

Digital Regulatory Reporting Pilot

Terms of Reference

June 2018

These Terms of Reference act as the starting point for the work of the Digital Regulatory Reporting Pilot (the 'Pilot') as set out below. The nature and scope of the work may change over time as the Pilot progresses and this will be tracked accordingly with updates throughout the course of the Pilot.

This Pilot should not be taken as an indication of future FCA or Bank of England ('the Bank') policy or an endorsement of machine executable regulatory reporting. Any future policy position would be subject to the FCA and the Bank's usual governance and consultation procedures.

Nothing in this document or related to the Pilot changes the (i) terms of any existing arrangements between the FCA/the Bank and any participant, or (ii) a participant's current reporting obligations to the FCA and/or the Bank.

By participating in the Pilot, participants agree to follow in letter and spirit, the terms set out in this document.

Context

Regulatory reporting requirements are specified as rules in the FCA Handbook and PRA Rulebook, as well as in domestic legislation and European regulations. The data received from regulatory reporting is critical to the market integrity objectives of the FCA and the Bank ('the Regulators'), as well as the ability to deliver effective supervision and to combat financial crime.

However, it is understood that firms can find it difficult to meet these obligations. There are costs associated with navigating and interpreting the rules, and submitting the required data. Some firms rely on external professional services support to understand how to comply with the rules. Ultimately, consumers can also be affected as these costs are passed on to them. Also, firms have to implement and codify their interpretations of the rules into their in-house regulatory reporting systems. Each firm does this manually, creating the risk of different interpretations and inconsistent reports to the Regulators.

The Regulators therefore believe that machine executable regulatory reporting has considerable potential to reduce costs through efficiency gains, improve the accuracy of the reported data, and allow for more agile policy-making that would benefit consumers and markets more widely.

The FCA previously ran a TechSprint event (which included participation by the Regulators) which proved that machine executable regulatory reporting is technologically feasible.¹ The purpose of the

¹ Call for Input: Using technology to achieve smarter regulatory reporting, available at www.fca.org.uk/publication/call-for-input/call-for-input-smarter-regulatory-reporting.pdf

Pilot is to assess if the proof of concept can be scaled up to a viable solution and to evaluate and articulate a potential business case for further development across the industry.

Purpose and Objectives

The overall purpose of the Pilot is to evaluate the potential benefits of machine readable and executable regulatory reporting via the development of a minimum viable product. This will be achieved through the following core objectives:

- To develop a working prototype solution that demonstrates the end-to-end process for machine executable reporting.
- To develop the prototype across 2 use cases; 1 with a retail focus and 1 wholesale focus, to help ensure broad coverage across the industry.²
- To share the findings of the Pilot with the wider industry to facilitate feedback and allow for an industry effort to explore the feasibility of creating a new reporting mechanism.
- To evaluate the potential costs and benefits of a new reporting mechanism in comparison to the current means of data collection for firms of varying sizes.

The Pilot will also take account of the following considerations and articulate findings, where possible:

- To explore the practical implementation challenges for firms, of moving to a wider Digital Regulatory Reporting mechanism from existing firm legacy systems.
- To consider how the use of Digital Regulatory Reporting in the UK would fit into the global financial regulatory system.
- To evaluate how the potential increased efficiency and accuracy can best benefit consumers, Regulators and regulated firms.
- To consider the potential end-state of Digital Regulatory Reporting over long-term horizons.

However, these represent aspirational outcomes and are not core objectives of the Pilot group.

Scope of Work

The scope of work to be completed during the Pilot will cover the following areas.

- Data modelling and removal of regulatory ambiguity.
- The delivery mechanism for codified regulations.
- Policy, legal and governance challenges.

A separate scope of work document contains the detailed work plans for each separate workstream. This document is subject to change as the Pilot progresses but can be made available to any interested party upon request.

² PSD001 mortgage reporting and COREP corporate loans have been selected as the two use cases.

Composition and Governance

Conditions for participating organisations and individual members

- ‘Participant’ means an organisation that is taking part in, or providing services to, the Pilot.
- ‘Member’ refers to the individuals from the Participant organisation who will be undertaking the day-to-day work of the Pilot.
- Members are being involved for their expertise and experience and, to the extent possible, will contribute wider perspectives from their sector/the industry in addition to their firm.
- Members will not advertise or suggest that the FCA and/or the Bank has endorsed or recommends the Participant organisations that employ them, for any of the business activities or products of those Participants.
- All Members must ensure they are fully compliant with all applicable competition laws, as set out below. Participants should ensure that Members receive appropriate training for this purpose. It is the responsibility of Members to ensure they understand their responsibilities and consult the legal and/or compliance teams at their respective organisations for further guidance if necessary.
- Members will be self-funding, including any travel and accommodation and be remunerated by their usual employer for the duration of the Pilot.
- Members will not publish any external communications relating to the Pilot without prior written agreement from the Steering Committee (see below). Members should:
 - not comment publicly on their involvement prior to the FCA and the Bank announcement
 - respect the confidentiality of other firms and the work carried out through the Pilot and not make attributable quotes or reference to other firms’ data via firms’ communications (see ‘Confidentiality’ section below)
 - not use the term ‘partnership’ in relation to communications about the Pilot or any results of the Pilot, including in social media, in favour of ‘collaboration’; and
 - agree in advance with the FCA and Bank’s legal and communication teams, any communications for publication that relate to or refer to the Pilot

