Good practices Guidance on prudential reporting for investment firms and managers of investment funds and UCITS

DeNederlandscheBank

EUROSYSTEEM

DISCLAIMER

Good practices set out suggestions or recommendations for supervised institutions. They describe examples of approaches that we believe to be effective for fulfilling the regulatory requirements arising from laws and regulations . Supervised institutions are free to adopt another approach as long as they otherwise comply with the laws and regulations, and are able to demonstrate this on reasoned grounds. For more information see the Explanatory guide to DNB's policy statements.

The aim of this guidance document is to provide investment firms and managers of investment funds and UCITS (hereinafter: institutions) with an overview of good practices for prudential reporting (FINREP and IFREP). Institutions are required by law to submit prudential reports to De Nederlandsche Bank (DNB). The quality of data submitted is essential to our work as a supervisory authority. We therefore call on institutions to take additional measures to better ensure the quality of their prudential reporting.

Data is one of the key building blocks for good and effective supervision by DNB. Data-driven supervision is a cornerstone of our task as a supervisory authority. High-quality reports help us to carry out our supervisory task effectively and efficiently.

For more information, see our Supervisory Strategy 2021-2024 and our Open Book pages on the supervision of investment firms.

Institutions are required under Section 3:72 of the Financial Supervision Act (*Wet op het financieel toezicht – Wft*) and Article 54 of the European Investment Firm Regulation (IFR) to submit accurate reports in a timely manner. Our checks of prudential reports have revealed several errors and misinterpretations.

Prudential reporting often involves filling in several specific templates. In many cases we find that not all templates have been filled in. In addition, the data entered are often incorrect or not in line with reporting instructions. The latter applies to both IFREP and FINREP reports. We have therefore prepared these good practices to give institutions more guidance on how to correctly complete and submit their prudential reports with an eye to enhancing data quality.

See Information and documentation for more information and documentation on submitting reports.

These good practices are inspired by the Principles for Effective Risk Data Aggregation and Risk Reporting of the Basel Committee on Banking Supervision (BCBS Principles). They have been tailored to the sector and the applicable statutory requirements.

These good practices can also be applied on a consolidated basis to institutions that are part of a group that is subject to consolidated supervision. If prudential reporting activities are outsourced, these good practices can also be applied together with the outsourcing partner. In doing so, the applicable outsourcing guidelines continue to apply.

Legal basis

The legal basis for these good practices can be found in Sections 3:17(3) and 3:72 of the Wft and Article 54 of the IFR.

Implementation

These good practices take the nature, size and complexity of the institution into account. This means that an individual institution can tailor the implementation of these good practices to its nature, size and complexity. These good practices are applicable to all institutions.

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1 Good practices on overarching governance and infrastructure

1.1 Overarching governance

Good Practice 1
The institution's board and management incorporate the identification, assessment and management of risks related to the quality of prudential reports in the institution's overall risk management framework. The risk management framework ensures agreed service level standards for both outsourced and internal risk processes, as well as the institution's policies on data confidentiality, integrity and availability.

Good Practice 2
The institution's board and management are responsible for reviewing and approving the institution's framework for prudential reporting and for ensuring that adequate resources are deployed.

We consider these to be good practices because the institution's prudential reporting practices are subject to robust governance arrangements.

Good practice 3a
The institution has fully documented its data aggregation processes for prudential reporting and aligned them with its risk profile.

We consider this a good practice because the institution's processes are replicable, verifiable and transferable between employees.

Good practice 3b
The processes for data aggregation and prudential reporting are routinely considered in new initiatives, including acquisitions and/or divestitures, new product development and broader change initiatives in the areas of processes and IT.

We consider this to be a good practice because substantial changes are accurately reflected in the prudential reports. The board is thus able to explicitly consider the impact of substantial changes on prudential reports.

Good practice 3c
In the case of a group, the institution ensures availability of group data for prudential reporting purposes.

We consider this to be a good practice because the group structure may not interfere with data aggregation at the consolidated level or at another relevant level within the organisation, such as at the sub-consolidated level or at the level of the jurisdiction where the activities take place. In particular, prudential reporting processes are independent of the institution's choices regarding its legal organisation and geographical presence.

1.2 Data architecture and IT infrastructure

Good Practice 4
The institution defines the roles and responsibilities with regard to ownership (hereinafter: the data owner) and the quality of data and information for both the business and IT functions. Data owners work with management to ensure that appropriate control measures are in place. This applies throughout the data lifecycle and to all aspects of the technology infrastructure. The data owner ensures that the relevant front-line staff enter data correctly, among other things.

