FINOS RegTech Council

Delivering open-source RegTech in time to comply
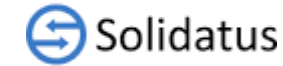
ESG Hackathon Briefing

19 October 2023

8 November prep call invitations 19 October

MEETING NOTICES:

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▶ FINOS meetings involve participation by industry competitors, and it is the intention of FINOS and the Linux Foundation to conduct all of its activities in accordance with applicable antitrust and competition laws. It is therefore extremely important that attendees adhere to meeting agendas, and be aware of, and not participate in, any activities that are prohibited under applicable US state, federal or foreign antitrust and competition laws. Please contact legal@finos.org with any questions.

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FINOS | RTC ESG Hackathon briefing

1. Introductions

2. ESG problem statement

3. Sprint objectives/ approach

4. 8 Nov agenda

5. Next steps

We will take questions as we go: please raise your hand and introduce yourself

RegTech Council: Enabled by Open Source and Open Collaboration

- **The Linux Foundation** focuses on open source and open collaboration for both cross-industry technologies (e.g. Linux, AI, CNCF) and vertical industries (e.g. Academy Software Foundation, OS-Climate, FINOS).
- It brings the same benefits to both horizontal and vertical projects - open collaboration; open, reusable code; mutualized development and benefit of multiple industry experts working on the same problems together;
- Its standards that are adopted within the global standards body organizations (e.g. ISO)

- **FINOS** hosts participants across the **entire FSI community** (sell side, buy side, service providers, fintechs, regtechs, nonprofits).
- Firms contribute and collaborate under a **Community License Agreement** (CLA), which ensures compliance and avoids competitive behaviors.
- FINOS hosts **software and standards projects** (e.g. FDC3, CDM). Key benefit - standards are mapped to executable code, thanks to active engagement of the community. This makes the open source assets highly reusable, with significantly reduced development time.
- FSI firms are directly involved in development of projects and standards, so commitment to adoption is high, integration process is simplified, and solutions are pre-vetted by the regulators' target audience.
- Active participants and contributors to FINOS projects are growing steadily every year (2,000+ contributors).
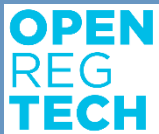
- FINOS's **Open RegTech Strategic Initiative** focuses on innovation in RegTech through open source.
- This initiative brings together industry players within such working groups as the Open RegTech SIG, Financial Objects SIG, and projects such as the CDM, Morphir, Legend, CFI (Compliant Financial Infrastructure), etc.
- The Open RegTech SIG is a working group interested in innovation, collaboration, and mutualized implementation of projects that can directly help with addressing regulatory demands and includes the industry trade associations.
- Several projects/tools are already available for use, which could or should also be explored by the regulators' tech organizations as well.

- **RegTech Council** is a very specific collaboration which will lead to concrete projects that advance common tools available for adoption, targeting specific upcoming regulations.
- A coordinated, collaborative, non-competitive cohort that can engage on rationalizing existing standards and recommending pragmatic ways to advance common standards across the industry globally.

Summary FINOS RegTech SIG Opportunities – Pre-1 November targets

What: OPEN SOURCE REG DATA

Regulatory data strategy: US FDTA; UK TDC; EU: ESMA, ECB, EBA; APRA

Pre-Trade surveillance	Post-Trade reporting	Clearing & Settlement	Risk management

