



Suade

Turning tides: Seizing the moment to embrace an open standard for regulatory reporting



01 Introduction

In a world of growing data and ongoing regulatory changes, the financial sector faces a big shift, highlighting the need for a reliable data standard. This white paper explores the opportunities of a standardised framework for regulatory reporting, shedding light on why past endeavours fell short in setting up a standardised data regime and drawing insights from those attempts. We now reach a point where adopting an open data standard is not just a technical change, but a necessary step to improve the accuracy, efficiency, and transparency of financial reporting and regulatory compliance. The time is now.

02 Why have many data standardisation projects struggled to gain adoption?

A. Wrong stakeholders

A primary reason for the failure of data standardisation projects is that they are often led by data receivers, not data owners. Receivers, like regulatory supervisors, lack direct involvement in daily financial data reporting, hindering the project's success. Indeed, they may have a general understanding of the data that needs to be reported, but they do not have the expertise or the practical knowledge to fully understand the nuances of the reporting process. This can lead to a lack of specificity in the standardisation process, which can ultimately result in inaccurate reporting. This is akin to the diner organising the chef's kitchen and ingredients. The organisation of a chef's kitchen will depend on the dishes required, but this is a judgment best made by the chef.



One example comes from the United Kingdom's Financial Conduct Authority (FCA), which attempted to standardise transaction reporting under the Markets in Financial Instruments Directive (MiFID II). According to a report by the House of Lords EU Financial Affairs Sub-Committee, the FCA did not fully understand the complexities of transaction reporting, and the standardisation process was rushed and poorly communicated to the firms it regulated.

Another example comes from the United States, where the Securities and Exchange Commission (SEC) attempted to standardise the reporting of swap transactions under the Dodd-Frank Wall Street Reform and Consumer Protection Act. According to a report by the U.S. Government Accountability Office (GAO), the SEC did not fully consider the challenges that firms would face in implementing the new reporting standards, and did not communicate effectively with the firms it regulated.

Furthermore, these supervisors may not fully realise how difficult it can be to collect accurate and consistent data, especially within complex financial transactions. This lack of understanding can lead to unrealistic expectations for reporting accuracy, which can make it difficult for firms to comply with the new standards. Indeed, supervisors often have “a low level of data culture”, noted a data expert.

B. Costs outweigh benefits

Data standardisation projects often encounter another critical issue: the costs of adopting a standard outweighs the benefits of standardisation. When firms perceive the standardisation process as a burden rather than a benefit, resistance can emerge. Failure to demonstrate the advantages and potential long-term gains of data standardisation can result in scepticism and apprehension among the regulated entities. It is essential for supervisors to proactively engage with firms, clearly highlighting how



standardised data formats can improve operational efficiency, enhance data quality, streamline reporting processes, and facilitate regulatory compliance. By fostering open lines of communication and actively promoting the benefits of standardisation, supervisors can mitigate resistance and foster a shared understanding that data standardisation is a valuable tool for all stakeholders involved.

C. It does not solve the problem

The failure of certain attempts at standardisation can also be attributed to a fundamental misinterpretation or inadequate definition of the underlying problem. When the problem statement is inaccurately framed or inadequately understood, the subsequent standardisation efforts are likely to miss the mark. Standardisation requires a comprehensive and thorough analysis of the existing challenges and complexities within the regulatory reporting landscape. If the problem is incorrectly defined, the resulting solutions may not adequately address the actual pain points or provide meaningful improvements. This can lead to wasted resources, implementation of irrelevant or ineffective standards, and a lack of buy-in from the affected stakeholders.

Recent attempts to create ESG data reporting standards have highlighted that the actual problem for ESG data reporting is clarity on what data needs to be collected, in what form, from whom and how often. “Having reporting standards sounds like a good idea, of course, but they don’t solve the problems I have” says a data lead at a large G-SIB.



