Prudential Regulation Authority

Transforming Data Collection: Bank of England and FCA Response to Phase One Recommendations from the Joint Transformation Programme

Introduction

This paper outlines the Bank and FCA's responses to the industry committees' recommendations for the phase one use cases of the joint transformation programme. At this stage, the industry committees have made recommendations for Form DQ and the Financial Resilience Survey. The programme expects that the committees will make recommendations for CRE data at a later date. **Read more about how the programme and the committees arrived at the recommendations**.

Form DQ use case

Form DQ background

Form DQ is a quarterly statistical data collection used by the Bank of England to collect data on asset and liability positions in derivatives. Form DQ is reported by monetary financial institutions with liabilities greater than £10bn. The data is primarily used by the Office for National Statistics (ONS) in their calculation of GDP published in the System of National Accounts (SNA).

Through the discovery and alpha stages of the project, via research, interviews and workshops, the delivery team have uncovered a number of problem areas with the existing data collection. Six problem statements were prioritised for further work:

- Satisfying the reporting requirements requires firms to implement and maintain a costly process involving multiple sets of mappings from reference data to the requirements

- Firms do not understand why the data is collected

- The proliferation of reporting templates means that firms are duplicating their effort

- Firms have to implement a costly and repetitive quality assurance process in order to submit the data with confidence

- Firms find the reporting instructions hard to interpret

- There is a lack of transparent information sharing between the Bank and firms

Overview of recommendations

Recommendation DQA: Better reporting landing pages

Problems identified

Users interviewed by the programme find the Bank of England statistical reporting webpages hard to use. The pages do not easily explain why the Bank is collecting the data it does, and the key information about reporting is not presented in an intuitive way, making it harder to navigate.

Recommendations:

Short term

The industry committee recommends that the Bank enhance the statistical reporting and Form DQ reporting landing pages to allow users to:

- Easily find the most recent version of core documents facilitating Form DQ reporting.

- Easily understand the context of the reporting, including how their data is used.

- Plan ahead for any upcoming changes to reporting.

Long term

The Bank should then mirror this update for other statistical reporting requirements, as well as future reporting requirements (including regulatory reporting). The Bank should further update the reporting sections of their website, including:

- Improved search functionality.

- A quality assurance tool to measure data quality before / after submission.

- Automated helpdesk functionality, to reduce the burden on the existing support team.

Response to Recommendation DQA

In response to the short-term recommendation, the Bank of England will, by July 2023, update the statistical reporting and Form DQ landing pages as described in the recommendation. Following on from the implementation of these changes, the Bank will deliver similar changes for other statistical reporting and future reporting requirements.

The Bank agrees to the long-term recommendations in principle i.e. features like improved search functionality, a quality assurance tool and an automated helpdesk. At a future date the Bank will explore the solutions further to understand how they might be delivered in practice and the associated business case. If the Bank's analysis establishes that there is a business case to implement these changes, the Bank will add them to the implementation roadmap.

Recommendation DQB: Restructured reporting instructions

Problems identified

Reporting firms find that the instructions for Form DQ are difficult to use and understand. They tell us that the data definitions are unclear, not sufficiently explicit, and assume knowledge on the part of the user. As a result each firm may interpret the rules differently, resulting in inconsistent reporting.

Recommendation

Short term

The industry committee recommends that the Bank improve and restructure existing reporting instructions and data definitions for Form DQ so that they are easier to use. This should include:

- Separating data definitions from the 'instructions' for populating the return.

- Publishing the instructions in a structured format as well as the current natural language format.

- Ensuring there are clear definitions for each data item, to help standardise firms' reported data.

Medium term

The industry committee recommends that the Bank should review Form DQ requirements and make them more prescriptive. This may include recommending standards in the data definitions. This should build on data definitions already available in data dictionaries (e.g. EBA, EIOPA etc.). The Bank should also look to develop restructured instructions across other statistical reporting, as well as future reporting requirements.

Long term

The industry committee recommends that the Bank (including the PRA) and FCA should produce standardised reference tables, improve data attribute definitions and increase adoption of international standards in instructions. The Bank (including the PRA), FCA and industry should work towards developing standardised datasets that can satisfy multiple requirements, with reporting instructions published in the form of code.

Response to Recommendation DQB

In response to the short-term recommendation, the Bank of England will restructure its existing reporting instructions and data definitions for Form DQ, as described in the recommendation by July 2023.

In response to the medium-term and long-term recommendations, the Bank and FCA agree to these recommendations in principle.

At a future date, the Bank and FCA will explore the solutions further (via the joint transformation programme) to understand how they might be delivered in practice and the associated business case. If the joint transformation programme's analysis establishes that there is a business case to implement these changes, and the Bank and FCA agree with that analysis, then the Bank and FCA will add the relevant changes to their respective implementation roadmaps.