PRE-TRADE SURVEILLANCE

Fixed income market surveillance

DRR DEPLOYMENT

Derivatives & ETD

Repo/ Sec Lending

UK / EU DERIVATIVES T+1

UK T+1: CDM for clearing and settlement of derivatives in UK/ EU

ESG DATA INDUSTRIALIZATION

Data model for SFDR and CSRD to enable auditability of data production/ ingestion and APIs to enable data sharing
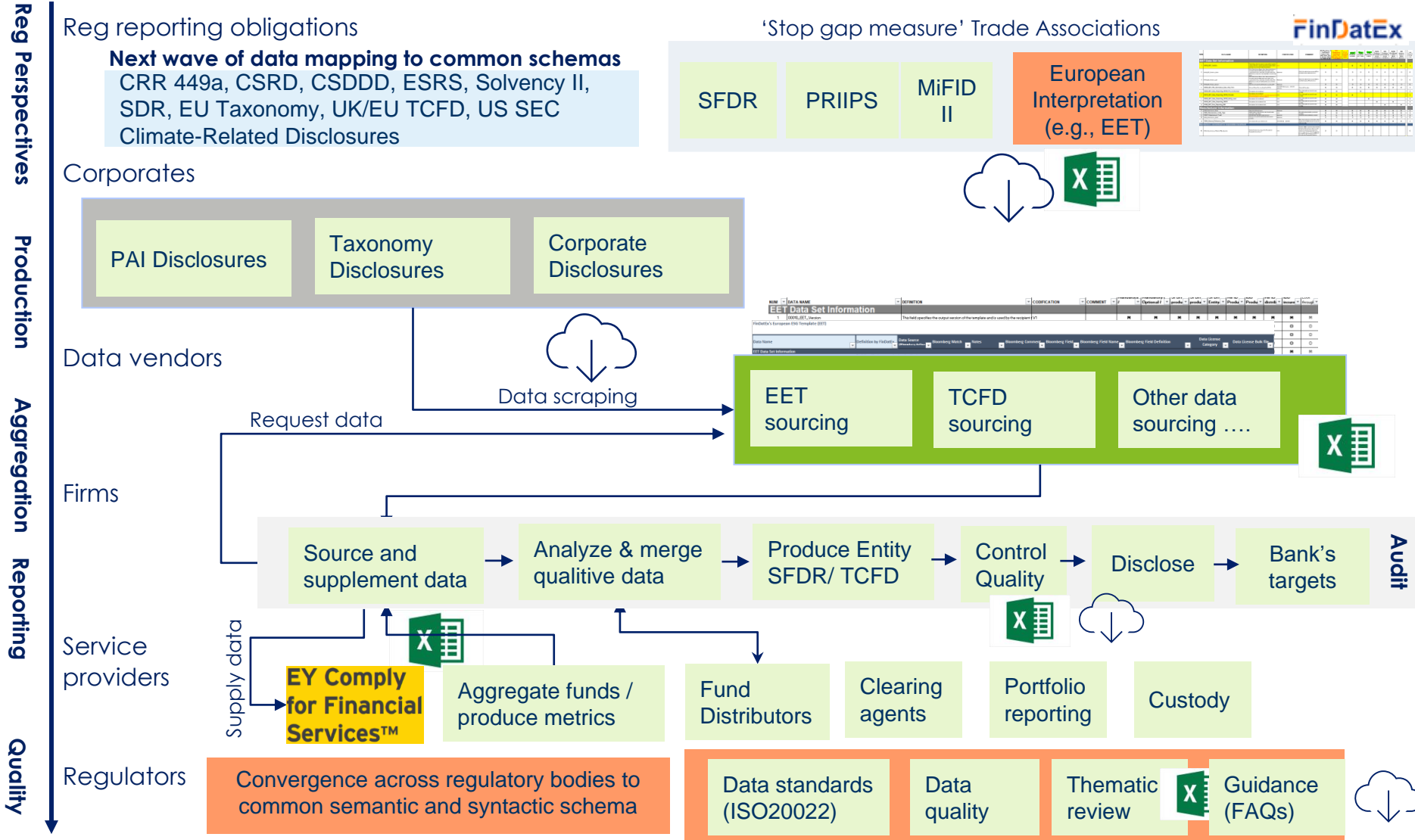
Why:

- Business event standards across front office / 2LOD controls
- Gaps between trade tickets and CDE definitions
- Best execution / RegBI / CTP
- Gap to understanding them by asset class

- Long delayed US rules expected Q323
- New UK technical standards
- Absence of CDEs
- Scaling DRR approach
- Be ready for MiFIR/ SFTR refits

- UK to follow US move to T+1
- EU / APAC coordination required
- EU CSDR CSDR late settlement penalties
- Huge operational efficiency

- 2024 reporting industrialisation for firms and corporates
- Supply chain reliant on proven data quality
- Standard wars and monopolistic rents unwelcome
- Change is certain: Some consultations in progress, standards being finalized – US late to party

ESG data production opportunities from common ESG data definitions and formats

Reg Perspectives

Reg reporting obligations

Next wave of data mapping to common schemas

CRR 449a, CSRD, CSDDD, ESRS, Solvency II, SDR, EU Taxonomy, UK/EU TCFD, US SEC Climate-Related Disclosures

'Stop gap measure' Trade Associations

FinDatEx

- SFDR
- PRIIPS
- MiFID II
- European Interpretation (e.g., EET)

Corporates

- PAI Disclosures
- Taxonomy Disclosures
- Corporate Disclosures

Production

Data vendors

Data scraping

- EET sourcing
- TCFD sourcing
- Other data sourcing ….

Aggregation

Request data

Firms

Reporting

- Source and supplement data
- Analyze & merge qualitive data
- Produce Entity SFDR/ TCFD
- Control Quality
- Disclose
- Bank's targets

Audit

Service providers

Supply data

EY Comply for Financial Services™

- Aggregate funds / produce metrics
- Fund Distributors
- Clearing agents
- Portfolio reporting
- Custody

Quality

Regulators

- Convergence across regulatory bodies to common semantic and syntactic schema
- Data standards (ISO20022)
- Data quality
- Thematic review
- Guidance (FAQs)

Data Opportunities

- Alignment of data interpretation x-reg (Venn diagrams)
- Audit trail/ lineage to text
- 10 year change control

- Disclosure alignment to regulatory obligations
- Clarity for data vendors

- Clarity of data estimation method (e.g., PCAF score at attribute level)
- Mapping of proprietary data to standardised keys

- Aggregation of product-level
- Corporate/fund level disclosures

- Lineage from data producers through to disclosures
- Audit trail/ lineage to text

- Data request formats
- Data quality standards/ training

- Change management/ audit trail / version control
- Policy refinement and guidance

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ESG CSRD/SFDR Hackathon Overview 8 November

CHALLENGE: To enable banks to consume 3rd party ESG data for the purposes of EU regulatory reporting more efficiently through a shared data model and translation tools.

