

BCBS 239 Adoption

Where are banks in their BCBS 239 implementation journey?

DATA MANAGEMENT AND BCBS 239 OVERVIEW

Following the 2008 financial crisis, it became clear that many banks did not have the infrastructure, data architecture and adequate resources to support the wide-ranging management of financial risks. Many banks lacked the ability to efficiently aggregate or report risk exposures and identify concentrations quickly and accurately at the bank group level, across lines of business (LOBs) and between legal entities. As a result, the Basel Committee on Banking Supervision regulation 239 (BCBS 239) was issued in 2013 by the Bank for International Settlements (BIS) to serve as an underlying ideology for Global Systemically Important Banks (G-SIBs) to improve their risk data aggregation and risk reporting capabilities, thus enhancing risk management and decision-making processes at banks.

Although initially targeted to G-SIBs, BCBS 239 has become a standard across the financial services industry both within the U.S. and internationally. Factoring in BCBS 239 and the general influx of data requirements and heightened expectations from global regulators, the financial services industry has embarked on a data journey to establish data management processes that ensure data assets can be formally managed and trusted to drive process and data efficiencies.

2020 BCBS 239 PROGRESS REPORT SUMMARY

Since the publication of BCBS 239, the Basel Committee has published five progress reports, highlighting where banks are toward implementing the Principles for effective risk data aggregation and risk reporting (the Principles). As seen below, the 14 Principles are categorized under four primary components and ultimately rely most on implementing sound governance and data architecture and infrastructure. Banks are assessed on each Principle as non-compliant to fully compliant on a scale of 1 to 4.

Governance & Infrastructure

- Principle 1: Governance
- Principle 2: Data Architecture and IT Infrastructure

Supervisory Review

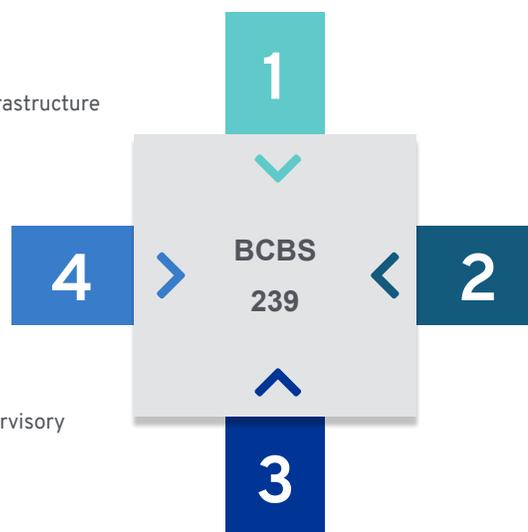
- Principle 12: Review of 11 Principles
- Principle 13: Remedial Actions and Supervisory Measures
- Principle 14: Home/host Cooperation

Risk Data Aggregation Capabilities

- Principle 3: Accuracy and Integrity
- Principle 4: Completeness
- Principle 5: Timeliness
- Principle 6: Adaptability

