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2016 Risk Data Aggregation Deadline Approaching

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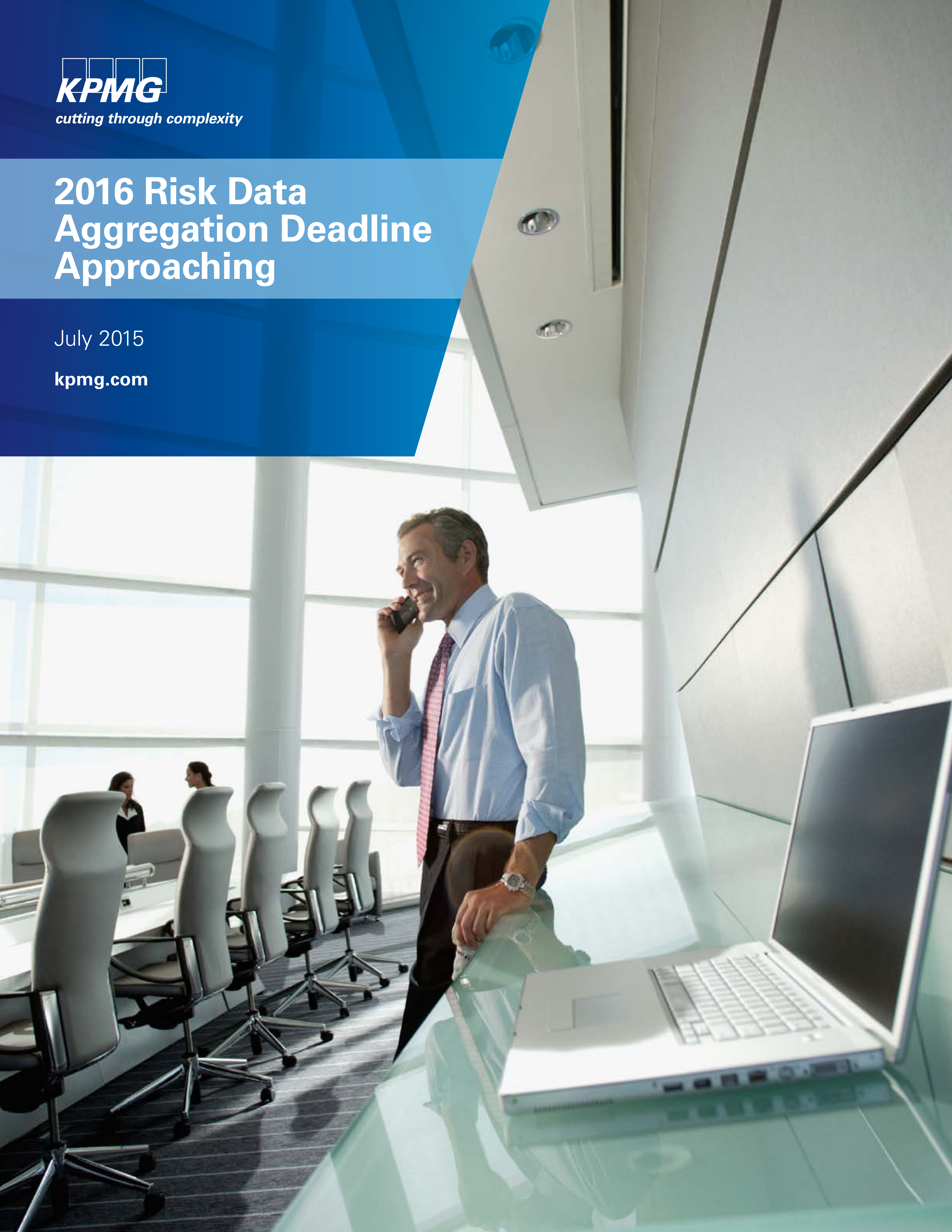