Pilot Group Structure

The Pilot involves several organisations who meet the selection criteria set out in this Terms of Reference, as well as the Regulators. A list of Participant organisations is included at Annex 1 (individual Members from organisations are selected by the Participant organisations).

The governance of the Pilot will be comprised of 2 main groups: the Steering Committee and the Core Working Group.

- The Steering Committee will:
 - Define the Pilot roadmap, goals, metrics to measure goals, monitor progress, and publish external communications.
 - Review outputs of the Core Working Group and provide challenge where necessary.
 - Be comprised of individual Members from the Participant organisations and chaired by the FCA and the Bank.

- Meet monthly.
 - Have decision making power for delivery of the Pilot. Wherever possible, decisions and actions taken by the Steering Committee should be reached by consensus. Where a consensus cannot be achieved, proposed actions will be subject to a vote. Each member of the Steering Committee will have 1 vote, with the FCA and the Bank having the deciding vote in the event of a tied outcome. Actions can be agreed by simple majority.
 - The FCA and the Bank will retain a right of veto in all matters and decisions relating to the Pilot. This right will only be exercised in exceptional circumstances as appropriate.
 - If there are less than half of the Steering Committee members in attendance at the meeting, the meeting may proceed but actions cannot be approved.
 - In their capacity as Chairs of the Steering Committee, the FCA and the Bank will seek to ensure that there is a balanced industry representation on the Committee.
 - To ensure the workings of the Pilot are open and transparent, key actions and decisions taken by the Steering Committee will be published on the FCA and/or the Bank websites.
 - Steering Committee members are listed in Annex 2.
- The Core Working Group will:
 - Be comprised of individuals from the Participating organisations, the FCA and the Bank.
 - Be the primary body responsible for delivery of the workstreams within the 2 use cases.
 - Define a path (or choice of options) through which the prototype solution may be further developed and implemented at scale.
 - Participants will commit resources to the Core Working Group until the delivery dates agreed by the Steering Committee.

As set out above, 1 of the Pilot's objectives is to communicate the findings to the wider industry and facilitate an open dialogue to allow broad awareness of, and contributions to the Pilot.

Membership of the Core Working Group is neither closed nor fixed. Organisations that wish to be involved in the Pilot, and meet the selection criteria, are encouraged to contact the FCA and the Bank to discuss their potential involvement via RegTech@fca.org.uk. Firms which are unable to contribute staffing resources to the Pilot but still wish to input will be provided with the opportunity to do so via written submission and/or roundtable events as advertised on the FCA and/or the Bank website(s).

Intellectual Property

- Participants must be willing to be flexible and pragmatic around intellectual property and possible Pilot output.
- The Participants agree in the first instance, that the output of the Pilot will be open-source. If open-source is found not to be viable by the Steering Committee, further options may be explored. Any change in approach will be at the discretion of the FCA and the Bank.
- Participants and Members accept that by participating in the Pilot they will not gain any ownership rights to any intellectual property in the output of the Pilot.
- Upon completion of the Pilot, the FCA and the Bank will hold all ownership rights to any intellectual property in the output and derivative works of the Pilot.
- Any pre-existing intellectual property brought into the Pilot by Participants will remain as owned by the Participant, provided that such intellectual property is fairly disclosed to others participating in the Pilot. However, this intellectual property will be free to use by all Participants and Members solely for all activities relating to the scope of the Pilot work programme and its future activities.

- If the Steering Committee approves a vendor participating in the Pilot, the vendor will pass all intellectual property ownership rights in all output and derivative works developed as part of the Pilot scope onto the FCA and the Bank.

