An effective regulatory reporting framework
Why you should strategically invest in a regulatory reporting documentation platform

Written by Mike Rost
Introduction

Executives who oversee regulatory reporting face a growing dilemma.

The overwhelming complexity and increasing costs of regulatory reporting and compliance have been plaguing board members and senior leaders in corporations around the globe. According to a Thomson Reuters Annual Cost of Compliance survey, 70 percent of firms indicated they were expecting regulators to publish more regulatory information in the next year, and 28 percent said they expected significantly more.¹

As a result of increased regulation, corporate regulatory reporting teams face the daunting choice of either doing more work with existing resources or requesting budgetary exceptions from senior leadership to get more help.

In the short term, it appears that budgetary exceptions and acceptance of increased costs have been the only answers. According to the same survey, 68 percent of firms expect an increase in their compliance budgets this year, with 19 percent expecting significantly more. The largest global financial institutions are expecting even greater compliance budget impacts—33 percent expect significantly higher budgets.² Managers know that in this challenging economy, allowing costs to grow uninhibited is simply not sustainable. The pressure continues to build.

In the longer term, and as enterprises face increasing pressure from shareholders and analysts to rein in overall costs, many organizations have adopted cost-containment policies. In a survey conducted by the consulting firm Resources Global Professionals, 82 percent of executives cited cost containment as one of their highest priority objectives and said they continue to pursue additional savings opportunities across their organizations.³

Trying to do more with less usually leads to increased errors, exposing organizations and their leadership to penalties coupled with even more regulatory scrutiny. In fact, penalties and fines sought by regulatory authorities are at all-time highs and are likely to continue to rise in the absence of systemic changes.

This concern was further reinforced by the 2015 Federal Reserve regulatory reporting survey by Ernst & Young, Regulation now: the new standard and how firms are adapting, which found 40 percent of regulatory reporting departments at large banks and financial institutions perform an excess of 500 manual adjustments to regulatory reports.⁵

According to those surveyed, “managing data quality” and “maintaining data granularity” are two of the greatest challenges faced by their firms.⁶

More pressing, personal liability of compliance officers for errors is also on the rise. Fifty-nine percent of respondents in the Thomson Reuters survey expect the personal liability of compliance officers to increase, with 15 percent expecting a significant increase. The stress of dealing with this conundrum exacts high costs on employees and is a major contributor to what is now being called “regulatory reporting burnout.”⁷

What can be done?

Allowing resource costs to rise uncontrollably is, in the long run, out of the question, so savvy senior managers are looking for better ways to meet these demands by introducing new, innovative methods and ideas to the process.

Leaders responsible for making value-driven decisions to deal with growing regulatory reporting requirements need to consider applying new tools and solutions to improve their entire reporting processes. They must endeavor to build an enterprisewide strategy that can deal with the rising complexity of regulatory reporting documentation.

A scalable strategy that can handle the constant change in expectations and requirements can produce high-quality compliant submissions governed by those requirements, and at the same time can deliver sustainable and meaningful cost and time-savings.

For many organizations, the idea of this strategy is not new. It had just been deemed, from an operational perspective, as currently out of reach. The biggest impediment has been the underlying mismatch between the needs of modern business reporting and documentation and the technology currently used to create this documentation.
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This mismatch leads to inefficient, incredibly expensive business reporting document processes.

Two previous white papers, *Process Improvement: A Universal Framework for Effecting Change* and *A Practical Application of The Universal Process Framework*, discussed and demonstrated how teams could use the Universal Process Framework to improve smaller business processes, such as the financial statement close, fair value modeling, or small individual components of regulatory reporting. We have shown that through the application of appropriate technology, teams can achieve significant results in terms of both improved efficiency and quality.

Here, you’ll see how to apply this same approach to optimize a large regulatory reporting framework, either one that is part of a larger process or one that contains its own smaller subprocesses. Applying a worthy framework as part of a corporate business reporting documentation transformation project not only pays for itself quickly, but can have a multiplier effect throughout the organization as related processes are also improved.

