A woman with dark hair in braids, wearing glasses and a red top, is looking intently at a laptop screen. Her hand is resting on her chin, suggesting deep thought or concentration. The background is a blurred office setting.

FR 2052a: report
evolution and key
challenges

Summary

This regulatory reporting brief covers the evolution and challenges of the Complex Institution Liquidity Monitoring Report (FR 2052a).

In brief

- ▶ In recent years, firms had to adapt to changes in the FR 2052a report by reevaluating their operating model and report ownership.
- ▶ We have observed heightened regulatory focus on both the qualitative and quantitative criteria for the FR 2052a report.
- ▶ This article covers the challenges from the 5G-to-6G implementation, key capabilities and operating models, and regulatory focus areas.



The regulatory reporting landscape continues to face challenges as a result of new and evolving regulations and reporting requirements. The Complex Institution Liquidity Monitoring Report (FR 2052a) and its predecessor reports have been capturing critical liquidity data for approximately 15 years. Because 50% to 60% of the report has changed over time, firms that navigated challenges with the displaced fifth-generation (5G) rule again had to revisit the FR 2052a report for the sixth-generation (6G) change implementation. The changes cast a renewed spotlight on manual processes and sourcing challenges and emphasized the need to automate and integrate data and enhance controls. In addition, recent banking volatility has caused an increase in regulatory scrutiny and horizontal examinations.

Over the last several years, firms have heavily invested in FR 2052a data infrastructure, systems and process improvements to deliver this report accurately and efficiently to regulators, as many institutions are required to file on a daily basis. In this brief, we discuss:

- ▶ **Evolution and challenges** – insight into the 5G-to-6G transition of the FR 2052a report (e.g., new requirements, implementation), including the obstacles firms face and ways to address them
- ▶ **Key capabilities and operating model** – industry changes in organizational structure across ownership, roles and responsibilities, governance and critical activities for FR 2052a report production, quality assurance, issue management and training programs
- ▶ **Regulatory focus areas** – horizontal examination observations and common regulatory feedback across qualitative and quantitative areas

