



BCBS 239
progress update
and industry
trends

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow diagonal bar is positioned behind the 'Y'.

Building a better
working world

Introduction



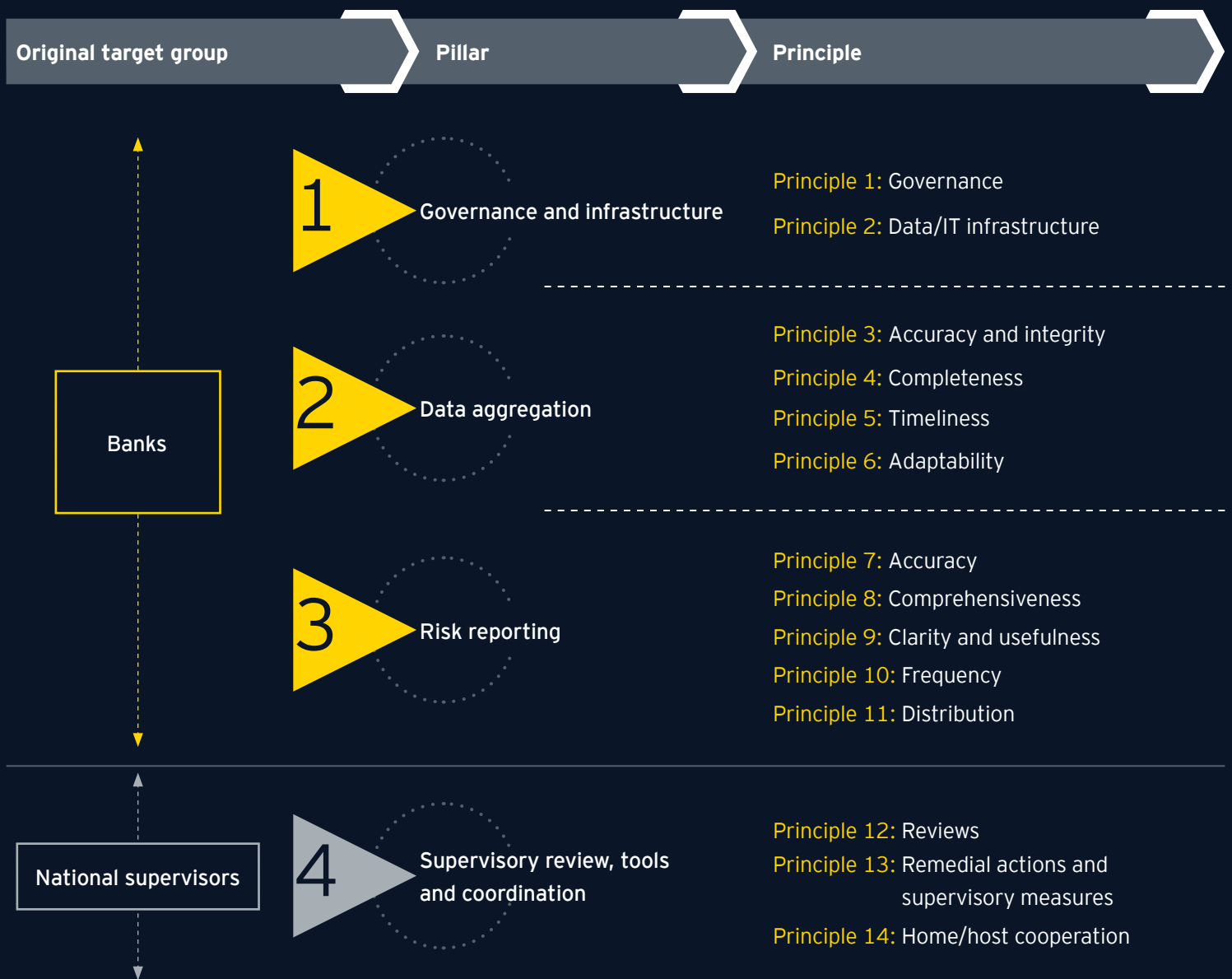
Since their introduction in 2013, the Basel Committee on Banking Supervision (BCBS 239) Principles have widely been seen by data practitioners as the leading standard for data management. In April 2020, the BCBS published its bi-annual progress report on adoption across Global Systemically Important Banks (G-SIBs) and large regional banks. Simultaneously, Ernst & Young LLP completed a self-reported capabilities and programs global survey (EY Global Self-Assessment Survey) with over 10 global banks.

