and product descriptions should be clear and readily available to preparers

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Best Practices

- Communicate (Ask & Learn)
 - Ensure open communication lines with regulators
 - Stay apprised on accounting and regulatory changes
 - Complex issues should be documented

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Best Practices

- Reasonableness
 - Ensure data reflect current business activity
 - Mergers
 - Acquisitions or Sales
 - Earnings Announcements
 - Accounting Changes
 - Document reasons for unusual or significant changes or trends
 - Analyze data at the legal entity and business level

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Best Practices

- Review how data are collected periodically
 - Data are only as good as their source
 - Leverage business solutions for regulatory reporting

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Best Practices

- Ensure regulatory reporting implications are clear to business lines
 - Business areas understand regulatory reporting requirements
 - Open communication and partnership with business lines, accounting policy, audit, and regulatory reporting area

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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

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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.

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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

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

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Statistics Function Reports

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

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Statistics Function Reports

- 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

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Statistics Function Reports

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

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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

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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

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Transaction/Detail Position Reporting Best Practices

Alex Santana

Objectives

- What are transaction and detail position data reporting?
- Types of transaction and detail position reports collected by the Fed?
- What are the challenges in reporting transaction and detail position data?

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Objectives

- What are best practices for compiling, data analysis, and validation?
- How the Fed analyzes transaction and detail position data?

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Transaction and Detail Position Data

- What is transaction data?
 - Data that describes an event
 - Results in a change (change in a position of an asset)
 - Purchases, sales, etc..
 - High volume of data

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Transaction and Detail Position Data

- What is detail position data?
 - Data compiled for a specific product on a micro basis
 - Captures various attributes/reference information of the product

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Transaction and Detail Position Data Reports

- Examples of transaction and detail position reports collected
 - Transaction Reports
 - TIC S
 - FR 2004
 - FR 3036
 - TIC D (Net Settlements data only)
 - Detail Position Reports
 - TIC SHLA/TIC SHCA
 - Shared National Credit (SNC)

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Transaction and Detail Position Data Reporting Challenges

- Different than the traditional aggregated data that is compiled for the majority of other data series.
 - May not be part of a data warehouse system
 - Difficult to reconcile
 - Large volume of transactions/detail records and incomplete data attributes

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Transaction and Detail Position Data Reporting

- Technology Best Practices
 - Transactions and detail position data centrally stored in a data warehouse
 - ▶ Data stored indefinitely, while operational systems may have a limited retention capacity
 - ▶ Information can be easily extracted and compared

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Transaction and Detail Position Data Reporting

- Technology Best Practices (continued)
 - Relationship between transactions and positions can be easily validated and support more efficient drill-down capabilities

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Transaction and Detail Position Data Reporting

- Analysis Best Practices
 - Validate significant changes in transactions
 - Determine benchmark and expected results
 - Ensure data reflect current business and market activity
 - Identify outliers

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Transaction and Detail Position Data Reporting Challenges

- Analysis Best Practices
 - Understand the reason for the change or why the transaction is an outlier (e.g., market uncertainty)
 - Validate detail position data
 - Ensure that the aggregate position equals the total amount of the aggregated detail positions

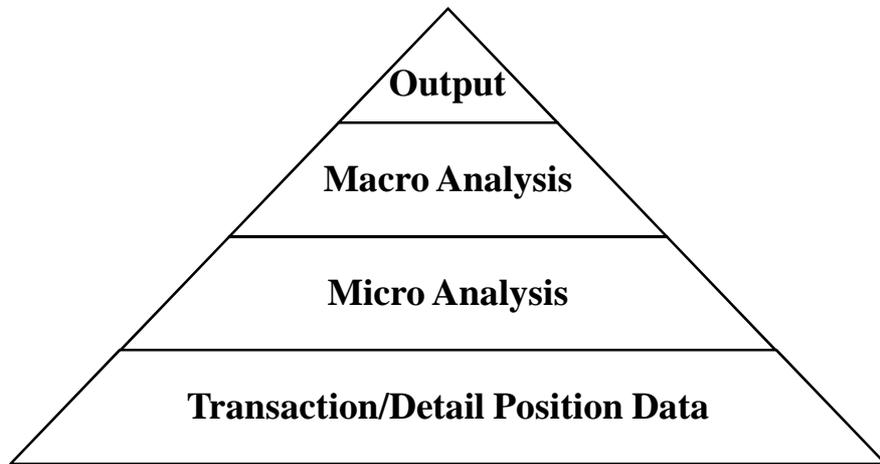
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Transaction and Detail Position Data Reporting Challenges

- Analysis Best Practices
 - For example, U.S. Treasury Holdings equal the aggregate holdings of all security by security records for U.S. Treasuries
 - Ensure consistency in the attributes of detail position data submitted by other units