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Specifically, you’ll see how to use the Universal Process Framework to think through a large regulatory reporting process, such as those required of large banks and financial institutions doing business in the United States under the *Dodd-Frank Wall Street Reform and Consumer Protection Act*.

Though the example is specific to banks and financial institutions regulated in the United States, the same ideas can be applied to large regulatory and non-regulatory reporting processes in any country worldwide and across all industries.
This paper examines the Dodd-Frank reporting submission requirements for CCAR, the Comprehensive Capital Analysis and Review. CCAR is designed to assess whether an institution has sufficient capital to continue operations throughout times of economic and financial stress and has a robust, forward-looking capital planning process accounting for the company’s unique risks.

Depending on the size of the organization, a CCAR submission may include hundreds of participants creating thousands of pages of documentation, which include many thousands of data points in text, tables, and charts.

Surrounding the CCAR submission are hundreds of pieces of supporting documentation subprocesses. These include, among others: risk model documentation, review and challenge documentation, policy and procedures, audit documentation, a great deal of business-as-usual documentation, various summary and board presentations, and supporting narratives.

All together, this accounts for an enormous amount of additional pages and data points. The massive effort of producing an annual CCAR submission, not to mention the necessary review processes requires the work of hundreds of employees along with many outside consultants. The hard and soft costs related to these processes are astounding and repeat year after year.

To analyze and understand all the components of the CCAR reporting process, businesses can apply the principles of the Universal Process Framework and from there, endeavor to optimize those processes.

**Understanding the stress testing and CCAR/DFAST submission process**

The typical CCAR documentation submission can be categorized into three main parts: the capital plan, supporting documentation, and additional reference material.

Senior management must first decide, within some proscriptive requirements, how it will tell the bank’s capital plan story. It must submit, at a minimum, certain mandatory elements and detailed documentation supporting those elements: FR Y schedules, an assessment of the expected uses and sources of capital, its capital policy, its process for assessing capital adequacy, and a discussion on plans that might change the bank’s capital adequacy or liquidity.

The submission will include other sections, ranging from responses to regulator feedback, scenario design, process documentation, model documentation, and for many banks, their DFAST and even Internal Capital Adequacy Process (ICAAP) information.

The CCAR leadership committee must then plan on what scenarios to run and decide which teams will own the various sections and documents of the submission.

Next, a designated team generates stress-test scenarios to be used to test the bank’s capital adequacy under duress. Additional scenarios are also collected from the Federal Reserve Board. The purpose is to demonstrate that the bank’s capital actions plans will not put its capital levels below the thresholds set by the Fed. The stress tests and the results are central to the submission.

Various subject matter experts (SMEs) work with modelers to create methodology documentation on how scenarios are created, what formulas and algorithms are used and why, and ensure the scenarios are rigorous and based on sound data and solid methodology.

Next, SMEs and leadership review and challenge the scenario results, assumptions, and methodologies to ensure they are well thought-out, rigorous, and fulfill all of the Fed’s requirements. The mountains of resulting scenario data and other financial statement data are summarized into hundreds of tables, which must be embedded in the submission documentation.

The report teams then aggregate all the documentation and data and submit it to various review committees.

After review, the SMEs and core team consolidate and edit the plan narrative to reflect a single voice, and then tick and tie every number in every chart and table mentioned in the narratives.

The teams gather all supporting documentation—which is more detailed and includes more qualitative and quantitative information than is presented in the main capital plan document—and again tick and tie the associated numbers.

Finally, leadership, along with internal and external consultants and legal, review and approve the submission, which ultimately receives sign-off from the board and CEO.

The entire process and associated subprocesses are built using hundreds of independent text and spreadsheet files, which eventually must be integrated manually into a single submission.

