

A photograph of a sailboat on the ocean, viewed from the deck looking towards the bow. The boat's white sails and rigging are visible against a blue sky and sea. In the distance, there are dark, jagged mountains under a hazy sky. The image is used as a background for the document cover.

ECB Consultation

Guide on Effective Risk Data Aggregation & Risk Reporting (RDARR)

August 2023

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1. BACKGROUND & REMEDATION PROJECT EXPECTATIONS

- 1.1. Documentation Background & Consultation Period
- 1.2. Remediation Program Expectations & Timelines

1.1. Documentation Background & Consultation Period



Document Background

- The ECB has released a document for consultation giving guidance on the expectations for institutions risk data aggregation and risk reporting (RDARR) capabilities
- This is in response to the identification of several shortcomings during assessments:
 - During 2016, a sample of 25 significant institutions were assessed against the BCBS 239 standards without a single institution meeting the benchmark
 - This led to a series of Supervisory Review and Evaluation Process inspections taking place. Issues however, remained
 - In 2019, the ECB directed a Single Supervisory Measure (SSM) towards institutions urging them to make substantial improvements
 - Despite the above, the ECB has concluded that significant progress is yet to be made



Document Purpose

- The guidance document is intended to supplement the current requirement documentation on the topic (BCBS 239) rather than replace
- Guidance has been given in the form of 7 key areas of improvement - identified by the ECB - which work to extend and provide greater clarity on the expectations
- These key areas have been mapped back to the current BCBS 239 principles through this summary presentation
- As discussed in paragraph 4 of the linked ECB guidance document, the key themes of the improvements can be summarised as:
 - The experience, ownership and responsibilities of an institution's managing body ([see slide 9 for detail](#))
 - The integration of quantitative measures and tolerances around measures - detailed in the data quality management framework - into the key decision-making capabilities of an institution
 - The improvement of scope understanding and coverage of data lineage documentation through data taxonomies



Consultation Period

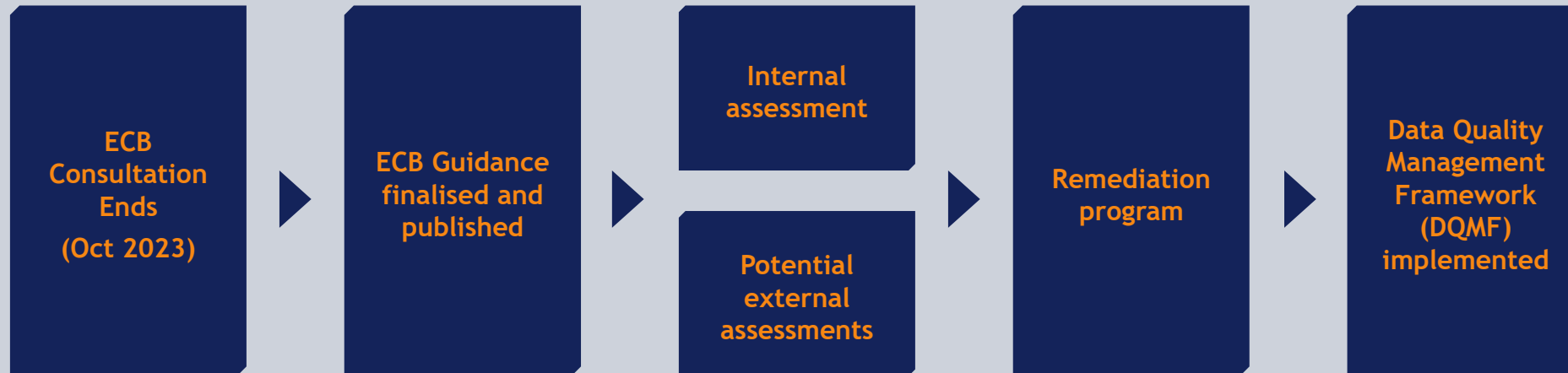
- The consultation started on 24 July 2023 and is requesting comments from banks and other stakeholders on effective risk data aggregation and risk reporting standard
- The consultation period ends on 6 October 2023



ECB Guide on effective risk data aggregation and risk reporting

1.2. Remediation Program Expectations & Timelines

- The expectation is that - once finalised - the guidelines will trigger an internal assessment of institutions' RDARR capabilities and framework suitability
- Any identified gaps or weaknesses (including those found during external or supervisory reviews) should be remediated as part of a program
- This program should:
 - Be owned by a member of the institutions managing body to ensure the data quality management frameworks integration into the key decision-making capabilities of an institution
 - Include ambitious yet feasible objectives, timelines and intermediary milestones to ensure timely improvements and have adequate financial and human resource to meet these
 - Maintain an intermediary view and assessment of any potential increased risks or underestimation of financials throughout the program