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Transaction and Detail Position Data Analysis



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Transaction and Detail Position Data Analysis

- FED Analysis
 - Transaction Data
 - Micro analysis of transactions
 - Analyze current period gross transactions vs. historical transactions
 - Analyze the reporter's net flows (net purchase/sales for security type and region)
 - Compare reporter's net vs. aggregate flows for all reporters

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Transaction and Detail Position Data Analysis

- Transaction Data (continued)
 - Macro analysis of transactions
 - Compare current net flows vs. prior (and historical periods) by asset class and region
 - Compare the change of the net flows over time
 - Identify reporters contributing to the current net flow and the change

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Transaction and Detail Position Data Analysis

- Detail Position Data:
 - Micro analysis (TIC SHCA/SHLA)
 - Compare securities reported in current and in prior period
 - Compare attributes of reported securities to one another and to commercial data sources
 - Compare the annual detail data to the monthly/quarterly aggregated TIC data
 - For example securities held in custody and securities owned by the reporter

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Transaction and Detail Position Data Analysis

- Detail Position Data (continued)
 - Macro Analysis
 - Compare period to period market value changes by attributes (i.e., country of holder/issuer, holder type, issuer type and security type)
 - Compare attributes of reported securities across all reporters
 - Compare actual data against estimates compiled using monthly transaction data and adjustments

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Transaction and Detail Position Data Analysis

- Analysis Output
 - Conduct preliminary debriefs to management
 - Debrief users at the Board of Governors prior to distribution of the data
 - Provide a written summary analysis
 - ▶ Top down approach
 - ▶ By asset class and region

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Banking Structure Reporting Best Practices

Kenneth Aberbach

Objectives

- Uses of Organizational Structure Data
- Challenges to Accurate Reporting
- Communication

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Uses of Organizational Structure Data

- FR Y-6 , Annual Report of Bank Holding Companies
- FR Y-7, Annual Report of Foreign Banking Organizations
- FR Y-10, Report of Changes in Organizational Structure

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Uses of Organizational Structure Data

- Compliance with U.S. laws and regulations
 - BHC Act
 - Regulation Y
- Financial Institution Supervision assessments
 - Monitor holding company operations
 - Assess strength of support for U.S. operations

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Challenges to Accurate Reporting

- Challenges
 - Understanding what constitutes control for “non standard” companies such as limited companies (partnerships and VIEs)
 - Tying the definition of control in Regulation Y to complex legal structures and accounting rules
- Best Practices
 - Review regulations
 - Review partnership documentation
 - Discuss with the FRB complex legal structures

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Challenges to Accurate Reporting

- Challenges
 - Identification of large merchant banking and insurance company investments
 - Challenges occur when these are set up by separate business units within the organization

Best Practices

- Working with the business units within your entity to help recognize these investments
- Reviewing the regulations and instructions regarding the reportability of these investments

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Challenges to Accurate Reporting

- Challenges
 - Mergers and Acquisitions
 - Situations where the survivor vs. non-survivor is unclear
 - Times where the legal date of event conflicts with what is reported

Best Practices

- FR Y-10 Report, Merger Schedule
- Review supporting documentation for complex mergers

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Challenges to Accurate Reporting

- Challenges
 - Organizational changes (i.e. branch changes) are not reported timely
 - Entities are using the annual process to submit reportable events

Best Practice

- Report any changes on the FR Y-10 Report within 30 days after the event

Note: Annually, as part of the FR Y-6 submission, access the following website: <http://structurelists.federalreserve.gov> to reconcile organization branch data to the downloaded branch information.

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Useful Tools

- Benefits of FR Y-10 on-line
 - Timely and Accurate reporting
 - Identify and resolve possible reporting discrepancies
 - Check for errors prior to report submission
 - Obtain instant confirmation of reports received by the FRS

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Useful Tools

- Tier Report – comparative analysis of the FRB organizational structure (OS) to the firm's (OS) as of year-end to identify and resolve differences (e.g., potential filing of the FR Y-10) prior to filing the firm's FR Y-6 and FR Y-7 to the FRB
- Benefits of an annual tier report review include
 - Fewer reporting issues with the annual reviews
 - Fewer or no follow-up questions from the FRB

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Synchronize Financial and Structure Reporting

- Understand the relationship between structure reporting and financial reporting
 - Misreporting of structure data can lead to under or over reporting of financial data. This is caused by:
 - Timeliness of reporting structure events
 - Accuracy of data
 - Occasionally, FR Y-10 reports are required for previously unreported entities who are deemed to have reportable financial data

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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 the report

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Communicate at All Levels

- 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

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