

# BCBS 239 Compliance: Initial Considerations for the Provision of Reference Data Within a Global Banking Group

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## OVERVIEW

BCBS 239 lays down guidelines for best practice in the aggregation of risk data and risk reporting across an enterprise. It contains eleven principles relevant to financial institutions, covering such topics as Accuracy and Integrity, Completeness, Timeliness, Accuracy and Comprehensiveness.

Traditionally, banks have managed risk on a distributed and federated basis, with devolved responsibility to line and business managers, each of whom would have risk limits set, appropriate to the nature of their individual business or product lines. There was an implicit assumption that, as long as individual limits were not breached, the overall risk position of the enterprise was acceptable. Such aggregation of risk positions as might take place was within divisions (Investment Banking, Wealth Management, Corporate Banking etc.) and therefore did not require group-wide consistency of reference data standards.

Under BCBS 239 such an approach will no longer be sufficient. Principle 4 states

“A bank should be able to capture and aggregate all material risk data across the banking group. Data should be available by business line, legal entity, asset type, industry, region and other groupings that permit identifying and reporting risk exposures, concentrations and emerging risks.”

Clearly, in order to be able to meet this requirement a bank must, for example, be able to identify its exposure to a legal entity wherever within the group that exposure arises. If a consistent legal entity identifier is used across the group this simplifies the task greatly, otherwise an extensive exercise of mapping and reconciliation will be required. Similarly, it will be necessary to ensure that there is a single hierarchy of regions, with a consistent make up of component countries. Such a hierarchy has often proved difficult to achieve for global banks, particularly those that have grown thorough acquisition, where regional differences in the definition and composition of “regions” frequently occurs. Note also the ominous phrase “...and other groupings...”. Here BCBS are serving notice that a regulator may require a bank to be able to provide risk data aggregated by any appropriate criterion for a particular market condition that is deemed to be affecting risk; currency, for example.

In order to determine the degree of change required to achieve compliance, an initial audit of the various competing reference data standards currently employed across the group must be undertaken. In addition, business decisions must be taken to set quantitative values for the qualitative measures included in BCBS 239: for example, where Principle 7 specifies “...Risk management reports should accurately and precisely convey aggregated risk data and reflect risk in an exact manner...” what degree of accuracy and what level of precision must be achieved? How quickly must reports be generated to meet Principle 5’s dictum that they should be produced “...in a timely manner...” “...for normal and stress/crisis risk management reporting.”? It should also be kept in mind that Principle 3 mandates “Data should be aggregated on a largely automated basis so as to minimise the probability of errors.” This would appear to oblige banks to standardise and remediate their reference data across the group, rather than rely on manual intervention and reconciliation. The effort this will entail is, naturally, proportionate to the level of diversity currently tolerated.

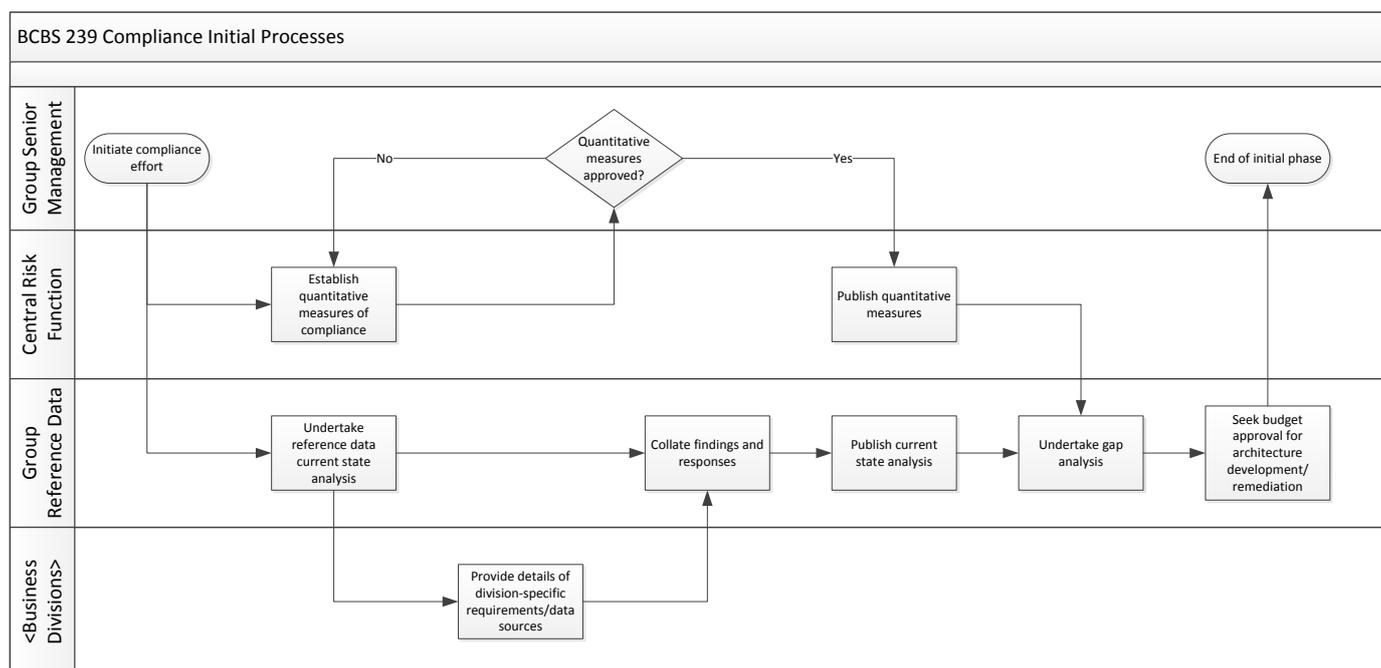
Once the implications of the extent of change that may be required for a global banking group to become BCBS 239 compliant in a robust and sustainable manner, able to cope not only with normal business reporting but also reporting requirements during periods of high market volatility, the deadline of 1st January 2016 begins to look quite challenging.

## INITIATION AND HIGH-LEVEL PROCESS FLOW

Given the above, there are a number of processes that need to be undertaken in order to assess the scope of the compliance task and effort required. These processes can, initially, run in parallel with iterative reviews to ensure coordination and consistency of the deliverables from the various streams.

The two initial major tasks are (i) establishing the levels and standards the bank will consider to constitute compliance with the guidelines and (ii) a comprehensive review of the current state of reference data across the group to enable scoping of the effort required to achieve the “...integrated data taxonomies and architecture across the banking group...” mandated in Principal 2. The deliverables from these two tasks will allow a gap analysis to be performed describing the extent of the remediation and additional development required to deliver the compliant architecture.

These steps are summarised in the diagram below:



If you wish to discuss any of the views expressed in this paper or require further information, please do not hesitate to contact us:

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