

ECB Guide on effective risk data aggregation and risk reporting

Quantitative Risk Services

June 2024

Introduction

In May 2024, European Central Bank (ECB) released its final guide on effective risk data aggregation and risk reporting, accompanied by a feedback statement on the consultation that shaped the guide. This document aims to address persistent challenges in risk data management within financial institutions, emphasising the importance of accurate and comprehensive data for sound decision-making and regulatory compliance.

Why is managing risk-related data crucial for financial institutions?

Effective management and aggregation of risk-related data is vital for sound decision-making and robust risk governance. Accurate data supports both strategic and operational decision-making, and is essential for risk, financial, and supervisory reporting.

What are the benefits of accurate data?

Industry studies highlight the economic benefits of accurate data, such as advancements in digitalisation, improved risk management, and more effective strategic steering, leading to higher revenues and profitability. In the long term, accurate data can reduce operational and IT costs through better automation and robust IT architectures and systems.

What is the ECB's role in improving risk data practices?

ECB Banking Supervision has prioritised governance and quality of risk data since its inception. In 2016, the ECB conducted a thematic review of effective risk data aggregation and risk reporting (RDARR) based on the BCBS 239 principles. The review revealed significant shortcomings across institutions, none of which fully adhering to the principles.

What steps has the ECB taken to address these issues?

In response to these findings, the ECB has intensified its supervisory approach, urging institutions to make substantial improvements. Despite increased scrutiny, progress has been insufficient, and many structural deficiencies remain unaddressed. After allowing institutions time to adhere to the principles, the ECB started conducting various On-Site Inspections (OSIs) across regulated institutions.

What is the purpose of this Guide?

The guide outlines ECB's expectations for RDARR, aiming to strengthen institutions' capabilities and address identified shortcomings. It applies national, EU laws, BCBS 239 principles, offering recommendations for enhanced data governance and risk reporting practices.

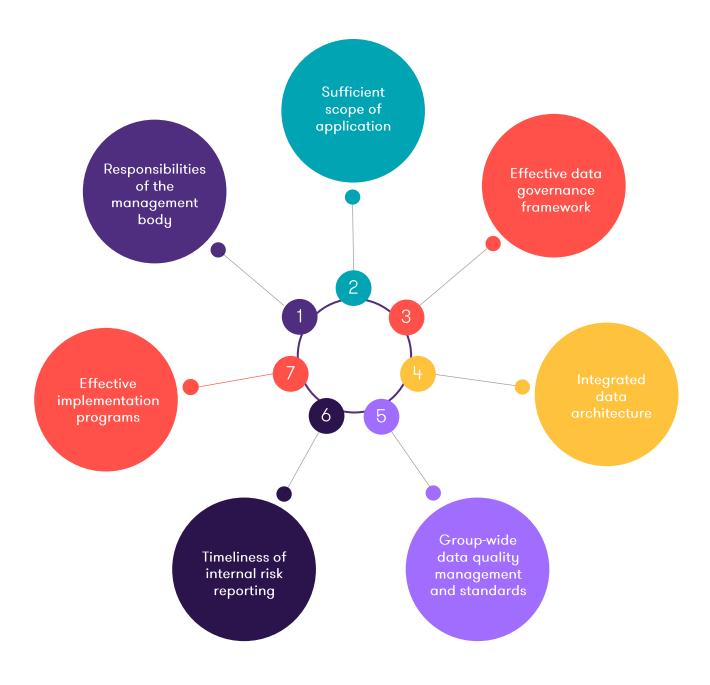


Areas of ECB Expectations

ECB's areas of focus related to Risk Data Aggregation and Reporting

ECB urges significant institutions to improve data aggregation and internal risk reporting across seven critical areas for robust governance and effective risk management. They are advised to act promptly if not already addressed.

