

Regulatory Reporting Best Practices

February 27, 2007

Regulatory Reporting Overview

Kenneth P. Lamar

Agenda

- What are the goals of regulatory reporting?
- Where are the pitfalls?
- How to mitigate these?

Purpose of Regulatory Reports

- Regulatory reports are collected for many purposes:
 - Monitoring safety and soundness on the individual legal entity level (e.g., regulatory capital)
 - Monitoring systemic risk in the banking and financial systems
 - Monetary Policy (measurement and operations)
 - Cross border flows (individual exposures and position of countries)
 - Compliance

Purpose of Regulatory Reports

- This results in the Federal Reserve System collecting:
 - Over 80 reports
 - Different cuts
 - Different definitions
 - Different consolidation rules

Purpose of Regulatory Reports

- Report design focuses on
 - The need for data balanced by cost
- Robust review process is in place
- Dialogue with the financial services industry is key to good report design

Pitfalls

- Static databases
 - Often cause significant classification errors (e.g., CIFs, security databases)
 - Businesses need to:
 - Understand the regulatory reporting requirements
 - Be accountable
 - Have open communication and partnership with the regulatory reporting

Pitfalls

- Legal entities matter
 - Regulatory reporting is based on legal entities
 - This may differ from internal business line controls and measurements
 - The more complex an institution, the more difficult it is to report by legal entity
 - Accountability becomes difficult to identify

Pitfalls

- Regulatory reporting viewed as back office process
 - Not involved in new product development or accounting policy
 - This can result in misstatements and unintended consequences of regulatory rules

Pitfalls

- Mergers and acquisitions
 - Always a regulatory reporting challenge
 - Long term integration planning for regulatory reporting and source system are key
 - Communication with regulators before, after and during the merger/acquisition is critical
 - Planning and communicating work around (avoid significant errors)

Best Practices

- Automate
- Document
- Review
- Communicate (Ask and Learn)

Best Practices

- Automation
 - Data are only as good as their source
 - Reg reporting software should interface directly with G/L and related subsystems
 - Minimum manual intervention
 - Limit the use of spreadsheets
 - Leverage business solutions for regulatory reporting

Best Practices

- Ensure quality of static databases
 - Are they:
 - In line with reporting requirements
 - Reviewed regularly
 - Clear to business lines

Best Practices

■ Documentation

- Procedures for preparing each report should be available
- Reconciliations and manual adjustments should be clearly documented
- Accounts, products descriptions and accounting policies should be clear and readily available to preparers
 - This includes reserves and valuation polices

Best Practices

- Review and approval
 - Data should be thoroughly reviewed before submission (including a management review)
 - Document reasons for unusual/significant changes
 - Include the ability to conduct analysis in regulatory reporting systems
 - 80/20 rule

Best Practices

- Learning and communicating
 - Work closely with business lines, accounting policy and audit (both internal and external)
 - Stay apprised on accounting and regulatory changes (even though they might not seem to affect you)
 - Speak regularly with your supervisor and data collector
 - Complex issues should be documented
- Participate in the report design process
 - Industry Groups
 - Federal Register Notices

Mitigating the Impact of Reporting Changes

- The analysis of effect should include:
 - What is the purpose of the request?
 - How available are the data?
 - How are “like data” being used internally?

Mitigating the Impact of Reporting Changes

- The analysis of the impact should include:
 - Are there ways to collect data that would be less burdensome?
 - Are businesses engaged?
 - What are the transition issues?
 - Lead time
 - Conflicts

Mitigating the Impact of Reporting Changes

- Resources to follow reporting changes:
 - FRBNY Website
 - Federal Register Notice
 - BIS Website
 - Treasury Website

What To Do After Reporting Changes Are Final?

- Involve all applicable businesses as early as possible
- Ensure resources are available
 - Automation resources
- Discuss with data collector any vague issues

Internal Control Guidelines

Patricia Maone

Regulatory Reporting Best Practices

Objectives

- Internal Control Guidelines
- Internal Audit
- General Ledger
- Staffing

Regulatory Reporting Best Practices

- What are best practices?
- Failure to comply with regulatory reports
 - Civil money penalties
 - Legal and reputational risk

Internal Control Guidelines

- Definition
 - Methods and procedures to provide reasonable assurance for the accuracy of regulatory reports
- 1991 Federal Deposit Insurance Improvement Act
 - Audited financial statements
- 2002 Sarbanes-Oxley Act, Section 404
 - Internal control over financial reporting

Internal Control Guidelines

Control Type

Description

Preventive

Policies and procedures to prevent errors. Normally applied to **individual transactions** (customer information files, FX, interest rate swaps, etc.)