All of this is against the backdrop of growing regulatory requirements and the need to keep the consistent confidence of stakeholders and analysts.
It is a tremendous balancing act. Regulatory requirements can change right up to the last minute, along with internal and external stakeholder expectations. As soon as the submission is submitted, it immediately begins again.

**Applying the Universal Process Framework**

Workiva developed the Universal Process Framework based on working with more than 2,500 customers and their thousands of documentation processes. This framework supports and visualizes reporting processes in order to find the constraints and opportunities for improvement in them. Using that as a starting point, it is now possible to engineer a leaner, more efficient business reporting documentation process.

The Universal Process Framework helps managers map their current reporting processes and identify their unique constraints quickly, simply, and cost-effectively. It separates the reporting process into three sequential phases: gather, organize/package, and consume/analyze.

![Universal Process Framework](Figure 1: Universal Process Framework)

**Gather**

In this first phase, source data is gathered from all of the places it exists, often, in the form of both structured and unstructured data. This phase involves discovering where the data is, requesting it from those who have it, bringing it together into one place, and verifying its accuracy.

**Organize/Package**

Once the data has been collected, it needs to be aggregated into a single format. This part of the process often involves what we call manual labor, as data is copied and pasted, saved, and resaved from various sources and then correctly formatted. At the end of this phase, all the data is in one place.

**Consume/Analyze**

In the final phase, aggregated, normalized data is curated for the needs of the end products, which can be from one to many consumable reports and in formats ranging from documents, to spreadsheets, to presentations and slides.
The connective tissue between the three phases is where much of the workflow takes place. What actions must happen in each one, and what might delay the process from moving from one phase to the next?

Through this simple and powerful exercise, the framework clarifies the prevalence of unsustainable reporting processes throughout the organization.

Further, it spotlights processes that are not repeatable and therefore constantly need to be re-created. These constraints keep an organization from being able to quickly and consistently produce accurate reports without excessive manual labor.

**Mapping CCAR to the Universal Process Framework**

Here’s an example of the CCAR process and some of its constituent subprocesses applied to the Universal Process Framework.

![Current CCAR process](image)

What this figure shows is the many ways to interpret key findings between the phases where most of the work is done. Key takeaways:

**Gather**

Data usually flows from a combination of structured systems. But there is also often a reliance on unstructured data, down to individual constituents’ personal computers and personal drives. This data is known to be inconsistent and hard to find year over year. It lacks governance. Some data is presented as images, such as tables and charts, which are hard to authenticate and difficult to update if changes are made throughout the reporting process.

Changes to assumptions or variables in the source models and scenarios cause numbers that are being sent to multiple reporting process owners to change. Qualitative data (narratives, methodologies, summaries, etc.) are gathered as individual source files, such as word documents, PDFs, presentation slides, etc. These are also incredibly difficult and time-consuming to gather.
The gather phase is plagued by version control issues, collaboration issues, and data consistency issues specific to a lack of a centralized data source or an automated data distribution process. These problems can cause the same data to be sent over and over again to multiple reporting groups and owners.

Organize/Package
Both structured and unstructured data are aggregated and processed into visuals (tables and charts) to be used throughout the CCAR submission, capital plan, supporting documentation, and reference material appendices.

In most inefficient processes, this data is difficult to track, validate, and support with a clear governance story to regulators and reviewers. Additionally, the same data is being provided to multiple teams to place into their own parts of the submission documentation.

Due to the documentation processes being generally manually managed by different groups, this repeated sending of data for manual entry causes significant data risk issues and an abundance of ticking and tying time. Reviewers must look at data not only in tables and charts, but also in text.

