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BCBS239 - A renewed ECB priority

The Scope of BCBS239 Application in the European Union

This is the second of a series of seven one-page summaries that Avantage Reply will issue 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 scope of application of BCBS 239 in Significant Institutions (SIs).

There are several aspects that stand out when it comes to the scope of application, notably the fact that the ECB's expected scope of application – articulated in writing as early as 2019[1] and reiterated in the Guide – is significantly broader than in other jurisdictions, as clarified in the ECB's Feedback Statement on the Responses to the Public Consultation (May 2023).

Holistic and Embedded

In each Member State of the EU, the national transposition of the Capital Requirements Directive (CRD) provides the legal basis for the application of BCBS239, i.e. SIs are expected to "establish a **data governance framework** that allows the supervised institution to identify, manage, monitor and report risks." [2]

The ECB expects the framework to be **applicable to** all material legal entities, risks, business lines, as well as financial and supervisory reporting processes, and to cover the end-to-end lifecycle of the data. More importantly, the ECB expects the framework to be **embedded**, meaning fully integrated into the SI's governance arrangements.

Defining the Scope

An SI's data governance framework should clearly define and document the scope of application. This includes setting out the reports, models, and key risk indicators (KRIs) that are within scope, taking the SI's risk profile into account (e.g., intraday liquidity risk indicators may be very relevant for certain SIs and less so for others).

The Guide provides guidance on the reports, models, and KRIs that should be within scope. However, the Guide does not specify BCBS 239 requirements for particular risk types nor does it summarise existing ECB publications other than a few key ones such as the ECB Guide on the ICAAP (2018). When defining the scope of application, each SI should not only take its own risk profile into but it should also conduct an exercise to identify the ECB publications that have a bearing on the scope of application (e.g., Chapter 3 of the ECB Report on Good Practices for Climate Stress Testing (December 2022).

Last but not least, it is essential to read Section 3.2 of the Guide on Scope of Application together with Section 3.1 on the Responsibilities of the Management,[3]which requires that "the Management Body should approve and implement the institution's data governance framework." It is a core expectation that the scope of application be reviewed and challenged by the Management Body and subject to regular reviews thereafter in light of changes in the Business and/or regulation (e.g., entry into force of DORA in January 2025).

The ECB's comprehensive scope underscores its intent to include any relevant data material to significant institutions' risk and strategy. The clarifications counter banks' arguments that "risk data aggregation" should be more limited towards risk reporting as can be easily understood from the ECB's feedback statement. Instead, the ECB broadens the definition to encompass any data used for strategic decisions or impacting relevant material risk reporting. By setting these guidelines, the ECB ensures institutions maintain high standards of data governance, facilitating better risk management and strategic decision-making. This approach enhances the robustness of financial and supervisory reporting, ensuring institutions are well-prepared to handle diverse and evolving risk landscapes.

Reports, Models and KRIs

The Guide sets out the ECB's recommendations in terms of reports, models, and KRIs to be included within scope, emphasising the need to cover all material risks and risk concentrations. In this regard, Section 3.2 is a must-read. At a high level, it sets out that the following be in scope:

• Reports:
- Internal risk reports used in decision-making and steering processes, including risk appetite indicators and main risk reports per material risk type;
- Financial reports that are externally published, including annual financial statements;
- Supervisory reports, such as FINREP/COREP templates, EBA stress tests, and Pillar 3 disclosures.

• Models: Key internal risk management models, including Pillar 1 regulatory capital models, Pillar 2 risk and capital models, and other key risk management models like IFRS9 models. This includes both input data for model development and resulting model outputs crucial for managing institutional risks.

• KRIs: Risk appetite indicators and other key risk indicators referenced in the internal risk, financial, and supervisory reports and models mentioned above.

And, as a Consequence…

The implications are clear: For all reports, models, and KRIs within scope, all the provisions defined in the data governance framework are applicable. For example, KRIs included within the scope of application should have a complete end-to-end data lineage and be subject to data quality management requirements.

[1] Refer to "Supervisory expectations on risk data aggregation capabilities and risk reporting practices: the letter of the Chair of the SSM Supervisory Board to all significant institutions", ECB, June 2019.
[2] Refer to Articles 74 and 76 of the CRD and Section 3.2 in the Guide.
[3] Refer to Reply's One-Pager at on the Responsibilities of the Management Body.

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