Risk-Reporting Practices

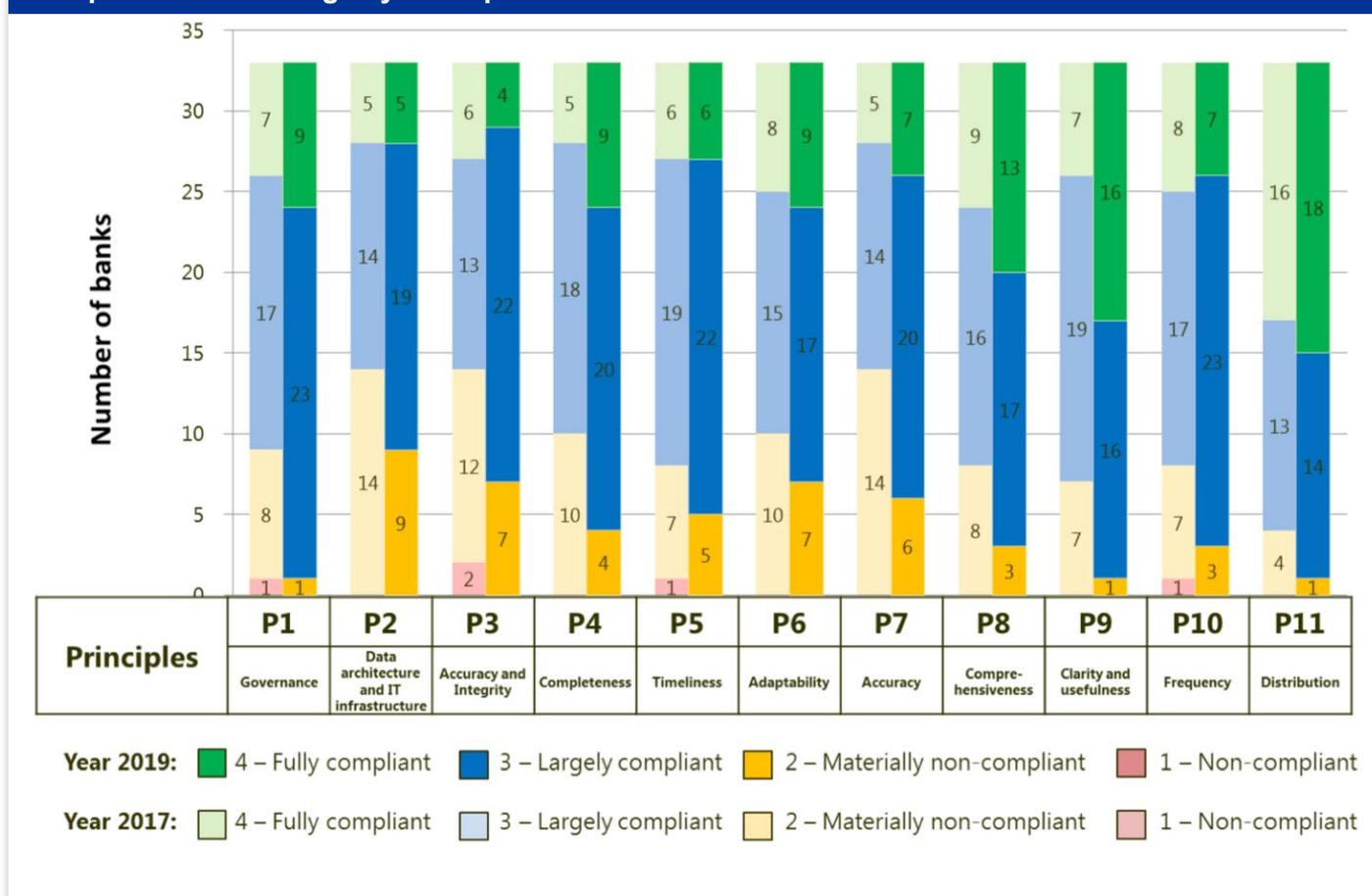
- Principle 7: Accuracy
- Principle 8: Comprehensiveness
- Principle 9: Clarity and Usefulness
- Principle 10: Frequency
- Principle 11: Distribution



The latest progress report was published in April 2020, and as noted in Graph 1 below, none of the banks assessed in 2019 were fully compliant with all the Principles, even though in 2017 three banks were identified as fully compliant with all nonsupervisory Principles. Many banks are still facing challenges with Principle 2 (data architecture and IT infrastructure) due to the complexity and interdependence of IT improvement projects, legacy systems and overall unaligned IT solutions, which hamper reconciliations and automation of data. Overall, nine banks were assessed as materially non-compliant with Principle 2 in the latest assessment.

While banks still have work to do around their data architecture and IT infrastructure, improvements were noted with respect to data dictionaries and enterprise data quality metrics which are key aspects of Principle 3 (accuracy and integrity). In addition, many banks have made notable improvements in their implementation of all 11 nonsupervisory Principles by receiving largely or fully compliant (i.e., 3 and 4) ratings since the previous assessment.