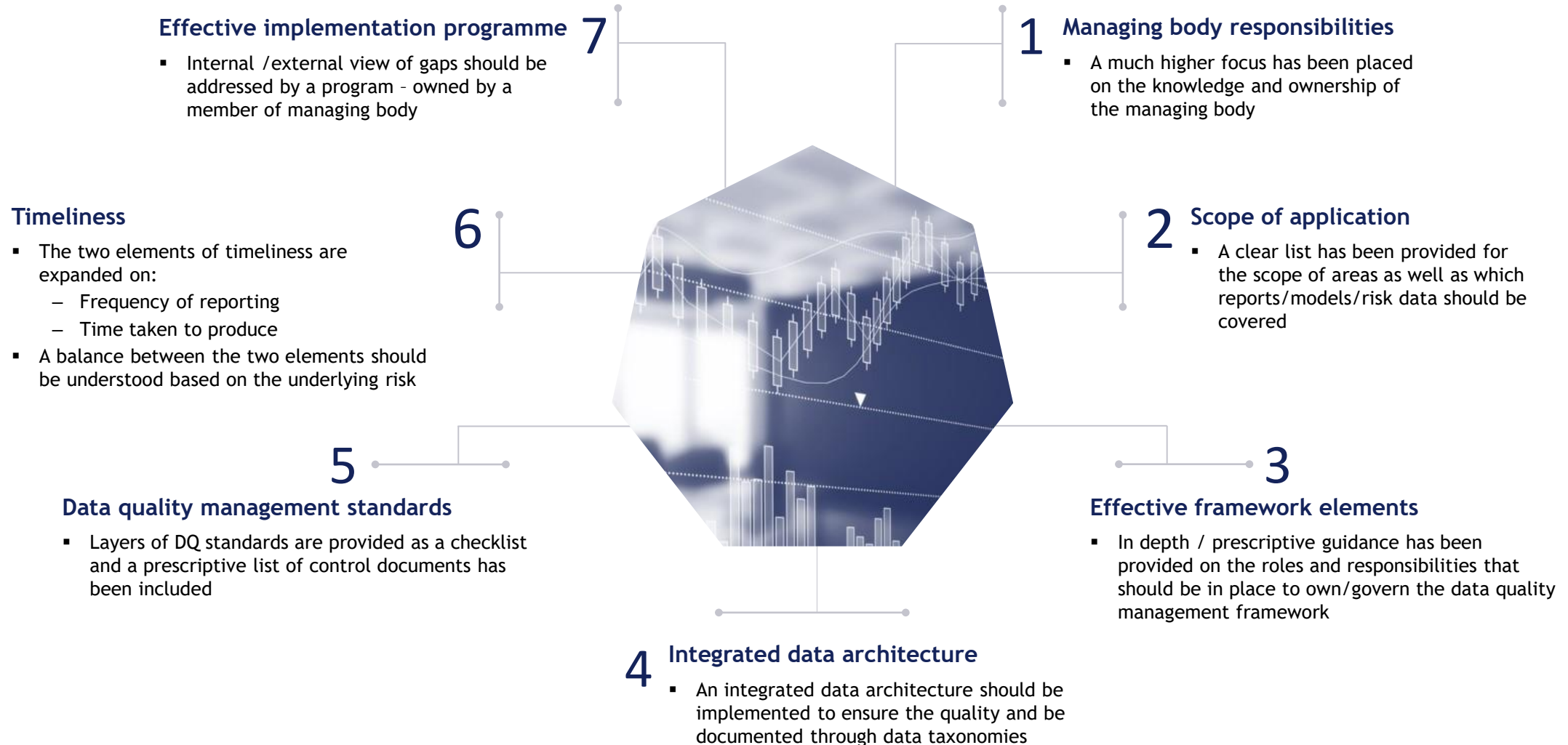


A photograph of a sailboat on the ocean, viewed from the side. The boat's white sails are partially visible against a blue sky and sea. The image is partially covered by a dark blue diagonal overlay on the left side.