D. Weak governance

“Weak governance is another contributing factor to the failure of certain standardisation attempts,” pointed out a senior executive from a European bank. In order for standardisation initiatives to succeed, a robust governance framework is crucial. Insufficient oversight, unclear responsibilities, and a lack of coordination can hinder the effective implementation and enforcement of standardised practices.

Without strong governance structures in place, there may be a lack of accountability and compliance, leading to inconsistent adoption of standards across different entities or jurisdictions. Additionally, weak governance can result in inadequate resources being allocated to standardisation efforts, impeding progress and limiting the necessary support and expertise. To ensure the success of data standardisation projects, it is imperative to establish clear governance mechanisms that outline roles, responsibilities, and enforcement mechanisms, promoting transparency, consistency, and accountability throughout the standardisation process.

E. Incorrect semantics

"Some attempts at standardisation have failed because they sought to construct arbitrary dictionaries of semantic definitions," noted an economist. To create a reliable framework, it is essential to adopt a technical perspective that revolves around a core set of facts. The concept of standardisation cannot be applied to something that lacks factual basis. In his book *Philosophical Investigations*, Wittgenstein offers insights into how we perceive and represent the world. According to him, facts are essentially language games that function within a broader societal context. Consequently, when establishing standard definitions, it is crucial to derive them from the law, as legal frameworks provide universally agreed-upon facts. “A fact is something that if two people see, they will agree on what



they saw,” describes the leader of a large data standards project.

Data standards, despite their aim to promote consistency and harmonisation, do not always accurately reflect the complex realities (facts) of businesses and industries. One such example is the use of NACE codes to classify the activities of companies. NACE codes provide a standardised framework for categorising business activities, but they can be insufficient in capturing the nuanced operations of organisations, particularly in cases where multiple activities are intertwined or when head office functions are not adequately represented. This can lead to challenges in modelling and reconciling data, as the standardised codes may not align with the specific intricacies and variations within a company's operations. Modifying or reconciling data to fit rigid standards can be a labour-intensive task, requiring additional efforts to map and bridge the gaps between reality and the standard. This disconnect between data standards and real-world complexities highlights the need for ongoing evaluation and adaptation of standards to ensure they accurately reflect the dynamic nature of businesses and facilitate meaningful analysis and reporting.

F. Fear of change

According to a national regulator, there also exists a rational business incentive for banks to resist standardisation, as it allows their products to remain distinct and non-directly comparable to those offered by other institutions. While complete standardisation of specific products may not be desirable, there is a compelling argument to standardise the underlying characteristics of these products. By establishing common parameters, guidelines, or attributes that define the products, such as interest calculation methods, repayment terms, or disclosure requirements, it becomes possible to promote transparency and facilitate meaningful comparisons for consumers while still allowing banks to differentiate themselves through other aspects such as customer service, additional



features, or tailored offerings. Striking a balance between standardising the essential characteristics and allowing flexibility in other areas can foster fair competition, empower consumers with greater information, and contribute to a more efficient and customer-centric financial industry.

Certain individuals may also fear the changes brought by the shift to adopt a new standard. Despite the pressing need for streamlined and efficient processes, resistance to change has impeded progress. Many professionals within financial institutions have become accustomed to traditional methods that have been in place for years, making it challenging to embrace new technologies and standardised data formats. The familiarity with manual forms and legacy systems often results in a reluctance to adopt modern solutions, hindering the implementation of effective data standardisation initiatives. Overcoming this resistance requires a concerted effort to educate and convince stakeholders about the benefits of embracing technological advancements and harmonised reporting practices to enhance efficiency, accuracy, and transparency in regulatory reporting.

