Global Regulatory Reform

BCBS 239
Risk data aggregation and reporting
A practical path to compliance and delivering business value
Banks can’t do it all by 2016. They need to prioritize and make the right choices

The Basel Committee of Banking Supervision (BCBS) 239 is different from other regulations. It demands that the information banks use to drive decision-making captures all risks with appropriate accuracy and timeliness. By setting out overarching principles of effective risk management reporting and governance, BCBS 239 focuses banks on developing the right capabilities versus hitting a compliance date. BCBS 239 isn’t just about filling in another reporting template. Even after January 2016 (the compliance date for Globally Systemically Important Banks (G-SIBs)) it won’t go away.

Regulators are viewing BCBS 239 compliance through multiple lenses

Stress testing exercises such as the Comprehensive Capital Analysis and Review (CCAR) in the US, the Firm Data Submission Framework (FDSF) in the UK and the European Banking Authority (EBA) stress tests across Europe have emphasized the capability gaps banks have to bridge. The resources required to run these exercises are not sustainable.

Bank alignment to the principles will also be challenged by other regulations including the Fundamental Review of the Trading Book (FRTB). If banks fail to demonstrate compliant solutions for data management, data governance and alignment between risk, finance and the business they will be forced to change the way they model and value their risk. Without change, the rules will require a material increase in the level of capital banks need to hold.

But it doesn’t stop there. Other regulations such as the UK’s Senior Manager Regime (SMR) will further intensify Board and Senior Management responsibility and accountability in the banking sector with a major focus on risk control. With the level of current and future change, BCBS 239 can, and should, be positioned at the heart of coordinating regulatory transformation.

Banks have a lot of work ahead

Evolving the way banks operate and adapting their supporting data and technology infrastructures will require a lot of work. Both the banks and their regulators recognize the challenges in fully aligning to the principles by January 2016.

G-SIBs have mobilized and Domestic Systemically Important Banks (D-SIBs) are now mobilizing their approach to achieve regulatory compliance. A recent EY survey* on BCBS 239 readiness shows that banks are viewing the principles as an enabler for other strategic objectives aimed at transforming the business to survive in the new marketplace. Banks are, however, challenged in making the join between BCBS 239 principles, specific capability-based requirements and their existing book of work across different functional areas, lines of business and regions. This is often evidenced by a limited number of BCBS 239 initiatives, especially at divisional and regional levels.

With limited investment spend, banks need to set the right priorities for 2015

Demonstrating sufficient progress to the regulator while also moving the organization towards it’s existing strategic goals will be key. Banks need a practical method to address the challenges ahead:

- Translate principles into meaningful and measurable changes
- Understand the gap to target capabilities (calibrated against peers)

Activities that deliver key capabilities

EY’s experience of BCBS 239 indicates that banks are prioritizing specific areas:

- Data ownership and data quality frameworks
- Policy change
- Critical risk process documentation (including controls and key data elements)
- Service level agreements
- Data dictionary and lineage

Avoid the cost of non-compliance

Banks that continue to show deficiencies in their risk management capabilities may experience increased intensity of supervision and the possible application of capital add-ons and other limits on banks’ risk-taking and growth opportunities.

- Connect strategic change across risk, finance, data and technology
- Gain sufficient momentum in 2015 and beyond with the depth and breadth of skills required to deliver
- Measure and monitor progress to January 2016 and demonstrate sustained alignment to the principles beyond 2016

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* EY’s BCBS 239 Autumn 2014 industry survey of 30 G-SIBs and D-SIBs on prioritizing and mobilizing projects for 2015
Key findings from EY’s BCBS 239 Autumn 2014 industry survey of 30 G-SIBs and D-SIBs on prioritizing and mobilizing projects for 2015

- Our survey (see figure 1) showed that most respondents think a significant part of their BCBS change delivery will not be complete by January 2016.
- 89% of respondents viewed BCBS 239 as an enabler to shape their IT strategy and develop their IT infrastructure.
- 78% of respondents viewed BCBS 239 as an enabler for their enterprise-wide data management capability objectives.
- 67% of respondents viewed BCBS 239 as an initiative to help drive operational efficiency and other cost reduction initiatives.

Figure 1: What % of your BCBS 239-related change programs will be completed by January 2016?

![Percentage of respondents per category](chart.png)
Finding a meaningful and actionable framework to deliver against BCBS 239 principles

Through our experience of working with many G-SIBs and D-SIBs on their BCBS 239 self-assessment and compliance planning activities, EY has developed a Risk Data Aggregation and Reporting (RDAR) Framework. Banks can use this proven approach to manage change successfully, by integrating and delivering their BCBS 239 compliance objectives alongside their strategic investment program.