This brief will address:

- ▶ The evolution of BCBS 239
- ▶ Regulatory BCBS 239 2020 Progress Report updates
- ▶ The EY Global Self-Assessment Survey results
- ▶ Targeted actions that banks and non-banking organizations can take to address BCBS 239 challenges and expectations

Principles for effective risk data aggregation and risk reporting

The RDAR principles consist of 14 unique principles aligned across four key pillars. Pillars 1 to 3 were originally targeted toward banks, and Pillar 4 was targeted for national supervisors as depicted below.



Overview

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The BCBS 239 Progress Report and EY Global Self-Assessment Survey demonstrate progress across the financial services industry; however, challenges remain with expanded data scope, insufficient technology infrastructure and inadequate architectural solutions in order to achieve full compliance.



During the financial crisis of 2008, banks faced significant challenges in aggregating and reporting risk exposures in a complete, accurate and timely manner. In 2013, as guidance for regulators and global systemically important banks (G-SIBs) to address these challenges, the Basel Committee on Banking Supervision (BCBS) released its *Principles for effective risk data aggregation and risk reporting*, often referred to as BCBS 239 or the RDAR principles.* The

objective of the RDAR principles was to provide a minimum set of safety and soundness standards. These standards enabled stakeholders to make faster and better decisions as a result of requirements to create greater efficiencies in data aggregation processes to rapidly generate comprehensive insights and to facilitate the use and availability of accurate, complete and timely data.

The RDAR principles were widely seen by data practitioners as a

desirable, leading standard that increased data expectations for regulators, auditors and compliance reviewers. These expectations and desires soon extended beyond the scope of G-SIBs and risk data to include smaller banks, other industries and additional data scope. Thus, the RDAR principles have become the *de facto* standard for business-essential data for operations and reporting.

* RDAR means risk data aggregation and risk reporting.

