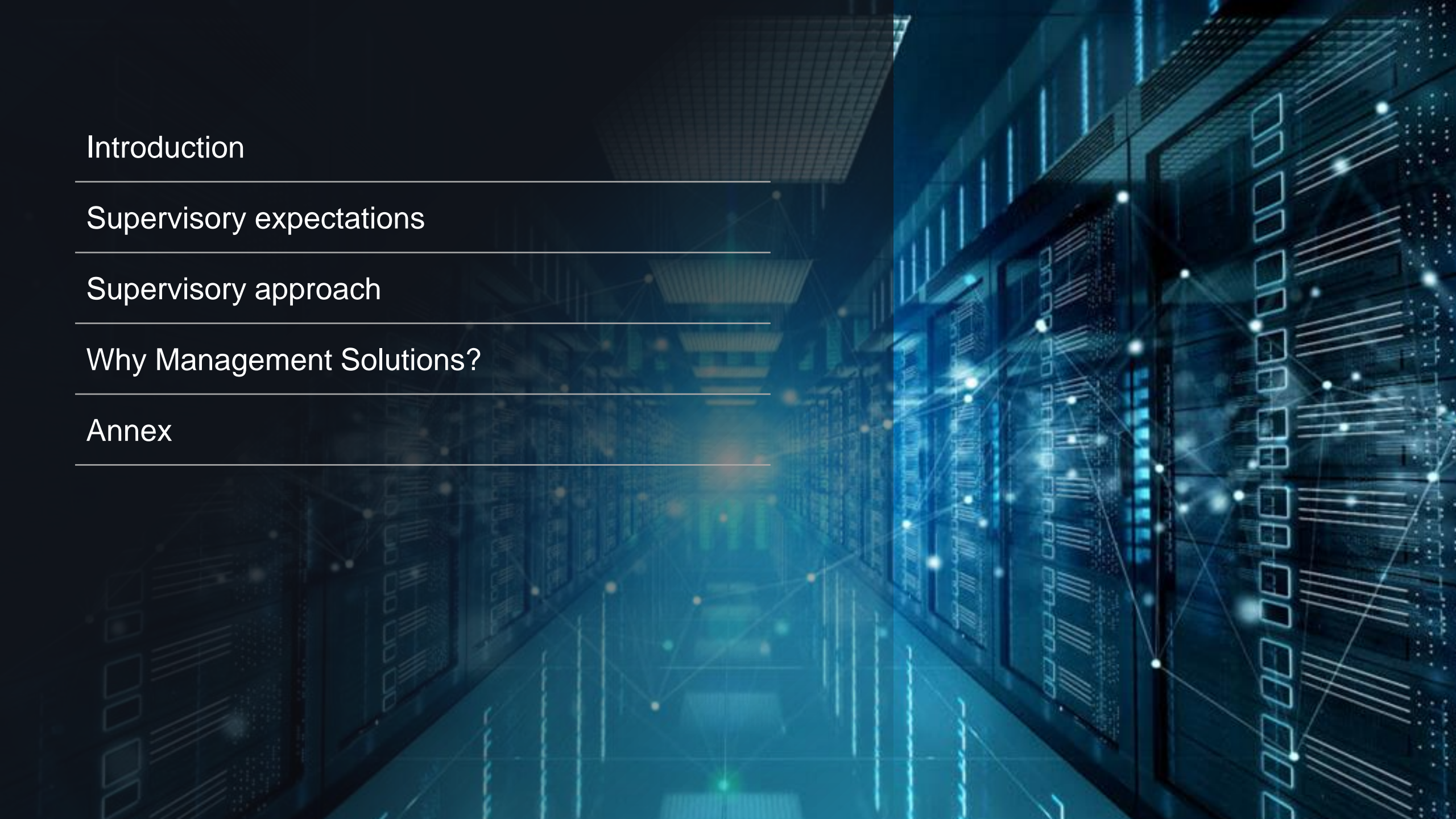


Guide on effective risk data aggregation and risk reporting (RDARR)

ECB Expectations and supervisory approach

A futuristic server room with glowing blue lights and digital patterns. The room is filled with rows of server racks, and the floor is covered in a grid of light. The walls are also covered in a grid of light, and there are many glowing blue dots and lines floating in the air, creating a sense of depth and complexity.

