



# BCBS 239: Slow and steady progress

Progress report on adopting  
the principles

June 2020

# BCBS 239 Progress Report

- ▶ Since its publication, BCBS 239 has proved challenging in its application and the quest for 'Full Compliance'.
- ▶ The latest report on progress further affirms this with no banks identified as fully compliant with particular struggles identified in the area of Data Architecture and IT Infrastructure.
- ▶ In response, a number of banks have now adopted their BCBS 239 implementation programmes to focus on strategic and more comprehensive solutions in place of deploying tactical solutions.

## Emerging themes

### 1 Tangible progress in several key areas

Tangible progress in several key areas across:

- Governance;
- Data Aggregation; and
- Risk reporting.

Data Architecture and IT infrastructure which underpin the other BCBS 239 principles, remains the key challenge for many

### 2 Challenges for Outsourced data-related processes

Banks have faced challenges in ensuring data accuracy, timeliness and completeness for outsourced data-related processes against the backdrop of growing use of third-party support for data-related processes.

### 3 Extending scope of BCBS 239

Banks are extending scope of principles across other data sets to include regulatory reporting, financial reporting and recovery planning.

### 4 Observations aligned to SREP outcomes

Observations are aligned to the 2019 SREP outcome on internal governance and risk management in which the European Central Bank stated that supervisors remain concerned about poor data aggregation capabilities with many banks demonstrating weak alignment with BCBS 239 principles.

## Covid-19 and BCBS 239

The latest progress report was published just as the economic impact of Covid-19 on financial institutions was becoming clear. Looking at the crisis through a BCBS 239 lens, the crisis is testing banks ability to report accurate data to both regulators, senior management and boards in a timely and accurate manner. This real life 'fire-drill', represents an opportunity for regulators to assess banks ability to report in a time of stress. Banks should take this opportunity to proactively self-asses their own reporting ability during this time and take the necessary steps to address any shortcomings identified.

# Summary of key findings

	Principle	Key findings	EY summary point of view
Overarching governance and infrastructure	<b>1. Governance</b> <b>2. Data architecture and IT infrastructure*</b> <b>Biggest challenge facing banks in terms of achieving compliance</b>	<ul style="list-style-type: none"> <li>▶ Substantial Progress made in implementing P1 with some <b>challenges remaining in data ownership and accountability</b></li> <li>▶ Banks have <b>unaligned IT solutions and legacy systems, which hamper reconciliations of risk data</b>. This hinders banks in producing accurate reports with sufficient granularity to meet ad hoc data requests</li> </ul>	<ul style="list-style-type: none"> <li>▶ Clear ownership and responsibilities for risk data need to be established</li> <li>▶ Ensure regular independent validation of risk data</li> <li>▶ Clear roadmaps for IT infrastructure changes to meet requirements - this should be aligned to key strategic change agenda</li> </ul>
	Risk data aggregation capabilities	3. Accuracy and Integrity	▶ Significant improvement in Data Dictionaries
4. Completeness		▶ Incomplete/partial IT solutions result in difficulties in reconciliation of Risk Data	▶ Establish integrated data taxonomies across the Bank
5. Timeliness		▶ Lack of reconciliations between Risk and Finance data	▶ Establish Data Quality Control Standards with prescribed governance pathway for points requiring escalation
6. Adaptability		▶ Deficiencies in Data Quality Controls	
Risk-reporting practices	7. Accuracy	▶ Reports are static in nature and not complemented by more dynamic dashboard type reporting	▶ Assess manual processes of report production for automation. This will allow more time for providing insights to the report
	8. Comprehensiveness		
	9. Clarity and usefulness	▶ Over-reliance on manual processes to produce reports. Inadequate controls on manual processes	▶ Ensure risk reports are dynamic, allowing for granular reporting on key focus areas
	10. Frequency		
	11. Distribution	<ul style="list-style-type: none"> <li>▶ Risk reports do not provide granular enough information to fully assess certain risk areas</li> <li>▶ Risk reports do not contain information on forward-looking forecasts/stress tests, hampering users' ability to monitor emerging trends</li> </ul>	<ul style="list-style-type: none"> <li>▶ Assess reports to ascertain whether more up-to-date information can be used</li> <li>▶ Ensure risk reports contain forward-looking assessment of risk</li> </ul>

## ■\* Foundational Principles

Failure to fully implement these principles will make it very challenging to meet the remaining principles given the interdependency with other principles.

# Key Themes & How EY Can Help

Progress Paper Key Themes	How EY can help?
<p>Banks should periodically review their BCBS 239 implementation plans to ensure plans are appropriately scoped for ongoing and long-term compliance.</p>	<ul style="list-style-type: none"> <li>▶ Perform assessment of implementation plans and their sustainability. This should include assessment to the latest progress report reviewing plans to ensure proposed solutions are sustainable.</li> <li>▶ Provide support on ensuring implementation plans incorporate and are aligned to wider IT strategic priorities / transformation plans.</li> </ul>
<p>Banks should consider how the capabilities developed under BCBS 239 implementation programmes could benefit other areas e.g., recovery &amp; resolution plans and financial reporting capabilities</p>	<ul style="list-style-type: none"> <li>▶ Support management in providing a structured approach to assess and prioritise potential areas to extend BCBS 239 over.</li> <li>▶ Leverage peer insights to make informed decisions.</li> </ul>
<p>Banks should promptly and appropriately address any weaknesses or gaps identified to the BCBS 239 principles.</p>	<ul style="list-style-type: none"> <li>▶ Support the review of outstanding findings from supervisory inspections, SREP letters or internal audit reports to ensure that any items which would point to non-compliance with BCBS 239 will be addressed with appropriate, sustainable and timely solutions</li> </ul>
<p>Banks should routinely test their ability to produce timely and accurate reports and should regularly simulate capabilities to generate reports during a time of stress.</p>	<ul style="list-style-type: none"> <li>▶ Perform an assessment on the timeliness and accuracy of banks' reporting during Covid-19 to rate banks' ability to report during a time of stress. This should identify any shortcomings with proposed solutions to address issues identified.</li> <li>▶ Leverage peer insights to benchmark timeliness of reporting to the Board and Senior Risk Committees.</li> </ul>
<p>Risk reports should have certain proactive or dynamic characteristics, which support the analysis of various risk types. Risk reports contain information on forwards looking forecast and stress tests and make use of trends allowing users to analyse risk data more effectively.</p> <p>In addition, risk reports should be automated in their production.</p>	<ul style="list-style-type: none"> <li>▶ Perform an assessment of relevant Risk reports currently in-scope of the bank's BCBS 239 programme from both a content and procedural perspective.</li> <li>▶ Leverage peer insights to benchmark content of risk reports both in terms of risk types covered and how those risk are presented / analysed (including where forward looking forecasts and stress tests are used).</li> <li>▶ Provide insights and solution as to how technology can reduce the need for manual production of reports.</li> </ul>

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