

BCBS239 - A renewed ECB priority

Data governance framework, including the role of the 'validation function'

This is the third of a series of seven one-page summaries that Avantage Reply is issuing on the ECB guide on RDARR.

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Introduction

On 3rd May 2024, the ECB released its Guide on Effective Risk Data Aggregation and Risk Reporting (RDARR), relating to the Principles adopted by the Basel Committee on Banking Supervision (BCSB 239). The ECB outlined its supervisory expectations across seven key areas; this one-pager focuses on the ECB's expectations regarding the data governance framework in Significant Institutions (SIs).

In its report on the 2023 Supervisory Review and Evaluation Process (SREP) exercise, the ECB highlighted that SIs continue to struggle with implementing the RDARR governance framework. The framework remains the lowest-rated sub-category of Internal Governance, a critical component of the SREP. The ECB observed that the current frameworks fail to cover an adequate scope of application (refer to our [One-Pager on the Scope of Application](#)). To address this, the ECB's 2024 Guide underscores the importance of establishing a data governance framework. The ECB sets out the minimum elements of such a framework.

1 Data Owners play a fundamental role within the data governance framework, being responsible for key risk indicators (KRIs) and critical data elements. This entails, among other tasks, contributing to the definition of data quality controls, classification of KRIs, monitoring and reporting of data quality, remediation of data quality-related issues, and management of metadata.

Interestingly, the ECB provided guidance on front-to-back data ownership when processes include data transformation, a common feature in SIs. In essence, the data owner is typically the function responsible for capturing data in the front-end systems (with data errors corrected at the source to avoid recurrent manual corrections downstream). For derived data, the function responsible for the calculation will own the newly stored information, with service level agreements ensuring data quality throughout the aggregation process, in cooperation with data users.

2 When it comes to the central data governance function, the Guide clearly articulates four main responsibilities:

- Issuing policies and procedures for data quality management;
- Overseeing the proper implementation of the data governance framework across the institution;
- Ensuring the evaluation and monitoring of data quality; and
- Participating in change management processes with a material impact on , such as mergers or acquisitions of significant legal entities, outsourcing of functions to third parties, the launch of new products, and the introduction or upgrade of tools.

3 A validation function within the second line of defence that is independent from the units involved in data governance, processes and ensures that the institution's processes are functioning as intended (e.g., by performing assessments of the SI's capabilities).

4 An internal audit function that periodically provides independent reviews of the validation function, data governance framework, capabilities and processes and the quality of data used for the quantification of risks.

[1] [Guide on effective risk data aggregation and risk reporting](#), ECB, May 2024uld not dilute the collective accountability and responsibility of the Management Body.
[2] [Feedback statement on responses to the public consultation on the ECB draft Guide on effective risk data aggregation and risk reporting](#), ECB, May 2024