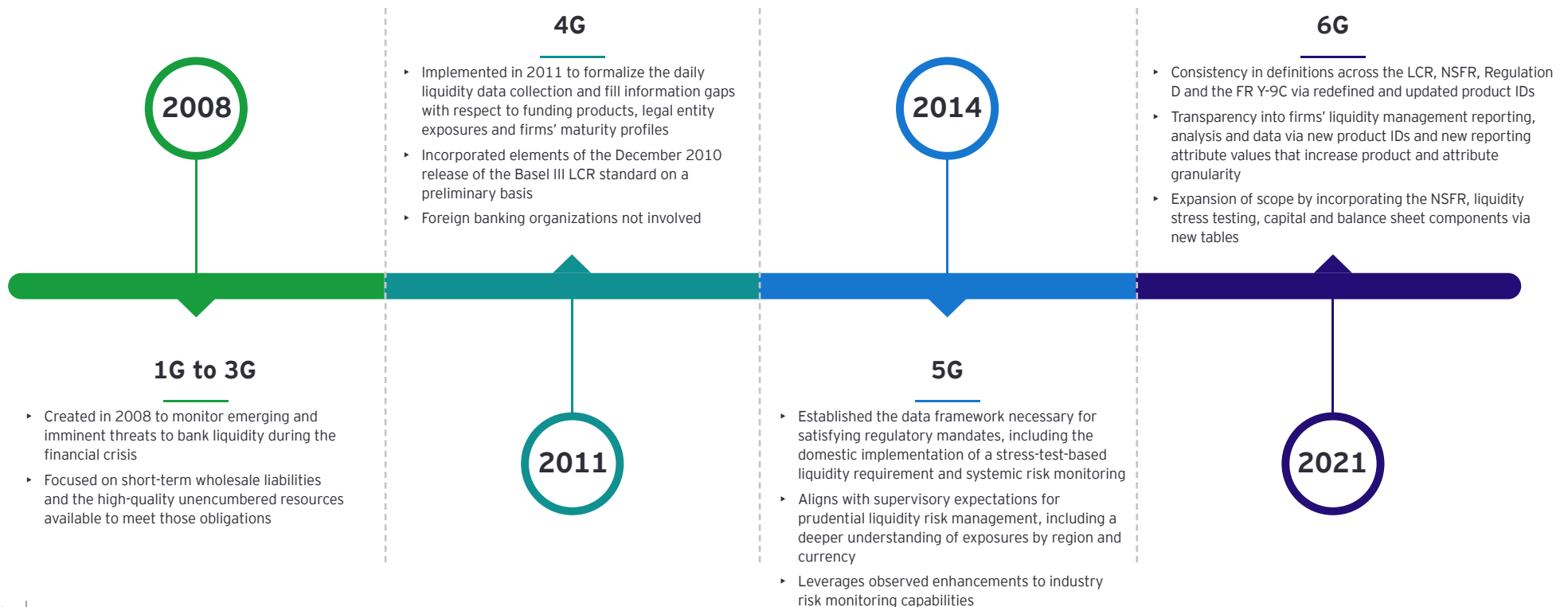
Evolution and challenges

The FR 2052a report is the most granular contractual cash flow regulatory liquidity report required by any regulator. Unlike traditional regulatory reports, the FR 2052a submission presents aggregated data into specific tables categorized by prescribed liquidity attributes, product granularity and reporting dimensions, rather than following a structure of schedules and line items. The report brings transparency into firms' liquidity management reporting, analysis and data via product IDs (PIDs) and reporting attribute values that increase product and attribute granularity.

During the COVID-19 pandemic and market stress period, regulators began asking for FR 2052a data on a more frequent basis to help support bank monitoring during those times. Starting in 2022, firms were subject to the sixth generation of FR 2052a. The evolution from 5G to 6G has driven significant changes to the report. Specifically, filers have had to adapt to reporting three new data tables (Supplemental Balance Sheet, Supplemental Derivatives and Collateral, and Supplemental Liquidity Risk Management) that include 18 new PIDs and an additional 10 new PIDs for existing tables. There have also been instructional changes to enhance consistency across reports, as well as new data

attributes and allowable values. The recent banking failures have highlighted additional incremental risks in the liquidity space, which may result in expansion of FR 2052a reporting participation and more changes in the rule.

The timeline below illustrates the FR 2052a journey, from the report's inception to its current state (6G).



Evolution and challenges

The FR 2052a report requires ongoing maintenance and consistency of definitions across the LCR, NSFR, internal liquidity stress test (ILST), Regulation D and the Systemic Risk Report (FR Y-15) via redefined and updated PIDs. Due to current market conditions, there is heightened attention to and a need for increased transparency into firms' liquidity management reporting and data.

The FR 2052a report has become a highly focused area for regulators amid industry-challenging reporting requirement changes. New FR 2052a reporting requirements established over the past two years have driven changes in fundamental business requirements at institutions. Some of these reporting changes were due to, but are not limited to, adhering to new data requirements (e.g., capital; single-counterparty credit limits; enhanced business logic, policies and procedures; and data controls, governance and timeliness requirements). The FR 2052a report has become the primary source for industry liquidity data and poses ongoing challenges to firms.

The 6G changes aimed to facilitate supervisory monitoring of banking organizations' structural funding, including monitoring compliance with the NSFR rule and other balance sheet metrics. To do so, FR 2052a required changes to align

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with US GAAP balance sheet reporting. The changes aimed to bridge this gap, while relying as much as possible on the preexisting data structure. In addition, 6G required firms to perform a cash flow balance sheet gap analysis and identify a new data source to begin reporting capital, which was not a requirement under the 5G framework. This new requirement presented a challenge in terms of latency for reporting various items, including other assets (such as intangibles, receivables and nonperforming loans) and other nuances, due to limitations in available data granularity. Previously, firms were able to rely solely on upstream data to generate margin; with the introduction of 6G, they needed to start sourcing data from their capital teams to ensure alignment with published risk-weighted assets and other capital reports.



Evolution and challenges



The implementation of these report changes has presented a substantial challenge for firms in the industry, requiring organizations to revamp their reporting processes, incorporate new data points and refine existing models. Compliance intricacies and complexities of reporting requirements have required significant efforts to ensure accurate interpretation and implementation, often requiring supplementary training and additional resources. The sheer volume of changes has placed considerable strain on internal processes and resources. Additionally, the task of sourcing

and validating data has been a formidable challenge, demanding meticulous attention to detail and a robust data management infrastructure. These multifaceted challenges have prompted firms to strategically reevaluate their reporting approaches and operational frameworks within the industry. We have also observed that firms are having challenges with FR 2052a unique attributes field types. For example, firms have encountered challenges across counterparty type (i.e., classifying counterparties into the appropriate types), collateral class (i.e., determining the correct collateral class for each transaction) and maturity optionality

(i.e., determining the appropriate reporting treatment due to the embedded options or call/put features in their financial instruments). To address these challenges, we have seen firms enhance their data management and automation efforts, establish clear classification guidelines, invest in training programs, and build a robust control and review process.