Data is kept up to date and aligned with data definitions. The processes for data aggregation and prudential report submission are in line with the institution's policies.

Good Practice 5
The institution assigns responsibility to a board member for the processes for data aggregation and prudential report submission.

This board member, working closely with the data owners, ensures that risks arising from the reporting process are documented in the institution's operational risk management policy and risk appetite.

Good Practice 6
As part of the institution's business continuity planning processes, the processes for data aggregation and prudential report submission are routinely considered and subjected to a business impact analysis.

Good Practice 7
The institution uses the three lines of defence model for prudential reporting.

The processes for prudential reporting are by default part of the institution's internal audit plan. Small institutions may conduct periodic (external) audits of prudential reporting and the underlying process.

Good Practice 8
The institution ensures a thorough level of knowledge within its ranks on prudential reporting and data aggregation.

A further good practice would involve offering training opportunities and familiarisation programmes to the board, management and other designated staff for this purpose.

We consider these to be good practices because they provide the institution with a sound data architecture and IT infrastructure. In addition, the institution ensures that staff responsible for submitting reports are sufficiently knowledgeable while also ensuring the quality of prudential reports.

2 Good practices on data aggregation processes for prudential reporting

2.1 Accuracy and integrity of processes for prudential reporting

Good Practice 9
The institution aggregates data for prudential reporting accurately and reliably.

a. Control measures for prudential reporting are as robust as those for accounting data.
b. Where the institution uses manual processes and desktop applications such as spreadsheets or databases, it has implemented effective risk mitigation measures.
c. Prudential reports are validated against the institution's data sources, e.g. accounting records and/or annual reports, to ensure their accuracy. The four-eyes principle is used when submitting prudential reports.
d. The institution's responsible staff have adequate access to regulatory prudential data to ensure they are able to accurately aggregate and validate the data.

Good Practice 10
The institution ensures that data for prudential reporting is defined, inventoried and classified consistently throughout the organisation. A good practice would involve preparing a manual containing definitions and explanations of the terms and concepts used.

Good Practice 11
As far as possible, the institution uses automated systems to aggregate prudential data. Where professional judgement is required, human intervention may be appropriate.

Good Practice 12
The institution distinguishes between automated and manual processes in its documentation on the process of aggregating data for prudential reporting, which also includes explanations of both.

Good Practice 13
The institution regularly measures and monitors the accuracy and completeness of regulatory prudential reporting data and has appropriate escalation channels. It also ensures that deficiencies are rectified in a timely manner.

We consider these to be good practices because they ensure the accuracy and integrity of processes for prudential reporting.

2.2 Completeness and timeliness

Good Practice 14
The institution ensures that prudential reports are complete. It can achieve this by establishing internal processes that address the following three aspects:
- prudential data are documented
- their completeness is verified
- and any exceptions are identified and explained.

Good Practice 15
Institutions have internal processes that ensure timely submission of prudential reports, including resubmissions, and have the appropriate rights in eHerkenning to ensure timely submission. Such a process could involve an institution setting internal deadlines for the preparation of prudential reports and resubmissions and automatically sending the data owner reminders of these deadlines and the final date for submission to DNB. The same applies to requests for resubmission.

Good Practice 16
The institution ensures that its systems are capable of rapidly generating the data for the prudential reports in a stress or crisis situation and that these reports can be promptly submitted to DNB. It is a good practice that institutions preferably use automated systems and establish an internal coordination process between the responsible board member, management and the data owner for verifying and submitting the prudential reports to DNB.

We consider these to be good practices because the institution generates up-to-date prudential reports in a timely manner while complying with good practices with regard to accuracy and integrity, completeness and adaptability. The exact timing depends on the nature and potential volatility of the prudential data to be aggregated and its criticality to the institution's overall risk profile. In addition, the exact timing depends on the institution-specific frequency of prudential reporting to DNB, both under normal circumstances and in crisis situations.

2.4 Adaptability

Good Practice 17
The institution's processes for aggregating prudential data are flexible and adaptable to meet ad hoc requests (including from the prudential supervisor) and respond to regulatory changes when necessary.

We consider this to be a good practice because the institution generates aggregated prudential data in a timely manner to meet a broad range of regular, on-demand and ad hoc reporting requests, including requests during stress/crisis situations, requests due to changing internal needs and supervisory requests for data.

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