Detective

Policies and procedures designed to detect and correct errors that might preclude the achievement of the relevant process. Generally **applied more broadly** (review and analysis of regulatory reports).

Internal Control Guidelines

- Control Principles
 - Segregation of Duties
 - Review and Approval
 - Interpretation of Instructions
 - Documentation
 - Training Program
 - Accounting

Internal Control Guidelines

- Segregation of Duties
 - Preparation and review

An inadequate segregation of duties could lead to misstated regulatory reports.

Best Practice

Design a system of checks and balances to decrease the likelihood of errors.

Internal Control Guidelines

- Review and Approval

- Management review and approval of regulatory reports

As a result of an inadequate review and approval process, errors may be overlooked.

Best Practice

A review process of reports should be performed by a senior level to detect potential problems with data.

Internal Control Guidelines

- Interpretation of regulatory reporting instructions
 - Understanding of instructions
 - Relationship between regulatory reports and public financial statements

Limited understanding of regulatory reporting instructions and lack of reconciliation between reports/schedules result in inaccurate regulatory reports.

Internal Control Guidelines

- Interpretation of regulatory reporting instructions

Best Practices

Review the report specifications for all regulatory reports and compare to regulatory reporting instructions to ensure specifications are in compliance with the instructions.

Obtain clarification of instructions in writing.

Attend FRB seminars.

Internal Control Guidelines

- Documentation
 - Procedure Manual

A lack of written or inaccurate procedures could result in inconsistent practices among employees and inaccurate and unreliable reports.

Best Practice

The procedure manual should include:

- (1) Procedures for all regulatory reports;
- (2) Adequate descriptions for any adjustments; and
- (3) Process to review new/complex banking products from regulatory reporting perspective.

Internal Control Guidelines

- Documentation
 - Regulatory Reporting Policy Manual
 - Provides guidelines and overall framework to ensure uniformity and standardization

Inadequate policies could result in inconsistent practices leading to inaccurate regulatory reports.

Internal Control Guidelines

- Training program
 - Regulatory reporting staff
 - Staff responsible for providing regulatory reporting information

Internal Control Guidelines

- Accounting
 - Accurate posting
 - Adequate account review and reconciliation

Inadequate controls result in misstated regulatory reports and inaccurate and unreliable financial records.

Best Practices

Employees are properly trained on performing accounting functions.

Automated accounting systems have adequate input and processing controls.

Internal Audit

Internal Audit

- Working with auditors is critical
 - Obtain valuable feedback
 - File high quality reports

Internal Audit

Improving Communication Between You and the Auditors

- Communicate and coordinate with the auditors
 - Appoint an Audit Coordinator:
 - Meet with the Audit Team
 - Compile the information requested
 - Discuss priorities with staff

Internal Audit

Internal Audit Adds Value to Regulatory Reporting

- Incorporate regulatory reporting review in your audit plan/program
- Ensure senior management is aware of reporting risks not covered by the audit plan
- Add value to the regulatory reporting
 - Evaluate accuracy of reports by reducing the risk of misreporting
 - Effectiveness of the reporting process

Internal Audit

Internal Audit Adds Value to Regulatory Reporting

- Staff qualifications
 - Continued education and training
- Maintain a dialogue with supervisors
- Follow-up on prior findings and recommendations

Internal Audit

- “Management self-assessments” or “control self-assessments”
 - May not be impartial
 - Internal audit involvement
- Frequency of regulatory reporting audits

General Ledger

General Ledger

- General Ledger (G/L)
 - Account titles and definitions
 - New G/L account approval process
 - Chart of accounts (example)
 - Issues
 - Review

General Ledger

- G/L account titles and definitions
 - Unclear or misleading
 - Missing
- New G/L account review process

General Ledger

Example

G/L CHART OF ACCOUNTS

Cash and Due from Banks

Reserves with Federal Reserve Bank

Due from commercial banks in the U.S.

Due from banks in foreign countries

Deferred debits-DDA related

Securities

U.S. Treasury securities-htm

U.S. Government sponsored agencies-afs

MBS-Pass through securities: guaranteed by GNMA-trading

Deposits

Demand deposits-commercial banks in the U.S.

Demand deposits-IPC

NOW

Stockholder's Equity

Common stock

Additional paid-in-capital (Surplus)

Retained earnings (Undivided profits)

General Ledger

Example

G/L DESCRIPTION OF ACCOUNT

Section: Assets
Account name/#: Deferred Debits-demand deposit related; 006-xxx
Applicable to: Demand deposits in domestic offices

Description

Deferred debits represent **cash items** in Bank's possession **drawn on Bank's demand deposit** accounts which **cannot be charged** to the proper account on the day received. The item may have been **received late** or with **insufficient/inaccurate information** to determine the proper account for recording the item. Although the work cannot be processed to the proper G/L account on the day received, it will be **recorded on the books of the Bank by the use of a holding account**. The **following day**, the item will be debited to the **customer's demand deposit account**.

