


**KAIZEN<sup>®</sup>  
REPORTING**

**Product name:**  
ReportShield™

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-  Regions of operation: UK, EU, US, Asia, Canada

**Key Employees**


**Dario Crispini**  
CEO & Founder



**Ian Rennie**  
Managing Director

Value Chain: **Regulatory Reporting**

Subsectors:



**Trade & Transaction Reporting, Training**

Regulation/Legislation: **MiFID II, DFA, EMIR, SFTR, MAS, HKMA, ASIC, Canada**


**OFFERING**

By combining regulatory expertise with advanced technology Kaizen has created its ReportShield™ multi-award winning assurance services. The services give firms peace of mind by helping them improve the quality and accuracy of their reporting and allowing them to fulfil their regulatory reporting obligations with confidence.


**PROBLEM BEING SOLVED**

The quality of regulatory reporting data is an industry-wide problem that causes challenges for investment firms and regulators alike. ReportShield™ services are designed to address each element the regulators look at when it comes to reporting quality including accuracy, completeness and governance. They act as a shield against the regulator providing the controls investment firms need to effectively meet their reporting obligations and manage their reporting risk.


**TECHNOLOGY**

Kaizen consists of a team of regulatory specialists and data experts who are on a mission to improve the quality and accuracy of trade and transaction reporting in the financial services industry. The team has developed a unique testing platform that delivers full transparency of a firm's reporting quality. Kaizen's all-encompassing testing approach is tailored to each firm individually. Independent checking means that all regulatory decisions are stress tested against Kaizen's own expertise in the regulations.

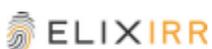

**PRODUCT DESCRIPTION**

**ReportShield™ offers customers five key services:**

- Accuracy testing:** Utilising our multi-dimensional testing methodology, accuracy testing fully assesses the quality of data reported to the regulator
- Advanced regulatory reconciliations:** Our comprehensive end-to-end reconciliation service tests for reporting completeness by comparing a firm's trading systems data to the data reported to the regulator
- Reference data testing:** Tests a firm's full population of counterparty and instrument reference data including LEIs
- Control Framework:** A risk and accountability framework tailored to each firm's internal arrangements
- Training on reporting obligations:** Our core training courses for EMIR, MiFIR and SFTR are developed and delivered by our regulatory experts

**ReportShield™ testing is innovative because:**

- It tests 100% of reports that a firm submits to the regulator
- It identifies all reporting errors at source
- It provides full visibility of test coverage
- It allows full traceability of any identified issues so they can be fixed
- It delivers detailed metrics on reporting quality


**PARTNERSHIPS**


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# Quality Assurance in Regulatory Reporting

*Kaizen Reporting began life five years ago and in that time it has become a leader in ensuring investment firms meet their trade and transaction reporting obligations.*



The credit crunch changed everything. As markets around the world crashed between 2007 and 2009, lawmakers and regulators realised there needed to be some significant changes in order to restore financial stability. There was a renewed focus on the regulations required to prevent another financial meltdown and another Lehman Brothers.

The result was that governments around the world implemented new laws to ensure the mismanagement, misselling and misuse of money would not be repeated, or at least reduce the probability of an encore. It was time for what then-president Barack Obama referred to as a “sweeping overhaul of the financial regulatory system”.

The result was the rise of laws like the US Dodd-Frank act, the EU’s Markets in Financial Instruments Directive (MiFID) and the European Market Infrastructure Regulation (EMIR) the UK’s Senior Managers & Certification Regime (SM&CR) – laws reminding executives that they were not above reproach for failing to live up to the standard expected of them.

As the regulatory pressure increased, it gave rise to the RegTech industry.

“The regulations are evolving and investment firms have to evolve in response to regulations,” says Dario Crispini, CEO and founder of Kaizen Reporting, the London-based RegTech growth company aimed at helping banks, asset manager, brokers and hedge funds meet their regulatory reporting obligations. “The FinTech community needed to evolve to be able to support those firms in the way that they needed it.”

Kaizen Reporting has stepped up to meet this demand for innovative solutions that make it easier for financial services firms to meet their new and complex reporting obligations. “What we’re doing at Kaizen is we’re looking to provide the transparency level that SM&CR and senior executives need to see, to see what’s happening in terms of accuracy and controls around their firm’s reporting,” Crispini says.

Particularly, Kaizen endeavours to make it easier for firms to meet the new reporting requirements.

This is help these firms sorely need. Why? Because the risk of failure, as Crispini puts it, is bigger than simply being slapped with a fine. “What really happens to most firms is that if they get it wrong then, all of a sudden, the regulator starts asking questions, [sending] their management team and their operational teams into a tailspin,” Crispini says.

Businesses who find themselves in regulators’ cross-hairs must devote a huge amount of valuable time and resources to fixing their reporting issues – even for the reports they’ve already submitted – and to upgrade their systems to ensure they avoid falling foul of future regulatory setbacks. Important as these efforts are, they represent time and money not spent on scaling their business, leaving them at risk of becoming a shrinking dot in their competitors’ rear-view mirrors. “What we’re saying to firms is that the sooner you identify what’s wrong and fix it, you’re going to avoid all these other costs and distractions,” Crispini continues.

The mistake many firms make is that they attempt to solve the issues in-house. "Firms are getting it wrong because they're trying to do too much themselves," Crispini says. "The analogy I have is that if you, if you've got a pain in your side, you will go to a doctor or surgeon. You don't run out and go to the internet and suddenly start to train as a doctor to start self-examining. But that's essentially what firms do with their reporting. ."

