



**Direction for data collections**  
Response to APRA consultation

24 June 2022

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General Manager, Data Analytics & Insights  
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Dear **Reda**

On 31 March 2022, APRA released its *Discussion Paper on the Direction for Data Collections* which sets out APRA's changing approach to data collection, the rationale for these changes and an outline of the implementation roadmap (Data Collections Roadmap). As one of the leading consultancy firms in the financial services industry, Deloitte welcomes the opportunity to respond and provide feedback on APRA's proposed approach.

Deloitte supports APRA's objectives to: (i) transition to richer and more flexible data collections to inform decision-making and better regulation; and (ii) modernise the regulatory reporting infrastructure with a transition to APRA's new data collection system, APRA Connect and the decommissioning of the legacy system, D2A. Although these changes will lead to longer term benefits in terms of consistent data requests, standardisation of data collections, and a reduced need for ad hoc data requests, this transition will also be a significant undertaking and, in many cases, require substantial short to medium term investments in data, regulatory reporting and analysis capabilities from both APRA and the Financial Services industry.

To support the development of the Data Collections Roadmap, we have identified the following key topics for consideration as the plans for the new regime are refined, based on our local and global experience in this area and discussions with several ADIs.

## **Common data collection challenges across the Financial Services industry**

In our view, the reforms set out in the Data Collections Roadmap cannot be achieved quickly or easily. We are aware of the difficulties many entities in the Financial Services Industry will face in moving away from legacy solutions. Many of the changes required will be cultural as well as technical, with sustained investment required over a period of time to make the improvements necessary. We see the challenges manifesting in several ways as described below.

### ***i) Poor data and technology infrastructure***

Some entities struggle with collating all the data necessary for regulatory reporting, particularly where the data differs from that used in management or financial reporting. This can be the result of several factors, including historic under-investment in regulatory reporting and/or adoption of tactical solutions that are never actually replaced by strategic systems upgrades. Some of the challenges we have observed in relation to poor data and infrastructure include:

- Poor source data integrity and/or no data dictionary resulting in incomplete, inaccurate or unreliable inputs and returns.
- A reliance on manual adjustments, throughout the reporting value chain, to compensate for recurring data and/or technology issues.
- Lack of visibility at a senior level of the potential impact of known data issues on the reports.
- Extensive use of Excel spreadsheets, end-user computing and other tactical solutions for producing regulatory returns, resulting in increased risk of errors and potential misstatements in individual returns.

## ***ii) Inconsistent governance and ineffective controls***

Governance of regulatory reporting is often separate from the governance of financial reporting, and the control framework can be designed and held to a different, often lower, standard. This can lead to a number of problems, including:

- Senior management not taking an active role in challenging and approving key regulatory interpretation and mapping assumptions.
- Poorly defined and embedded oversight, accountability and responsibility for preparation and review of returns, regulatory interpretations and controls.
- Absence of formal management information on controls, reconciliations, data quality, validation and analysis.
- Management being unable to identify, track and remediate issues or risks with reporting controls.
- Application of manual adjustments to calculations without a sufficient level of review.
- Insufficient evidence of “prevent and detect” controls through the end-to-end process.
- Lack of independent monitoring of the operation and effectiveness of controls.

## ***iii) Lack of resourcing and inconsistent or inappropriate regulatory interpretations***

Regulatory reporting is complicated. Reporting standards and guidelines run to dozens of documents. The requirements can regularly change, and in many entities, the pool of individuals with deep knowledge of both the regulatory requirements and how to complete reports given data and systems constraints is shallow. We see these challenges manifesting in several ways:

- Inconsistent or erroneous interpretations of regulatory requirements, leading to potentially inaccurate regulatory submissions.
- Inconsistent formal governance process for review/challenge and approval of material regulatory interpretations that affect regulatory reporting.
- Ineffective second line coverage of regulatory calculations and reports – both modelled and non-modelled elements.
- Insufficient second line challenge of policy interpretation and application.
- Limited third line assurance activities over regulatory reporting.
- Absence of succession planning to mitigate key-person risk within regulatory reporting teams.

## **Cross-industry considerations for responding to the Data Collections Roadmap**

Whilst APRA has made clear for some time that the direction of travel is a shift to richer and deeper data collections, some entities may find the Data Collections Roadmap remains too high-level and is vague on detail and practicalities. In our view, whilst the practical requirements and expectations in the industry roadmaps will be worked through with entities over time, the rollout of the Data Collections Roadmap should be accompanied by the codification of *CPG 235 – Managing data risk* as a prudential standard (CPS 235) in a similar timeframe. This will support the consistent and sustained investment in underlying data and reporting capability required to deliver on the Data Collections Roadmap as in our experience, some segments of the industry may delay action on the basis that the Data Collection Roadmap does not provide sufficient detail for action.

