

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



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.

1

The framework should apply to all material legal entities, risks, and business lines, covering the entire data lifecycle from origination to reporting.

2

It should be integrated into existing governance arrangements and ensure adequate processes and control mechanisms for managing data quality throughout the group.

3

The scope of application should be clearly defined, considering the institution's operations, risk profile, and regulatory requirements.

4

The scope should include various types of reports (internal risk reports, financial reports, and supervisory reports submitted to regulatory authorities).

5

Encompass key internal risk management models (regulatory capital models and other risk management models).

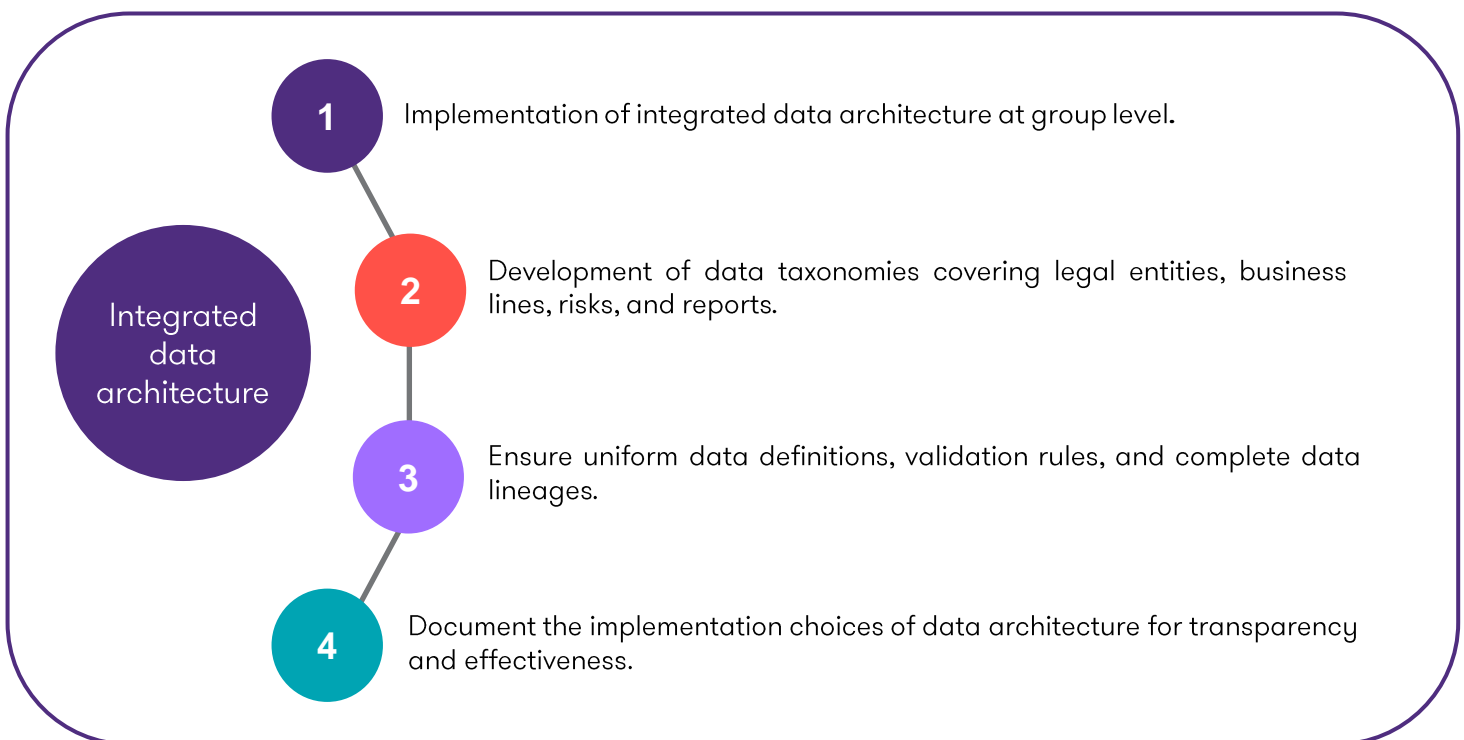
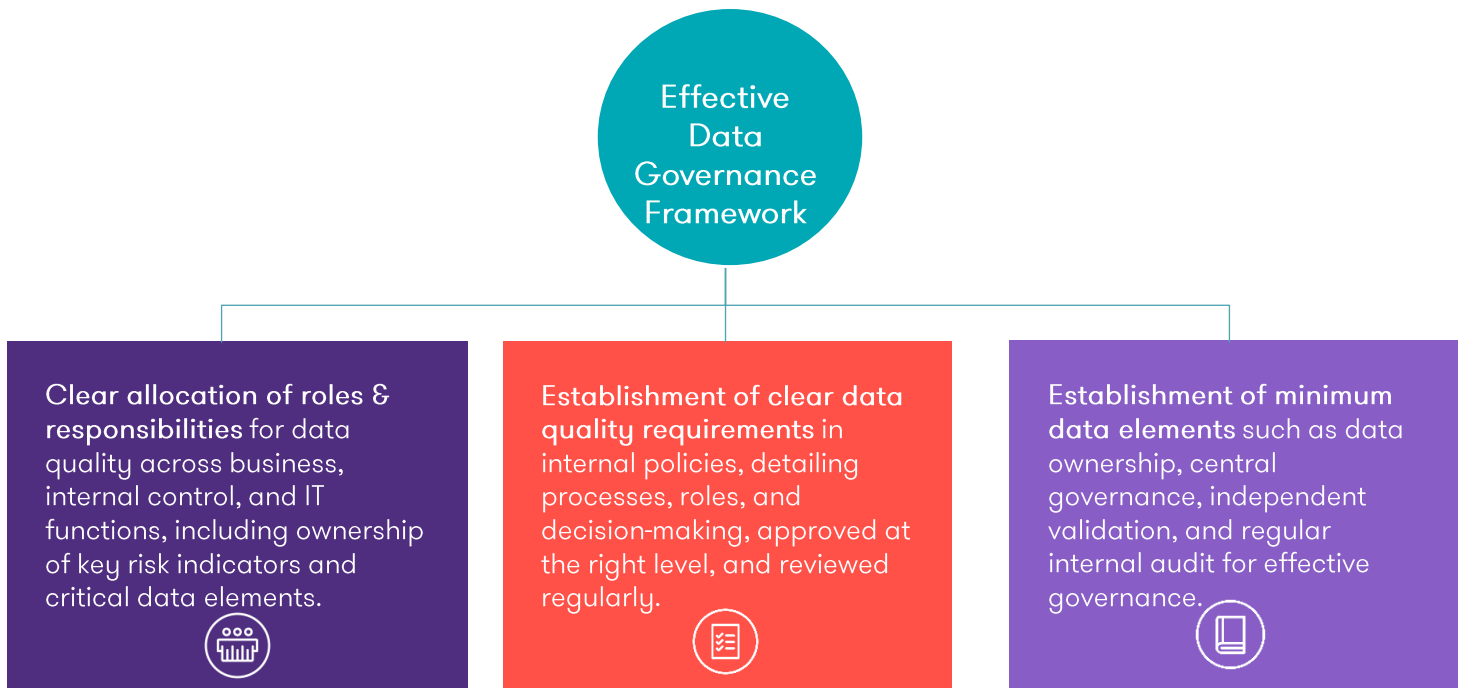
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Key risk indicators should be included in the scope, reflecting the institution's risk appetite and other relevant risk indicators identified in internal reports and models.