2. HIGH LEVEL TAKEAWAYS FROM ECB GUIDELINES

High Level Takeaways from ECB Guidelines

The ECB cover 7 key focus areas to clarify their expectations

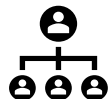




3. DETAILED ECB EXPECTATIONS

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Expectations of managing body and scope of application



1 Managing Body Responsibilities

Interaction with BCBS Principle 1

Requirements:

- An Institution's managing body is responsible to ensure appropriate risk data aggregation capabilities and risk reporting practices
- This includes:
 - Establishing an internal view for what it means for the institution to be compliant under BCBS 239
 - Implementing a remediation program to identify and remediate any shortfalls with their current approach including assigning a member of the managing body to exercise this delivery
 - Ensuring that the knowledge, skills and experience of its members - as well as internal control functions and heads of risk management, compliance and audit - is sufficient

Insight:

- This section of the ECB guidance is a significant wording change above BCBS 239, where the understanding and communication of data risks was to be tailored to audience
- Here, an emphasis is being put on the managing body to upskill where necessary to be able to instil the BCBS principles throughout the risk and data management of the entire institution



2 Scope of Application

Interaction with BCBS Principle 8

Requirements:

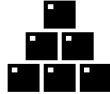
- Institutions should implement a data governance framework to allow for the management, monitoring and reporting of risks. The scope of this framework should cover all:
 - Material legal entities
 - Business lines
 - Risk categories and financial & supervisory reporting processes
- The framework should cover any internal risk reports that feed decision-making processes, financial reports submitted on at least a quarterly basis and any supervisory reports
- The framework should cover any key internal risk management models, including Pillar 1 regulatory models and Pillar 2 risk models, capital models and any other key risk management models
- Finally, any key risk data metrics and indicators should be covered by the framework

Insight:

- There is no extension of the scope compared to BCBS 239. However, a clearer list of required reports, models and risk data to use as an internal checklist for institutions
- A theme throughout the remaining sections, an emphasis is put on **clear and measurable** criteria to define decision making. In this case, the definition of a material legal entity should be defined as such.

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ECBs desired elements, teams and owners that exist in an effective framework



3 Elements of an effective data management framework

Not explicitly defined in BCBS 239

Requirements:

- This section of the ECB Guide focuses on institutions setting clear roles and responsibilities throughout the data governance framework. A graphic capturing the main involved parties is provided in [slide 17](#)
- Data Owners:
 - Responsible for critical data elements throughout the aggregation process
 - Contribution to definition of data controls ([as per slide 18](#)) and classification of key risk data
 - Ensuring the accuracy, integrity, completeness and timeliness of data (see [slide 17](#) data quality dimensions)
 - Monitoring, reporting and remediation of data quality, as well as managing underlying metadata
- Central Governance Function:
 - Responsible for data quality policy and guidelines
 - Oversight to ensure proper implementation of the framework
 - Involvement in the data quality evaluation, monitoring and any change management processes (i.e., mergers or acquisitions, third party inclusions, new or upgraded IT initiatives)
- Internal Validation Function:
 - Responsible for performing regular assessments of institutions RDARR capabilities covered in the scope of the framework
 - Independence of the validation functions should be ensured through arrangements such as:
 - » Segregation of duties potentially through separate reporting / management lines
 - » A clear organisational structure
- Internal Audit Function:
 - Provides periodic independent reviews of the framework, capabilities and processes for the quantification of risks

Insight:

- Compared to BCBS 239, the ECB Guide gives a much more comprehensive and prescriptive view for the flow of ownership and responsibilities
- The depth of detail around the responsibilities of data owners and the requirements for consistent review from internal validation functions and internal audit functions are a standout where these roles are briefly mentioned in previous requirements

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Data architecture documentation requirements and DQ management standards



4 Integrated Data Architecture

Interaction with BCBS Principle 2

Requirements:

- An integrated data architecture should be implemented and maintained to ensure the quality of data used for risk reporting
- Data taxonomies should be maintained which cover:
 - A dictionary of main business concepts and metadata repositories
 - All areas of the scope of the framework (see [key area 2](#))
- The taxonomies should entail:
 - Uniform data definitions and glossaries with clear ownership of data
 - Validation rules allowing specific values or a range of values
 - Data lineages for all risk indicators and metrics within the scope

Insight:

- Detailed lists for the coverage and content of data taxonomies is provided to improve the standards of data and decision traceability



5 Data Quality Management & Standards

Interaction with BCBS Principles 3 & 4

Requirements:

