



## NYDFS announces a “first-of-its-kind” initiative to prototype real-time regulatory reporting for virtual currency firms under its supervision

On October 15, 2020, the New York State Department of Financial Services (NYDFS) announced its first-ever tech sprint competition to access real-time data on the virtual currency firms they supervise.<sup>1</sup> NYDFS will partner with the Conference of State Bank Supervisors (CSBS) to produce the digital regulatory reporting tech sprint as regulators continue building momentum for using high-frequency data to improve their real-time risk management capabilities.<sup>2</sup> Regulators are seeing the need for a more timely supervisory response to the ongoing pandemic and the broader digital transformation occurring across the financial system.

As regulators are demanding more data from the firms they regulate, they are also transforming by using new technology to improve their analytical capabilities to conduct surveillance and financial markets monitoring.<sup>3</sup> A recent report published by the Financial Stability Board (FSB) finds that supervisory and regulatory technology “could have important benefits for financial stability” as authorities are now able to collect, store, and analyze large data sets more efficiently and effectively.<sup>4</sup> These granular insights should help to “generate real-time indicators of risk to support forward-looking, judgement-based, supervision and policymaking.”<sup>5</sup>

In the announcement, NYDFS Superintendent Linda Lacewell said, “the future of financial regulation is digital and needs to happen now.”<sup>6</sup> By selecting virtual currency firms as the industry focus for the tech sprint, NYDFS is recognizing that virtual currency firms have many of the same risks and concerns as other financial institutions.

### Reflects global trend of regulators employing new ways to improve supervision and encourage responsible innovation

The digital regulatory reporting tech sprint has drawn interest not only from virtual currency firms but also from the Commodity Futures Trading Commission (CFTC), Securities and Exchange Commission (SEC), Federal Reserve Board (FRB), Federal Reserve Banks of New York and San Francisco, Internal Revenue Service (IRS), Department of Justice (DOJ), Financial Crimes Enforcement Network (FinCen), and financial regulators in Israel and France.<sup>7</sup> This broad interest from government speaks to the growing need for using real-time data to spot trends, disruptions, and risks before they threaten the safety and soundness of a financial institution or financial stability overall.

Many banking and securities regulatory agencies in the US have been working closely with the financial industry, especially fintech and virtual currency firms, to better modernize the financial system’s monitoring and surveillance capabilities, including using high-frequency data to make more informed decisions about emerging risks that can ultimately be used to create smarter regulation.

As a recent example, the Federal Deposit Insurance Corporation (FDIC) announced in June 2020 the launch of a competition to modernize bank regulatory reporting, with a focus on community

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banks, inviting 20 technology firms from across the country to develop rapid prototypes and innovative solutions to provide the agency with more timely insights into emerging risks in the banking system.<sup>8</sup>

As of November 2020, nearly every US financial regulator has a standalone Office of Innovation, beginning with the OCC, which launched its Innovation Office in January 2017.<sup>9</sup> The aims and initiatives of these innovation offices compare favorably to and are often aligned with their global financial regulatory counterparts, particularly in Europe and Asia.<sup>10</sup>

### Reflects growing supervisory trend toward using high-frequency data for real-time risk management

Traditionally, regulatory reports have been highly defined, aggregated data that are compiled and submitted with a significant time lag. New and changed reporting requirements took substantial time to implement (i.e., between six months to one year). In the decade following the global financial crisis, data requirements have become more granular (e.g., at the product and transaction level) and often required to be submitted on a more real-time basis (e.g., liquidity data reported T+1). The need for more frequent and real-time data to monitor financial markets and banking conditions during the pandemic has further accelerated this trend.

The pilots being conducted at regulatory bodies like the NYDFS and FDIC are designing capabilities to get data quickly and flexibly

as new data needs are identified. Innovations uncovered during these pilots could provide tools to regulators to increase their ability to identify emerging risks, especially during times of stress without the current time lags. Creating new ways of acquiring data could result in significant cost and burden reductions associated with the compilation of regulatory data. The success of these pilots will likely be impacted by the interoperability between regulatory systems and the data repositories residing at financial institutions. Also, reliance on clear data definitions across regulatory bodies and financial institutions is critical for success.

### What's next?

Regulators like NYDFS, FDIC, and others globally are responding to observed changes in the marketplace as they continue to keep pace with innovation, including by experimenting with how applications of new technology can be deployed to carry out their supervisory missions and improve reporting efficiencies.

Bridging the gap between real-time data reporting, analysis, and risk management will be essential to how financial institutions and their regulators operate together, both in times of crises and beyond.

This is part of an ongoing series on how technology and innovation are shaping financial regulatory initiatives and the impact these developments may have on the future of the banking and financial services industries.

## Contacts

### Avi Sinha

Principal | Government & Public Services  
Deloitte Consulting LLP

### Ken Lamar

Independent Senior Advisor to Deloitte & Touche LLP

### Deloitte Center for Regulatory Strategy

### Irena Gecas-McCarthy

FSI Director, Deloitte Center for Regulatory Strategy,  
Americas Principal | Deloitte Risk & Financial Advisory  
Deloitte & Touche LLP

### Austin Tuell

Manager | Deloitte Risk & Financial Advisory  
Deloitte & Touche LLP

### Kyle Cooke

Senior Consultant | Deloitte Risk & Financial Advisory  
Deloitte & Touche LLP

## Endnotes

1. New York Department of Financial Services (NYDFS), “**Superintendent Lacewell announces DFS to host first-ever techsprint to advance the department’s regulator of the future vision**,” accessed on November 10, 2020.
2. Ibid.
3. Financial Stability Board (FSB), “**The Use of Supervisory and Regulatory Technology by Authorities and Regulated Institutions**,” accessed on November 11, 2020.
4. Ibid.
5. Ibid.
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7. Deloitte internal analysis of supervisory techsprints.
8. Federal Deposit Insurance Corporation (FDIC), “**FDIC Launches Competition to Modernize Bank Financial Reporting**,” accessed on November 10, 2020.
9. Deloitte, “**Data transformation: A sign of things to come, the FDIC’s push into high-frequency data paves the way for real-time risk management**,” accessed on November 11, 2020.
10. Deloitte internal analysis of global financial regulatory and supervisory landscape.



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