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.



Overview of the ECB Guidelines

Group – Wide Data Quality Management and Standards

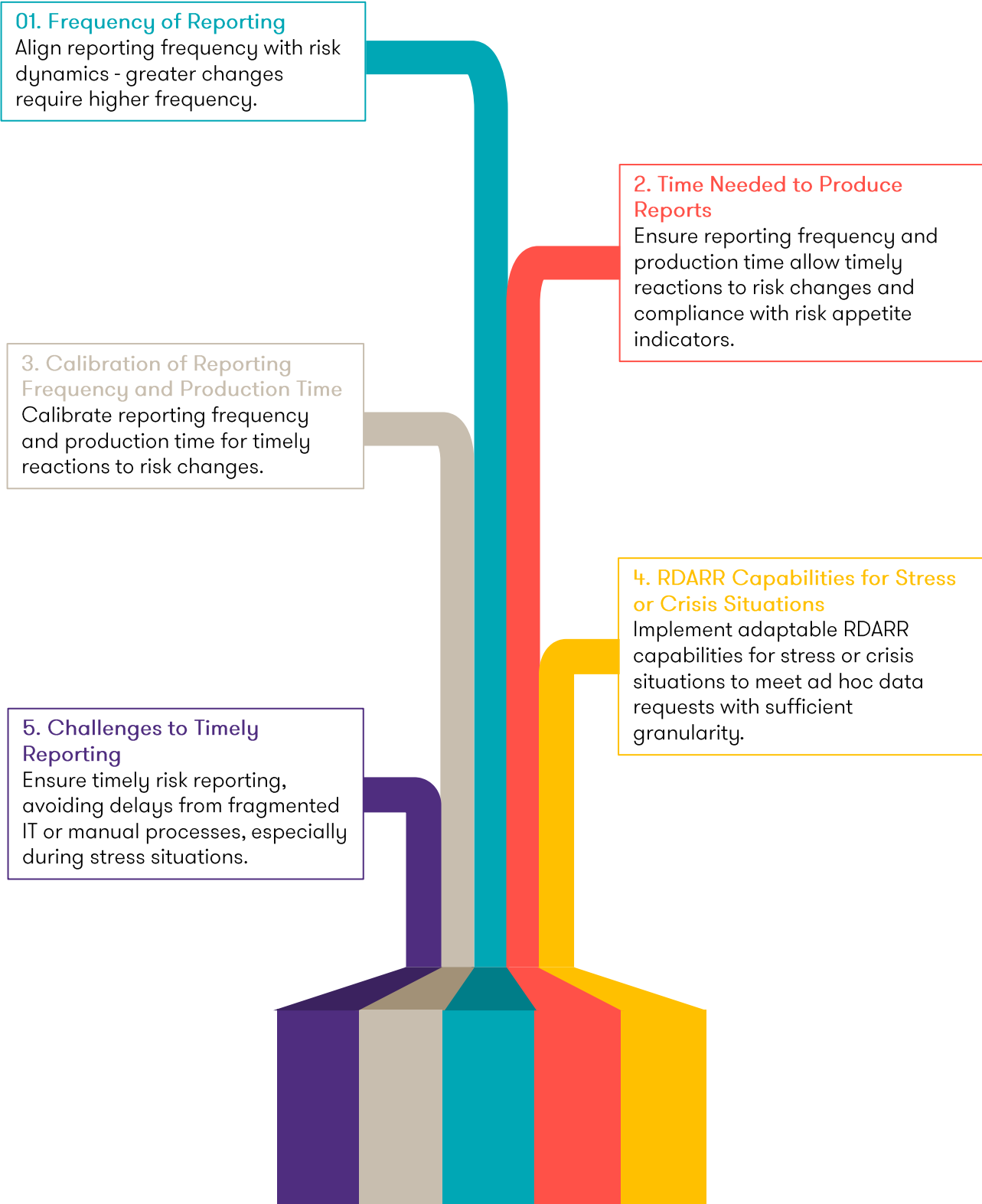
This ECB expectation outlines the importance of group-wide policies and processes for effective data quality management within the risk management framework. This ensures consistent, accurate, and reliable data, supporting informed decisions, regulatory compliance, and effective risk management by identifying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

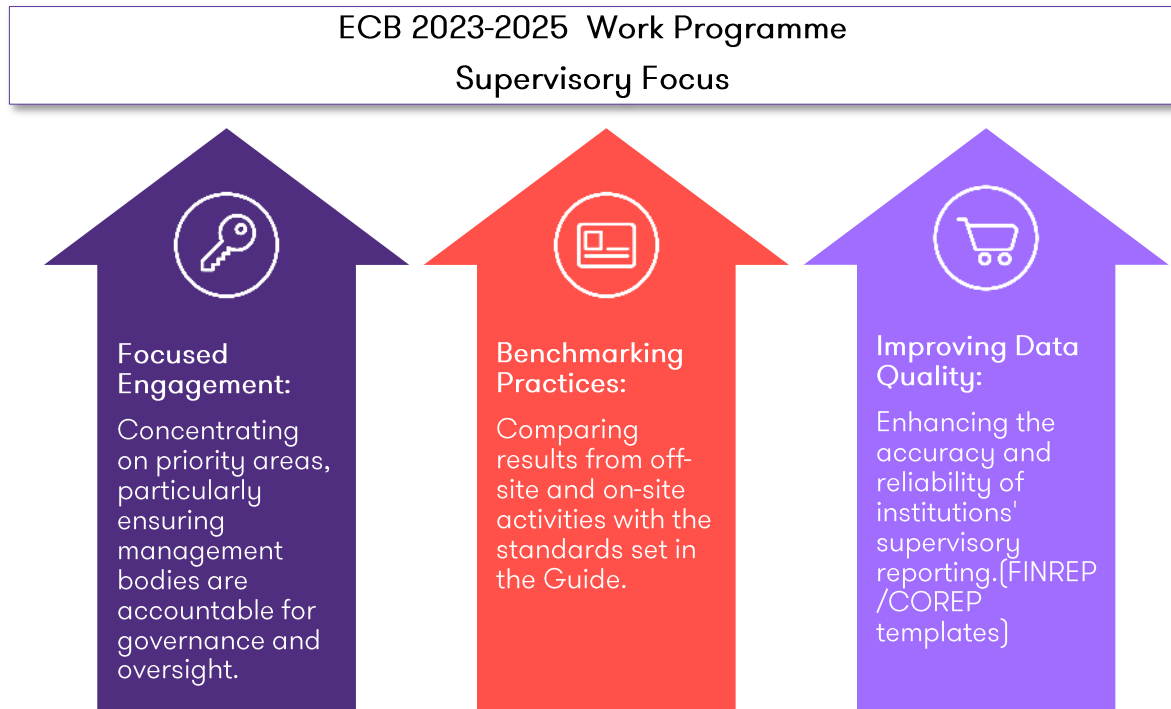
Effective implementation programs are essential for addressing weaknesses and gaps in meeting BCBS 239 Principles, ensuring compliance, and enhancing risk management capabilities within institutions. Specifically, institutions should focus on meeting the following ECB expectations:



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.