General Ledger

Example

G/L DESCRIPTION OF ACCOUNT

Section: Assets
Account name/#: Deferred Debits-demand deposit related; 006-xxx
Applicable to: Demand deposits in domestic offices

Accounting Entries

Debit: Deferred debits-demand deposit related 006-xxx
Credit: Various accounts

All deferred entries should be reversed on the following business day. Bank policy dictates items in deferred accounts may not be rolled over a fourth day. Any deferred item that cannot be processed to the proper account at the end of the third business day must be **charged** off as follows:

Debit: Difference and Fine-Debit, Account 466-xxx (Expense)
Credit: Deferred Debits-demand deposit related 006-xxx

General Ledger

Best Practices

All G/L accounts should contain clear titles; account definitions should be comprehensive and clearly describe the nature of the account.

New G/L accounts should be in compliance with regulatory reporting instructions

- Correctly applied/mapped to regulatory reports
- The process should be described in the procedure manual

General Ledger

- G/L data integrity issues
 - Inter-company (related party transactions)
 - Reconciliation
 - Incorrect use of G/L accounts by businesses or cost centers

General Ledger

- G/L issues

- Best Practices

- Management should ensure the integrity of information on the G/L by enforcing accountability.

- Regulatory reporting staff should review the G/L, daily, and any discrepancies should be resolved prior to filing of regulatory reports.

Staffing

Staffing

- Improve Work Process
- Retention

Staffing

- Staffing

- Adequacy
- Qualifications
- Continuing education and training
- Communication (accounting policy, SEC reporting, internal audit, legal, IT compliance, operations and businesses)

Systems and Data Collection Process

Vadim Tovshteyn

Objectives

- Information system controls
- Data collection process
- System interface and legacy systems
- Data integrity
- Manual adjustments
- Early detection system
- Industry trend
- Transaction Level Data Base (Data warehouse)

Information System Controls

- General Control – Systems (e.g., regulatory reporting, G/L) are appropriately implemented, maintained and operated and only authorized changes are made to the system
- Application Control – Specific application control, ensures that transactions are recorded and are processed completely, accurately and timely

Information System Controls

- Staff should have an adequate knowledge of regulatory reporting systems or software
- Backup or succession plan should be in place for key personnel
- New specifications or new systems should be formally reviewed, tested and comply with new requirements

Information System Controls

- New software or database package should meet all reporting requirements
- The software package should include adequate security and control features and it should be on the network with restricted access

Data Collection Process

- Establish a standardized data collection process with sufficient quality controls and accountability for data

A process lacking standardization with high level of manual intervention is susceptible to significant errors.

Data Collection Process

Best Practices

Implement controls

Automate

Stream-line the process

Set and enforce regulatory reporting standards, globally

Establish a process to monitor the accuracy of information submitted for regulatory reports

Data Collection Process

- Granularity of information required for regulatory reporting is not always available

Best Practices

Design a system/process where sufficient level of detail is available

Design a system with an option to accommodate future changes

Manual Collection Process

- The information necessary to prepare regulatory reports is collected manually

Best Practice

Establish sufficient internal controls to compensate for the weaknesses inherent in the manual data collection processes.

Systems' Interface

- Inadequate systems' interface
(e.g., G/L, subsystems and regulatory reporting system)

System Integration

- Multiple systems to capture the same information increases processing time, maintenance and support

System Integration

Best Practices

Consistent reporting of financial products from a single source or few sources

Reduce month-end closing period and eliminate or minimize reconciliation among systems

Data Integrity

- Implement sufficient controls to ensure information captured by subsystems is accurate

Data Integrity

Best Practices

Review subsystems and identify and resolve any programming issues.

Ensure the integrity of the information housed by subsystems prior to pursuing an automated solution.

Data Integrity

- Coding of Customer Information Files (CIFs)

Best Practices

Review the accuracy of data in CIF and identify discrepancies in coding on a regular basis.

Improve methodology for coding of new customers.

Data Integrity

- Incorrect assignment of risk characteristics
 - Market Risk
 - Credit
 - Domicile

Manual Adjustments

- Adjustments applied to the system generated information must contain sufficient details concerning the nature of the adjustment.

Best Practice

Review adjustments to determine the cost-benefit of automating adjustments.

