

The Future of Regulatory Reporting

What are the current challenges?

Over the past few months, we have conducted a survey on status of Hong Kong regulatory reporting. We interviewed teams from 24 authorized institutions, including note-issuing banks, domestic systemically important banks (D-SIBs), branches of global SIBs, and other local banks and foreign branches in Hong Kong.

This survey covered 4 areas: Organisation and Governance; System and Data Management; Process and People; Communication with the Industry and Regulators.

Most banks have invested resources to improve their regulatory reporting systems and processes in the past few years. Not surprisingly though, the results still point to challenges in the preparation of regulatory reporting.



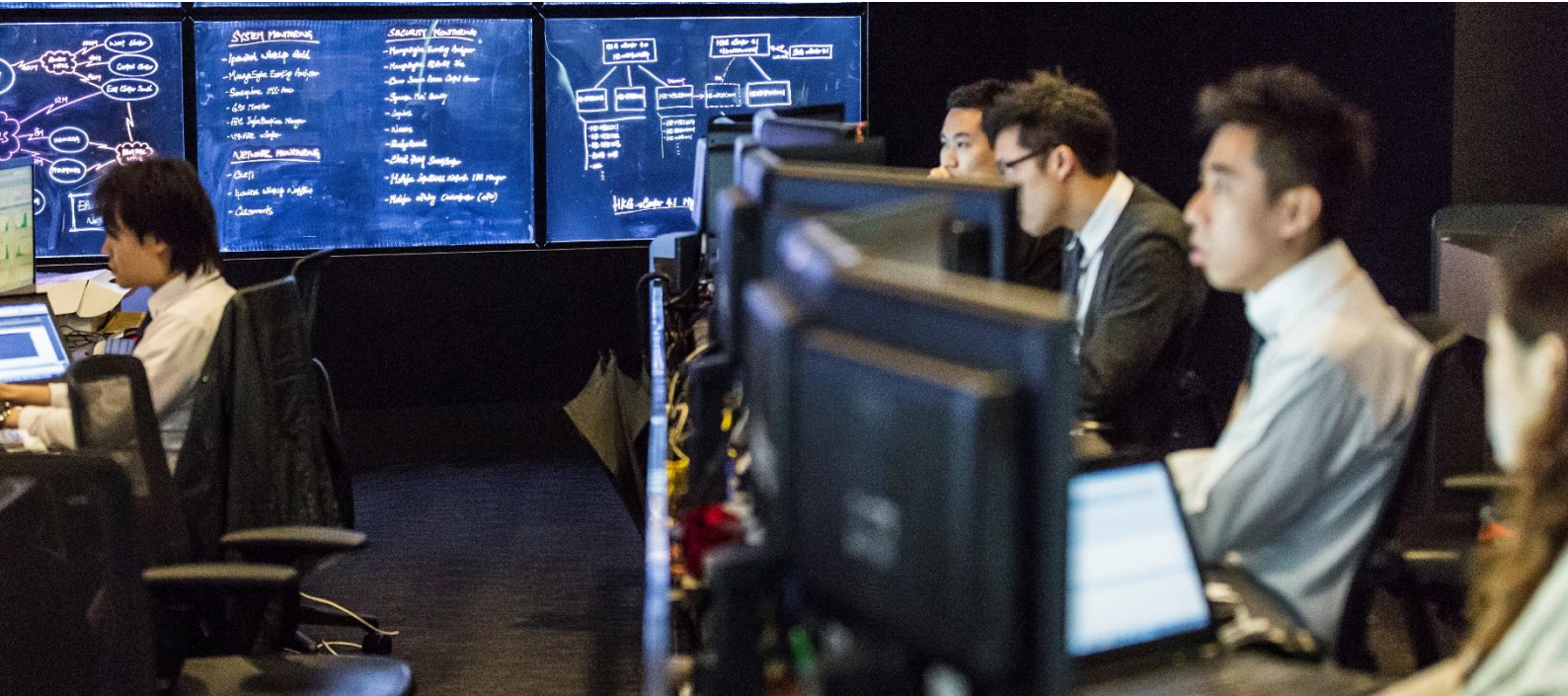
System enhancement remains essential to keep pace with change

Most banks have been improving their regulatory reporting processes a top priority, and are investing in automation. However, manual effort remains fairly pervasive and most returns compilation still relies on human intervention.