Manual entry and manipulation of data across documents and file types significantly increases the risk for error. This evinces itself in several ways:

- Governance issues: The sheer amount of quantitative data across file types causes an inordinate amount of ticking and tying. Something is almost always missed.
- Formatting problems: Consistently formatting documents for font usage and table presentation is also burdensome and time-consuming. Each data change prompts reformatting.
- Voice consistency: Because multiple sources contribute to a master submission, editing for voice is a constant challenge. Storyline and voice consistency across all documents is critical.
- Version control: The lack of collaboration and questions of "Where is the pen?" and "Who has the pen?" are frequent.
- Communication and feedback: The whole bank is liable for the submission, so achieving consensus across all authors is challenging.
- Review: Senior-level reviews and their subsequent changes incur additional time for the cycling that results.

Consume/Analyze
All of the different aggregated reporting components are finally put into consumable formats. These include a combination of those prescribed by regulators, as well as those needed for final reviews and reporting to the board.

Quantitative and qualitative data are reviewed a final time for consistency and to ensure lineage back to source systems, and governance is addressed. Any last-minute changes are a huge issue at this point, mostly due to timeliness and deadlines.

Data issues, quantitative or qualitative push the process all the way back to the data gather stage, and they make their way slowly through the aggregate stage, through tick and tie and reviews again and again. All final presentations and documents are given a last check for a "single voice" as well as consistent formatting, font, and color schemes. The submission is then sent to regulators. A roll forward starts the next time-period reporting process.

By looking closely at the workflow along each of the three phases, managers can begin to identify areas where constraints occur in the CCAR reporting processes. Often, managers will find workers get stuck gathering data, obtaining approvals, or spending hundreds of hours on formatting and other mundane tasks. In processes where there are multiple documentation teams and multiple process streams, these issues compound and multiply quickly.

These constraints have one thing in common however: they require significant amounts of non-value, manually-intensive time that translates to massive costs to the organization, not to mention decreased full-time employment job satisfaction. Formatting spreadsheets, ticking and tying thousands of numbers in tables, charts, and text, and compiling document versions together again and again consume vast amounts of time for little return.

Most problematic, they take time away from the most important components of the reporting process. The all-important reviews, strategy, review and challenge, and certification components are often squeezed or omitted due to the process inefficiencies.

Many trained and highly educated professionals spend time on these menial tasks, when they could be focusing on more beneficial activities, such as analyzing data for patterns or trends and ensuring the organization is in compliance. Time is precious, and there is little time left for managers to reach out to other teams and forge collaborative relationships to raise reporting quality. Over the course of months and years, the cost to the organization is significant.
The inefficiency multiplier here is that inefficient processes and cycling not only occur for the main submission document, but also individually for each of the hundreds of supporting documents as well. Additionally, using processes that are not sustainable or repeatable year over year compounds the already overcomplicated and expensive submission process.

Employing a business reporting documentation platform

The fundamental problem most companies face is that their underlying regulatory reporting framework—typically built on manually integrating desktop-based text and spreadsheet files—is simply inadequate for the complex reporting job at hand.

Instead, companies need to employ a business reporting platform purposely designed to enable teams to manage their processes efficiently, repeatedly, and sustainably.

There are several such platforms available, each catering to different markets. Here are some of the essential benefits these platforms can offer.

Accessibility and version control

The reporting team should be able to access its most current document from anywhere, anytime. This is best accomplished by using a cloud-based or software as a service (SaaS) reporting platform.

Working on a centrally accessible document eliminates the time spent consolidating multiple files and multiple versions of those files prior to submission. Having a single document also eliminates the “Who has the pen?” or “Where is the pen?” problem pervasive in current documentation processes.

The platform should also allow the user to connect supporting documentation to the same workspace as the main submission documentation. This ensures all reporting constituents are consistently collaborating with all the necessary documentation, as well as enabling cross-referencing across documentation.

The platform should offer automated formatting controls and access controls that enable teams to grant permission to access the report in its entirety or down to the section or paragraph level. This should include ownership and editing privileges to view only or restricted permissions.

The platform should also provide automatic audit tracking. If changes are made, it should be easy to see who changed what, when.

While freely available tools may work fine for collaboration among small groups and small documents, they lack the amount of control and security required, and are wholly inadequate for sensitive large-scale reporting.