G. Impracticality of implementation

Finally, a predominant hurdle in the adoption of a standard often emerges from its comprehension being limited to the minds that engineered it. The realms of data standardisation and data modelling are prone to drifting into abstract, theoretical, and academic territories if they fail to remain anchored in the resolution of tangible, real-world problems faced by end users. The complexities inherent in these domains can easily intensify, transforming what was originally conceived as a solution into a system incomprehensible to everyone except those who devised it. This gap between the creators of the standard and the practitioners can make applying the standard a challenge, which hinders broad adoption. The core value of a standard lies in its ability to simplify, streamline, and create a common language within a domain. However, when covered in complex words and academic talk, its



fundamental utility can be overlooked.

Moreover, the absence of a pragmatic approach in the design and dissemination of a standard can give rise to a lack of enthusiasm or even opposition among potential adopters. They might perceive it as an arcane idea rather than a tool designed to mitigate their operational hurdles. Therefore, for a standard to achieve widespread adoption and to genuinely fulfil its intent, it's crucial that it is formulated and conveyed in a way that aligns with the practical needs and understanding of the professionals it aims to support.

03 Why is now the right time to embrace a regulatory data standard?

"There has never been a more opportune moment to implement a data standard in the regulatory industry," stated an insurance data expert. The current reporting environment is mature and provides excellent opportunities for evolution and improvement. In 2011, when the European Supervisory Agencies (ESAs) were established, there was a commendable level of coordination in developing supervisory frameworks, such as the use of XBRL and DPM. However, achieving full harmonisation was challenging due to time constraints imposed by new regulatory frameworks. "Now, with the DPM refit, there is a renewed effort to achieve a higher level of harmonisation," explained a European regulator.

The present circumstances offer an ideal landscape to embrace data standards in the regulatory industry. Building upon previous achievements, the industry has matured, providing a solid foundation for further advancements.



A. The exponential volume of data

The regulatory industry is grappling with an unprecedented surge in data volume, experiencing an exponential increase over the past decade. This surge has created a significant challenge for financial institutions, as they are now confronted with a vast amount of data that necessitates effective management, analysis, and regular reporting, according to an insurance data expert. The data landscape encompasses a wide range of information, including transaction data, customer data, risk data, compliance data, and more. However, without a standardised approach to data management, financial institutions can face considerable difficulties in extracting meaningful insights and meeting regulatory obligations.

The absence of a standardised framework also exacerbates the complexity of handling such a massive volume of data. Financial institutions may encounter obstacles in organising, consolidating, and harmonising disparate data sources, hindering their ability to gain comprehensive visibility and derive accurate and timely insights. Standardisation not only enables financial institutions to harness the power of their data but also empowers them to gain valuable insights, identify emerging risks, and make informed business decisions.

B. The increasingly complex regulatory requirements

Furthermore, the regulatory landscape has evolved to become markedly complex and detailed, posing heightened challenges for financial institutions striving to adhere to multiple reporting standards, especially in the absence of a standardised approach. The lack of uniform data management practices can precipitate inconsistencies, inaccuracies, and inefficiencies in reporting, which may potentially expose financial institutions to compliance risks, thereby obstructing the smooth facilitation of regulatory oversight.



Engaging with established data standards simplifies the navigation through regulatory requisites, cultivating a culture of transparency, accountability, and trust between institutions and regulators. This alignment not only streamlines the compliance process but also fortifies the institutional framework against emerging regulatory challenges, thereby fostering a more robust, transparent, and compliant financial ecosystem.

C. Financial markets' unprecedented globalisation

Financial markets have become increasingly globalised, with financial institutions operating across many jurisdictions. The diverse regulatory environment poses significant challenges, requiring institutions to adapt to each set of rules, which can be both complex and time-consuming.

Introducing a data standard offers a structured approach to managing and exchanging data, making cross-border reporting less intricate. It provides a common language and structure for managing and exchanging data, ensuring a consistent reporting essence while respecting each jurisdiction's unique rules. Additionally, navigating through different regulatory frameworks can be financially draining for institutions. A data standard can reduce these costs by offering a uniform framework for data management and reporting, making compliance with multiple regulatory regimes less financially and operationally burdensome.