Recommendation DQC: Counterparty classification standardisation

Problems identified

Form DQ requires firms to break down their derivatives positions by counterparty sector. But firms find this classification ambiguous. For example, a firm may not know whether to classify its counterparty as a 'monetary financing institution' due to the subtle differences between some financial institutions. The rules for how to classify counterparties are set out in the relevant reporting instructions. But firms find it difficult, and therefore costly, to interpret the Bank's guidance on classification, and have to

design and maintain classification processes for this themselves. And this difficulty makes it more likely that they misclassify some counterparties, resulting in reporting errors. This issue is one that anecdotal evidence suggests is experienced across a wide range of reporting, well beyond Form DQ and indeed internationally, and therefore addressing it may provide benefits across a wide range of reports and reporting firms.

Recommendation

Short term

The industry committee recommends that the Bank should create, maintain and make centrally available a 'modernised representation' of the instructions that standardises and simplifies the process for classifying counterparties for Form DQ. This would allow firms to map from available reference data sources to the Bank's desired counterparty classification.

Furthermore, the industry committee recommends that the Bank and FCA (where relevant) should:

- Adopt unique identifiers (such as the Legal Entity Identifier 'LEI' or Companies House number) in order to index counterparties as part of publicly available reference data sources that it maintains (such as the Financial Services Register).

- Engage with public organisations (such as the ONS and Companies House) to ensure their reference data sources also adopt a unique identifier and to promote improvements to SIC code clarity and accuracy.

- Implement processes to enhance the accuracy and timeliness of the reference data sources that it publishes and make it machine-readable.

Long term

The industry committee recommends that the Bank and FCA (where relevant) should:

- Look to extend these classification instructions to other statistical reporting requirements, as well as future reporting requirements.

- Develop an application, usable by both humans and machines, which automatically classifies counterparties based on a unique identifier, such as an LEI.

- Engage internationally with authorities in other major jurisdictions to promote standardisation of the System of National Account categorisation.

Response to Recommendation DQC

In response to the short-term recommendation, the Bank of England will investigate further how it can create a 'modern representation' of counterparty classification instructions and update the public reference data sources that they control to make them machine readable, using an appropriate unique identifier to index them. The Bank will need to explore how these recommendations can be delivered and what impacts they would have both internally and externally. The Bank agrees to implement the changes once a business case to do so has been proven.

In response to the long-term recommendation, the Bank will investigate further applying these changes across statistical reporting. The Bank will need to explore the feasibility of standardising the SNA categorisation and using unique identifiers to produce an application that automates the process of counterparty classification. The Bank agrees to implement these recommendations once a business case to do so has been proven.

<u>Financial Resilience Survey use case</u>

The Financial Resilience Survey is a quarterly ad-hoc survey sent to approximately 22,000 solo-regulated firms. The FCA created the survey in the wake of the Covid-19 pandemic and national lockdown in 2020 to ensure the FCA had the necessary information to understand the impact on firms' financial resilience, in the timeframes needed to support policy and decision-making.

Given the importance of the data to the FCA's work, the FCA intends to make some of the collection (questions not specific to Covid-19) into a rules-based regulatory return.

Workshops with stakeholders across firms and regulators highlighted a number of problems with the existing collection, including five problems that the programme prioritised for further work:

- Firms currently have data submission and feedback challenges using the survey tool.

- All firms must answer the same questions regardless of their size / business model.

- Unclear rationale for data collection, and a lack of feedback from the FCA.

- Difficult processes of interpretation of instructions and providing estimates/projections.

- Duplication of effort with other reporting where similar data is provided.

Workshops with stakeholders across firms and regulators highlighted a number of solution ideas. The Reporting Transformation Committee has made formal recommendations around four of these.

Overview of recommendations

Recommendation FRS1: Reghub Portal and home pages

Problems identified

Firms have difficulty submitting the data on the relevant FCA systems and need to interact with the FCA to resolve submission issues. They are concerned they do not know how the information they provide is used, nor does the FCA provide sufficient feedback on their submissions.

Short term

The industry committee recommends that the FCA produce an investment case for a web-based portal which firms can use as a single online point of contact for regulatory interactions with the FCA (currently taking place across RegData, Connect, invoicing and ad-hoc collections). This should simplify the process of engaging with the regulator. This should be completed in time for it to be considered in the business planning for 23/24.

Long term

The industry committee recommends that the FCA implement the web-based portal and the joint transformation programme investigates options for a single portal across the FCA and Bank of England data collection systems.

Response to Recommendation FRS1: Reghub Portal and home pages

In response to the short-term recommendation, the FCA agrees to take forward discovery work in order to develop an investment case for creating a single FCA portal and home pages. This will target completion in time to be considered in the FCA's business planning for 2023/24. The FCA will be mindful of the long-term recommendations in the discovery phase and investment case.

In response to the long-term recommendation, if the investment case is successful, the FCA will begin implementing a single portal.

The joint transformation programme will investigate the feasibility and investment case for different options for a single portal across the FCA and Bank of England data collection systems.

Recommendation FRS2: Firm View at a Glance

Problems identified

Firms do not know how the FCA uses the information they provide and so do not understand the context within which they need to respond. The FCA does not provide sufficient feedback on submitted data. Firms also interpret the data requirements in different ways and find estimation and projections difficult. Their submitted data may therefore erroneously appear different (or similar) to other firms' data.