And that is where Kaizen comes in. "We've been around for five years now," says Crispini. He explains that the company's launch was motivated by seeing too many firms enlist the services of consultancies that were process-driven but failed to look at the data, citing US statistician William Edwards Deming who said, "In God we trust, all others bring data."

Kaizen has developed a system of testing regulatory reporting compliance by bringing three essential components together: advanced data analytics and data engineering, a deep knowledge of the regulatory requirements and of the market.

"Before us, nobody tested the way we do," Crispini says. Kaizen's system empowers financial firms to determine where they fail to live up to regulatory standards. "Have we severed an artery or did we have a paper cut?" Crispini quips, saying, Kaizen's job is to "get out the microscope and inspect the data at the most granular level and be able to point to where there are issues that firms need to address and establish the overall scale of the problem."

Moreover, he is confident Kaizen's methodology can find any reporting issue and that, in case the firm finds nothing, that its clients can be confident in the findings or the lack thereof.

Before Kaizen, most firms were doing quality assurance testing in-house or using consultancies who did not use thorough methods of data testing. For instance, he says that the use of sampling, the method of taking a small sample of the data and subsequently extrapolating conclusions from it, does not work as it is often non-randomised. "Sample sizes are way too small to have any confidence in the ability to extend the results to the whole population," Crispini says.

When sampling fails, some may resort to checking data on a scenario basis. However, Crispini argues that this too comes with limitations.

"What they're effectively doing is they're just stratifying their sample to have a very, very small strata and they will test against that," he explains. "But what happens if you stratified your population, your sample size increases quite considerably [is that] the degree of the number of scenarios they fit [becomes smaller, meaning] that if you've effectively stratified your sample, you need to test virtually the entire population. You don't get any savings on that basis."

Ultimately, Crispini argues both approaches leave businesses unable to defend their approach and their results when regulators come knocking. "That exposes the firm and exposes the senior management from an SM&CR angle as well," he continues. "Our whole approach has been designed around keeping the firm confident in their data and reporting and protecting the firm and the individual senior management from any regulatory censure of any sort."

He adds that as firms become better at living up to the reporting requirements, regulators will be asking more of them and the data quality they provide. Firms also have to recognise that regulations change over time, meaning businesses must have a clear understanding what the different changes mean. While the regulators could certainly do a better job of explaining these changes, Crispini admits that this creates an opportunity for companies like Kaizen Reporting. "We are able to step into that breach and help firms along that journey," Crispini says.

Not only are existing laws becoming trickier to comply with, but 2020 will also see new laws snap into action, adding to the regulatory pressure. The most significant of these being the Securities Financing Transactions Regulation which will come into force in a number of phases over the course of the year.

"The demands that regulators have placed has resulted in a significant step change in the cost internally within firms for reporting, but with proper design and feedback mechanisms, such as Kaizen, [new regulations] can be the path to a kind of a lower cost environment [that can] also bring about other cost savings," Crispini concludes. "Ultimately, I'm positive about the whole, it is going to enable firms to be more efficient as a result of the pressures and the need for better control over their data. You can't make a diamond without pressure."

# Transforming transaction reporting data quality at a Tier 1 investment bank

Kaizen Reporting provides financial institutions with specialist regulatory reporting solutions through its multi-award winning ReportShield™ services. MiFID transaction reporting has proved extremely challenging for firms and regulatory pressure is increasing. Numerous firms have been penalised for failing to report effectively, notwithstanding the significant costs of remediating the problems. Senior management are increasingly exposed to regulatory risks under the Senior Managers and Certification Regime.

## The challenge

A Tier 1 investment bank operating a complex trading book came under scrutiny after the UK regulator, the Financial Conduct Authority (FCA), identified issues with its transaction reporting. Following several reviews by other providers over nine months, the FCA raised concerns that the issues it had originally identified were still not resolved and the risk of a fine was high.

## How we solved it

Kaizen was appointed to provide ongoing accuracy testing and reconciliations of the firm’s transaction reports with its ReportShield™ Accuracy Testing and Advanced Regulatory Reconciliation services. Kaizen’s all-encompassing testing approach is tailored to each firm. Independent checking means that all regulatory decisions are stress tested against Kaizen’s own understanding of the regulations.

Within one month, Kaizen had completed testing on all reported trades and transactions. For the first time, the client was able to:

- Quantify the scale of reporting errors and have full visibility of its reporting quality
- Evaluate the amount of over-reporting and duplicate reporting
- Identify the amount of under-reporting.

A full risk assessment was provided, outlining all identified issues as well as extensive management information. With the roll-out of the reconciliation services across all primary trading systems, full transparency has been achieved for the firm’s reporting from a front-to-back perspective. As with all firms, the review required tailoring of the testing across multiple trading platforms.

## Outcome

The firm’s senior management now have full transparency of all reporting issues and have a high level of confidence in their ability to manage their reporting effectively and to address any identified problems. The FCA’s confidence in the bank’s controls over its reporting has been rebuilt.

	Before Kaizen	After Kaizen
Errors identified	✘ 9 errors and 6 observations	✔ Over 70 distinct reporting errors
Over-reporting	? Rough estimates	✔ Fully quantified
Under-reporting	? Unable to quantify	✔ Fully quantified
Testing coverage – fields	✘ Only a dozen fields	✔ 100% of reporting fields tested
Testing coverage – data	✘ Sample testing one week	✔ 100% of all trades tested
Timescale	🕒 Nine months	🕒 One month