D. The rise of technological innovations

Recent advances like cloud computing and big data analytics have greatly changed data management in financial regulation. They've made storing and processing large amounts of data simpler and faster.



Cloud computing is a cost-effective solution for data storage and management. It removes the need for big investments in physical infrastructure while allowing access to data anytime, anywhere, which promotes real-time sharing among financial institutions and regulators. It also provides a secure environment for sensitive financial data.

Big data analytics, on the other hand, helps in processing and analysing huge volumes of data quickly. It allows financial institutions to extract valuable insights from their data, aiding in informed decision-making and timely compliance with regulatory reporting requirements.

Together, cloud computing and big data analytics support the development and implementation of a data standard for financial regulation. A structured data standard can simplify the management of complex and diverse data, making regulatory compliance easier and more accurate. Additionally, these technological advancements facilitate the move towards automated compliance frameworks. Automation, powered by smart algorithms and machine learning, reduces manual work in data management and regulatory reporting, minimising errors and ensuring better compliance accuracy.

E. Public demand for transparency

In the last ten years the demand for increased transparency in financial markets has grown significantly, as the general public seek a better understanding of the financial ecosystem and its broader impact on the economy. Enhanced transparency not only builds trust between financial institutions and the public but also promotes a more resilient and accountable financial framework.

A data standard presents a robust solution to meet this escalating demand for transparency. By establishing a uniform framework for data management and reporting, a data standard ensures that the data shared by financial institutions is consistent, accurate, and easily understandable.



This standardisation of data considerably reduces the potential for discrepancies and uncertainties, thereby enhancing the level of transparency.

Additionally, standardised data provides a solid basis for monitoring and assessing the health and dynamics of the financial system. It supports a more streamlined and effective analysis, allowing regulators, policymakers, and the public to gain insightful perspectives into the operations of financial markets. The consistency in data brought about by the standard simplifies comparative analysis across different time frames and financial entities, leading to a deeper understanding of market trends, risks, and opportunities.

04 Conclusion

As we conclude this paper, it's clear that now is a critical time to adopt an open standard for regulatory reporting. The need for clarity, rising data volumes, and complex regulatory demands highlight the importance of a structured data framework. With recent tech advancements and the evolving financial industry, the stage is set for this shift. Introducing a data standard is more than a technical change; it's a step towards a future of transparency and informed decision-making.



Discover FIRE

FIRE (Financial Regulatory Data Standard) is an open-source data standard developed by Suade rooted in financial regulation and aimed at simplifying data management and promoting regulatory harmonisation across the financial services industry. Unlike traditional data mapping approaches, FIRE swiftly ingests and maps data to regulatory returns, reducing manual efforts significantly. This initiative, backed by grants from the European Commission and the Monetary Authority of Singapore, enhances transparency and consistency in regulatory disclosures under Basel standards, without overriding jurisdiction-specific laws. FIRE open-source nature allows for universal adoption by financial institutions, facilitating a unified, efficient approach to regulatory reporting and decision-making. The global rollout of FIRE underscores its effectiveness in addressing the financial sector's data management challenges, heralding a new era of streamlined, cross-jurisdictional regulatory compliance.

Learn more about FIRE on <https://suade.org/fire/>

About Suade Whitepapers

[Suade](#) is a London-based RegTech organisation that is a leading regulatory reporting software provider for banks and financial institutions of all sizes. Suade Whitepapers aim to address a key theme or topic within the RegTech industry from a neutral, research-driven lens by leveraging the wisdom of our community. In order to achieve a balanced view, the Suade team typically conducts off-the-record interviews with practitioners, senior managers from the financial industry, public sector and other professionals experienced in the topic to inform the publication. The goal is to publish a considerate, educational, technical publication to drive further discussion via roundtables, webinars and other events towards achieving a more stable and transparent financial system.

If you would like to participate in associated events or future whitepapers, please get in touch at: lucie@suade.org.