Better data management will allow banks to reap business benefits beyond improved compliance

Data granularity, definition and integrity are the most challenging areas for banks. Improving data ownership, standards and controls allows banks to develop data-driven insights to enhance profitability, efficiency and operational success.



Enhance cross-functional collaboration on regulatory reporting through better defined ownership

Departmental ownership of processes is clear but not necessarily properly documented and executed, especially for data management and ad-hoc requests. Increasing the effective involvement of departments outside the finance function can greatly improve reporting quality and controls.



Finance and risk alignment will become an industry norm as regulators' expectations increase

The convergence of finance and risk has become an emerging priority for banks in response to ad-hoc requests and fast-changing regulatory requirements. However, many banks are concerned about their ability to achieve finance and risk alignment, as internal systems, data, culture and leadership can be barriers.

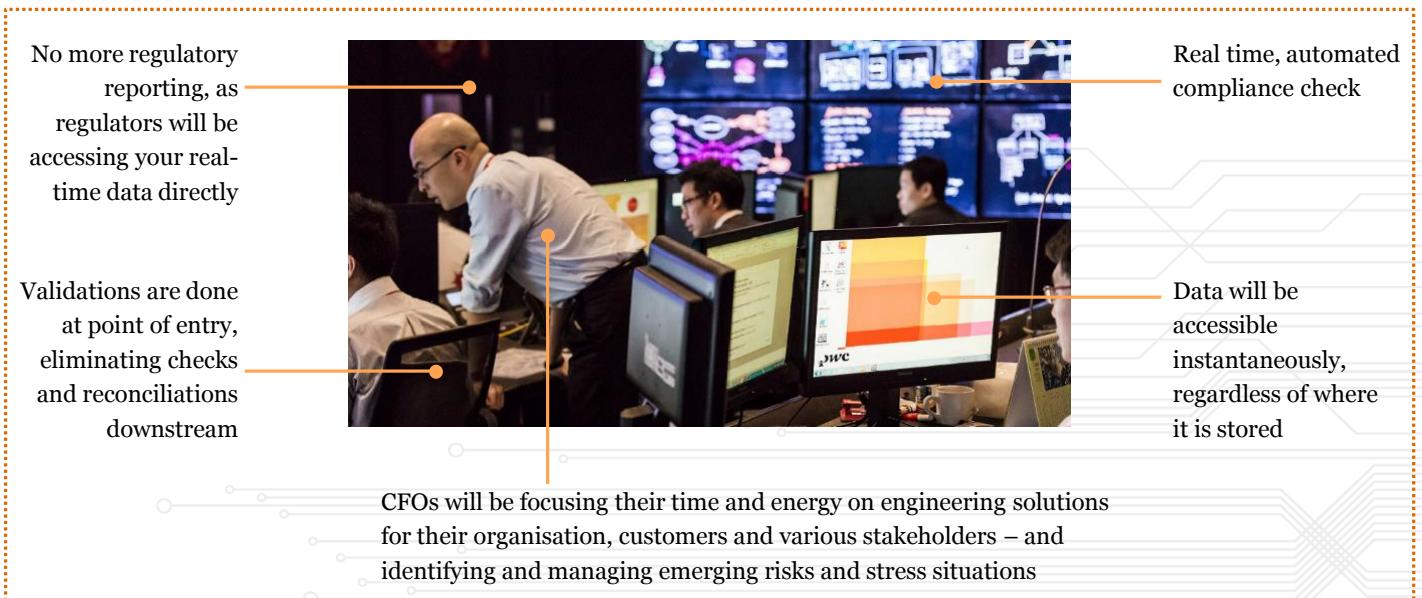


Grooming talent and training cross-functional teams is key to sustainably managing the complex regulatory environment

Difficulty in hiring resources from the market is a common challenge. There is significant benefit to regulatory reporting to be gain from fast-moving technology, banks need to groom existing talent on the one hand while helping talent to transform through long-term career development. Regulatory compliance should not be limited to reporting, but form part of the bank's business culture.