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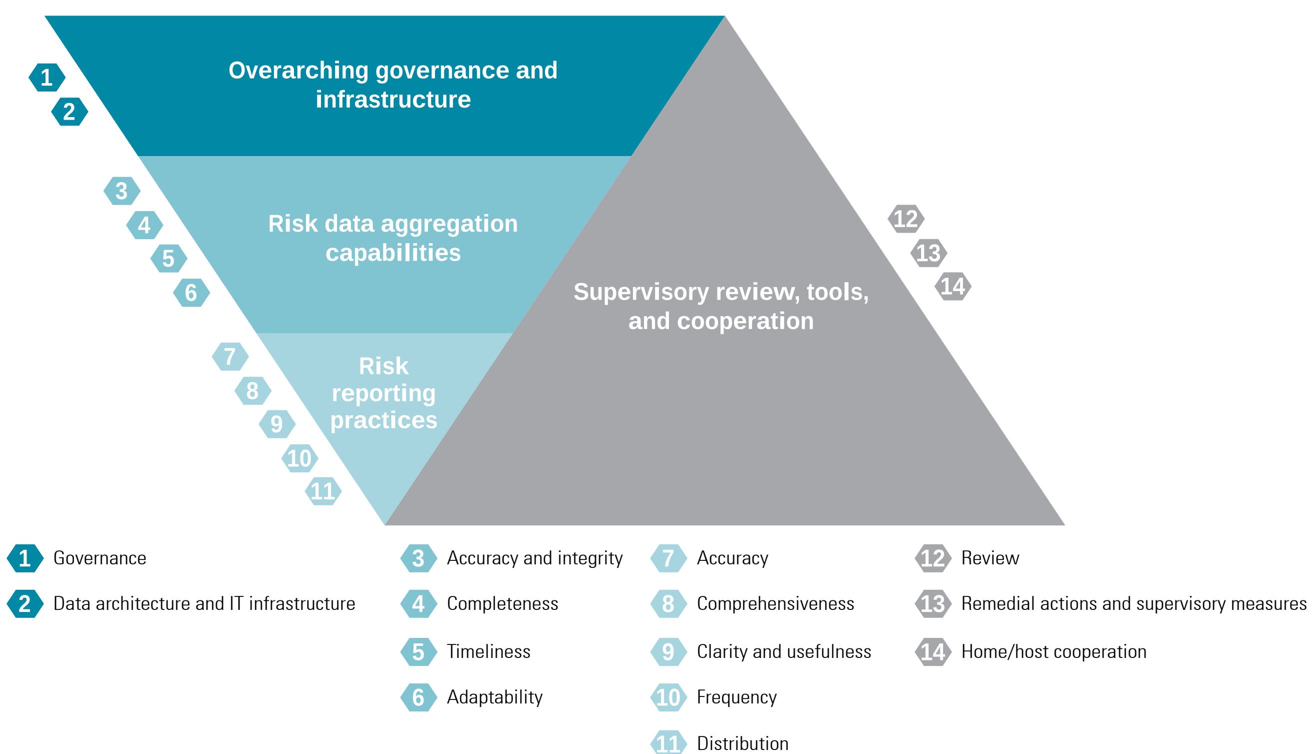
Executive Summary

The January 1, 2016 deadline set by the Basel Committee for Bank Supervision (BCBS) for implementation of its Risk Data Aggregation (RDA) and risk reporting principles is fast approaching and many banks may not be ready. To date, banks have begun making limited progress towards full compliance. Nonetheless, regulatory authorities are growing increasingly impatient and are stepping up their review and scrutiny. As a result, now is the time for risk executives to make sure they have assessed their readiness for the RDA compliance deadline.

RDA Principles

In January of 2013, the BCBS issued a set of 14 principles for RDA and risk reporting (BCBS 239). BCBS 239 seeks to improve the risk management and decision making process at banks by improving how each bank defines, gathers, and processes risk data and how it measures performance against risk tolerances. The RDA principles are intended to address what the BCBS sees as one of the most significant lessons learned from the financial crisis that began in 2007 – the inability of banks to quickly and accurately identify risk exposures and risk concentrations at the bank group level, across business lines and between legal entities.[1] The BCBS expects global systemically important banks (G-SIBs) to comply with its principles by January 1, 2016.



[1] *Principles for effective risk data aggregation and risk reporting*, Basel Committee for Banking Supervision Publication 239, Bank for International Settlements, January 2013, bis.org.

Limited RDA Implementation Progress

Despite the increased attention on RDA from supervisors, G-SIBs continue to struggle to make progress towards the BCBS 239 standards. In 2013, the BCBS's Working Group on SIB Supervision (WGSS) surveyed G-SIBs to assess progress towards compliance with the RDA principles outlined in BCBS 239 and found that banks' self-assessed compliance statuses were, on average, between largely compliant and materially non-compliant.[2] A progress survey released by the WGSS earlier in 2015 (BCBS 308), found little improvement over 2013 results and highlighted a dramatic increase in execution risk. Consistent among the surveys was material non-compliance in key areas including data architecture and IT infrastructure (Principle 2), accuracy and integrity of risk data (Principle 3), and adaptability (Principle 6). In fact, BCBS 308 saw self-assessed compliance ratings fall on many principles and cited reports that many banks do not anticipate complying with at least one principle prior to the January 2016 deadline.[3]

Industry surveys and roundtables, including KPMG's 2014 RDA Share Forum, also highlight uncertain progress against the RDA principles and raise questions about what level of compliance will constitute a passing grade from the regulatory authorities. To compensate for slow progress, banks are reporting that they are resorting to extensive manual workarounds that are likely to impair their RDA and reporting capabilities. In addition, governance around data ownership, accountability, and quality continue to pose considerable challenges towards implementation of RDA standards.[4]

[2] *Progress in adopting principles for effective risk data aggregation and risk reporting*, Basel Committee for Bank Supervision Publication 268, Bank for International Settlements, December 2013, bis.org.