Qualitative and quantitative linking and assurance

Multiple documents created throughout the reporting process will contain the same information, such as legal disclosures, descriptions of processes or entities, and more. Additional data points will appear repeatedly in text, tables, charts, and other supporting documentation and presentations.

The reporting platform should allow the team to link information to centralized, controlled, auditable areas that allow for instant updating of linked text, data, tables, and charts. This is sometimes referred to as having a single source or golden source of truth. When the information changes at the source, the tables, charts, or even sentences referencing that information all update simultaneously.

Data governance needs to be made easy through linking, with clear ability to trace lineage. Linking the usage of data and text throughout the report ensures consistency and eliminates redundant updating, allowing the reporting team more time for value-added tasks. The reporting team doesn’t have to tick and tie thousands of numeric data points by hand.

This is doubly important today and helps to minimize risk, in light of liability and fines for submitting incorrect data, for example, under both Dodd-Frank and the Sarbanes-Oxley Act.

Automated certification process

A robust business reporting platform will automate the complex process for sign-offs and certifications. As a result, the overall time for report development is significantly reduced.

The reporting team doesn’t have to tick and tie thousands of numeric data points by hand.

Being able to communicate from within the platform—for example, to comment directly on content and data—also increases transparency, eliminates inherent delays in using phone, email, or other written feedback processes, and allows for feedback tracking.
**Interconnecting tangential reporting processes**

The platform should also enable teams to interconnect tangential reporting processes, so they can be together using the same collaboration and data linking architecture. This helps drive massive optimization across the organization.

It is also where businesses see the greatest ROI.

CCAR, for example, encompasses many subprocesses, such as the capital plan and narrative, process and methodology, review and challenge, business-as-usual documents and spreadsheets, and presentations. Optimizing the core submission components will drive efficiency, but implementing a solution that incorporates all reporting processes and tangential processes at the same time will have a greater ROI multiplier effect.

**Repeatabable and templated framework**

Take on the challenge of rolling forward your current processes from period to period in a purposeful manner. The platform should include methodologies and tools to support an organized roll forward and repeatability of the frameworks built for the reporting process.

You’ll find this helpful when rolling forward documentation and permissioning, task management and certifications, formatting and style guides, as well as quantitative and qualitative linking. This repeatability ensures that your optimization will increase as time goes by and will ensure sustainability of the platform as well.

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**Figure 3: Optimized CCAR process**

- **Gather**
  - Unstructured: Business/LOB Data
    - Core CCAR Team
    - Wholesale
    - Retail
    - Cost Management
    - PPNR Loans
    - Scenario Modeling
    - Business Finance
    - Capital Planning
    - ALM
    - TCMR
    - LOBs
    - Pension
    - Tax
    - Goodwill
    - MIPA
    - Etc.

- **Organize/Package**
  - Structured: FRY Form Line Items
    - General Ledger
    - Other Enterprise Data

- **Consume/Analyze**
  - CCAR/DFAST Documents
    - Capital Plan
    - ICAAP
    - Bank ID
    - Submission Letters
    - Basis of Prep
    - Governance Framework
  - Narratives Documents
    - Wholesale
    - Retail
    - PPNR, NIR, NIX
    - Op Risk
    - Pension Risk
    - Balance Sheet/Income Statement
  - Internal, External, Review, and Challenge Presentations
    - Loans and Deposits
    - Op Risk
    - Tax
    - Wholesale
    - Retail
    - RWA
  - Other Supporting Documentation/Presentations
    - Board Presentations
    - Meeting Minutes
    - PPNR LOB Review
    - UAT
    - Certifications
    - Supervisory Presentations
Quantifiable benefits

The increased productivity and effort reduction of your reporting resources means the total time and therefore total cost of the reporting process will be lowered. From a full-time equivalent (FTE) perspective, this productivity means that the same team will be able to do more, thus reducing future incremental FTE spend, including consultant spend.