EY’s RDAR Framework presents a capability objective view through which banks can:

1. Clearly articulate BCBS 239 compliance requirements and priorities
2. Make the join across strategic change programs
3. Align other regulatory changes in a coordinated way
4. Rapidly form an approach to successfully manage change

Armed with a common language, banks can use BCBS 239 as a lever to align objectives and coordinate delivery. Without such a Framework we have seen banks struggle to get a common understanding or consistency of response and measurement across the enterprise.

Banks can use EY’s RDAR Framework to create a common and meaningful understanding of the changes required across lines of business, functions and regions, and an approach to deliver the change in a coordinated and effective way. Banks can use the same framework to align strategic program objectives alongside BCBS 239-specific execution-level needs. Joining up the organization around BCBS 239 has clear advantages, both externally, in terms of demonstrating a cohesive response to the regulator, and internally, by prioritizing the development of risk management capabilities.

EY’s RDAR Framework is not just theory; it has been tried and tested with a number of clients and has been used to identify and define practical road maps towards compliance.

**Strategy and governance**
- Data governance
- Board and senior management accountability
- Risk policy and design principles
- Stress and crisis adaptability

**Processes and controls**
- Key processes and controls
- Reconciliations
- Amendments and adjustments

**People and organization**
- Capability and performance management
- Resource alignment

**Data and technology**
- IT strategy and governance
- Golden sources and data lineage
- IT architecture and systems
- Data organization and definition
- IT performance
- Data quality
- End-user computing

**Analytics and decision support**
- Stress testing
- Risk matrix and measures
- Management information and reporting
How EY’s Risk Data Aggregation and Reporting Framework can address banks’ challenges

1. **RDAR Framework clearly articulates BCBS 239 compliance requirements and priorities**

As important regulatory changes continue to sweep across the banking landscape, both regulators and banks want to do the right thing. They want to invest in a coordinated and strategic fashion to build a more performant and stable banking environment. Banks face a number of challenges from regulations being expressed in different ways, and implemented with different timescales and overlapping jurisdictional applications. Banks need to avoid a siloed response to managing regulatory change if they are to build the right platform to develop their business, generate returns on regulatory change spend and meet the challenge of today’s market. To achieve this, banks need to connect the complex array of global regulatory changes in a way that has relevance to how they operate and that allows them to manage the required change. EY’s RDAR Framework supports this integration of priorities, using common capability objectives spread across the BCBS 239 principles to create the join. The Framework is helping banks to rapidly understand what BCBS 239 means to the way they operate, moving from principles to business-ready requirements. Banks have work to do across all components of the RDAR Framework.

2. **RDAR Framework can help banks make the join across strategic change programs**

At most banks, existing investment programs have the potential to achieve much of the progress required toward BCBS 239 compliance. Mapping specific BCBS 239 change demands against the bank’s investment programs is critical to leveraging the committed investment in an efficient manner. With EY’s RDAR Framework, banks can make the connection across their large scale finance, risk and data programs.

<table>
<thead>
<tr>
<th>BCBS 239</th>
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<tbody>
<tr>
<td><strong>Finance</strong></td>
</tr>
<tr>
<td>▶ Improve data quality</td>
</tr>
<tr>
<td>▶ Harmonize data architecture</td>
</tr>
<tr>
<td>▶ Harmonize data governance</td>
</tr>
<tr>
<td>▶ Share data management and reporting services</td>
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<tr>
<td><strong>Risk</strong></td>
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<tr>
<td>▶ Commoditize risk reporting activity</td>
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<tr>
<td>▶ Reduce time spent on data issues and generating reports</td>
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<tr>
<td>▶ Embed risk control standards</td>
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<tr>
<td>▶ Reduce cost and develop risk utilities</td>
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<tr>
<td><strong>Data</strong></td>
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<tr>
<td>▶ Improve data governance models</td>
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<tr>
<td>▶ Improve data accountability</td>
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<tr>
<td>▶ Implement data dictionary and standards</td>
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<tr>
<td>▶ Improve data quality</td>
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Using a common language of capabilities, joins are quickly identified, allowing for a rapid assessment of how much mutual value can be realized – for both the BCBS 239 compliance work and the transformation programs.
There are a number of new and enhanced requirements that are impacting the reporting and disclosure landscape. Links between them are complex, overlaps are rife, and achieving consistency is becoming more challenging. The direction of travel is firmly toward a) greater granularity, and b) more public disclosure. There is also increasing overlap between the demands placed on internal and external reporting requirements. Getting risk management and reporting right has never been more critical.