Reimagine the possible

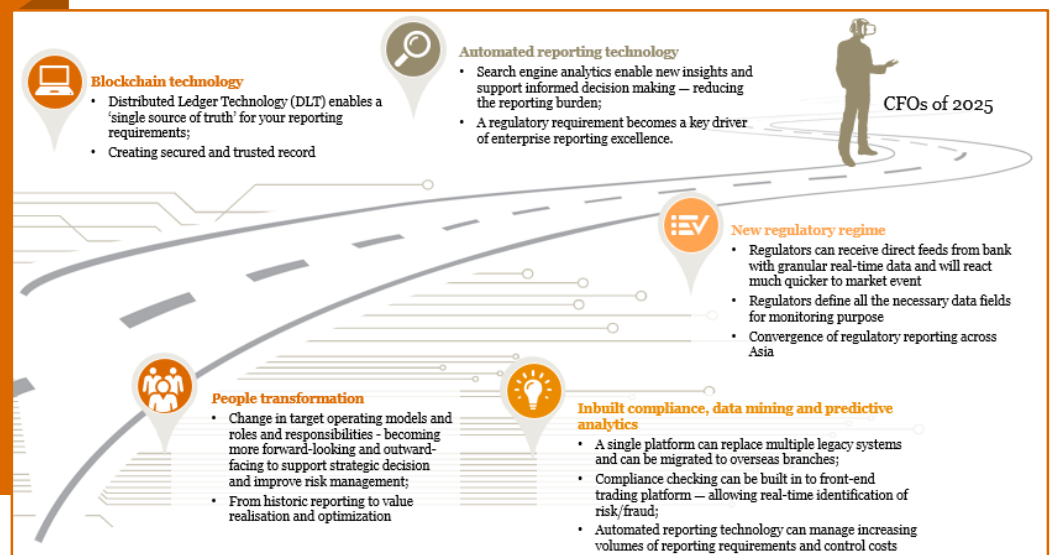
Imagine in 5 years' time...



These scenarios are **not pure fiction**. They are becoming a reality as technology and innovation advance at an extremely fast pace. We are already seeing this transformation happening.

What will this journey look like?

We believe these are the building blocks for the digital future. Certainly, making these a reality will alleviate the pain and challenges around regulatory reporting.



With these advances, banks will be able to focus their resources and energy on growing the bank safely and soundly, developing innovative solutions for their customers, and managing and anticipating risks more effectively.

What is next then?



With the **speed of technological innovation** today, what was **not even considered is becoming a reality**.

In Hong Kong, there are over 150 banking institutions, of which more than 20 are locally incorporated and the rest incorporated overseas. They vary in size, complexity, range of products and services and customer focus. Does this mean that all banks have to march in the same direction?

We believe, to some extent, yes. However they will be moving at a different pace and scale. With **ever evolving and increasingly complex regulatory compliance and reporting requirements**, some of the building blocks above are inevitable steps that banks need to take in order to stay fit and competitive.



Big data

Whether you decide to automate your regulatory reporting process or not, getting your data to the stage of “one single source of truth” is core to progress.

Standardised, accurate data at appropriate levels of granularity is critical for any automation and application of different technology and tools (e.g. analytics; reporting; risk management) **to work effectively**. Data governance and ownership will also need to be re-assessed and re-designed accordingly.