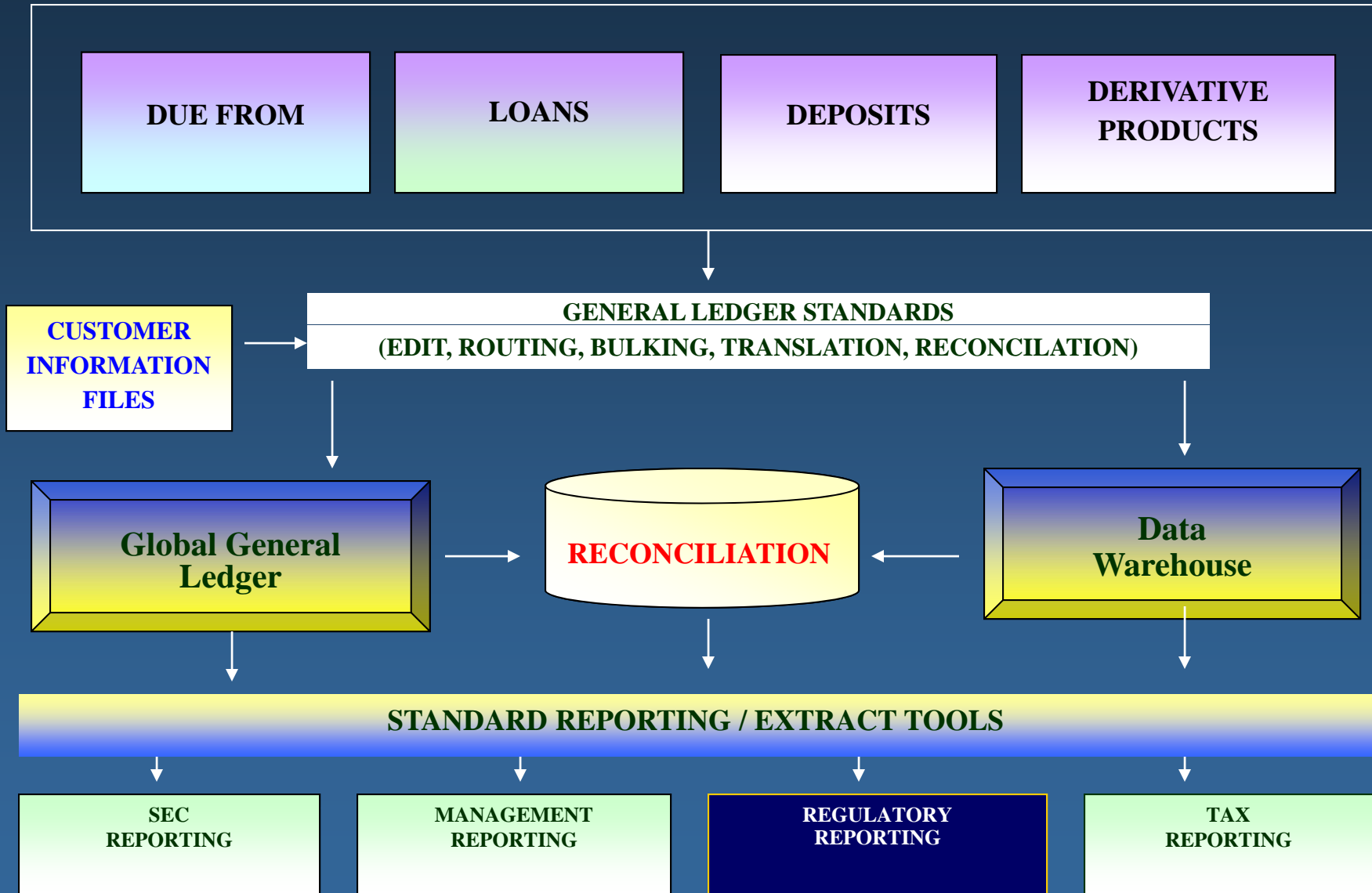
Early Detection System

- Analysis can detect potential issues with reporting

Best Practice

Implement an early detection system for a business related analysis and detection of potential errors and inconsistencies.

Systems' Flow – Industry Trend



Transaction Level Data Base

- Consolidated source for bank's subsystems
- Allows institution to move from a manually intense process to an automated process
- Required data are centrally stored
- Drill-down capability
- Granular information can be easily extracted

Accountability

Objectives

- Accountability
- Data Ownership
- Corrective Action

Accountability

- All involved must work together to achieve highest quality reporting
- Create a culture of accountability
- Create an Accountability Policy and distribute firm wide

Accountability

- Institution-wide awareness and involvement in the reporting process
 - Regulatory Reporting
 - Operations
 - Information Technology
 - Businesses

Data Ownership

- Individuals responsible for regulatory reporting data may not be well versed in regulatory reporting requirements

Best Practices

Regulatory Reporting should distribute roles and responsibilities to data owners.