Introduction

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Why Management Solutions?

Annex

1 | Introduction

Background and objectives of the guide

The ECB has published the final version of the Guide RDARR which outlines prerequisites for effective RDARR to assist banks in strengthening their capabilities, building on practices and in main deficiencies observed in the industry

- In **2016**, the ECB conducted a **thematic review** on the effectiveness of risk data aggregation and risk reporting (RDARR) to assess compliance with the BCBS 239 principles at 25 significant institutions. These on-site inspections revealed serious deficiencies in RDARR practices. However, **the observed progress stalled on some of the key deficiencies**, such as the effectiveness of governance bodies, risk data architectures and supporting IT infrastructures.
- In 2019, the ECB issued a letter to all significant institutions under its supervision, urging them to make substantial and timely improvements and to implement the integrated reporting solutions. Despite this, many of the **structural deficiencies** identified by the Supervisor **remained unresolved**.
- The **ECB has identified deficiencies in RDARR as a key vulnerability in its planning of supervisory priorities for the 2023-25 cycle**, and has developed a comprehensive, targeted supervisory strategy for the upcoming years, with the objective that the supervised institutions finally deliver substantial progress in remedying their identified structural shortcomings..
- In May 2024 the **final version** on the Guidance on Effective RDARR has been published after its consultation in July 2023.
- The purpose of the ECB Guide is to **specify, underscore and reinforce supervisory expectations for RDARR**. In it, the ECB highlights the main causes of insufficient progress in RDARR. To this end, it outlines a number of essential **preconditions for effective RDARR** and shares best practices observed in the industry.
- These supervisory expectations have been **verified by the ECB in conjunction with the NCAs** and explain in detail how ECB Banking Supervision applies the national laws transposing CRD on a case-by case basis and in line with the relevant EBA guidelines.
- The following pages summarise the ECB's supervisory expectations.