- Frameworks should ensure the completeness and effectiveness of data quality (DQ) controls (i.e., the measures and tolerances for evaluating data and identifying deficiencies)
- The following layers should be included:
 - DQ checks from front office systems, automated where appropriate, which includes reconciliations to known alternative reporting systems
 - The definition and measurement of data quality indicators including the tolerances and outcomes for monitoring/remediation solutions
 - Group-wide logs of known data quality issues including assessments of the severity of the issues and any potential quantitative impacts on risks and reporting metrics
 - Integration of End-User Computing (EUC) or End-User Developed Applications (EUDAs) into the data quality management procedures
 - Documented arrangement for manual workarounds within scope to allow for adaptability and temporary solutions during remediation
 - Adequate consideration of all data quality risks into the ICAAP and ILAAP processes to avoid underestimation through vehicles such as MoC's

Insight:

- Again, there is a focus on measurable quantitative outcome in this section and the interaction / understanding of the managing body is crucial to this
- The definitions of measures, tolerances and outcomes should flow into key decision-making capabilities for the institution

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Timeliness considerations and expectations for implementation program



6 Timeliness

Interaction with BCBS Principles 5 & 6

Requirements:

- The guidance on timeliness is provided to ensure accurate, complete and timely data which should be presented - and understood - by the right audience to influence an institution's decision-making capabilities. There are two factors of timeliness to consider:
 - Frequency of risk reporting
 - » As per BCBS 239 principle 5, the frequency of reporting should be driven by the materiality, complexity and dynamism of the underlying risk figures
 - The time taken to produce reports
 - » This should be considered as a metric of how dynamic and adaptable an institution may be to react to risk situations
 - » It should be understood by an institution for each of its key risk reports
- A balance should be found between the two elements of timeliness to allow for detailed, meaningful insights into complex risks faced by an institution. Whilst also allowing for decisive reaction to risk situations in a timely manner

Insight:

- Compared to BCBS 239, this combines adaptability and timeliness to accept the potential trade-offs that exist between the two
- Considerations to this should be covered within the data management framework and understood by the managing body



7 Effective Implementation Program

Interaction with BCBS Principle 13

Requirements:

- An implementation program - owned by the managing body - should be put in place to address any weaknesses identified by internal or external review of RDARR capabilities
- Adequate financial and human resource should be assigned to this program and project execution risks covered
- Ambitious yet achievable targets, milestones should be the focus with a mind to intermediate measures to mitigate known weaknesses

Insight:

- Covering chapters 3.7 and 4, the ECB have made remediation of RDARR frameworks and capabilities a key building block of their 2023-25 programme
- Supervisors are encouraged to use their tools and power to tackle any severe, long-standing deficiencies to ensure remediation
 - Further intensifying the intrusiveness SREP activities, on-site inspections and internal model investigations
 - Any escalation of shortcomings within this area could be subject to enforcement and capital add-ons
- The knowledge of the managing body is a highlighted focus for the ECB with assessments of proper fit being proposed where shortcomings remain
- The ECB has introduced a management report on data governance and data quality as a tool to routinely monitor the institutions framework and managing bodies capabilities



Appendix A: Who are we

True North Partners in a nutshell

Who we are

A unique consulting boutique

Independent LLP in London

- Local staff and subsidiaries in London, Frankfurt, Johannesburg, Madrid, Amsterdam and Dubai
- Founded in 2010 (precursor track record since 2006)
- 17 partners and 100+ permanent staff
- Additional network of senior experts

What sets us apart

A unique consulting approach

A true partner to our clients

- Owner-management for flexibility and long-term commitment
- Delivery of real impact, with hands-on senior involvement and oversight

What we do

Excellence in financial services

Deep knowledge of finance, risk and strategy domains

- Risk Management
- Balance Sheet Management
- Finance and Strategy
- Advanced analytics
- Public Sector and Development Finance
- Technologies and tools