Firm wide regulatory reporting training program.

Data Ownership

- Individuals responsible for information
 - Accountable for data integrity provided
 - Responsible for analyses

Data Ownership

- Contact information of data owners may not be available or may not be current

Best Practices

Create a contact list of all involved in the process, including two levels of management.

Update as needed.

Corrective Action

- Incorrect reporting by the business units and data owners

Best Practices

Create an escalation process to identify and resolve issues in a timely manner.

Document all incorrect and inconsistent reporting.

Create an accountability model to enforce compliance with requirements.

Corrective Action

- Establish a system to ensure accountability
 - Timeframe
 - Initiatives to resolve the problem
 - Short and long-term action plan
 - Individual(s) responsible
 - Consequences
- Meet with senior management regularly

Analysis

Richard Molloy

Analysis

- Review data prior to submission (including a management review)
- Analyze and document reasons for significant changes or trends
- Reconcile data to the G/L, other regulatory reports and SEC reports

Analysis

- Ensure data are reasonable and reflect current business activity
- Analyze data at the legal entity and business level
- Prepare guidance for preparing high quality explanations for regulatory reports

U.S. GAAP and Regulatory Compliance

- Regulatory Reports are based on U.S. Generally Accepted Accounting Principles (U.S. GAAP)
 - In 1997, regulatory reports were reviewed and the majority of RAP vs. GAAP differences were eliminated
 - Some differences still exist but they are primarily related to presentation

U.S. GAAP and Regulatory Compliance

- Investments in Debt and Equity Securities
 - Does the accounting for securities comply with FAS 115?
 - Classification
 - Are securities accounts routinely reviewed for impairments and are adjustments to securities accounts reviewed and approved by officials designated in management policy?
 - Are current fair values of securities obtained and reviewed timely?
 - Are trading assets and liabilities reported at FV with unrealized gains/(losses) reported in earnings?

U.S. GAAP and Regulatory Compliance

- Loans
 - Is loan information entered into the data-processing systems timely and independently tested to ensure accuracy?

U.S. GAAP and Regulatory Compliance

- Are loans classified correctly?
 - Does adequate mapping exist to map loans to report breakouts?
 - Are loans that are originated or purchased with the intent to sell in the future classified as held for sale?
 - Are loans held for sale reported at the LOCOM value and re-valued at each reporting period?
 - Are purchased impaired loans reported in accordance with AICPA SOP 03-3 including
 - Ensuring ALLL is not “carried over”
 - Initially recorded at fair value
 - Only undiscounted cash flows over initial investment are accreted

U.S. GAAP and Regulatory Compliance

- Are subsidiary ledgers and trial balances maintained and reconciled with the G/L timely and any differences investigated and resolved?
- Are payments due for principal and interest monitored for their receipt, aging of delinquencies, and follow-up with late payments?
- Are procedures periodically performed to ensure the calculation and maintenance of the ALLL and specific reserves are consistent with the stated policies and procedures, U.S. GAAP and applicable supervisory guidance?

U.S. GAAP and Regulatory Compliance

- Derivative products
 - Are methodologies for valuation of derivative products and assessing hedge effectiveness documented and comply with FAS 133?
 - Is information relating to derivative products complete and accurate when entered into the accounting and trading systems?
 - Are derivative activities monitored?

U.S. GAAP and Regulatory Compliance

- Netting/Offsetting
 - Offsetting of assets and liabilities is improper unless a valid right of set-off exists
 - Regulatory reports generally require reporting gross
 - However, if an institution does net
 - Are policies and procedures in place for reviewing the transactions and supporting documentation to ensure that the banking institution is in compliance with FASB Interpretations No. 39 and No. 41?

Reconciliation

- Several regulatory reports contain similar data and balances and/or fluctuations should be similar
- Call Report vs. FR 2900
 - Excluding several known definitional differences between these reports, several data items should be the same. Differences should be researched and documented.
 - Legitimate definitional differences are in the FR 2900 instructions and can be found at:

<http://www.newyorkfed.org/banking/reportingforms/index.html>

Reconciliation

- Call Report vs. BHC report
 - Banks are components of the consolidated BHC therefore, significant account balance variances at the bank level should be compared to variances at the BHC level and instances with small or negative correlation explained

Reconciliation

- Public Financial Statements vs. Regulatory Reports
 - Are differences between reports analyzed, explained and documented?

Business Units

- Non Bank Subsidiary reports (FR 2314, FR Y-11 and FR Y-7/7N)
 - Is organization (FR Y-6, FR Y-7) and financial information reviewed quarterly to ensure reports are submitted for subsidiaries meeting reporting thresholds?