### Figure 2: Are regulatory initiatives such as FDSF, CCAR and EBA stress testing affecting your BCBS 239 implementation?

<table>
<thead>
<tr>
<th>Percentage of respondents per category</th>
<th>Yes, integral to future state design</th>
<th>Yes, minimal considerations only</th>
<th>No or minimal impact</th>
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</thead>
<tbody>
<tr>
<td>Yes, integral to future state design</td>
<td>67%</td>
<td>33%</td>
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There is a strong link between BCBS 239 and other regulatory reporting and disclosure developments. Important considerations include:

- Increasing focus on risk and finance data integration
- Developing common reporting processes and controls and aligning regulatory reporting and financial statement information
- Increasing visibility and potential impact (operational overheads) to manage, control and monitor adjustments and amendments
- Growing demand to improve the connectivity of information and transparency of data lineage, including aggregation and transformation logic
- Optimizing data granularity and dimensionality capabilities
- Promotion of data standards – internal and external
- Developing strong data governance and data quality
- Improving the consistency and reliability of risk exposures and forecasts – explicit comparisons of hypothetical and actual trading outcomes
- Implementing new risk measures, e.g., resilience measures and dashboard of key metrics

Regulators now have access to more data and insights which expose any lack of join across an organization. EY have identified clear overlaps and specific capability requirements across regulations by aligning different regulatory requirements to the principles. For example, the review of the Pillar 3 disclosure requirements and BCBS 239. Cross-regulatory change can be coordinated and managed under the RDAR Framework.
Planning compliance

Once requirements have been grouped using EY’s RDAR Framework, banks can establish and sequence logical change components:

- Self-assessment findings (where are the biggest gaps to bridge?)
- Relative benefits vs. time and complexity of change
- Alignment across other regulatory developments
- Alignment to other large-scale investment programs
- Other organization-specific priorities

Demonstrating continued compliance

Banks need to track delivery against the deadlines agreed with their supervisor. But how many are looking to measure their continued compliance with the principles beyond that point? Banks need to put in place mechanisms to measure continued compliance after project teams have been stood down.

EY’s RDAR Framework approach has helped a number of banks to develop a traceable mechanism to demonstrate progress against agreed plans. These solutions focus primarily on program alignment and project tracking. In addition to base-level BCBS 239 progress tracking, EY has developed solutions to take banks beyond compliance deadlines, to meet both continued regulatory scrutiny and the bank’s own requirements to deliver sustained business value and effectiveness. These are not “nice to have” options; regulators expect banks to perform internal reviews of their BCBS 239 programs and to be prepared for reviews by their regulators.
Coordinating in a practical way and using BCBS 239 to your advantage

EY’s RDAR Framework can help capture and structure the changes demanded by BCBS 239. Banks should look to use the principles of BCBS 239 to coordinate investment in people, process, technology and data. Without a structured approach to join up, prioritize and sequence change demands across the organization, banks will deliver regulatory change inefficiently at best; at worst, it will be non-compliant and ineffective.

With the right approach, and steer from the top, banks have an opportunity to tackle long-standing problems that restrict their ability to aggregate risk exposures and deliver the right information at the right time to support their decision-making needs fully. Banks need to deliver:

- A common view of business activity across risk and finance
- Risk control standards in line with their finance counterparts
- Sustainable operating models to manage increased frequency, volumes and governance expectations
- Radically improved data quality and transparency across the management of risk life cycle

Banks can view BCBS 239 as just another regulation with which to comply. Alternatively, banks can use the principles to align the way they operate and direct their change priorities across the organization. With the right approach, banks can develop a practical path to compliance and deliver business value.
How EY can help

EY has extensive experience helping organizations navigate through BCBS 239 and associated risk management transformation. We have supported a significant number of G-SIBs and D-SIBs through self-assessments, development of target operating models, implementation of road maps and program mobilization.

Our network of former senior regulators is supported by global enterprise intelligence, risk and finance technology enablement teams, meaning EY brings a broad range of experience and skills to diagnose, design and implement change successfully. EY’s BCBS 239 Framework helps banks ensure that regulatory compliance commitments are clearly articulated and aligned to other strategic objectives underway at the bank. It provides a set of tools, techniques, methodologies and approaches that enable and accelerate BCBS 239 compliance and the release of business value.

EY teams can rapidly identify focus areas, then apply a set of BCBS 239-specific tools and methods to accelerate delivery. Our teams have the depth and breadth of skills required, combining significant BCBS 239, data, risk management and IT change experience.
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