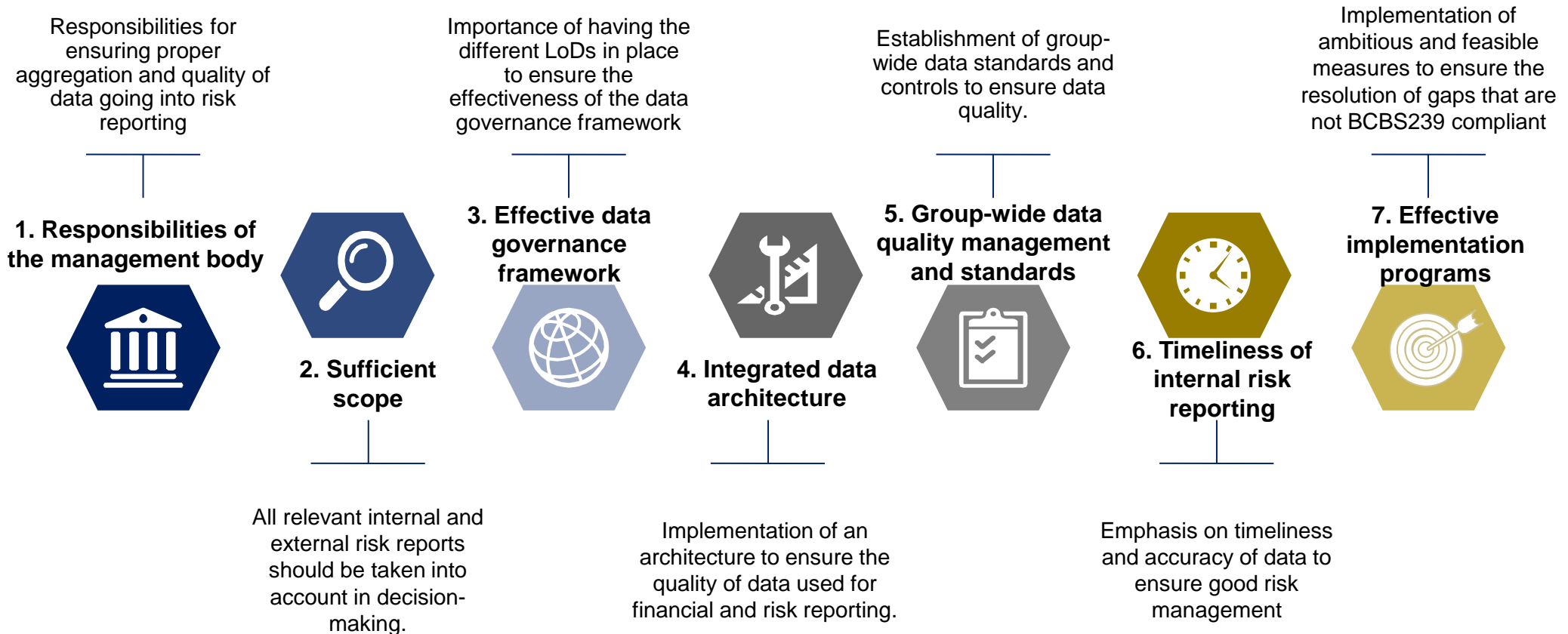


[Access to document](#)

2 | Supervisory expectations

Overview of main points

The ECB identifies key areas for the soundness of governance and the effectiveness of risk identification, monitoring and communication processes



2 Supervisory expectations

Main points (1/3)



The management body should oversee the implementation of the entity's strategic objectives, risk strategy and internal governance by establishing a data governance framework that enables the supervised entity to identify, manage, monitor and report risks

1. Responsibilities of the management body

- Exercising **full responsibility** for risk data quality and governance as a part of the overall risk management framework.
- Making RDARR a **key priority** for the institution and ensuring that adequate resources are dedicated to it, as well as approve and implement the institution's RDARR frameworks.
- **Overseeing, prioritizing and monitoring** key deliverables within the agreed timelines of the remediation programmes and the standard business processes.
- Setting **clear roles and responsibilities** for RDARR within the business organization, including relevant committees.
- Ensuring the implementation of **policies and standards** for RDARR at the group level. The management bodies of the subsidiaries are responsible for implementing these group-wide policies and standards.
- Regularly confirming that the **internal risk, supervisory and financial reports** are meaningful and well balanced and are able to contribute to sound decision-making, as well as **regularly monitor** the defined data quality KPIs and corresponding action plans to solve significant deviations identified
- Ensuring that the **knowledge, skills and experience** of its members relating to data management, IT and financial and non-financial risks, as well as the related data and reporting requirements, are considered when assessing the collective suitability of its members. This should also be reviewed on an **ongoing basis**.

2. Sufficient scope

In terms of:

- **Internal risk reports.** Provide information on risk appetite indicators (metrics and limits), as well as main overall risk reports, main risk reports per material risk type (financial and non-financial) according to the institution's risk identification process and any reports that are part of the management information system and are therefore used in decisionmaking and steering processes
- **Financial reports.** Published on at least a quarterly basis, as well as annual financial statements.
- **Supervisory reports.** E.g. EFINREP/COREP reporting templates, submissions to EBA/SSM stress test exercises and Pillar 3.
- **Internal Models.** all key internal risk management models (e.g. IRB models, regulatory capital models, IFRS 9, VaR). This includes their development and input data, and resulting risk metrics and indicators

2 | Supervisory expectations

Main points (2/3)



To ensure the effectiveness and quality of the group's data governance frameworks, requirements must be established and an integrated group-wide data architecture must be implemented and documented

