

BCBS 239

Take Action to Ensure Compliance
and Deliver a Competitive Advantage

ORACLE WHITE PAPER | JUNE 2014





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Introduction

The Basel Committee on Banking Supervision (BCBS) 239: Principles for Effective Risk Data Aggregation and Risk Reporting – known as the 14 Principles – are intended to address a pervasive issue exposed in the financial crisis – the fact that many banks lack “the ability to aggregate risk exposures and identify concentrations quickly and accurately at the bank group level, across business lines and between legal entities.”¹

BCBS 239 emerges directly from the lessons and challenges of the financial crisis, including inadequate IT and data architectures, inability to accurately aggregate risk exposure, difficulty quickly identifying concentrations, weak risk reporting practices, and poor data governance. These factors, when combined with stresses of the times, contributed to banks’ inability to manage their risks.

BCBS 239 was developed with several objectives in mind, including strengthening banks’ infrastructures for risk data aggregation and reporting, enhancing decision making processes, and better aligning legal entity and group information. The principles also look to improve banks’ timeliness in providing information, boost strategic planning capabilities, and, most importantly, reduce the impact of losses. (See Figure 1.)

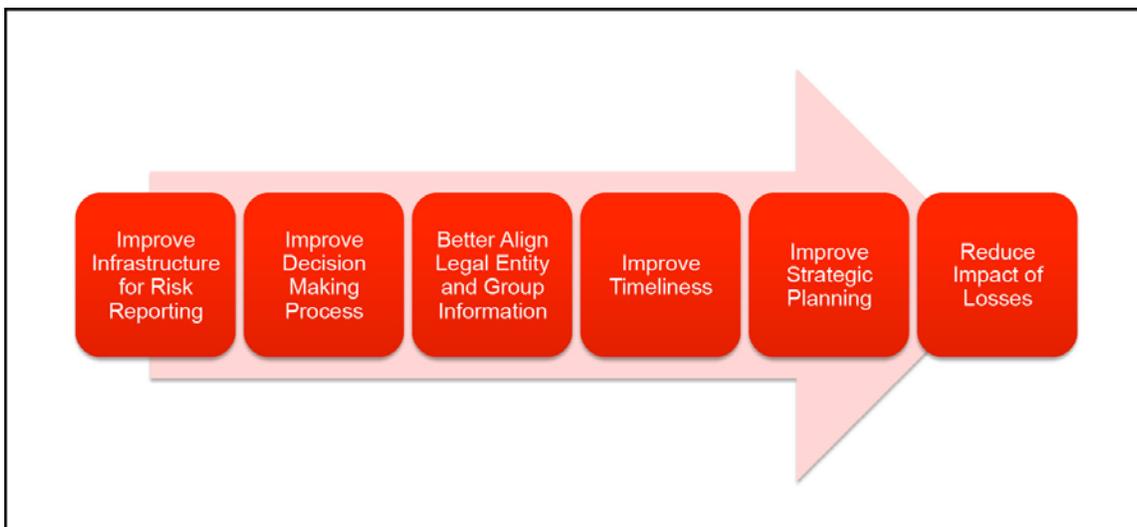


Figure 1.

¹ Principles for Effective Risk Data Aggregation and Risk Reporting, Bank for International Settlements. January 2013.



To meet the 14 Principles requirements, which go into effect for approximately 30 global systemically important banks (G-Sibs) in January 2016 (with other organizations to follow), financial institutions must create an unequivocal single source of truth across risk and finance to ensure data consistency, transparency, security, and traceability. Self-assessments were due in 2013, and this year, G-Sibs are focusing on defining strategy and addressing gaps between the self-assessment and risk aggregation framework.

The need for analytical transformation, spurred by the 14 Principles, presents an essential opportunity for banks to integrate, improve, and streamline legacy approaches to risk data management and reporting. Creating an enterprise-wide analytical platform not only facilitates BCBS 239 compliance, it also helps to align risk and finance in a way that yields unprecedented visibility and actionable insight – a powerful foundation for improved performance.

Address Root Causes

The 14 Principles (See Figure 2.) – which focus on four areas – governance and architecture, risk data aggregation, risk reporting, and supervisory review – address an important and pressing point: most banks have been facing data and reporting issues that have prevented them from achieving a comprehensive view of their risk exposures.

A recent survey by the Basel Committee's Working Group on SIB Supervision (WGSS) highlighted the primary weaknesses – namely banks' continued reliance on manual workarounds, a lack of a consolidated view of risk, fragile risk systems, less than satisfactory risk data governance, opaque definitions of data ownership, weak controls around data quality assurance, and not enough documented policies and procedures around risk data aggregation.



Figure 2

These problems have a complex genesis, largely related to the proliferation of information silos. Applications sprung up throughout the institutions, serving specific functions. As new requirements and regulations came on line, enterprises built new platforms to address them, whether around enterprise risk management, operational risk and compliance, enterprise performance management, or customer insight. In these environments, there was manual or limited sharing of data and a lack of consistency, which limited visibility while adding significant complexity.