[3] *Progress in adopting principles for effective risk data aggregation and risk reporting*, Basel Committee for Bank Supervision Publication 308, Bank for International Settlements, January 2015, bis.org.

[4] *Financial Services Regulatory Point of View – The Changing Face of Regulatory Reporting: Challenges and Opportunities for Financial Institutions*, KPMG LLP, 2015, kpmg.com.

Supervisory Views

The Federal Reserve Board (FRB) highlighted data issues related to the Comprehensive Capital Analysis and Review (CCAR) process in its August 2013 paper that summarizes the range of industry practices related to stress testing. In that report, the FRB included recommendations for establishing a "Quantitative Basis for Enterprise-Wide Scenario Analysis" and highlighted data quality issues at covered institutions as an area of growing concern.[5]

In its most recent survey, the WGSS gathered comments from bank supervisors who noted the need for closer monitoring of progress on RDA. Supervisors recommended that G-SIBs begin to more fully engage senior management and the board of directors in efforts to meet the deadline and highlighted the need to minimize the use of manual systems.[6]

Growing regulatory impatience related to the pace of progress on risk data is becoming apparent. Last year, FRB Governor Daniel Tarullo, highlighted the slow pace of progress on risk aggregation in a speech at the Federal Reserve's Third Annual Stress Test Modeling Symposium when he noted that "firms still lack reliable information about their businesses and exposures" and that data deficiencies are "compounded by weak oversight by senior management and boards of directors, and lack effective checks and accountability."[7] This sentiment has been echoed in feedback received as part of the Federal Reserve's stress testing process in 2015.

For the largest firms, the Federal Reserve has substantially refocused its supervisory process following the financial crisis, creating the Large Institution Supervision Coordinating Committee (LISCC). The supervisory program is certainly more intense and has greatly "increased collection and use of consistently reported and timely firm-specific data,"[8] so that the Federal Reserve now has access to a wider set of firm data. In addition to managing the Federal Reserve's annual stress test for the largest firms, LISCC also collects data to assess overall financial stability. The creation of LISCC has also centralized the collection and analysis of firm data at the Board in Washington, D.C. and includes input from staff beyond the supervision division.

In September of 2014, the Office of the Comptroller of the Currency (OCC) raised the bar for U.S. banks when it finalized a proposal to establish minimum standards for the design and implementation of risk governance frameworks. The OCC guidelines, known as "heightened expectations," outline standards for conformance by 2016, highlight the need for board level involvement and outline penalties for compliance failures. By issuing these guidelines, pursuant to Section 39 of the Federal Deposit Insurance Act (FDIA), the OCC can now pursue enforcement actions, order issuances and civil monetary penalties against National Banks, Federal Savings Associations, and Insured Federal Branches that fail to comply.[9]

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[5] *Capital Planning at Large Bank Holding Companies: Supervisory Expectations and Range of Current Practices,* Board of Governors of the Federal Reserve System, August 2013.

[6] *Progress in adopting principles for effective risk data aggregation and risk reporting,* Basel Committee for Bank Supervision Publication 308, Bank for International Settlements, January 2015, bis.org.

[7] Federal Reserve Governor Daniel Tarullo, "Stress Testing after Five Years" (Federal Reserve Third Annual Stress Test Modeling Symposium, Boston, MA, June 25, 2014).

[8] SR 15-7, *Governance Structure of the Large Institution Supervision Coordinating Committee (LISCC) Supervisory Program* at http://www.federalreserve.gov/bankinforeg/srletters/sr1507.htm.

[9] 79 Fed. Reg. 54518-54549 (September 11, 2014).

KPMG's View

It is clear that data quality and issues surrounding aggregation capabilities are receiving increased attention from the regulatory authorities. However, many financial institutions are failing to address the magnitude of the problems they face around RDA. We believe it is likely that the underlying cultural issue of who owns the data generally and who has responsibility for its quality and integrity is a key root cause for the industry's struggle to date.

Too often, risk data ownership is shuffled between the control and IT functions, with key business heads and senior management taking little direct responsibility. The industry needs to work towards a holistic approach to data governance—not a siloed approach targeted at specific datasets required for individual directives. Risk data management cannot be solely about meeting regulatory requirements, but rather, it needs to address the cultural changes that are necessary if the industry is to view data management as the foundation for comprehensive, accurate, and timely reporting and, most importantly, harness its full potential for risk management and strategic planning purposes.

As regulators continue to place pressure on financial institutions to improve their reporting capabilities, strategic solutions will need to be developed that take into consideration the end-to-end process for RDA and risk reporting. The industry clearly needs to devote more attention and resources to RDA and risk reporting as the 2016 deadline approaches. If banks fail to make substantive progress, they will not only encounter problems with the regulatory agencies, but will be unable to satisfy their own risk management needs as they will continue to lack the information they need to run their businesses properly.

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