BCBS 239 and Risk Data Aggregation and Risk Reporting (RDARR) – the gloves are off

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01.

Supervisory expectations address significant gaps

For further information click here: [Public consultation on the Guide on effective risk data aggregation and risk reporting]

In a recently published consultation paper[1], the ECB challenges the banking industry in the context of risk data aggregation and risk reporting (RDARR). On top of much-needed clarity on expectations for RDARR implementation, it first and foremost proposes a wide scope of applicability and exerts regulatory pressure on implementation projects. ECB demands that RDARR be treated as a key priority and raises the prospect of capital add-ons in case of material breaches.

Based on the effort of the industry so far, we expect this paper to be a major uptick for most affected banks in terms of priority and resources dedicated to data management programs. Significant focus areas in that respect are

- Explicit **senior management responsibilities**: We observe that the regulator's request of direct involvement of the management body in data quality requirements and monitoring has a far-reaching strategic impact. The DQ impact of decision relevant KPIs need to be consistently defined in management reports to enable a comprehensive measurement along the entire data processing chain.
  Effort for adaption by an institute: High

- Wide **application scope**: The draft guide clarifies that internal reporting, financial reports, regulatory reporting, and, more generally, all decision relevant management information systems are in scope of BCBS 239. This leads to a significant impact for banks that so far focused on risk data only in this context.
  Effort for adaption by an institute: Medium – high (dependent on current application scope)

- **Integrated data architecture**: We observe that supervisory expectations demand for detailed metadata repositories, including a data lineage documentation which is both, sufficiently granular and up to date. As a consequence, well-structured and efficient processes have to be established to keep such information consistent, complete and up to date, posing a considerable challenge.
  Effort for adaption by an institute: High

- Group-wide **data quality management** and standards: A more systematic approach to include tolerance levels for data quality indicators requires re-work for most of the banks both in the documentation (e.g. as part of data delivery agreements) and the implementation of data quality indicators. Moreover, institutions are expected to consider data quality risks in ICAAP and ILAAP, which not only imposes implementation efforts but also directly affects a bank's risk capital and liquidity requirements visibly and quantitatively.
  Effort for adaption by an institute: High

- **Timeliness of internal risk reporting**: The formulation of a precise benchmark of 20 working days for regular monthly/quarterly reporting will particularly affect institutions lacking a sufficient degree of process automation across the full report creation cycle.
  Effort for adaption by an institute: Low – medium (dependent on degree of automation)

1 Draft „Guide on effective risk data aggregation and risk reporting“ (ECB, 7/2023).

02.

New approaches are needed to make RDARR work

"We see that for many banks the story of BCBS 239 projects has been one of struggle and limited success – despite massive efforts. While it is clear that ECB now requires a real impact, banks need to rethink their approaches. We recommend a very focused investment of resources accompanied by automation and tooling, and a transparent dialogue with JSTs on long term remediation programs."

(Sascha Hügle, Florian Merz, Partners & Data Management Experts at d-fine)

Does your bank currently include internal and regulatory reporting in the data governance framework? Can you demonstrate a complete and up-to-date glossary and lineage with data classifications and trained data owners along the entire reporting processes? Do you consistently measure data quality, and are all relevant decision makers able to explain the impact on the critical KPIs?

If your answer to any of these questions is "no", your institution is likely to face renewed efforts to improve and extended RDARR capabilities. From our firsthand experience and supported by surveys of BCBS 239 compliance, it is likely that this will be the prospect for the majority of banks, even those who have already invested significant resources in top-down compliance programs or monolithic data integration strategies. Neither approach solves end-to-end data governance. The main challenges arise from a transformation in mind-set in connection with technical solutions which are helpful in the everyday work of those who use and own the data. Going forward, projects to improve RDARR capabilities should focus on developing robust and workable methods, e.g. for DQ impact measurement and continuous metadata management and investment in automation and usability to support the first line of defence.

03.

How d-fine can support you

In today's dynamic banking landscape, a thoughtfully designed data strategy is essential for a successful business. Bringing the data strategy to life end-to-end along the data processing chains and applying it consistently across all business sectors paves the way for data excellence, a robust data governance, managed data quality and transparency and finally creates value as integral part of a sound data strategy. At d-fine, we specialize in seamlessly integrating BCBS 239 principles / RDARR requirements in your value chain. Our comprehensive consulting approach includes support during supervisory audits, helping you navigate compliance challenges effectively. Partner with us to strengthen your data practices and gain a competitive edge in the market. Get in contact with us: bcbs239@d-fine.com.

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