“COREP” and “FINREP”
Implementation Challenges in Business and IT
Introduction

In 2006, the Committee of Banking Supervision (CEBS) established common reporting framework guidelines with an aim to achieve four key objectives:

- Increase the comparability of financial information reported to different supervisors within the European Union (EU)
- Increase the cost-effectiveness of supervision across the EU
- Reduce reporting burden on cross-border credit institutions
- Remove potential obstacles to financial market integration

In this context, the European Banking Authority (EBA) mandated COREP (“Common Reporting”) and FINREP (“Financial Reporting”) as the new European reporting frameworks to achieve harmonized supervisory reporting standards for regulated institutions across the EU. In the UK, COREP and FINREP have been scheduled for adoption in January 2014 and will replace some of the existing Financial Conduct Authority (FCA) reports.

In the UK, all BIPRU firms including banks, building societies and investment firms will be required to report under COREP. All credit institutions (consolidated groups and unlisted groups) applying IFRS (International Financial Reporting Standards) will report under FINREP.

The common reporting framework will be enforceable from January 1, 2014, with the first COREP submission scheduled for June, 2014 (based on 1st quarter data). Application of FINREP should begin on July 1, 2014 (3rd quarter).

Figure 1. COREP and FINREP implementation timeline

Source: Compiled by Accenture Risk Management in 2013 from material and content from the European Banking Authority (www.eba.europa.eu) and De Nederlandsche Bank website (www.toezicht.dnb.nl)
**COREP and FINREP**

**template coverage and reporting format**

As seen in Figure 2, COREP and FINREP can cover multiple templates based on capital, risk and financial numbers.

**New Reporting Format**

COREP and FINREP reports will have to be delivered to the EBA in the XBRL (Extendable Business Reporting Language) format; it is expected that most national regulators will pass that requirement onto banks and institutions. Although many institutions are approaching XBRL reporting on a template-by-template basis, we have observed that more sophisticated organizations are building in-house data models which closely match the EBA’s reporting requirement, format and layout. This is referred to as the Data Point Model (DPM). These organizations will be able to better respond to changes in reporting requirements and delivery formats.

**Challenges Posed by COREP and FINREP Fall into Three Main Areas**

In our view, COREP and FINREP can pose significant challenges across the organization (Figure 3).

The first group of challenges is organizational. Reporting processes, frequency and related technology should be aligned across traditionally siloed areas such as Risk and Finance. In addition, there are data mapping and data modeling concerns, since reported information will be underpinned by the same set of regulations and assumptions, for the same reporting dates. This can be extremely challenging, given that most organizations are embedded with multiple layers of source systems and complex data transformations.

There are also organizational challenges related to regulatory interpretation, as the lack of subject matter experts and different interpretations of the same data definition could only add to the existing complexity.
The second group of challenges we see are operational and are primarily related to producing reports and managing EBA updates. For example, FINREP and COREP data need to be correct and consistent across each of the reporting submissions, requiring a robust financial and risk control framework.

Maintenance of the template rules and hierarchies is also a vital concern. ‘Hard-coding’ of business rules to hit the first reporting deadline is likely to be a costly approach. The EBA is expected to make changes to the DPM for the foreseeable future so a robust operational process to understand both the Prudential Regulation Authority (PRA) and EBA requirements and implement any changes to the DPM is important.

The operational impact of the new reporting requirements and maintenance of the DPM and templates can be minimized by utilizing a granular business data model to assemble reporting information, aggregated and mapped to the EBA reporting model. That way, if the view of the data required for reporting changes, essentially all that is required is a tweak to the aggregation and mapping.

The third group of challenges we observe relate to process, IT and infrastructure. In the areas of data mapping and data modeling, for example, data may currently not be stored in a single data warehouse, in which case it may prove problematic to source the information required for the reporting templates. As a result, many institutions are now creating or enhancing reporting systems to collate, normalize and output the required data.

For many firms it would appear the final XBRL format of the reports is also proving to be a large technical challenge. As the XBRL reports are subject to a large set of validation rules embedded in the XBRL taxonomy, the reports need to be created with a high degree of accuracy, with appropriate pre-submission formatting and validation checks. Many organizations at this point are looking at third party software to facilitate the formatting of the reports to XBRL. However, many vendors’ software solutions may not yet be ready as the EBA finalizes its taxonomy and DPM, so early preparation of bank data can offer banks the time to focus on implementing and testing the latest software releases.