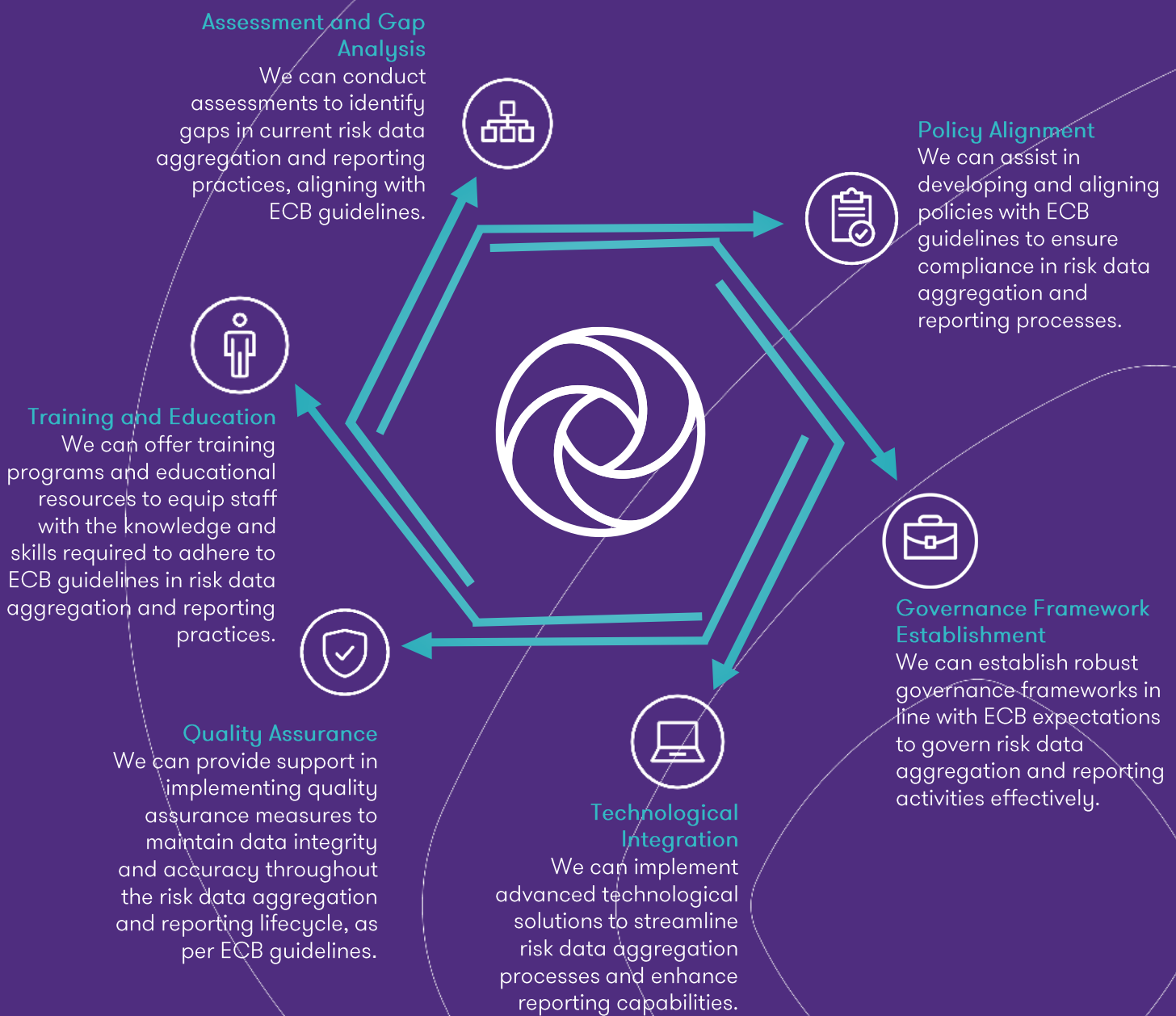


The ECB Banking Supervision will intensify its focus on RDARR and undertake the following actions:



How can Grant Thornton support you?

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



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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