Contact our team of experts



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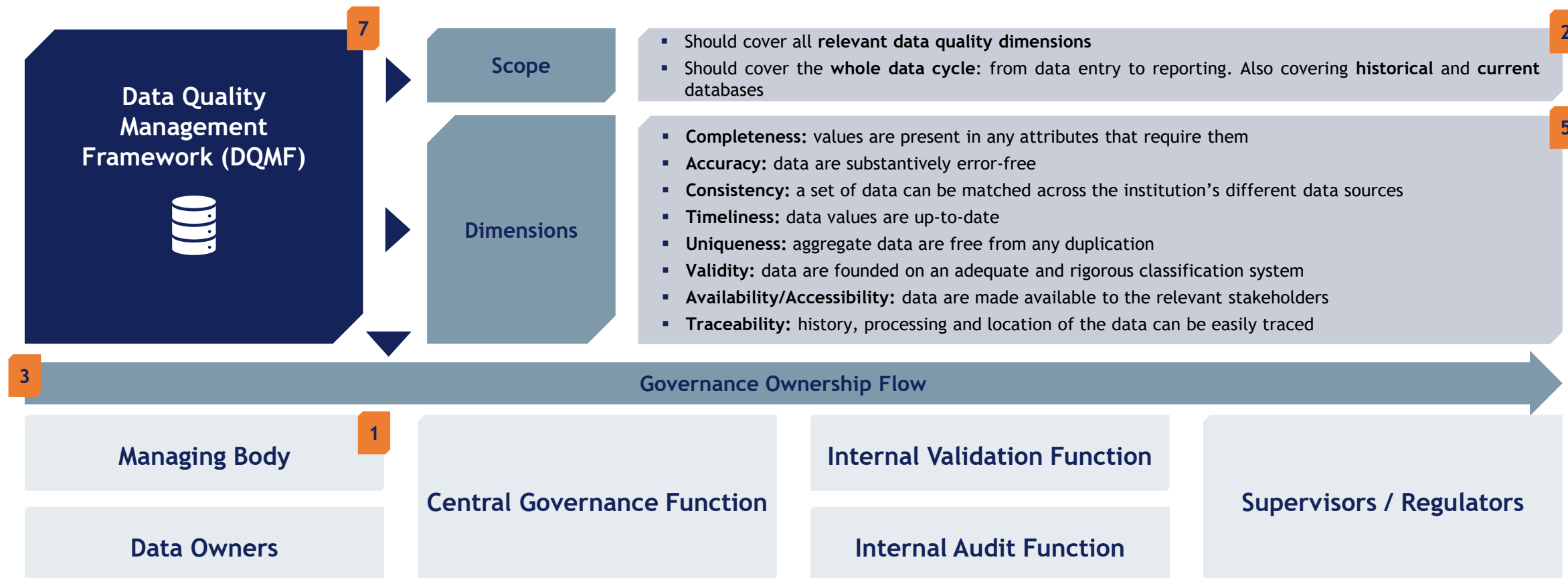


Appendix B: Data Quality Management Framework - Best Practice Guide

Appendix B: Data Quality Management Framework

Scope, dimensions and governance

- BCBS 239 requires institutions to maintain a Data Quality Management Framework. A best-practice guide for the lifecycle of this framework (scope, dimension, governance, application, controls and remediation) is included in this section
- The ECB guidelines look to make clarifications and improvements to these requirements for **7 key areas** of this framework which currently lead to shortfalls of the expected standards. These are highlighted over the following two pages

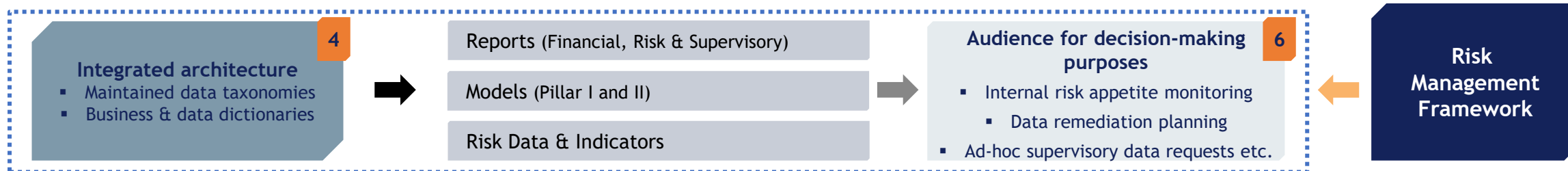


Appendix B: Data Quality Management Framework

Application, controls and remediation

Application

- The DQMF should be applied throughout the risk data aggregation and risk reporting process and be combined with an internal risk management framework to allow for **timely decision making and risk appetite monitoring**



Controls

- The data quality should be measured in an **integrated** and **systemic** way, formalising the **measurement system** and its **frequency**
- Monitoring and reporting of the compliance of the standards should be done by a combination of:
 - **Quantitative indicators:** with their corresponding tolerance levels and thresholds and supported by **data quality checks & controls**
 - **Visual elements:** visual systems (e.g., traffic light system) and dashboards

Remediation

- Identification and remediation of quality deficiencies are expected to improve data quality and compliance. For these data quality issues:
 - Assessments should be carried **independently**, and recommendations should be issued with a **priority indicator**
 - Each incident should be **recorded** and **monitored**, defining for every case:
 - » **Owner responsible** for resolving the incident
 - » **Action plan** for dealing with the incident. They should be resolved at **source level**, or if not possible, by a prudential approach

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Our distinctive value proposition includes three key elements

- Leading practice expertise and experience in risk and finance to develop, tailor and communicate superior solutions
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