Part of your process optimization platform will be an element of continuous process improvement. As these optimized reporting processes roll forward, continuous process improvement means that more efficiencies will be found as your platform becomes more robust. As more reporting processes are connected and linked to centralized data sources, the optimization benefits multiply, as do the time and costs savings.

Optimized documentation platforms will also have immense risk mitigation and reduction for reporting processes. As the productivity increases and overall time decreases, review periods will become easier to insert. This, subsequently, will allow for more oversight and feedback from reporting constituents, experts and leadership and external reviews. Additionally, in-platform communication tools will allow for speedy and documented feedback and commenting processes.

With functionalities around qualitative and quantitative linking and controls, the data risks that necessitate such inefficiencies as ticking and tying, for example, are eliminated. Data linked to source systems (even within text) are much more in line with organizational data governance policies and procedures as well. Detailed audit controls and reports also decrease risk and increase good governance and change management. Full process optimization should result in repeatable and sustainable processes, which eliminate the often debilitating risk that resource-heavy processes incur when human resources change or are lost.

Your optimized reporting processes will easily roll forward from period to period without having to be rebuilt. Add to this functionality around evidence collection for data and images, and you can clearly see how both non-regulatory management reporting, financial reporting, and regulatory reporting are going to be impacted positively by optimization. And, since penalties and fines have continued to grow, strong supporting evidence for your submission is increasingly important.

Cost avoidance is another of the major benefits that the cloud brings an organization. From an IT perspective, implementing a SaaS solution requires little to no on-premise hardware or software costs. Additionally, software updates and upgrades happen automatically with no additional cost or downtime.

The benefits generally greatly outweigh the costs, which consist of software licensing fees, support plan fees, onboarding costs, professional services costs, and internal training costs.

In the experience of many professionals and documented in a number of studies in a number of industries, the results of large scale business reporting documentation optimization projects can be significant.

- When committed to a path of process improvement built around SaaS reporting platforms, companies have seen payback in 3–9 months, and have three-year, risk-adjusted ROI exceeding 230%.
- Many banks and large financial institutions have the potential to save millions of dollars in the first year of using a cloud-based reporting platform alone and forgo even larger sums planned for future documentation expenditures.
Conclusion

Studies have shown that organizations can transform their documentation processes enterprise-wide by applying the Universal Process Framework. The framework enables them to visualize their process constraints, and then use the right data and documentation architecture and a SaaS business reporting platform to fix them. This transformation can create meaningful and sustainable cost savings while at the same time substantially increase reporting quality. In an economic environment where cost containment means any expenditure will be carefully examined by management, this is a strategic investment—one worth making that should pass even the most rigorous review.

In the face of increasing reporting requirements, executives no longer need to choose between doing more with the same resources or going to senior leadership for a budget exception. With the changes outlined above, their staffs can focus on the high-level, value-added tasks they were hired for, versus spending their time battling inadequate software through broken processes. As a result, compliance stress disorder can become a thing of the past.

About the author

Mike Rost is a key contributor to product strategy at Workiva and works with business leaders in the areas of governance, risk, and compliance. With more than 20 years of experience assisting organizations with using technology to optimize business processes, Mike has an extensive background in internal audit, risk management, and advising compliance professionals. He has been active in industry associations, including the Open Compliance and Ethics Group and the Institute of Internal Auditors. Mike is also a frequent speaker at industry conferences on subjects such as risk best practices, guidance on the implementation audit, and risk and compliance technology. He has a bachelor's degree in economics and an MBA in marketing and finance from the University of Minnesota.

About Workiva

Workiva (NYSE:WK) created Wdesk, a cloud-based productivity platform for enterprises to collect, link, report, and analyze business data with control and accountability. Thousands of organizations, including over 65% of the 500 largest U.S. corporations by total revenue, use Wdesk. For more information, visit workiva.com.

Resources

2. Ibid
6. Ibid
7. Ibid, p. 1