



Challenges around the implementation and validation of BCBS239/ Risk Data Aggregation Programme

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South African major banks are currently busy with the implementation of the Risk Data Aggregation rules or BCBS239 regulations, expected to be implemented on 01 January 2017. Are these banks fully aware of the main challenges ahead, and how can they get the best return on their investment and provide assurance to regulators that all elements are under control?

The global financial crisis that began in 2007 revealed that the information technology (IT) and data architectures of many banks, including Global Systemically Important Banks (GSIBs), were incapable of supporting the aggregation of their risk exposures. This also included the lack of identifying concentrations quickly and accurately across multiple dimensions, such as the bank group level, across business lines and between legal entities, stating that both the information technology (IT) as well as the banks data architecture were not the adequate ones to perform an efficient risk management.

Due to this, in January 2013, the Basel Committee (BCBS) released a final set of "Principles for Risk Data Aggregation & Risk Reporting" (BCBS239) to enhance the bank's ability to identify and manage bank-wide risks. In South Africa, Domestic Systemically Important Banks (D-SIBs) must implement these principles by 01 January 2017 and Non D-SIBs will be required to comply on a target date to be determined with the South African Reserve Bank (SARB) on a case-by-case basis.

Following a self-assessment document sent to the banks in February 2014 to determine their readiness to comply with the BCBS239 principles, the SARB has, earlier this month, issued a directive to ensure compliance with the principles and completeness of the bank's response to the principles. That new directive requires the banks to direct their internal and external auditors to conduct a granular verification and validation of the evidence supporting the bank's compliance.

D-SIBs will be required to submit the related compliance report to the SARB by 30 September 2017.

Some of the BCBS239 key trends and recommendations

1. BCBS239 or RDARR are primarily business driven projects, and not IT driven programmes. The ownership and sponsorship of those projects should come from the CRO or CFO within the organisation and the IT components should be developed as an enabler of the business imperatives.
2. Banks are favouring new organisation structure with senior positions such as CDO or Chief Data Officer increasingly created, in charge of the data governance and data coordination across the banks. We are also seeing new phrases such as Know your Data (KYD) coined, a robust culture shift around data quality, ownership and IT architecture. Some banks clearly favour an approach where data producers are also data owners, as they have more insight on the data content and intent, instead of the approach where back-off is by default the data owner and data custodian, with the producer not concerned or involved in the data life cycle post creation.
3. The scope definition and planning of BCBS programmes requires an experienced project manager with a domain expertise in risks (market, credit and operational) and ideally a small size implementation team that fully understands the bank's business, long-term strategy and risk framework. A phased approach using an agile methodology guarantees the ability to quickly review progress, change direction and avoid the risks linked to a big-bang approach.
4. Some banks are designing and developing a large data warehouse as a solution to the BCBS239 requirements, leveraging new technology such as data virtualisation and in-memory aggregation. This approach is to ensure that existing data infrastructures are used without a physical rebuild, and also that aggregation of massive volume of data could be done effectively. Those massive transformation projects require significant investment in architecture design to ensure flexibility and scalability of the solution, but also the ability to address overlapping regulatory initiatives such as IFRS9, FRTB and more.

KPMG Response

1. In addition to supporting our clients locally and internationally on all phases of the Risk Data Aggregation(RDA) or BCBS239 projects, we have developed a customised solution to evaluate the current compliance status and the allocation of already existing documents to prove compliance:
 - a. The solution assesses compliance status for each risk type, regulatory reporting, accounting and IT data quality.
 - b. The evaluation is done in several workshops with each relevant risk discipline and key contacts from the bank.
 - c. A detailed questionnaire including benchmark information and structured deliverables foster an efficient and focused assessment of the compliance status.
 - d. The assessment is conducted based on the BIS well-known four-point rating scale.
 - e. The KPMG solution also provides an identification of pending deliverables to prove compliance.
2. Finally, KPMG in South Africa is organising a BCBS239 focused cocktail event on Wednesday, 5 October. Fanny Luthmann, a Partner at KPMG in Germany responsible for RDA/BCBS239 projects will be participating. This event will take place at KPMG from 17:00 to 20:00.

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