Graph 1 - G-SIB ratings by Principle in 2017 and 2019¹

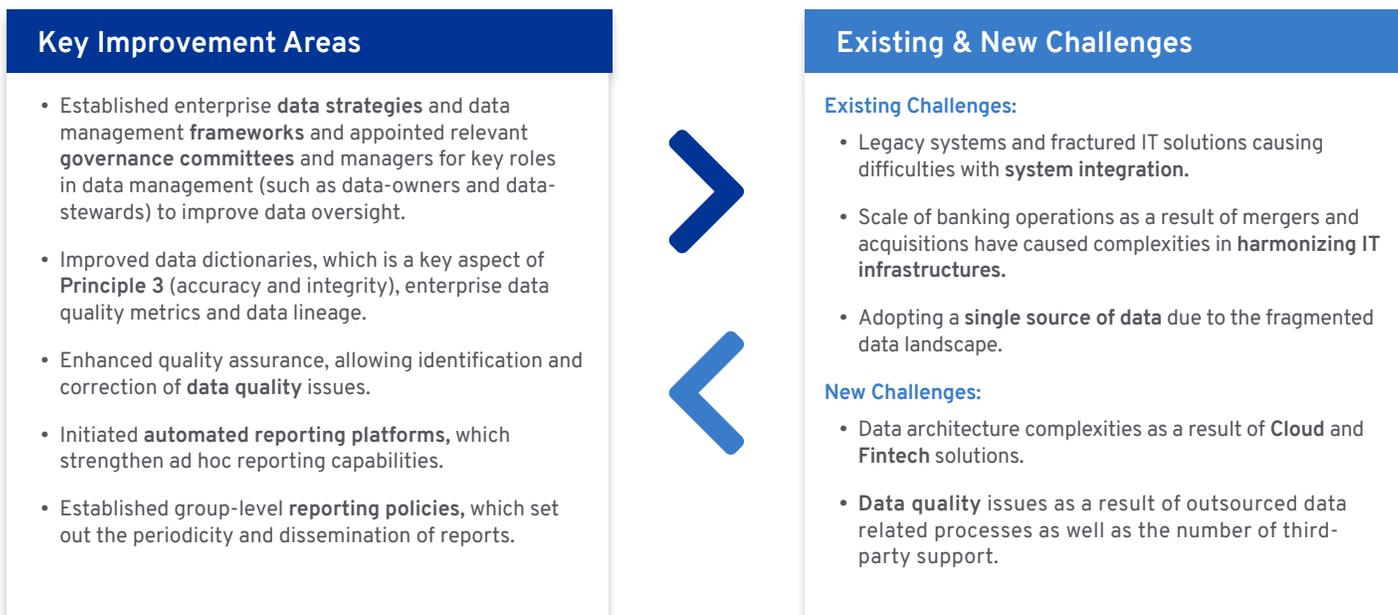


Of the notable improvements, banks made substantial progress in implementing Principle 1 (governance) by strengthening governance arrangements such as establishing clear ownership and responsibilities and independent units for validating risk data. The expectation is most banks (23 of 34 G-SIBs) expect to be fully compliant with BCBS 239 by the end of 2020, while the remaining 11 G-SIBs (approximately one-third of the total) do not expect full compliance until 2021 or beyond. As banks continue their journey, many have already expanded their scope of implementation to include regulatory reporting, financial reporting and recovery and resolution planning.

1. <https://www.bis.org/bcbs/publ/d501.pdf>

KEY IMPROVEMENT AREAS, CHALLENGES, EXPECTATIONS AND RECOMMENDATIONS

As banks continue on a path toward a streamlined data and reporting infrastructure that provides consistent data across various LOBs and functional areas, it is important to understand that these can be large-scale transformations, and companies are in various stages of their implementation journey. As previously highlighted and noted in the latest progress report, supervisors observed notable improvements in banks’ overarching governance, risk data aggregation capabilities and reporting practices while also highlighting existing and new challenges as seen below.



While the assessment of banks continues to evolve, supervisors not only expect ongoing enhancements to risk data aggregation and risk reporting capabilities, they also are adopting more detailed methods as they gain experience in assessing BCBS 239 compliance. At the same time, supervisors are continuing to apply the proportionality concept in assessing banks’ implementation of the Principles as risk profiles can vary across banks due to their size and overall business model. Organizations should continue to implement the Principles in line with their strategic roadmaps while considering how implementation efforts can benefit other strategic initiatives. Below are key expectations and recommendations supervisors called out in the latest assessment.

Review and Assess	Address Weaknesses	Communication
<ul style="list-style-type: none"> Regularly assess data sources, models and procedures used in measuring and monitoring risks. Routinely test the ability to produce timely and accurate reports. Simulate capabilities to generate reporting during times of stress. Incorporate mergers, new businesses, technologies and third-party relationships into implementation efforts. Identify and prioritize critical data. Ensure controls are in place to account for changes in scope. 	<ul style="list-style-type: none"> Address supervisory findings from examinations as well as any internal audit findings. Review and update implementation plans based on identified weaknesses. Commit adequate resources to complete IT infrastructure projects and adequate oversight processes. Identify data quality gaps and develop training on improving data quality and implementing BCBS 239 Principles. 	<ul style="list-style-type: none"> Communicate regularly with supervisors on progress updates related to findings. Senior management should communicate and obtain approval from the board anytime BCBS 239 plans are modified or delayed. Supervisors should communicate to their banks should there be any changes in regulations or supervisory focus, expectations or BCBS 239 implementation assessment approaches.

DHG'S OUTLOOK AND HOW WE CAN HELP

As regulatory expectations for data management and usage continue to evolve, understanding current data issues that organizations are working to remediate gives further insight into where the bar has been set. Continued improvement in data infrastructure, data quality and controls and overall cultural awareness and organizational buy-in has become the baseline. Without these foundational data capabilities in place, organizations will continue to struggle to mitigate risk, meet regulatory expectations and identify areas of data and process efficiencies.

As organizations continue to embed data governance and controls across the data and reporting lifecycle, several key foundational data management components and capabilities should be considered, including the following:

Data Governance:

Implement comprehensive policies and standards for governance and accountability across the data and reporting lifecycle.

Data Quality:

Establish processes to validate reported data (e.g., data traceability, data validation testing) while implementing adequate data controls around data capture and manual touchpoints.

Data Architecture:

Conduct a current state data assessment across the organization while focusing on a transparent data model inclusive of data dictionaries, lineage, metadata and transformations.

Data Analytics:

Effectively use data analytics & reporting tools such as Informatica, Alteryx and Tableau to highlight trends in performance, risk and report meaningful data to drive strategic decision making.

DHG's Enterprise Risk and Quantitative Advisory team provides tailored solutions across the full data spectrum including data program and strategy development, data governance and policies implementation, data quality and controls assessments and enhancements, data analytics and reporting and data architecture assessments and metadata management. For more information, reach out to us at dhgadvisory@dhg.com.

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SOURCES

<https://www.bis.org/bcbs/publ/d501.pdf>

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