In addition to report changes, firms have experienced challenges adhering to the new product granularity requirements, regulatory expectations and specific product reporting. The key areas are summarized on the next two pages:

Evolution and challenges

	CHALLENGE	MITIGATION STRATEGY
Data granularity and frequency	<p>Reporting requirements call for a higher level of data granularity to provide a comprehensive and detailed view of institutions' reportable data. This means that information must be broken down into more specific components to capture nuanced insights, which has been particularly challenging with derivatives and synthetic prime brokerage products. For example, Synthetic Customer & Firm Positions (PIDs I.S.9, I.S.10, O.S.9 and O.S.10) require firms to have a synthetic source and use methodology that allocates total return swaps to their hedges across all business lines. To properly report certain FR 2052a fields, the synthetic sources and uses must also link to the collateral sources and uses, which requires traceability on how securities are funded and has proven difficult across the industry. In addition, these changes in reporting requirements have led to an increase in the number of institutions now required to file daily, reflecting a growing emphasis in the importance of data quality and risk management. Firms are proactively building capabilities to generate daily FR 2052a reports, even if it is not a requirement for their institution size, as the Federal Reserve may intermittently request more frequent FR 2052a liquidity data during periods of stress.</p>	<p>To effectively address this challenge, we have seen firms emphasize efforts related to high-quality data sourcing and implementing data provider certification processes, such as data contracts or attestations, to ensure data downstream will be fit for purpose in reporting.</p>
Conformance review and controls	<p>Another challenge is conducting a comprehensive conformance review of reportable data, which breaks down reporting requirements and aims to ensure that the methodology used to compile the reported data is in alignment with the reporting requirements. This challenge is primarily due to the sheer volume of information sources and reporting requirements. This can lead to difficulty in aggregating data from various business lines and systems, resulting in potential discrepancies and inaccuracies in reporting the FR 2052a. Evolving regulatory standards and reporting frameworks add another level of complexity, requiring ongoing efforts to ensure alignment and compliance across all facets of data reporting by implementing data controls at different stages of the reporting process. To assess and manage potential risks associated with their counterparties, firms are leveraging know your customer documentation to capture incremental specific information in addition to the classification details gathered from the North American Industry Classification System (NAICS) codes.</p>	<p>To address this challenge, we have seen firms implement comprehensive conformance testing methodologies to monitor and evaluate reporting requirements, ensuring regulatory interpretation alignment, as well as refreshing risk and control matrices to properly monitor and manage risk through internal controls over the process and data.</p>

Evolution and challenges

Specific products

CHALLENGE

Firms can encounter challenges when it comes to accurately and comprehensively reporting on a particular product as it may involve navigating intricate details, ensuring compliance with specific regulations. For example, reporting Carrying Value Adjustment (S.B.6) can prove difficult for institutions without visibility into certain aspects of the data to make adjustments and tie back to the balance sheet.

MITIGATION STRATEGY

To address this challenge, we have seen increased implementation and buildout of comprehensive data dictionaries throughout the industry. This allows for a detailed view of reporting requirements and a breakdown of derivation logic outlined by reporting attributes for relevant PIDs.



Linkage to LCR, NSFR, ILST and other regulatory reports

FR 2052a 6G, published in the spring of 2021, is a data collection process that aligns with the LCR, which takes into account an institution's entire balance sheet, and provides further granularity for the Fed to monitor liquidity risk across firms. Additionally, 6G aligns with the NSFR, a balance sheet metric designed to measure financial institutions' ability to maintain a stable funding profile over one year. Firms tend to generate the LCR using FR 2052a data, and generate and reconcile NSFR data using FR 2052a data. Firms that report LCR and NSFR require additional data model enhancements to comply with FR 2052a reporting:

- ▶ Increased asset category granularity for FR 2052a versus LCR
- ▶ Granular cash flow and maturity reporting through the life of the transactions rather than those within 30 days
- ▶ Populating reported attributes' values for LCR and NSFR by mapping current FR 2052a rows

Some firms use certain (or several) FR 2052a data elements to assist in running ILST scenarios. While there is no clear or "one-to-one" mapping between ILST and FR 2052a data, there are some

report reconciliation and data usage points. FR 2052a and ILST data typically are housed in the same source systems and feed into the same data warehouse(s). For example, some firms use Maturity Bucket FR 2052a data to aid in informing ILST time horizon and forecasting analysis.

FR 2052a is also linked to other regulatory reports, such as the FR Y-9C and the FR Y-15. For example, cash items in process of collection are reported in schedule HC (Consolidated Balance Sheet) of the FR Y-9C, which are also captured in the FR 2052a report under PID I.U.7: Cash Items in the Process of Collection. Similarly, regulators require Schedule G (Short-Term Wholesale Funding Indicator) of the FR Y-15 report to incorporate components of 5G and 6G liquidity reporting using the FR 2052a report as the data source (for firms that have filed this report on a daily basis for one year). Additionally, the FR Y-15 report is facing sweeping changes as a result of the recently proposed Basel III Endgame requirements. If finalized as proposed, the FR Y-15 report will require a significant increase in the frequency and volume of data required to be reported using daily averages. Regulators have made a concerted effort to maintain consistency across regulatory reports, and this is one example where they have linked the liquidity reporting frameworks, including Statutory Liquidity Ratio, with FR Y-15 requirements.