Below we have set out the five key areas where we expect capability uplift to be required to deliver high quality regulatory data collections that meet the needs of users:

## ***i) A robust governance structure***

The Financial Services Industry's journey toward richer and deeper data collections is already underway. The first step of this transformative journey is cultural change and disciplined end-to-end change management that aligns to a strategic architecture and regulatory data strategy. That is, acceptance that regulatory and financial reporting is an enterprise-wide activity, with accountability by senior management business lines and corporate functions such as finance, operations, and risk. This differs from the traditional approach where source data is managed in siloes in each business line. Entities will need to implement a governance structure that brings:

- Active oversight of firm-wide data to the executive level
- Partnership across business lines and corporate finance functions in managing the data life cycle

## ***ii) Data and technology infrastructure investments***

Strategic transformation of data and reporting infrastructure are major investments that have long runways. In our experience, the level of effort needed often ranges from three to five years. The scale and cost of infrastructure investment is driven by the size and complexity of each entity, taking into account legacy of system integration, history of mergers and acquisitions, and technology changes and implementation of "regulatory reporting software" compared to other automation capabilities. That is, it is often costlier and takes longer for a multi-disciplinary entity to migrate to a strategic platform than a simpler entity. Entities that have legacy systems from mergers and acquisitions will generally have more challenges than those that have less complex business/product/legal entities and combined operating models.

Many entities are in the process of planning strategic investments in source systems and firm-wide data solutions (e.g., data lakes and data warehouses). Since many entities implementations of these solutions are not complete — or in some cases not started — the data acquired from each business line's source systems and process are built (often manually) to transform data to the definitions and formats to meet regulatory requirements.

As APRA transitions to digital submissions of data collections with APRA Connect, a greater level of standardisation in how data is collected, represented, what it means and the relationships between data elements will be required. This includes commonly agreed definitions for all data elements across the data collections as well as the establishment of common data models that are defined and agreed with industry. For example, if collecting data on customers, then a definition of what a customer entity is would be necessary. Similarly for other concepts such as products, services and arrangements. This would support the common interpretation of requirements across the industry and help to facilitate a consistent level of analysis of and across entities.

A key obstacle for many entities is understanding data sources and transformation of data before it enters the report preparation process. Based upon our industry interactions, many entities are grappling with understanding and maintaining end-to-end data lineage from data capture to the point that it enters the report preparation process. Without knowing where all of the source data resides and where data transformation occurs, it is difficult to effectively integrate all of the needed data sources or assess the risk of material misstatement of reported data, regardless of the level of granularity of reported data elements. As an added complexity, the provision of granular data sets from source systems that cleanly reconcile with reporting may be a challenge in some entities that will need to be worked through.

## ***iii) Data quality and assurance***

Data quality programs have significant variation across the Financial Services Industry and often internally within entities. At a number of entities, data quality work is often conducted at the corporate level with minimum quality assurance conducted by business lines. Also, data quality checking is mostly organic without well-defined methodologies or standard frequencies. An effective data quality and assurance program that is risk-based and integrated with accountability frameworks is typically built on five components:

- Qualitative business rules which establish expectations for required levels of data quality
- Reconciliations and controls across the end-to-end reporting value chain
- Source data and/or transaction testing
- Quantitative analysis of variations and anomalies
- A connection into established issue management and funding processes

#### ***iv) Change management***

The complexity and rate of change to regulatory reporting makes change management a critical competency for regulatory and financial reporting organisations within entities. End-to-end regulatory change management for regulatory reporting should be linked across government affairs; regulatory policy; and legal, compliance, and regulatory reporting functions. Regulatory change processes should evaluate changes across regulatory agencies and legal entities, including financial, risk, product/transaction, and market information. In addition to external factors, internal activities from new product development, system implementation, changes to the legal entity structure, and internal policy changes must be incorporated into the change management process.

#### ***v) Human capital***

Without highly skilled staff, many entities are unlikely to successfully deliver on the Data Collections Roadmap. Typically, entities are realising that the skillsets historically used to prepare regulatory reports are no longer enough as the industry pivots to richer and deeper data collections. In our experience, buying these skills is not always a realistic option as the high demand for skilled people in this area in the current economic environment is not matched by supply leading to a shortage of suitably competent resources. This presents opportunities for developing robust training programs, as well as creative retention tactics of key regulatory reporting personnel. In short, building data and regulatory reporting teams and ensuring second and third-line functions have the skills and resources to challenge regulatory reporting functions, processes, interpretations, and outputs properly will take time and commitment from all stakeholders.



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We welcome the opportunity to discuss and share our industry insights with APRA on this topic in more detail if required.

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