Reasonableness

- Do variances correspond to business activities?
 - Mergers
 - Purchases, acquisitions or asset sales
 - Earnings announcements
 - Accounting changes
 - New financial instruments or markets

Call/BHC Modernization

- Call and BHC reports must contain explanations for published edits that are flagged
- High quality explanations include:
 - The business reason for the fluctuation
 - Relevant amounts, dates, and total amounts
 - Offsetting activity
 - Types of counter parties
 - Instruction/policy citations

Call/BHC Modernization

- Unacceptable or low quality explanations
 - Contain comments about the quality of the data such as confirmed and verified
 - Missing information (e.g., amounts, counterparty)
 - Partial explanations



Perspective from Washington, DC

Bob Maahs

Bank Supervision & Regulation

Board of Governors

Discussion Topics

- What we do at the Board of Governors
- Importance and uses of regulatory reports
- Financial Services Regulatory Relief Act of 2006
- Supervisory Topics
 - Fair value accounting (FMV and FVO)
 - Negative Amortization Mortgage Products
 - Basel II (and IA) and Market Risk reporting

What we do at the Board of Governors

- Update many of the System's regulatory reports
- Coordinate with vendors
- Answer questions from Reserve Banks and industry
- Negotiate with other banking agencies about changes to FFIEC reports

“Clearance Process”

- Compile potential changes
- Meet and discuss with internal committee
- Receive Board of Governors’ approval to issue for comment
- Initial comment period in *Federal Register*
- Evaluate comments
- Finalize proposal
- Receive Board Of Governors’ approval
- Final publication in *Federal Register*

Importance and Uses of Reports

- Peer comparisons on a national level
- Monitor compliance and supervisory concerns
- Answer inquiries from Congress
- Monitor effects of natural disasters
 - Hurricane Katrina

Financial Services Regulatory Relief Act of 2006

- Requires the Board, in conjunction with the other Federal banking agencies, to review the Call Report within one year of the date of enactment, and at least every five years thereafter, and eliminate any information or schedules that are no longer necessary or appropriate

BHC Reporting Threshold Changes – Burden Relief

- Effective March 31, 2006, asset-size threshold for consolidated financial reporting (FR Y-9C) raised from \$150 million to \$500 million
- Resulted in reduced reporting for nearly two thirds (1,500 filers) of the previous consolidated financial reporting filers
- Further Y-11 review underway

Supervisory Topics

- Fair value accounting (FMV and FVO)
- Negative amortization mortgage products
- Basel II (and IA) and Market Risk reporting

Fair Value Accounting

The movement towards fair value accounting continues...

- Fair Value Measurement (FAS 157)
- Fair Value Option

Fair Value Measurement (FAS 157)

Highlights:

- Issued 9/15/06, effective 1/1/08 (early adopt in 2007)
 - Provides additional guidance on how to measure fair values
 - Establishes a three-tier hierarchy
 - Requires fair value of liabilities to reflect entity's own credit risk

Fair Value Option

- FASB plans to issue standard during 1Q07 (and effective for fiscal years beginning after 12/15/06)
- Allows for the reporting of certain financial assets and liabilities at FV with changes in FV included in earnings
- New reporting on Call Report and FR Y-9C

Fair Value Accounting – Supervisory Concerns

- Lack of reliable fair value measurements for non-traded, illiquid financial instruments
- Effects on earnings and equity (“own credit risk” issue)

Negative Amortization Mortgage Loans - Supervisory concerns

- Large increase in such creative products
- Uninformed borrowers
- Higher risk in a rising rate environment and a slumping housing market
- Reporting on regulatory reports

Basel II and Market Risk Reporting

- Proposed schedules, instructions and Fed. Register Notices are on the FFIEC and FRB websites. (Initial FR Notice published 9/25/06.)
- Comment period extended until 3/26/07 (See FR Notice of 12/26/06.)

Basel IA

- Proposal published on 12/26/06.
- Comment period ends 3/26/07 (same as Basel II NPR and Basel II report templates)
- Basel II and Basel IA proposals issued with sufficient overlap in comment period so reporters can evaluate each proposal.