Key capabilities and reporting operating model

Roles and responsibilities

Typically, functional ownership and business-as-usual activities related to the FR 2052a report sit in an organization's treasury function, depending on organizational size and complexity. According to the **EY 2023 Regulatory Reporting Target Operating Model Survey Report**, more than 50% of firms have Treasury owning production of the FR 2052a report, whereas in the past this report was often owned by Controllershship. This indicates that production activities typically sit in risk management, treasury (separate from the liquidity risk management function) or a central finance function (e.g., regulatory reporting). The report owner maintains the production cycle and plays a leading role in the implementation of the FR 2052a operating model. The treasury team serves as a direct partner and key participant in decisions that impact a firm's liquidity profile and FR 2052a reporting. Business units serve as data providers, contributing business requirements and definitions and supporting report validation. However, given frequent organizational structure changes at most banking organizations, there is still no industry-leading model firms follow across the board. Regardless of where functional ownership sits, regulators have made it clear it is imperative to ensure consistent application of common policies, standards, governance and controls over the regulatory reports. Firms that have implemented strong controls on the FR 2052a report have benefited from data reliability and accessibility for liquidity risk management.

Ultimately, it is expected that management will have a consistent and consolidated view and understanding of the firm's policies and standards.

Governance

A robust FR 2052a operating model consists of effective governance, internal controls and independent verification. Robust governance supports an efficient production cycle and FR 2052a submission. Critical to the success of a mature and sustainable governance model are clearly identified roles and responsibilities among stakeholders and an appropriate level of engagement across the organization. Accountability is enforced through an attestation framework that covers the end-to-end FR 2052a production cycle. As governance models are reviewed to ensure adequacy regarding complex businesses, firms should also consider effectiveness of the regulatory reporting operating model structure for future increased regulatory requirements.

Quality assurance

An effective FR 2052a operating model contains verification of FR 2052a data by an independent quality assurance team, with additional reviews conducted by the second and third lines of defense. This component consists of conformance and transaction testing and validates the FR 2052a implementation logic and accuracy through defined and recurring testing processes on a recurring and prioritized basis. When surveyed, nearly 70% of institutions are performing

transaction testing for the FR 2052a report as part of their quality assurance (QA) assessment; moreover, 100% of Large Institution Supervision Coordinating Committee (LISCC) institutions integrate FR 2052a transaction testing into their QA activities. A majority of LISCC firms test 15 or more FR 2052a products (often more than 30) per year, with significant product coverage during baseline testing. Increased product testing is often tied to regulator feedback and known data quality concerns stemming from the FR 2052a 6G implementation. The largest financial institutions (e.g., LISCC firms) have created a FR 2052a/liquidity testing team within their Regulatory Reporting Quality Assurance function. This creates a more specialized testing team that tests liquidity throughout the year, as opposed to annually.

Issue management

Increasingly, clients are implementing an issue management framework to improve and support the efficiency of all regulatory reporting efforts, including FR 2052a operations by creating a process to identify, document, categorize, prioritize and remediate issues.

Training programs

Based on industry observation, organizations are establishing training programs for various roles within regulatory reporting lifecycle. These training programs aim to provide all relevant stakeholders and personnel with a comprehensive understanding of regulatory guidelines, the reporting lifecycle, and their respective roles and responsibilities.

Regulatory focus areas



As regulatory expectations have evolved beyond traditional control assessment and data quality profiling, the industry has seen an increased level of review on the FR 2052a report, especially as it relates to horizontal examinations by regulators. The reviews focus on both qualitative and quantitative areas, such as data quality, governance and accountability, controls and quality assurance. As a result, many firms are increasing their testing activities (e.g., controls, transaction, conformance) and coverage of the FR 2052a report to uncover potential issue areas ahead of the examination.

To ensure standards and requirements are in place for complete and effective validation of data and attributes, regulators expect firms to perform quality assurance activities to test data accuracy and completeness. In anticipation of a regulatory examination, it is important to evaluate firm preparedness through readiness assessments, which would review firms' data governance, data quality reporting processes, internal controls and quality assurance.

Key Ernst & Young LLP (EY US) contacts

To learn more about how the FR 2052a regulatory reporting environment might affect your organization and how EY US teams can help, please contact one of our professionals.

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