Competition law

- It is the responsibility of all Members of the Pilot to ensure they understand and comply with their obligations under all applicable competition laws, including UK and EU competition law. To the extent that any Member is unclear of these, they should seek legal advice and if appropriate arrange to undertake competition law compliance training/seek further guidance; at their respective organisations.
- Participants should ensure that Members receive appropriate training and guidance for this purpose.
- Care will need to be taken to ensure that Pilot Members and persons participating in meetings and roundtables, familiarise themselves with the concept of competitively sensitive information and do not unilaterally disclose or exchange it under any circumstances.
- If the FCA and the Bank consider that the disclosure or exchange of potentially competitively sensitive information is necessary for the operation of any part of the Pilot, then procedures will need to be put in place in advance, to ensure that the information is appropriately anonymised and aggregated and can be shared in compliance with relevant competition laws.

Confidentiality

- Any non-public information disclosed or opinions expressed during Working Group, Steering Committee or other Pilot related meetings will be treated as confidential unless and until the Steering Committee has authorised their public release. Once approved, key decisions and actions taken by the Steering Committee will be made publicly available.
- Working Group members may be exposed to sensitive information and, potentially, to material non-public information during their work. It is understood that Participant's staff may see some documents relating to the Working Group or Steering Committee, but unnecessary involvement of third parties in handling this material is strongly discouraged. Members are reminded of their legal obligations for material non-public information and their obligations under competition law.
- If a third party sees documentation relating to the Pilot, individual Members are expected to accept responsibility for ensuring that those third parties are aware of and respect the confidentiality and sensitivity which attaches to the Pilot and the documentation in question.

Selection Criteria and Principles

To achieve its objectives, the Pilot needs dedicated resources to be committed by the industry. Members of the Core Working Group meet the following criteria:

- Ability to commit expert resources for a substantial amount of time. In practice, this means individuals are able to work on the Pilot on a full or part-time basis for a 6-month period.

- There are several roles required for the Pilot, including project management, legal, regulatory and technical expertise with the requisite technology. Members must have sufficient expertise and technical ability to fulfil these requirements. A prospective participant may suggest other roles if they believe these would contribute to the objectives of the Pilot and such suggestions will be considered by the Steering Committee on a case by case basis.
- Demonstrated commitment through engagement and contribution to Digital Regulatory Reporting. Digital Regulatory Reporting has evolved from a TechSprint hosted by the FCA. Organisations have demonstrated significant interest in continuing the project, through direct contact with the FCA and the Bank, participation in the previous TechSprint, publication of own research, responses to relevant consultations and involvement in other fora.
- Contribution to representation of diverse perspectives and the diversity of the Pilot. For Digital Regulatory Reporting to be successful it must consider the business case across the industry as a whole.

Firms that would gain direct, substantial competitive advantage from being involved in the Pilot, for example technology and software providers, are unable to take part in the Pilot, unless explicitly agreed otherwise by the Steering Committee. The FCA and the Bank have communicated the Pilot through several channels to allow for interested parties to consider joining the Pilot. This includes running a series of roundtables, publication of the Pilot on the FCA and/or the Bank's website(s), and inclusion in the Regulation Round-up sent to a large population of regulated firms.

Principles

In addition to the selection criteria, individual Participants of the group are expected to demonstrate the following principles:

- **Openness**
 - Being open and transparent in the work, and engaging with a wide spectrum of stakeholders.
 - Recognising that the Pilot is for the benefit of the industry as a whole, and ensuring that the benefits are explored for a cross-section of industry.
 - Being willing to openly discuss industry challenges with other organisations and Regulators.
- **Pragmatism**
 - Recognising that the Pilot will require resource commitments (time, cost, and expertise) and being prepared to meet these commitments to ensure the Pilot meets agreed milestones.
 - Accepting that there may be internal challenges involved in taking this work into a production environment. The FCA and the Bank will commit to working through these internal challenges where necessary in accordance with their respective legal duties.
- **Collaboration**
 - Having the desire to work in a collaborative manner to solve shared industry problems.
 - Working constructively with other Members of the Pilot and holding each other to account where appropriate to achieve milestones.
 - Ensuring all voices are heard and considered, including the input of firms and organisations not directly involved in the day-to-day development work of the Pilot.

- Expertise
 - Dedicating appropriate expertise to critically analyse Pilot findings.
 - Exercising good judgement, being forward thinking and pro-active in approach.

Annex 1 – List of Pilot Participants

Last updated 25/06/18

- Barclays
- Credit Suisse
- Lloyds Banking Group
- Nationwide
- NatWest
- Santander
- University College Cork
- University College London

Annex 2 – Membership of the Steering Committee

Last updated 25/06/18

- Chair - Nick Cook, Financial Conduct Authority
- Chair - Oliver Burrows, Bank of England
- Gordon Chapple – Financial Conduct Authority
- Clair Mills – Bank of England
- Ceri Godwin – Santander UK
- Graham Corr – NatWest
- Niresh Raja – Barclays
- Michael Holmes – Lloyds Banking Group
- Adriana Ennab – Credit Suisse
- Jack Chung – Nationwide