Whether these problems originate in the proliferation of siloed systems or in the sheer complexity of the business organization, the target should be the same: building a single source of truth for risk data that is accurate, clear, complete, and readily accessible. It should also be reconciled with finance data so all stakeholders in the bank can



rely on the figures and reports derived from it. Combined, this approach creates a common language that can bring closer and more successful alignment of risk and finance operations moving forward.

The primary challenge for complying with BCBS 239 is how to get the data ready, moving from a fragmented siloed data environment driven by disparate systems to a unified data foundation that yields clean and reconciled data that is accurate and actionable.

Set Sights on Unification

Each institution will have its own needs based on its legacy environment and unique requirements. There are two primary approaches to achieving the transparency and integrated reporting capabilities required for BCBS 239.

The first approach could be called “Integration to the Rescue.” It involves various point integrations within and across company functions, including risk, performance, compliance, and customer relationship management. This approach has become business as usual for many financial institutions, but it is not necessarily the best path forward. It is rigid, complex, and costly, and the integration points can break easily. The environments are also not readily amenable to auditing, and do not provide the future-proof capabilities required in today’s rapidly changing market.

The second approach is centered on the emergence of a unified enterprise risk management and reporting platform that extends beyond integration in several important ways. First, it is built on a common infrastructure, data models, technologies, and components that drive inherent visibility. As important, it is engineered and designed to work together now and into the future as requirements and regulations change.

Triple the Benefits

A unified platform affords three important benefits. First, it provides a common data infrastructure that builds a single source of truth, supports common data taxonomy and metadata, and begins to bridge gaps between risk and finance by reconciling quality data with the general ledger. It also makes common data available across all risk models and applications, consolidates results for effective reporting, and gives a foundation for an enterprise-wide common stress test framework. Having such a capability eases the level of manual intervention and manipulation of data and ensures that disputes on the content of common data across multiple reports are kept to a minimum. Ultimately, this will prove invaluable during a crisis scenario, in which senior management needs to be reassured that the bank’s risk profile, (as represented by a suite or risk reports) is accurate and reliable, such that the agreement of a defensive strategy can be made objectively, quickly and, most importantly, confidently.

In addition, the unified platform approach enables more effective data usage thanks to stronger model governance, risk materiality assessments, business environment and internal control factors, monitoring and controls of issues, and action monitoring. Given that Tier 1 financial institutions would employ hundreds, if not more, different models across business units and geographies, there is a real risk that the risk data life-cycle would become onerous to manage, thus exposing the institution to model risk as a result of disparate data silos. Bringing risk data under the governance umbrella of a unified framework, not only brings operational benefits, but strategically ensures exposures and related risks are fully captured, thus minimizing the probability of underestimating the overall risk.

Finally, the approach supports comprehensive and consolidated reporting. This includes risk materiality reporting, risk appetite reporting/monitors, consolidated reporting across all risk categories, an exploration environment that uses predictive analytics, and mobile analytics (which are becoming increasingly important). (See Figure 3.)

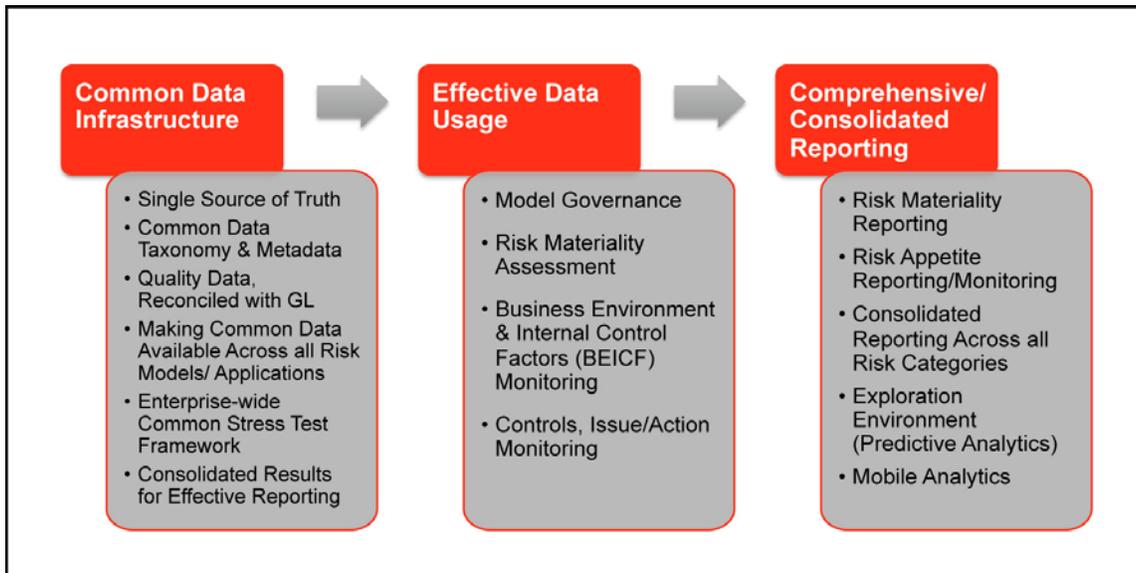


Figure 3

Chart the Road Ahead

The following considerations can provide useful guidance when considering and moving toward adoption of a unified risk management and reporting platform:

- » **Start with a common data model.** All reference data must be commonly sourced and its integrity managed accordingly. A common data quality methodology must also drive all data (including reference data) and include business quality methods, such as financial reconciliation.
- » **Focus on flexibility.** Aspire to create a “living environment” equipped to accommodate change at multiple levels. Minimally, new organizational arrangements, new data granularities and frequencies, new computations, and new reporting and analytical demands must be handled within the production process.
- » **Work to simplify data flow.** Data should flow from sources to results with progressive aggregation designed for responsiveness and efficiency. Efforts to simplify the risk/finance data life-cycle will encourage transparency and alleviate the data bottlenecks commonly experienced in a disparate, silo-based architecture.
- » **Look to reconcile data rather than results.** Ensure data is reconciled across all granularities at the outset, so there are no concerns when results are produced. When the data process is engineered to bring about greater governance, reconciliation exercises at the lowest level will become easier, and faster and disputes between end users and IT will be minimized.
- » **Ensure auditability of results to data.** Any resulting informational element should be traceable to the underlying data via the intermediate aggregations and computations. Transformations and calculations must be completely traceable and auditable, in such a way that all data movements happen in a transparent manner.
- » **Create a consolidated results area for all risks, including stress-testing.** This approach enables the bank to capture and aggregate all material risk data across the banking group. It should also ensure that it makes data available for all the dimensions defined by the bank (business line, legal entity, asset type, etc.) and enables drill-down to the most granular level.
- » **Design for use and performance.** The system should distinguish many types of uses and workloads and design for those appropriately, including the ability for extreme processes when needed.
- » **Seek a set of industry-specific and integrated analytical applications.** This approach speeds time to value, reduces IT management costs going forward, and builds on proven industry expertise and that help financial institutions to measure and meet risk-adjusted performance objectives.



Tackling Real-World Issues

Analytical transformation in financial institutions can play out in many ways. While helping to facilitate and streamline compliance, its benefits extend far beyond mere regulatory compliance, when insight is used to manage risk proactively and drive the organization forward. We consider two examples below.

A large multinational bank had recently acquired another formidable institution. The government then took a stake in the bank as the result of a financial crisis. The bank needed to unify its risk and finance processes to gain greater transparency and consistency throughout the increasingly complex enterprise. It also had to present a coherent picture to the regulators across its risk and finance numbers. Finally, the bank needed to reduce its financial close and regulatory reporting process from 20 days to five days.

After significant consideration, the bank decided to adopt a unified analytical platform that spans all risk types. The approach enabled the bank to break down the silos between risk, finance, accounting, and compliance. In addition, the single platform could run large-volume financial processes in just a fraction of the time previously required. Further, the bank gained an improved data architecture to achieve consistency between financial close and management reporting processes and an automated means of reconciling outputs to the general ledger. At the same time, the firm built a solid analytical platform that would enable it to comply with the 14 Principles and put the insight gained from integrated reporting to work within the organization to improve performance enterprise wide.

Another bank, facing somewhat different circumstances, leveraged a unified analytical platform to solve a pressing business challenge and created a solid foundation for BCBS 239. The bank, a large North American financial institution, did not have a unified view of its exposures and was struggling to turn around stress tests responsively. It wanted to create an enterprise risk data infrastructure that would yield a unified view of exposures across the bank, including across specific lines of business. In addition to the need to improve stress testing responsiveness, the firm also wanted to be able to address future risk, treasury, and finance use cases.

The bank deployed a unified analytical platform and rapidly broke down silos between risk, finance, and compliance. It also created a single platform capable of running stress tests and the supporting applications in a fraction of the time previously thought possible. The common stress testing framework ensured that shocks and scenarios were consistently applied. This not only helped to boost compliance, but ensured more timely and actionable data for C-level and line of business managers. Further, the bank improved the data architecture to enable what-if analysis and cross-functional insight as well as automated reconciling outputs to general ledger.

In both cases, these organizations implemented a stronger, more reliable, repeatable, and comprehensive risk data management framework that enabled them to improve overall performance and compliance while driving down operational costs.



Conclusion

The BCBS 239 paper goes into extensive detail of each of the guiding principles. As such, it should be noted that high frequency risk data aggregation and reporting simply will not flow out of a set of disparate processes and applications. Rather, there needs to be a clear understanding of what data is used where, for what purpose, for what frequency, and by whom. The entire risk data cycle should be transparent, detailed, and well documented.

The 14 Principles present an important opportunity for banks to improve and streamline their approach to risk data management. The benefits from unifying risk data sourcing and processing go far beyond regulatory compliance. Simply stated, the implementation of a single, transparent, and auditable framework will create a common language that encourages unprecedented alignment between risk and finance and helps organizations to realize the many benefits of this important, but until this time, elusive goal.



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