BCBS 2020 Progress Report: **highlights**

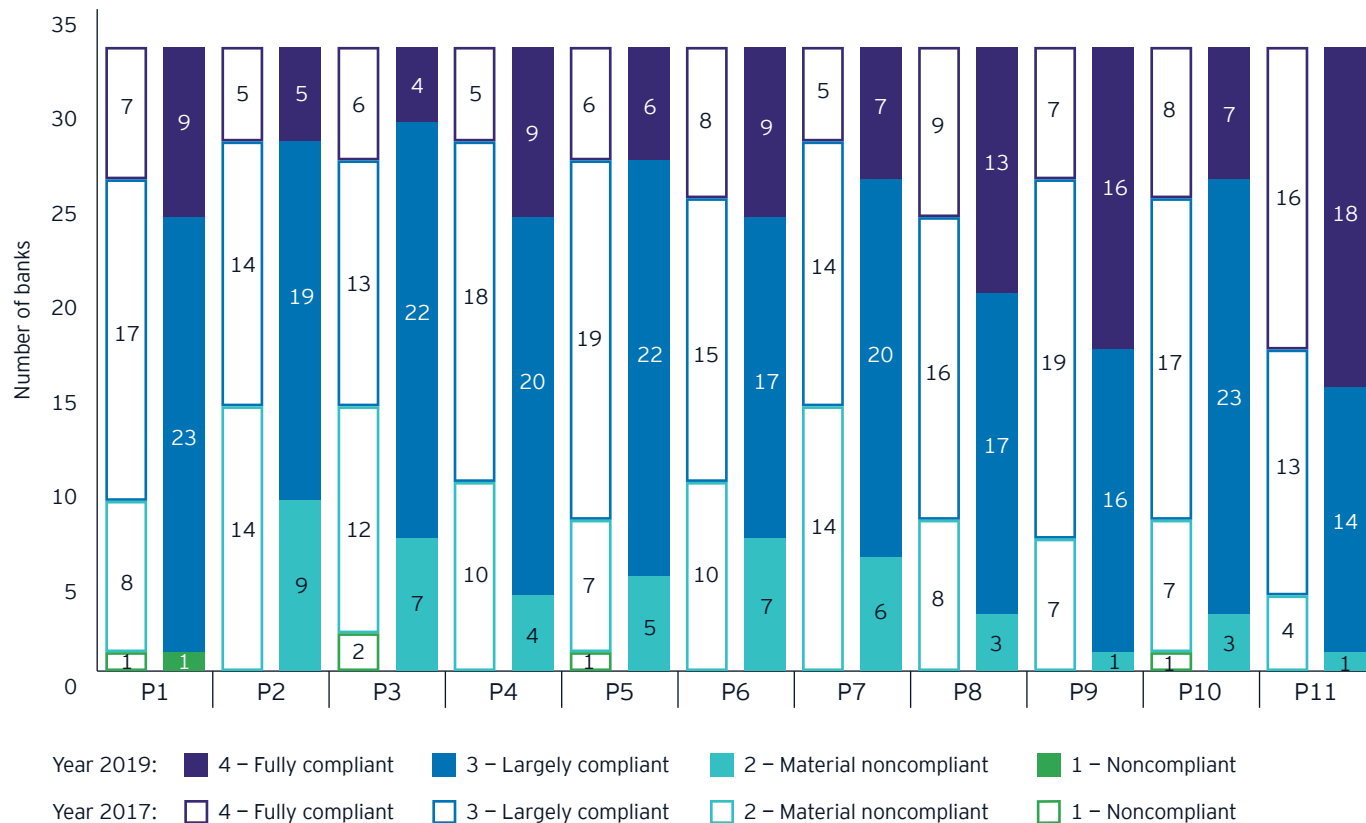


The BCBS has published biannual updates on the progress of RDAR principle adoption across G-SIBs as well as large regional banks. The latest progress report was published in April 2020 with two critical headlines:

- ▶ Substantial progress had been made across most data management capabilities.
- ▶ The number of banks compliant across all RDAR principles decreased from three to zero since the BCBS 2018 Progress Report.

Progress ratings from BCBS 2020 and 2018 Progress Reports*

Ratings for G-SIBs by principle in 2017 and 2019



*See page 1 above for additional details regarding principle alignment to Principles 1 to 11.

The BCBS 2020 Progress Report (based on 2019 data and principle ratings) shows that “banks’ continuous efforts to implement the principles have resulted in tangible progress in several key areas including overarching governance, risk data aggregation capabilities, and reporting practices.”¹ Since the BCBS 2018 Progress Report (based on 2017 data and principle ratings), “BCBS supervisors found that banks had increasingly recognized the value of implementing the RDAR principles and had accelerated their implementation efforts.”² These efforts and progress are reflected in the report ratings, as banks have made strides to increase capabilities across data governance, data aggregation and reporting as outlined at right:

- ▶ Data governance
 - ▶ Established enterprise data strategies and data management frameworks
 - ▶ Increased roles and expanded responsibilities for data oversight
 - ▶ Enhanced quality assurance
- ▶ Data aggregation
 - ▶ Enhanced data dictionaries and data lineage documentation
 - ▶ Improved data quality metrics
 - ▶ Reporting
 - ▶ Initiated automated reporting platforms
 - ▶ Enhanced reporting policies

^{1,2} BCBS 2020 and 2018 Progress Reports are based on data and principle ratings collected in 2019 and 2017, respectively. “Progress in adopting the Principles for effective risk data aggregation and risk reporting,” *Bank for International Settlements website*, <https://www.bis.org/bcbs/publ/d501.pdf> (April 2020).