The diagram below presents the 7 areas from ECB guidelines related to robust governance arrangements and effective processes for identifying, monitoring, and reporting risks:



Overview of the ECB Expectations

Responsibilities of the Management Body

This section outlines the management body's oversight of an institution's goals, risk strategy, and governance according to the ECB guide. More specifically, the management body is responsible for the following:

ECB expectations related to the Management Body

- Accepting accountability and exercising full responsibility for risk data quality and governance
- Making RDARR a key priority and allocating adequate resources
- Overseeing, prioritising and monitoring key deliverables within the agreed timelines of remediation programs

- Selecting members to implement the Data Governance Framework
- Setting clear roles and responsibilities for RDARR within the organisation
- 6 Ensuring implementation of RDARR policies and processes at the group level

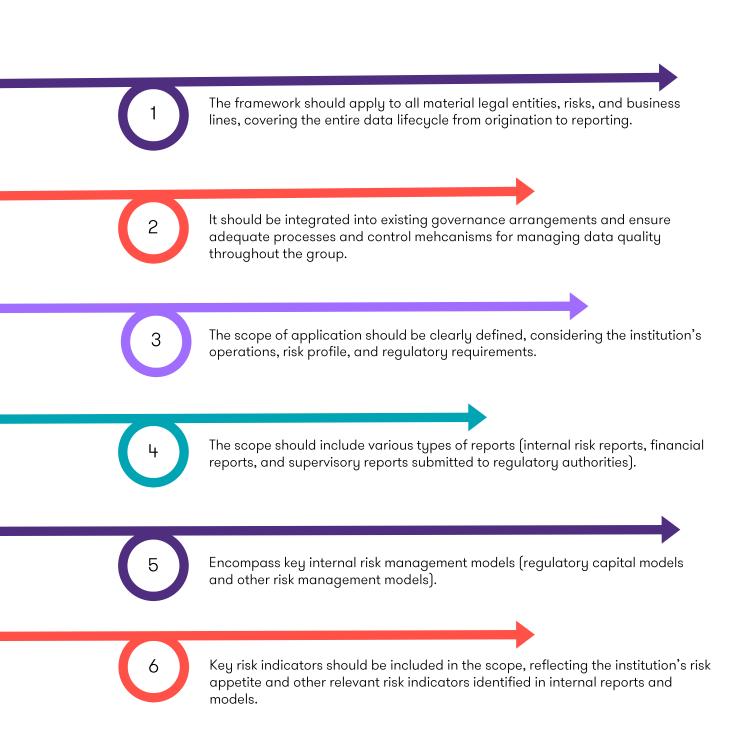
- Confirming the meaningfulness and balance of internal risk reports
- Monitoring data quality key performance indicators and action plans
- Ensuring management body members have sufficient understanding (knowledge and skills) of data management and related risks

- Assessing its members' expertise in data management, IT, financial and nonfinancial risks, and reporting requirements to ensure suitability.
- Undertaking regular trainings on institution risks, including data management, IT, financial, and nonfinancial risks, tailored to their roles.

Overview of the ECB Expectations

Sufficient Scope of Application

This section emphasises the importance of establishing a comprehensive data governance framework to identify, manage, monitor, and report risks effectively. There is a need for a comprehensive and integrated approach to data governance, ensuring that all relevant aspects of risk management are covered to support informed decision-making and compliance with regulatory requirements.



Overview of the ECB Expectations

Effective Data Governance Framework & Integrated Data Architecture

The diagrams below emphasise the importance of establishing an effective data governance framework as well as the necessity for implementing an integrated data architecture. The former ensures the quality and integrity of data used for risk management and reporting purposes, whereas the latter ensures the quality and integrity used for risk supervisory, and financial reporting.

Effective Data Governance Framework

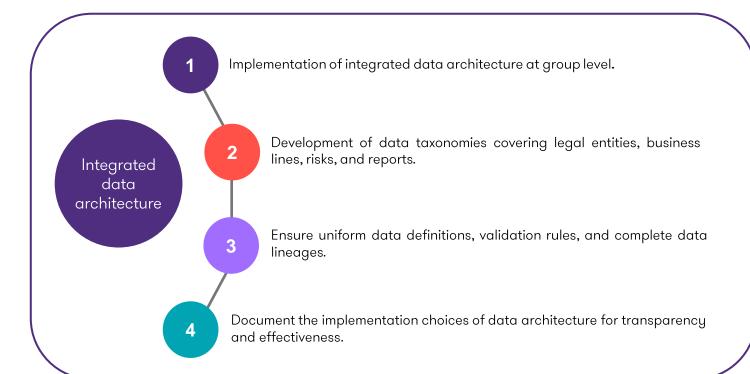
Clear allocation of roles & responsibilities for data quality across business, internal control, and IT functions, including ownership of key risk indicators and critical data elements.



