How to achieve results in this changing environment

In the current environment with all new regulation, most banks focus on implementation of new regulation before the deadlines. As a result the closing & reporting process has become more complicated due to all short term solutions. The expectation is that the ECB will require to achieve the delivery of information in a shorter period.

Short term

As part of each project the impact of the new regulation including the manual workarounds on the closing & reporting process needs to be assessed regarding:

- Timelines
- Necessary resources including required training
- Dependencies with other changes in the closing & reporting process

All changes have to be included in the closing calendar and centrally monitored.

Medium term versus long term

Most banks are currently involved in long term Finance & Risk transformation projects. These transformation projects will result in large improvements in the closing & reporting process. However most horizons of these transformation projects are usually longer than five years. In the meanwhile the closing & reporting processes has to be controllable and the remittance dates of the ECB have to be achieved.

Therefore it is necessary to execute optimisation activities for the closing & reporting process in parallel to all regulatory projects Aside from the new regulations and ECB /EBA reporting requirements, it is expected that the ECB/EBA will require reporting information under shorter timelines in the near future. These stricter demands will impact the closing and reporting process before the majority of long-term changes are implemented.

Therefore meanwhile an upgrade of the closing & reporting process parallel to all regulatory system and data alignment projects will be necessary in order to maintain or improve your control over your reporting results.

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Smartclose

Improving your closing & reporting process

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pwc

Increased pressure on reporting in the FS industry

Financial institutions are under pressure from business-unit leaders, investors, board of directors and their regulators to deliver improved and more transparent data. Many of these pressures are driven by regulatory changes that emerged after the most recent financial crisis. Banks are required to include a wider range of information at a more granular level with both accounting and risk-based views. In addition financial institutions also face pressure to reduce costs while making better strategic decisions by pricing for risk in an environment constrained by internal factors (such as liquidity and capital capacity) and external factors (such as regulatory activism).

Current challenges:

- **Manual workarounds**: the new regulatory requirements require more granular data. In general, the timelines for implementation are too short for a sustainable implementation of these requirements. In order to meet the deadlines manual workarounds are implemented. All these manual workarounds result in less time for analyzing of the figures in the month-end closing.
- **Integration of Finance & Risk**: to fulfill the new regulatory demand, close coordination between the risk and finance function is required. Unfortunately, most risk and finance functions have evolved separately – with distinct languages (including definitions), operating models and technology. In some cases, the two functions perform duplicate activities. In addition, data comes from multiple sources.
- **Supervision by the ECB:** since the beginning of November 2014 the significant banks are under supervision of the ECB. The new approach of the SREP process will result in more ad hoc requests of granular data.
- **New regulations**: the regulator requirements are not final yet. In the next years additional regulation will be developed and banks have to comply with this regulation. Examples are BCBS 239, AnaCredit and Finrep 2.0.

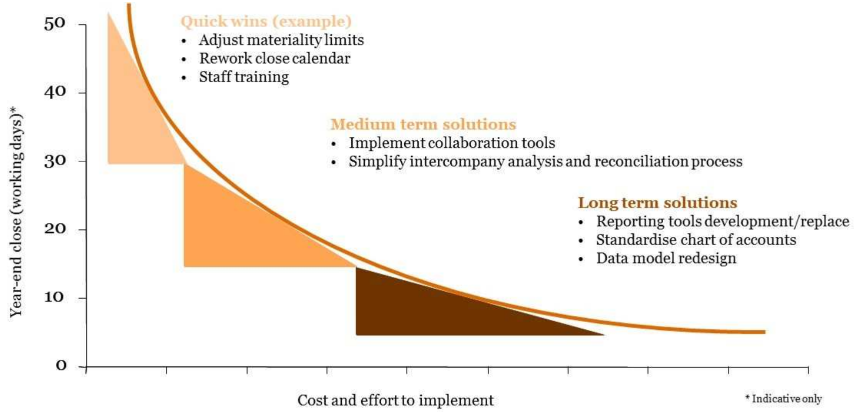
How to improve your closing & reporting process?

The closing & reporting process is a balance between time, costs and quality. Objectives set for the closing process on the different aspects determine the level of simplification and standardization that needs to be applied. Typical objectives for the closing & reporting are:

- Decrease monthly/ quarterly/ year-end closing cycle by XX days
- Decrease number of group adjustments
- Central monitoring of closing process
- Standardize procedures (i.e. accrual / provision calculations)
- Reduce time spent (in FTEs) on closing cycle by optimizing processes (reduction and simplification of activities)
- Automation (incl. controls)

After setting the ambition for improving your closing & reporting process by means of measurable objectives and benefits a current state (As-is) analysis of your closing and reporting is executed to determine the baseline.

As a first step of the As-is assessment PwC uses a PwC diagnostic tool to create insight in the current state and maturity of the closing & reporting process including areas for optimisation. Based on the objective(s) and the outcomes of the As-is analysis, a roadmap for improvement ~~can be~~ is defined and initiated towards a Smarter Closing and reporting process.



The optimisation activities can be clustered in the components:

- Data
- Process
- Systems
- People

In most projects the focus is on improving data and systems. These components are the most difficult and time consuming components to achieve change. Optimisation of the process and people component be achieved (relatively) more easy.

All optimisation activities of the closing & reporting process contribute to standardizing and harmonization activities. All non value added activities such as adjustments, manual reconciliations and uploading of information have to be reduced as much as possible.

Recent PwC research indicates that companies that excel in quality and speed of reporting have the following characteristics

1. Have a strong focus on **data quality** (lack of quality is a major drag on speed)
2. Have **standardised and integrated** corporate **data model** including chart of accounts
3. Have **standardised and integrated processes** for closing and reporting
4. Exploit **common ERP* and EPM** systems** to automate processing, integration (70%+ between GL and reporting systems), controls and process management
5. Operate a **single instance ERP solution** in a shared service environment
6. Have **clear ownership and responsibility** for accounting quality, reconciliation, analysis and reporting across each function contributing to the closing and reporting process
7. **Proactively train, coach and share knowledge** and best practices across the whole closing and reporting process
8. Have clear **end to end ownership** of the close process, which ensures the close is carefully planned and managed across the organisation and includes standard measures of performance
9. Have a disciplined approach to **managing and controlling changes** to the close process and all policies and procedures are aligned and willingly enforced
10. Focus on continual improvement and change management, supported by **executive level sponsorship** from the CFO and CEO