Target operating model

Over the last decade, banks have been in a constant state of “reorganisation” to drive operational excellence and efficiency, as well as optimal risk management. This never seems to end. The digital age requires a different target operating model. The roles and responsibilities of individual functions, the way they interact with each other, reporting lines, insourcing/outsourcing... are all impacted. Aside from addressing regulatory requirements (e.g. Finance and Risk alignment), there is a **real urgency to revisit the current blueprint** ,to properly embed these technological innovations, in order to stay competitive and fit for the digital world.



People

We do not believe that machines will or should replace human resources 100%. However, technology will definitely have an impact on the roles and responsibilities of people, as well as talent management. Rather than reporting on past or current status, more time will be spent on analytics: forecasting and simulating stress or other scenarios to anticipate and plan for potential issues, as well as to develop solutions. Change will take time. It is crucial to start **rethinking your people strategy** – talent mix, agility, diversity in skill sets, thinking and experience - to create the values that you are looking for in this digital age.

What is the most important factor to consider before taking action?

No matter how big or small, complex or simple your organisation is, your actions need to be fit-for purpose and aligned with your broader strategic focus. What we are discussing here is not just efficiency or precision of regulatory reporting. It is a matter of positioning your bank to compete and grow safely in the strategic direction that you want, while serving your customers better and in more innovative ways. These building blocks are the enablers for the future of banking. The go or no-go decision should not solely be depend on the price tag today. The expected benefits of these investments, and the opportunity costs of doing or not doing certain things, are just as critical to such decision.

We believe that there is ***no “one size fits all” solution***. Actions are driven based on the individual organisation’s broader strategic focus and priorities; its current state with respect to people, system and processes; and group strategy or other initiatives. We are already seeing some banks starting to take actions. If you have yet to act, maybe ***it is time to do so now?***

How can we help?

The regulatory environment is fast-paced and ever-changing. With so many financial and regulatory reporting updates issued each year, it can be difficult to stay on top of it all. Through PwC's global network of firms, our team can assist you in dealing with various aspects of regulatory reporting, from responding to new regulation to finance and risk transformation. Our experts not only know the rules, but have also successfully implemented sustainable solutions against them to achieve both compliance as well as improved reporting quality and efficiency.

New regulations:

PwC can help with rules interpretation, impact assessment across business, financial, capital charges, accounting, etc. as well as implementation of sustainable compliance programmes leveraging our industry leading and practical implementation approaches. Our team can support you with both local and global regulations across front to back offices such as recovery and resolution planning, transaction reporting requirements, margin reforms, IFRS 9, and various Basel standards, etc.

Compliance governance, control and efficiency:

PwC can help to design, implement, or review your governance and control framework over regulatory reporting to help improve your regulatory reporting function. Our tried and proven framework and experienced team can provide support over all three lines of defence as well as customised reporting data and process control reviews.

Data and system:

Data quality and completeness is integral to all regulatory reporting. We can support change and implementation work over data taxonomy, governance, and ownership, etc. for effective data management as well as integration of data across functions (e.g. BCBS 239 programmes or other Finance / Risk integration initiatives). PwC can support implementation of various regulatory reporting systems, ranging from assessment of third party vendor solutions, in-house system, business requirements gathering, configuration support, user acceptance testing, rollout, to change management across both single business unit as well as regional rollouts.

Delivery model and process:

We can help to review and design optimal regulatory reporting structure and processes with an aim to improve control and efficiency. Our experience includes design and implementation of shared service centres or centres of excellence for regulatory reporting, process improvement initiatives, and finance function realignment among closing, regulatory, and management reporting functions to achieve efficiency.

Innovative technology solutions:

Use of emerging technology is becoming a key industry trend and direction. We are well verse and connected within the FinTech and RegTech network, and are experienced in helping organisations leverage innovative technology such as various RegTech tools, robotics, etc. to enhance both accuracy and efficiency of the regulatory reporting process.

Contact us

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