Basel II (and IA) Timeline

- Similar to existing Basel I model – more granular
 - Increase number of risk weight categories
 - Greater use of external rating to determine risk weight
 - Expand the use of guarantees and collateral as risk mitigants

Mergers

Brian Osterhus

Multiple Business Areas Are Involved

- Banking Applications
- Accounting (overall coordination)
 - Billing, FedMail
- Operating areas: Fedwire Operations, ACH, TT&L, Savings Bond, Check, Cash
- Discount, Credit and Risk Management

Multiple Business Areas Are Involved

- Statistics
 - Deposit Reports and Reserves
 - Regulatory Reports
 - International Reports
 - Banking Structure

Effective communication and coordination are critical to a successful merger

Communication

- The FRBNY requires detailed information, as noted in the Information Request on Upcoming Mergers document

<http://www.frb services.org/Local-Information/NewYork/account/pdf/mergeinstruct.pdf>

- Merger effective date, names, ABA numbers of institutions involved
- Specific instructions for applicable business lines

Statistics Function Reports

- Confirm effective date for financial and structure reports:
 - FR 2900
 - Bank Credit
 - TIC
 - Call/BHC reports
 - FR Y-10/F

Statistics Function Reports

- Consolidated reporting begins on the day after the nonsurvivor is no longer in existence
 - If the nonsurvivor closes effective at close of business on Friday, the survivor begins to report consolidated data effective open of business on Saturday

Statistics Function Reports

- Common reporting problems
 - Inconsistent effective dates used
 - Reclassification of accounts
 - Timing of sweeps, disclosure statements
 - Intercompany eliminations

Reserve Requirement Issues

- Ensure pass-through agreements, master/subaccount designations are in place prior to the maintenance period in which the merger takes place
- Consolidation of required reserves occurs effective the first day of the maintenance period in which the merger takes place
- Survivor will generally get a tranche loss adjustment

Reserve Requirement Issues

- Clearly state the disposition of nonsurvivor's reserve account
 - Transition account: remains open, balances are used for the nonsurvivor's clearing balance requirement only
 - Convert to subaccount: survivor can use balances to satisfy combined required reserves

Treasury International Capital (TIC) Data

Debra Gruber

TIC Reporting-Typical Problems

- Consolidation rules
- Identifying foreign and domestic clients and counterparties
- Identifying foreign and domestic financial instruments
- Including data on the correct report and in the correct column

TIC Consolidation Rules

- Include only U.S. resident subsidiaries, branches and offices
- TIC D, SHC and SHL require single report filed by the top level U.S. entity
- TIC B and S require separate reports from the BHC, bank, broker/dealer
- TIC C requires separate report from top level non-bank entities

TIC Consolidation Rules

Best Practices

- Ensure foreign subsidiary, foreign branch, and foreign office data is separated from the U.S. parts of your organization's data
- Keep apprised of changes to organization's structure and incorporate changes into the relevant TIC reports

Identifying Foreign and Domestic Clients and Counterparties

- Residency determines whether client or counterparty is foreign or domestic
 - Country where client or counterparty is incorporated, licensed or organized
 - For individuals, based on the IRS Forms W-8 and W-9

Identifying Foreign and Domestic Clients and Counterparties

Best Practices

Verify that sources used to determine residency (e.g., client information files) meet TIC reporting requirements

Implement procedures to review new accounts created and to properly maintain existing information

Reconcile data stored on multiple databases for the same client or counterparty

Identifying Foreign and Domestic Financial Instruments

- Determined based on the country where the issuer of the financial instrument is incorporated, licensed or otherwise organized.
 - A negotiable certificate of deposit (CD) issued by a foreign branch of a U.S. bank is a foreign CD
 - A debt security issued by a U.S. subsidiary of an Asian company is a U.S. security

Identifying Foreign and Domestic Financial Instruments

Best Practices

Verify that sources used to determine residency (e.g., security databases) meet TIC reporting requirements

Implement procedures to review new financial instruments created and to properly maintain existing information

Reconcile data stored on multiple databases for the same financial instrument

Including Data on the Correct Report and in the Correct Column

- All cross-border banking, derivatives, and portfolio investments collected on the 12 TIC reports
- Categorize data by country (over 200 foreign economies and organizations)
- Categorize data by counterparty and/or financial instrument

Including Data on the Correct Report and in the Correct Column

Best Practices

Document procedures for proper reporting

Ensure business areas understand TIC reporting requirements

Review data for reasonableness prior to submitting to FRBNY

Including Data on the Correct Report and in the Correct Column

Best Practices

Create mechanisms that enable the ability to research questions and to provide clear and complete explanations (including an explanation of why a reporting error occurred)

Maintain open lines of communication with FRBNY and businesses

- Training
- Clarify reporting for complex transactions
- Incorporate data from new business lines and products into TIC reports

Summary

- Best practices for regulatory reporting apply to TIC reporting
- Understanding reporting aspects unique to TIC reporting is the first step in ensuring requirements are fully met