EY Global Self-Assessment Survey: **results**

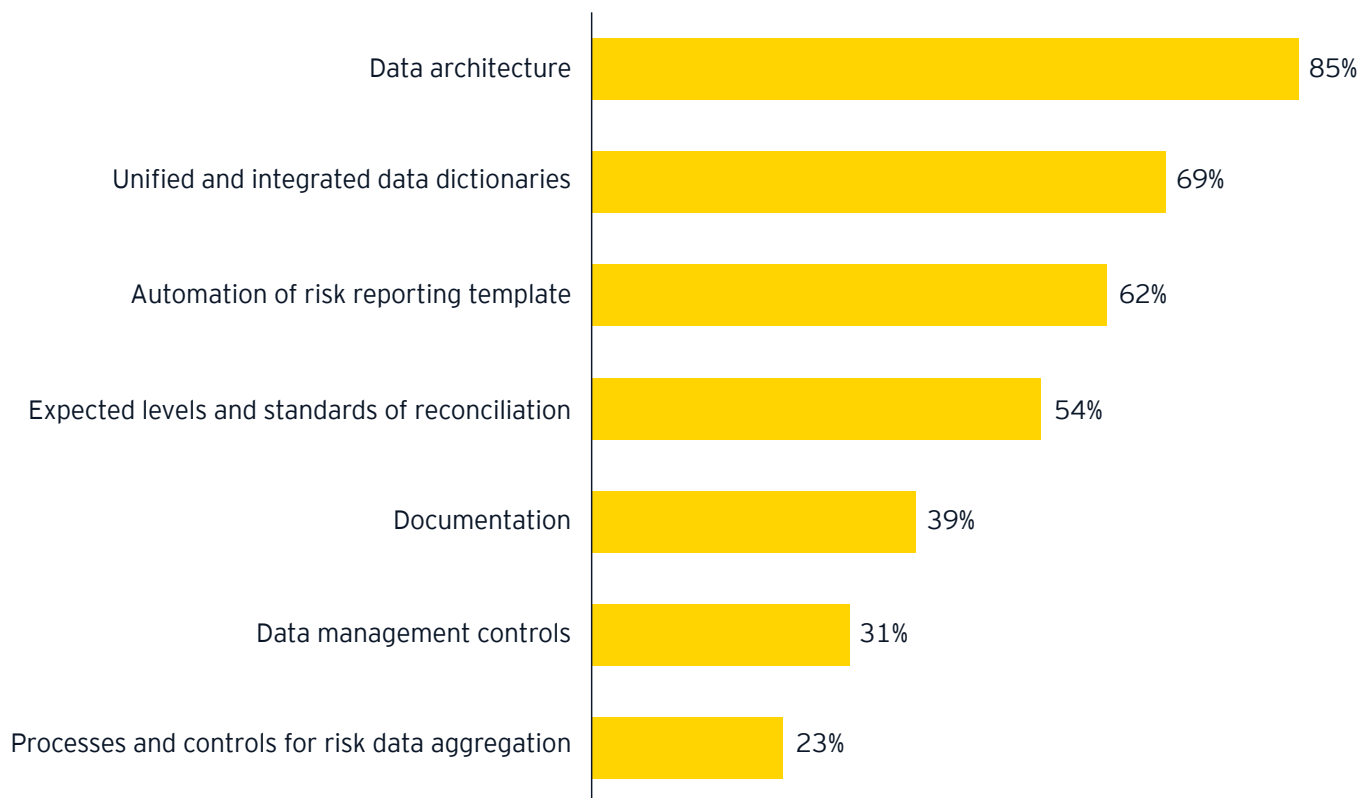


In April 2020, we concluded survey research with large regional banks and G-SIBs spanning eight countries regarding RDAR practices and BCBS 239 compliance. The purpose of the survey was to identify current market practices and gain insights on the leading approaches in risk data aggregation and reporting. Four key topics areas were evaluated: governance, data aggregation, IT infrastructure and risk reporting. Key survey insights include the following:

- ▶ The majority of G-SIBs consider the implementation of BCBS 239 programs to be complete.
- ▶ 57% of banks reported that it took more than five years to implement initiatives to complete BCBS 239 programs.
- ▶ 43% of banks reported that they completed BCBS 239 programs in two to five years.
- ▶ 85% of banks reported that data architecture remains a key challenge area.

EY Global Self-Assessment Survey results

Areas of challenges



Specific challenges

Data architecture:

- ▶ Cost and complexity of legacy data systems and applications to decommission / change and requirements to remediate

Unified and integrated data dictionaries:

- ▶ Unification of data across large numbers of upstream / front office systems and data providers
- ▶ Implementation of sufficiently granular data lineage
- ▶ Complexity of data dictionaries with converged definition applicable to all Departments and Business lines

Automation of risk reporting template

- ▶ Processes may require manual intervention, automation is not possible for some report types

Expected levels and standards of reconciliation

- ▶ Data quality controls on reconciliation

Documentation

- ▶ Cost and complexity of maintaining up-to-date documentation across functional areas/systems/business processes