Establishment of clear data quality requirements in internal policies, detailing processes, roles, and decision-making, approved at the right level, and reviewed regularly.

data elements such as data ownership, central governance, independent validation, and regular internal audit for effective governance.

Establishment of minimum



Overview of the ECB Guidelines

Group – Wide Data Quality Management and Standards

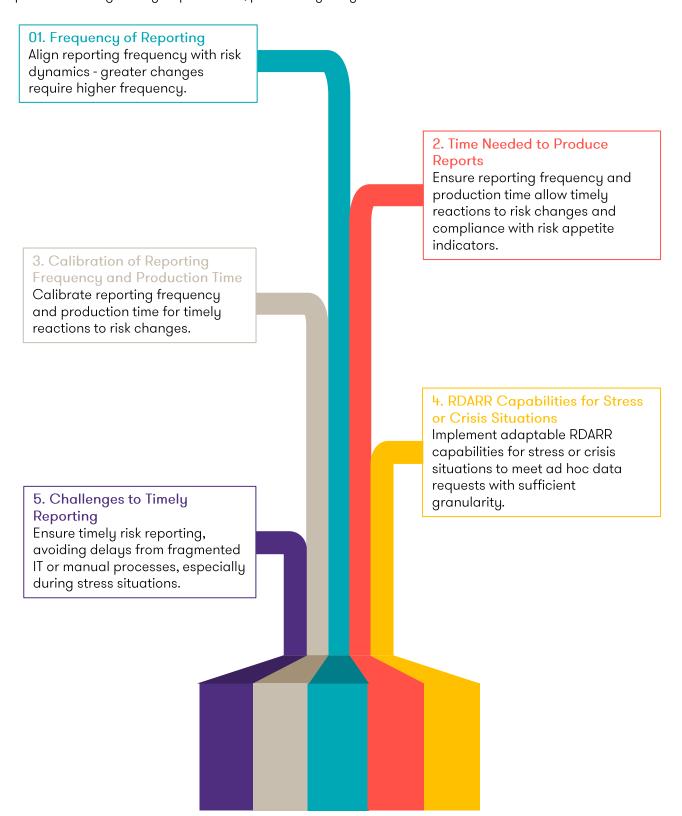
This ECB expectation outlines the importance of group-wide policies and processes for effective data quality management within the risk management framework. This ensures consistent, accurate, and reliable data, supporting informed decisions, regulatory compliance, and effective risk management by identifying and addressing data quality issues.



Overview of the Expectations

Timeliness of Internal Risk Reporting

The guideline includes the ECB's expectations regarding timely and accurate internal risk reporting, which is crucial for ensuring informed decision-making, prompt risk management actions, and compliance with regulatory requirements, particularly in dynamic and stressful environments.



Overview of the Expectations

Effective Implementation Programmes

Effective implementation programs are essential for addressing weaknesses and gaps in meeting BCBS 239 Principles, ensuring compliance, and enhancing risk management capabilities within institutions. Specifically, institutions should focus on meeting the following ECB expectations:

1.
Identification
of Gaps and
Weaknesses

Identification of Gaps and Weaknesses: Institutions need to identify gaps and weaknesses through evaluations, including ECB's, then address them through programs.

2.
Project
Management
<u>Go</u>vernance

Project Management Governance: Institutions require robust project management governance in effective implementation programs, with proper risk control measures and ample resources.

3. Clear Definition of Remedial Actions

Clear Definition of Remedial Actions: Implementation plans need to clearly outline remedial actions, targets, milestones, roles, responsibilities, and, if necessary, interim steps to address weaknesses that take longer to resolve.