FRBNY Contacts

- Contact us for reporting guidance or to set up a training session:
 - **Debra Gruber**, Officer
International Reports Department
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 - **Patricia Selvaggi**, Staff Director
Securities Reports Division
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 - **Michele Waldman**, Staff Director
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Best Practices for Structure Reporting

Violet Cumberbatch

Structure Reporting Issues Problems

- Misreporting
- Unfamiliarity with tools
- Synchronize financial and structure reporting
- Communication
- Revised reports

Best Practices for Structure Reporting – Avoid Misreporting

- Refer to reporting instructions prior to filing reports
 - Useful reference tool
 - Contains information to enhance reporters understanding of data and reporting such as:
 - Specific guidance on when, what and how to report
 - North American Industry Classification System (NAICS) activity codes and descriptions of commonly reported activities
 - Federal Reserve legal authority codes and activities
 - Definitions of reporting terms

Best Practices for Structure Reporting – Utilize Available Tools

- FR Y-10/10F on-line:
 - An electronic alternative to paper reporting
 - With use of the on-line application, reporters can:
 - Review tiering reports, which are based on the transaction report data provided to the Federal Reserve System
 - Identify and resolve possible reporting discrepancies
 - Check for errors prior to report submission
 - Obtain instant confirmation of reports received by the Federal Reserve
 - View and retrieve previously submitted report

Best Practices for Structure Reporting – Utilize Available Tools

- FR Y-10/10F on-line:
 - Find links to BSD training materials and useful websites such as:
 - Board of Governors
 - U.S. Census Bureau for NAICS codes
 - National Information Center
 - Retrieve tier reports
 - Retrieve Structure Report Instructions

Best Practices for Structure Reporting – Utilize Available Tools

- FR Y-10/10F on-line (cont’):
 - Benefits of a FR Y10/10F on-line enrollment include:
 - Improvement in the accuracy of information and reduction in the need for corrections
 - Reduction in mailing costs and report preparation time
 - Ability to retrieve previously submitted reports

Best Practices for Structure Reporting – Utilize Available Tools

■ Tier Report

- Sent to reporters by the FRB annually
- Contains the respondents' structural information as of a specific date
 - Based on information provided by reporters on the FR Y-10/10F reports

Best Practices for Structure Reporting – Utilize Available Tools

- Tier Report (continued)
 - It is strongly recommended that reporters incorporate a tier report review process into their annual review process. A tiering report review should include:
 - A thorough review of the tier report
 - Identification of discrepancies between the tier report and the reporter's organization chart for the same time period
 - Resolution of the identified discrepancies usually through the submission of a new or revised FR Y-10/10F

Best Practices for Structure Reporting – Utilize Available Tools

- Tier Report (continued)
 - Benefits of an annual tier report review include:
 - Fewer reporting issues with the annual reviews
 - Fewer or no follow-up questions from the FRB

Best Practices for Structure Reporting – Utilize Available Tools

- Attend Training Seminars
 - Training
 - It is critical that reporters provide employees with the tools needed for accurate reporting in the following ways:
 - Ensure reporting instructions are current
 - Make Regulations K and Y available

Best Practices for Structure Reporting – Utilize Available Tools

- Attend Training Seminars (continued)
 - Encourage attendance at regulatory reports training seminars
 - FR Y-7 and FR Y-10 training given at the FRBNY and via Web cast
 - FR Y-6 training upon request
 - Request access to the FRB on-line reporting applications
 - Contact BSD analysts with reporting questions

Best Practices for Structure Reporting – Understand Structure and Financial Reporting Relationship

- Understand the relationship between structure and financial reporting
 - Changes to banking structure data reported to BSD directly affect financial data reported to various areas of the FRB
 - For example, an FR Y-10/10F must be submitted to BSD with the acquisition of any non-banking subsidiary with reportable financial data

Best Practices for Structure Reporting

Communicate at all Levels

- Communicate with BSD Analysts
 - Build a strong relationship with the BSD analyst assigned to review your organization's reports
- Reporters should
 - Ensure the existence of effective communication among the various regulatory reporting areas at their organization
 - Ensure that the FRB is contacted with reporting questions **prior** to submitting its report

Best Practices for Structure Reporting – Keep Current

- Keep Current
 - Changes effective December 31, 2006
 - Domestic branch reconciliation requirement added to the FR Y-6 report
 - Minor changes to the FR Y-6 and FR Y-7 Cover Pages, the FR Y-7 Check List and the FR Y-10S report
 - Changes effective July 1, 2007
 - Structure related transaction reports combined into the FR Y-10 report
 - Introduction of the FR Y-10E

Structure Reporting Issues Solutions

- Avoid misreporting
- Utilize available tools
- Understand structure and financial reporting relationship
- Communicate at all levels
- Keep current