Data management controls

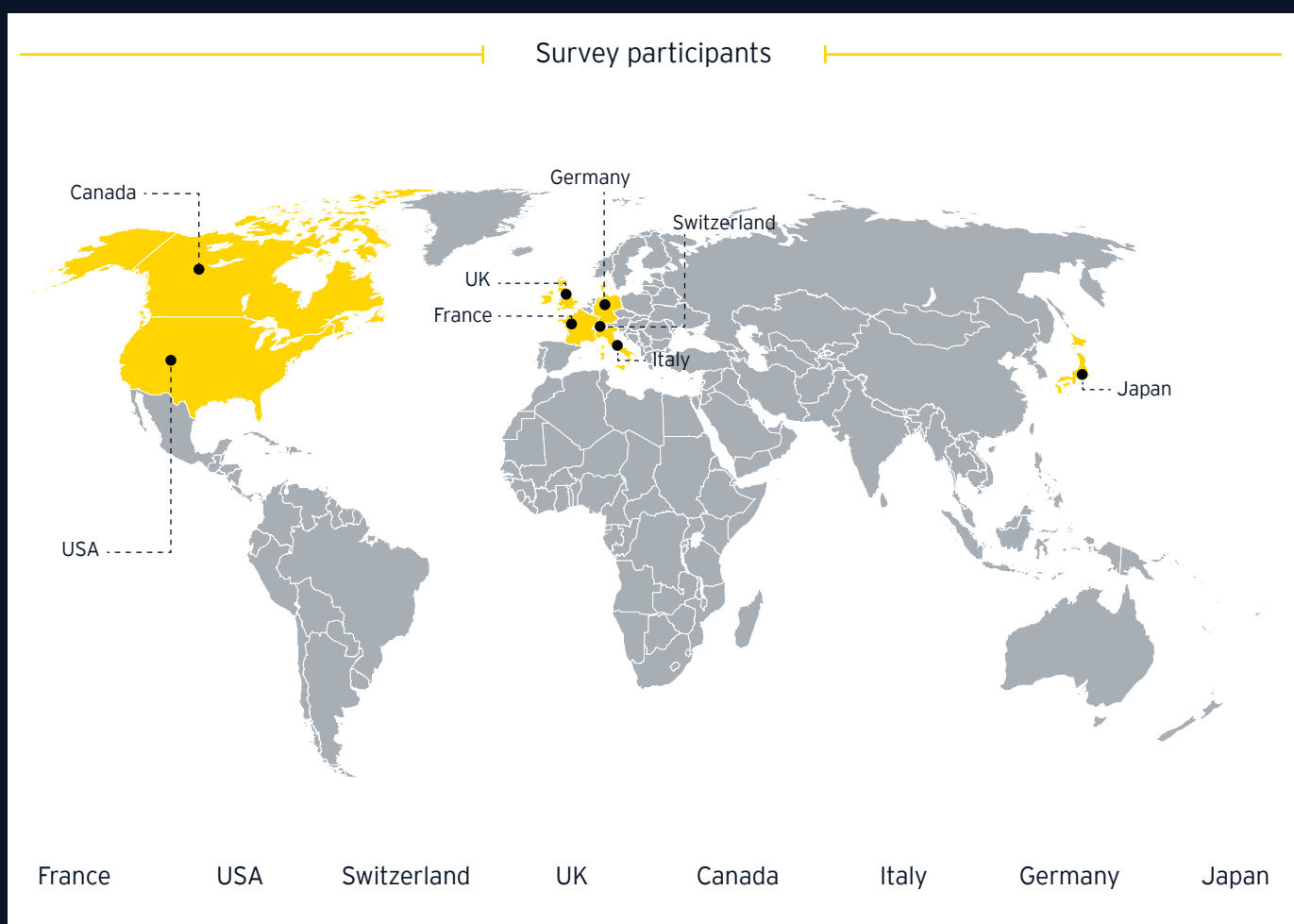
- ▶ Complexity of application of data quality framework to all key data aggregation processes
- ▶ Limited availability of data lineage

Processes and controls for risk data aggregation

- ▶ Data quality control design and implementation
- ▶ Identifying standard controls across multiple systems

EY Global Self-Assessment Survey: **participant information**

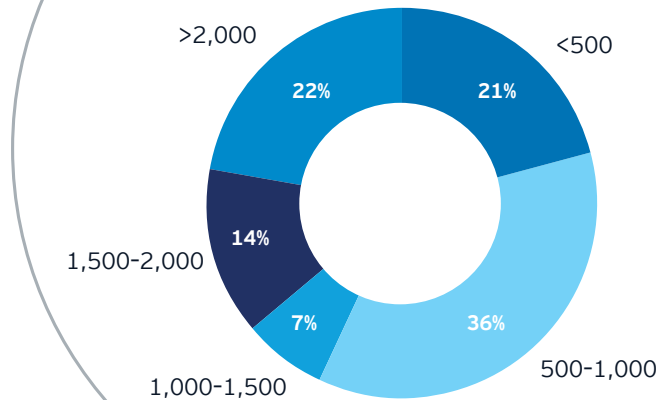
We conducted a global survey with 11 G-SIBs and a group of large regional banks regarding BCBS 239 compliance and RDAR practices.



In total, banks from eight countries participated in the EY Global BCBS 239 Survey 2020 and answered more than 90 questions regarding their RDAR practices.

Note: These results are based on the provided survey answers (the number of respondents who answered a particular question was used as a denominator). Some of the presented results have been obtained from multiple-choice questions.