▶ Banks agree an opensource schema to map data inputs to regulatory outputs

▶ Tooling to reduce mapping risk between reporting schema

▶ Data lineage between producers and consumers which meets quality measures

HACKATHON OBJECTIVE: The FINOS RegTech Council (RTC) will bring banks and their suppliers together under the safety of a CLA to deliver a working prototype for ESG regulatory reporting requirements

LOGISTICS: Goldman Sachs will host a physical room for the **1 day** on **8 November.** Remote participation is possible, but we will work to a UK workday.

1. FINOS schema building blocks
    – Reference data model for NFRD, CSRD and SFDR use cases (being agreed)
    – Building on EET template / Future XBRL schema and integrating with vendor templates
    – Reference data model for normalization between reports and vendor templates

2. Mapping FINOS schema to inputs (data vendors) and outputs (reg reports)
    – Reduce mapping risk between semantic definitions and syntactic variability
    – Develop a method to validate inputs to reference calculations
    – Link back to regulatory obligations / quality obligations (see below)

3. Meeting quality obligations
    – Fulfilling PCAF quality control requirements (what's missing, input data quality scoring)
    – Alignment with service providers (e.g., fund distributors, clearing, custody)
    – Meeting new BCBS 239 data lineage requirements
    – Audit

PROJECT BENEFITS: Members will reduce cost through mutualized efforts, reduce operational risk of compliance and achieve commercially viable results in a better, faster, safer and lower-cost manner. Those at the table will:

▶ Opensource Data model/ definitions for NFRD, CSRD and SFDR reports

▶ Shape the technical approach and methodology

▶ Refine objectives and plans for 2024

KEY STAKEHOLDERS: FINOS offers a 'lab' environment for participants to collaborate in private and can expand to approach to be more public. JWG is interviewing stakeholders now to craft the right approach.

▶ <u>Firms and corporates</u>: Investment advisors, Sell-side, CSRD scope corporates

▶ <u>Standards</u>: XBRL, PCAF, OS SFT, FinDatEx, OS-Climate

▶ <u>Supply chain</u>: Data providers, Data Utilities like NZCDU, Dataland, BNP solutions

INITIAL HACKATHON SUCCESS CRITERIA:

▶ Develop a common understanding of cross-reg data requirements

▶ Establish opensource standard modelling method

▶ Establish reference API approach to data sharing

▶ Clarify requirements for metadata, metrics and traceability

▶ Provide input to plan & milestones for 2024

FINOS | RTC FINOS ESG DATA INDUSTRIALIZATION (AN RTC WG)

ESG CSRD/SFDR Hackathon 8 November Agenda - DRAFT	Outcomes	
Intro		
RegTech Council ESG Hackathon welcome & Housekeeping	• RTC and participant introductions • Chatham house/ Anticompetition • Virtual/ Physical protocol	9:00
Briefing		
Use case description	• NFRD, CSRD and SFDR Reporting obligations • FINOS schema data inputs and report outputs • Quality / lineage obligations	
Tooling and outcomes	• Introduction of technical resources (Legend, XBRL schema Data, Text)	10:00
Team		
Team 1 – Sprint 1 / Team 2 – Sprint 1	• Team formation and lead nomination • Production of FINOS data schema (multiple?) • Progress check prep	
Progress check	• Recap of status and deliverable expectations	13:00
Team 1 – Sprint 2 / Team 2 – Sprint 2	• Production of deliverables • Delivery to judges • Recap of methods used & lessons learnt	
Evaluation		
Presentations	• 5-minute recap of achievements	16:00
Review panel comment	• Feedback from panel on outcomes • Lessons learnt and implications for 2024 next steps	
End	• Trip to the local pub!	17:00

Next steps

1. <u>Registrations</u>. Nominate participants ASAP and no later than 31 October

2. <u>Use cases</u>. Ross, Dunstan and other SMEs to firm up use cases and background materials to be circulated by 1 Nov

3. <u>Toolsets</u>. Familiarize yourself with toolsets – RTC to circulate materials

   1. Legend – data model - FINOS sign-up

   2. Solidatus – lineage – TBC / RegDelta – texts - TBC

   3. Data – Snowflake w. ESG datasets – TBC

   4. Other?

4. <u>Housekeeping</u>:

   1. Security registration for plumtree court required by 6 November

   2. Bring your own laptops – wifi will be provided

   3. Zoom will be provided on the day

   4. Lunch will be provided

Contact:

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- Github: https://github.com/finos/open-regtech-sig/discussions