Short term

The industry committee recommends that the FCA implement a feature that reflects data submitted by firms back to them in a suitable visualisation, with contextualisation through appropriate market metrics. The FCA should publicise the tool, monitor its uptake and provide clear guidance regarding firms' use of this tool. The FCA should ensure it protects the confidentiality of other firms' data when reporting market metrics.

Long term

The industry committee recommends that the FCA and Bank of England (including PRA) should extend this solution to other numerical-based data collections and new numerical collections as standard. The industry committee recommends that the joint transformation programme investigate how to enable supervisors to flag outliers or significant movements as well as provide meaningful feedback to firms for qualitative collections.

Response to Recommendation FRS2: Firm View at a Glance

In response to the short-term recommendation, the FCA will develop a trial version of the Firm View at a Glance solution and test this with a group of firms using real submitted data by July 2023. The objective of this work is to understand the value in producing a visualisation of submitted data back to firms.

Following an initial architectural impact assessment, the FCA considers that a complete solution would have a high degree of technical complexity. For instance, the assessment found that it would not be feasible to include draft (pre-submission) data in implementation in the short-term. Therefore, whilst the FCA is supportive of the recommendation in principle, it will need to explore the concept further to understand how and when it might be delivered in practice and the associated business case. If the FCA's analysis establishes that there is a business case to implement the recommendation, the FCA will add it to the implementation roadmap.

In response to the long-term recommendation, both the FCA and Bank of England (including the PRA) are supportive of investigating the Firm View at a Glance idea.

The Bank and FCA are interested in exploring how to provide meaningful feedback for qualitative submissions. They will do this via the joint transformation programme by including it as a consideration during the discovery stage of future use cases.

Recommendation FRS3: Future Financial Resilience Survey

Problems identified

Firms have to complete the same survey questions regardless of their size or business model and they already provide some of this data through other regulatory returns, creating unnecessary work. Firms currently have data submission and feedback challenges using the survey tool. Firms also interpret the data requirements in different ways and find estimates/ projections difficult.

Short term

The industry committee recommends that if the FCA chooses to continue collecting the FRS data, it should collect it in a manner designed through the programme's service design approach without material changes.

The FCA should amend the data collection design process for ad-hoc and regular collections to engage firms early, collect the data at the minimum cost to firms, check for data duplication, and measure the benefits to firms and regulators.

Long term

The industry committee recommends that the joint transformation programme continue to test different improvements to the data collection process and integrate the successful elements into FCA and Bank Business As Usual (BAU) processes.

Response to Recommendation FRS3: Future Financial Resilience Survey

In response to the short-term recommendation, the FCA will incorporate the principles proposed in the recommendation into the data collection design process for ad-hoc and regular collections by July 2023:

- Engage with firms at an early stage.

- Attempt to collect the data at the minimum cost to firms.

- Allocate resource to check for and remove data duplication where already held.

- Measure the benefits to firms and regulators.

The joint transformation programme has already redesigned the Financial Resilience Survey according to these principles. The FCA considers that this new design process has had the following benefits, which serve as an example of how this process would have a positive impact if applied more widely:

- By investigating areas of possible duplication with other reporting and by focussing on resolving the problem rather than collecting specific data points, the team were able to design a collection which has a reduced scope of application to firms. This new scope of application has removed approximately 3,500 FCA Investment Firms Prudential Regime (IFPR) firms from the future FRS scope.

- Through engaging with firms and focussing on the most beneficial data for supervision, the FCA has been able to reduce the number of data attributes in the survey from the 20 suggested to just 5 attributes.

Furthermore, the FCA is considering building the Financial Resilience Survey (as designed by the joint transformation programme) into RegData and discontinuing the ad-hoc survey. This would require consultation.

In response to the long-term recommendation, the joint transformation programme will continue to test different improvements to the data collection process. If successful, the FCA and Bank will continually integrate these into their BAU processes.

Recommendation FRS4: Intuitive form design

Problems identified

Firms have difficulties populating and submitting the survey, including understanding the definitions of the relevant data points. They do not know how the information they provide is used and struggle to provide the information the FCA needs.

Short term

The industry committee recommends that the FCA implement a more intuitive form design with features such as a description of the collection background, a "Provide feedback on a question" facility, links to relevant information, a hover-over for the business glossary definitions (if/once defined) and a "live help" function.

Long term

The industry committee recommends that the FCA extend this solution to existing and new data returns where firms submit data within forms. The FCA should develop a pipeline of form design improvements and a process for delivering them.

Response to Recommendation FRS4: Intuitive form design

In response to the short-term recommendation, the FCA will design a new intuitive form for a data collection in RegData, the FCA's primary data collection platform.

The FCA will design a solution using one consumer credit return in Autumn 2022, test and refine the solution, and implement into production by May 2023, before measuring the impact for firms and the FCA.

In response to the long-term recommendation, assuming the initial roll-out of the solution demonstrates measurable value, the FCA will attempt to scale the solution to other data collections and introduce new features.