Asset size of participants (in US\$b)



Basic insights

Average assets of surveyed banks are

US\$1.277t.

The sample includes

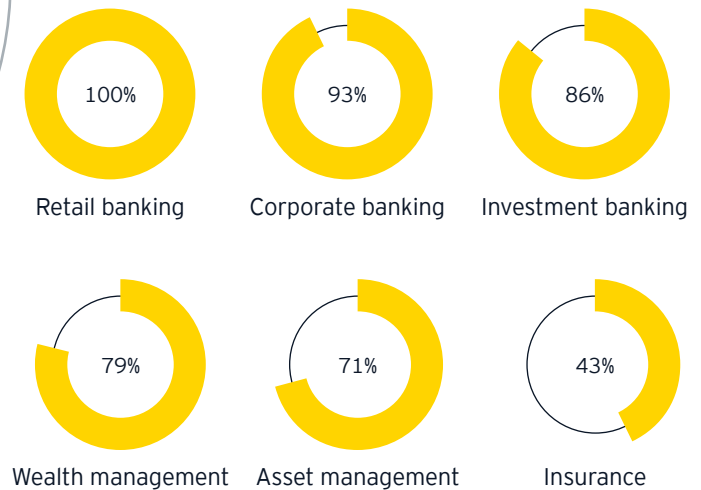
11 G-SIBs.

Most surveyed banks are

universal banks.

Some surveyed banks also specialize in **leasing, factoring, lending and private banking.**

Business lines



Summary and looking ahead



Summary



Both the BCBS 2020 Progress report and EY Global Self-Assessment Survey indicate data architecture and IT infrastructure remain critical challenges for the banking industry. Additionally, new and existing challenges continue to delay BCBS 239 compliance:

- ▶ Interdependencies and complexities from legacy IT issues and mergers/acquisitions continue to affect the improvement of data architecture and IT infrastructure as well as the adoption of a single source of truth for data.
- ▶ New challenges due to changes in business and technology, including developments such as FinTech and cloud computing, have led banks to upgrade their IT capabilities and outsource data-related processes, creating new data reliability and technical challenges.

When many G-SIBs were wrapping up their BCBS 239 programs or deemed them complete, a discrepancy became apparent – compliance progress has been made, yet there are fewer compliant banks, and many banks are wrapping up their BCBS programs. This discrepancy causes the true

progress of banks to come into question. However, the difference of opinion in the two reports can be explained by the following:

- ▶ Banks have made significant progress in governing risk data and, in doing so, realized that there are benefits to expanding governance to additional types of data. Therefore, overall BCBS 239 compliance scores have decreased due to the larger scope of data.
- ▶ Banks are applying the RDAR principles in daily operations, resulting in their ability to wind down BCBS 239 programs, while still making progress by applying the standards to other types of data.
- ▶ BCBS supervisory review of bank progress lags the internal review of bank achievements. As the upcoming BCBS supervisory exam cycle begins and helps to create greater visibility into bank accomplishments, scores are expected to increase.

Looking ahead

Banks have made progress to improve their data governance, data aggregation and risk reporting capabilities. Additionally, in the EY Global Self-Assessment Survey, many programs indicated that they have achieved the goal of embedding the RDAR principles into data management policies, standards and routines.

Nevertheless, the work is not complete. As illustrated in the 2020 BCBS Progress Report and EY Global Self-Assessment Survey, banks continue to be challenged by data infrastructure, architecture and the increasing scope of data coverage. Additionally, compliance is not a single-point-in-time exercise; rather, banks should:

- ▶ Implement **streamlined IT infrastructure/data architecture**, not just for BCBS 239 compliance, but also to compete with nimble market participants
- ▶ Develop **smarter governance** routines and follow control standards to efficiently manage data while simultaneously increasing the scope of data that matters

- ▶ Continue to **assess maturity** of RDAR principles and data capabilities as both more personal and health data is being gathered due to COVID-19 disruption, making the need for accuracy and control more critical than ever

In the current business environment, high-quality, governed data creates the foundation for the ongoing delivery of business objectives and enables transformation. BCBS 239 continues to provide a principle-based approach to developing the foundational capabilities that firms and organizations will require in order to grow. Implementation of the RDAR principles enables firms/organizations to produce accurate and complete information in a timely manner as well as more efficiently manage and produce data. As such, these principles are recommended to expand beyond the original intent of G-SIBs and risk data to cover all business-essential data and include non-banking organizations since they support and enable growth, innovation and transformation.



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