

# Can data standardisation drive regulatory harmonisation?

## Data Standardisation Key Benefits

- Cost savings
- Efficiency gains
- Scalability across different markets
- Cross-border compliance
- Cross-border transactions
- Harmonisation
- Comparability and reuse of data
- Lower maintenance costs
- Trust in data reliability



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### Achieving regulatory harmonisation across industries and regions

of the world would confer significant benefits for many different stakeholders, both private and official sector alike. Among the key benefits are cost savings and efficiency gains for organisations involved in cross-border transactions. Regulatory harmonisation would reduce duplication of testing processes for new products and services, as a certification regime in one jurisdiction would be valid in the chosen target market. Equally, organisations could save resources if their compliance programmes were applicable across borders. Despite the many benefits, achieving regulatory harmonisation continues to be a challenge.

Significant progress has, however, been made through international collaboration, including through the Basel Committee on Banking Supervision (BCBS) in the sphere of financial services regulation.

Data standardisation is a powerful tool that contributes to regulatory harmonisation. It leads to cost savings and efficiency gains, while ensuring comparability of outputs across jurisdictions. Data standardisation facilitates cross-border transactions and reduces maintenance costs. Like harmonised regulatory systems, standardised data ensures that data outputs are of a reliable quality, thus reinforcing trust. Data produced by banks for Pillar 3 disclosures and regulatory reporting under Basel III can be standardised in such a way as to contribute to regulatory harmonisation.

# From minimum standards to regulatory harmonisation

Since its establishment in 1974, the BCBS has successfully developed prudential standards for internationally active banks around the world. Developed through a process of collaboration and consensus, the BCBS's minimum prudential standards have become the de facto global standard for banks around the world. The first instalment of the latest iteration of the Basel standards - often referred to as Basel III - was published in 2010 and implementation is ongoing. The implementation process leads to more stringent adjustment and interpretation at the discretion of the jurisdiction, though some jurisdictions diverge from the global agreement and adopt less stringent requirements. Combined with differences between jurisdiction-specific laws and accounting standards, data standardisation is the only effective tool to drive harmonisation.



## Regulatory harmonisation through FIRE

FIRE, the open-source data standard, is a unique and powerful tool that drives regulatory harmonisation. FIRE standardises Basel III data by organising a financial institution's data in accordance with applicable regulatory and accounting requirements. Bankruptcy remoteness and fair value accounting are pertinent examples.

### Bankruptcy remoteness and fair value accounting

Special purpose vehicles (SPVs) are an integral part of asset securitisation transactions. For an asset on a bank's balance sheet to be "derecognised" under accounting standards through the securitisation process, the SPV must be bankruptcy remote from the loan originating bank, such that the bankruptcy of the loan originating bank would not affect the SPV. Specific requirements for achieving bankruptcy remoteness depends on the jurisdiction in which the transaction is completed and include laws that govern insolvency, property, and contracts that vary across jurisdictions. A data standard like FIRE makes it possible to standardise data on bankruptcy remoteness. FIRE contains a bankruptcy remoteness attribute that permits financial institutions to tick a box to confirm that bankruptcy remoteness has been achieved. Whether or not it has been achieved is up to each institution to identify based on legal opinions obtained from legal experts in the field.

Fair value accounting's practice of mark-to-market (MTM) tells a similar story. Accounting already benefits from a significant level of harmonisation, but disparities nevertheless remain. MTM and fair value accounting ensure that market developments are reflected in an asset's valuation. US GAAP and IFRS adopt different approaches to the fair value of financial instruments. To distinguish the differences, FIRE contains an MTM attribute that represents the results of US GAAP or IFRS calculations depending on the applicable accounting framework, which is recorded in a separate attribute. The MTM attribute is only one of many attributes that standardise fair value accounting in FIRE.

## Harmonisation through data standardisation

The examples of bankruptcy remoteness and MTM accounting demonstrate the power of data standardisation. FIRE produces comparable data across financial institutions for bankruptcy remoteness and MTM accounting values despite differences in laws and accounting principles. This gives financial institutions the ability to compare their cross-jurisdictional operations. At the same time, this powerful capability enables regulators to identify and evaluate risks across their jurisdictions with significantly greater reliability than would be possible without standardised data. Finally, market participants are empowered to thoroughly analyse the strength of financial institutions based on those firms' Pillar 3 disclosures, thus ensuring effective market discipline. In short, data standardisation bridges the gap caused by jurisdictional differences in laws and accounting standards and thereby helps drive regulatory harmonisation.