4.
Consideration
of Impacts

Consideration of Impacts: Implementation activities should consider their potential effects on internal models, interactions, and interdependencies of risk data aggregation with financial reporting frameworks, and overall business and ICT strategies.

5. Ambitious yet Feasible Programs

Ambitious yet Feasible Programs: Implementation programs should aim to address weaknesses ambitiously while being realistic about resource allocation and timelines.

6.
Periodical
Reporting in
Progress

Periodical Reporting on Progress: Institutions need regular progress reporting on implementation, analyzing obstacles, delays, etc. management oversees timelines, milestones, and gets consistent updates.

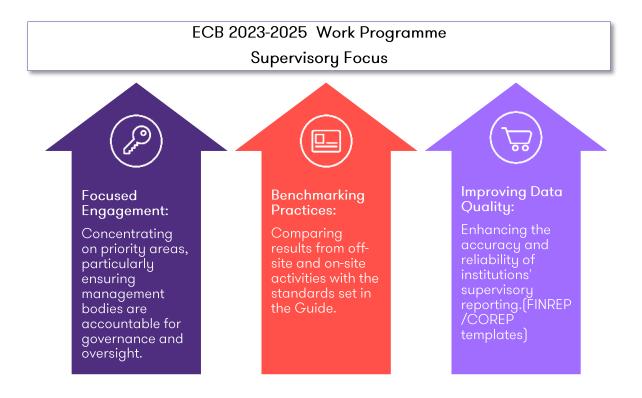
7.
Appointment
of
Responsible
Members

Appointment of Responsible Members: Appoint one or two management members to execute and report on the program's progress to the supervisory function. They need to address any implementation delays.

Supervisory Approach

2023-2025 ECB Work Programme: Key Building Block

The Guide outlines the ECB's minimum supervisory expectations for priority topics crucial for effective RDARR, serving as a cornerstone of the 2023-2025 work programme.



The ECB Banking Supervision will intensify its focus on RDARR and undertake the following actions:

Increase Supervisory Intrusiveness	Enhance scrutiny in SREP assessments, targeting areas where previous actions failed.
Strengthen Control Measures	Address internal control gaps with RDARR as priority, setting clear remediation deadlines.
Escalate Enforcement	Take action if requirements aren't met, potentially resulting in sanctions or management changes.
Assess RDARR in Activities	Integrate RDARR into supervisory activities, including evaluating consolidation transactions and fit and proper assessments, stressing its role in managing risks linked to digitalization, data management, IT security, and environmental factors.
Enhance Data Quality	Enhance data quality measurement via management reports and on-site inspections, with RDARR emphasis.
Clarify Expectations	Reinforce RDARR expectations to enhance data governance and risk management

How can Grant Thornton support you?

Elevate your RDARR practices by leveraging our specialised <u>support in assessments</u>, policy development, governance structuring, advanced technological solutions, and compliance guidance, aligning with ECB expectations to bolster your risk data aggregation and reporting processes.

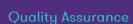
Assessment and Gap Analysis

We can conduct assessments to identify gaps in current risk data aggregation and reporting practices, aligning with ECB guidelines.



Training and Education

We can offer training programs and educational resources to equip staff with the knowledge and skills required to adhere to ECB guidelines in risk data aggregation and reporting practices.



We can provide support in implementing quality assurance measures to maintain data integrity and accuracy throughout the risk data aggregation and reporting lifecycle, as per ECB guidelines.



Technological Integration

We can implement advanced technological solutions to streamline risk data aggregation processes and enhance reporting capabilities.

Policy Alignment

We can assist in developing and aligning policies with ECB guidelines to ensure compliance in risk data aggregation and reporting processes.



Governance Framework Establishment

We can establish robust governance frameworks in line with ECB expectations to govern risk data aggregation and reporting activities effectively.

Contact

Our team specialises in implementing effective risk data aggregation and reporting practices aligned with ECB guidelines. From assessment to policy alignment and technological integration, our flexible services ensure accurate and reliable reporting. Let's enhance your RDARR processes together. Contact us today for tailored support.



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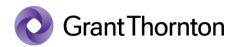
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