It should be noted that the regulatory reporting process is subject to review by the regulator. Documentation to demonstrate robustness of the process and solid understanding of the data lineage will be required in order to satisfy the regulator that reported numbers are accurate.

Overall, while producing reports in the XBRL format poses its own challenges, in our view the true complexity lies in getting the right data with the right level of granularity backed with full referential integrity. This includes mapping back the reported numbers to the bank’s own physical data elements as well as the EBA’s DPM. It should also be noted that COREP/FINREP can provide regulators access to more granular level data, to enable tighter regulatory scrutiny; hence it is crucial that reported numbers are accurate and consistent for COREP and FINREP use, as well as for other reports produced as part of the bank’s regulatory obligations.

The Six Point Checklist

In order to address the above mentioned challenges effectively, banks may want to consider the six point checklist featured in Figure 4. The checklist highlights some key steps to preparing for COREP and FINREP reporting. These steps in our view are critical and should be part of any project plan developed to address the reporting requirements. The checklist can also help clients determine their readiness and flexibility to adopt future changes that may arise as part of COREP and FINREP reporting.

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Figure 4. COREP and FINREP checklist

1. **Accurate interpretation of EBA rules**
   - Achieve clear understanding of EBA templates, instructions and EU regulations

2. **Data Point Model versus individual report submissions**
   - Understand technical implications and complexity involved
   - Identify gaps and address plans

3. **Data management**
   - Identify and design additional business processes to handle increased volumes of data
   - Understand IT capabilities and limitations to provide more granular data

4. **Robust validation checks**
   - Enable populated data to meet EBA validation rules

5. **Vendor management**
   - Enable selected vendor(s) to successfully consume raw data from source IT systems and produce final output in XBRL

6. **IT infrastructure**
   - Understand IT capabilities and limitations to handle future changes in EBA templates
   - Understand how a COREP/FINREP solution can be part of the bank’s technical and data architecture across finance, risk and treasury

Source: Accenture Risk Management, November 2013
Conclusion

COREP and FINREP reports which are highly standardized in terms of their content and delivery format, can pose a significant challenge for many institutions given the time available to complete the construction of the internal frameworks required to produce these reports. With seemingly fewer in-house subject matter experts and data point definitions open to interpretation, the challenge will likely be both business as well as IT. One cannot underestimate the complexity involved in having access to the right data at the start of the process and building contingencies to accommodate late changes from the EBA as well as third party software vendors. However, this also gives institutions the opportunity to take a long-term and holistic view of how they would like to structure their internal data model, and possibly their Finance and Risk operating models in light of ever increasing and complex regulatory reporting requirements.

How Accenture Can Help

Banks are just starting to come to terms with COREP and FINREP and realizing the challenges involved. We have developed extensive understanding and experience in areas including finance, risk and regulatory compliance and are able to provide insight and direction to organizations seeking to navigate the complex web of changing regulations and reporting requirements.

Our expertise and tools in this area include:

- Deep understanding of regulatory requirements and rules, and the implications for technology, process and people. This includes interpretation of complex EBA regulations and their translation into actual numbers that need to be reported, defining 'state of the art' target architecture to accommodate current and future changes in regulatory reporting and establishing robust business processes and control frameworks.

- Technical skills that can better address many of the components of the 'challenges' matrix together with overall program management. We are in a position to provide both specialized business analysis as well as general project management skills to help deliver on the regulatory commitments of our clients. Also, our subject matter experts can help clients remain up to date with the latest changes in regulation.

- Accelerators in the form of structured inventory of rules, data lineage mapping tool, XBRL validators and report templates. These assets can be very useful in organizing and analyzing large volumes of data in a straight forward and structured manner. These tools can provide very crucial insights throughout the reporting process and are crucial in ensuring reported data can be validated and audited in a robust fashion. These can also be easily customized to individual bank requirements and can be implemented within a short time frame.

- Partnership relationships with key industry experts and vendors.
Notes


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