3. Effective data governance framework

- **Data owners (or data stewards)** representing the first line of defence and being responsible for critical data elements throughout the complete aggregation process (front to end). This includes, e.g., contributing to the definition of data controls and the classification of key risk data, ensuring the accuracy, integrity, completeness and timeliness of data.
- A **central data governance function** that is responsible for, among other things, issuing policies and guidelines on data quality management and overseeing proper implementation of the data governance framework across the organisation.
- A **validation function** within the second line of defence that is independent of the first line and ensures that an institution's RDARR processes are functioning as intended (e.g., IT infrastructure, data lineage, data taxonomy), including the oversight of outsourced activities, IT change initiatives, mergers and acquisitions and new product launches.
- An **internal audit function** that serves as the third line of defence and periodically provides independent reviews of the data governance frameworks, RDARR capabilities and processes and the quality of data used for the quantification of risks. This may be complemented, whenever deemed necessary by the institution by an external independent review..

4. Integrated data architecture

- This should include a **dictionary of the main business concepts and a metadata repository** that cover material legal entities, business lines, material risks and related risk indicators, reports, and models that are within the scope of application. The management of data taxonomies is recommended to entail:
 - Uniform data definitions and glossaries with **clear ownership** of data.
 - **Validation rules** allowing specific values or a range of values.
 - Complete and **up-to-date data lineages** for all risk indicators and metrics within the scope of application.

2 | Supervisory expectations

Main points (3/3)



The group's policies and procedures should ensure that data quality controls are effective and complete, ensure that the right information is presented to the right people at the right times

5. Group-wide data quality management and standards

- Implementation of **quality controls** throughout the process to assess and ensure the accuracy of critical data, focusing on manual activities until they can be integrated into an IT-controlled environment.
- Definition and measurement of **data quality indicators**, with documented operating procedures in case of breaches. These should allow for quality monitoring, and be presented together with an assessment of severity, impact analysis, risk profile of the entity and responsibilities for remediation and escalation of problems.
- The full integration of end-user computing or end-user developed applications, including an overview of such applications, into the data quality management procedures. .
- Arrangements for any manual workarounds within the scope of application to be documented and subjected to adequate controls
- Adequate consideration of data quality risks in the internal capital adequacy assessment process (**ICAAP**) and the internal liquidity adequacy assessment process (**ILAAP**), as existing data quality issues might lead to an underestimation of risks and are expected to be addressed in the risk quantification by an **additional margin of conservatism**.

6. Timeliness of internal risk reporting

- There are two factors that determine the timeliness of risk reporting: **the frequency of risk reporting and the time needed to produce the reports**. Las medidas de riesgo económicas suelen ser más volátiles que las regulatorias. For regular reporting, it is generally understood that institutions will not be able to react to changes in a timely manner if a monthly or quarterly risk report needs more **than 20 working days to be produced**.
- The ECB expects timely risk reporting to remain unhampered by such issues as a fragmented IT infrastructure or a large amount of manual aggregation processes, even in stress situations.

7. Effective implementation programs

- An implementation programme should have well-defined objectives, milestones, roles and responsibilities that cover any **gaps and address any weaknesses** identified through internal or external reviews, including on-site inspections by ECB Banking Supervision.
- **Project implementation risks** must be identified and adequate financial and human resources sizing must be in place.
- At least **one member of the management body** should be responsible for the implementation of the plan. In addition, the governing body requests and receives regular feedback on the progress of the plan.

3 Supervisory approach

Supervisory activity

This guide is a key building block of the 2023-25 ECB work programme. With it, the ECB details its minimum supervisory expectations on a set of priority topics that have been identified as necessary preconditions for effective RDARR



Monitoring objective and priorities

The increased focus of supervisory activities on areas critical to progress in complying with the principles is accompanied by a more intrusive use of supervisory powers to address serious and long-lasting deficiencies.



Work Programme 2023 - 2025

- The **more targeted focus**, in particular about targeted engagement with a clear focus on selected priority areas, in particular on the responsibility of management bodies for governance and execution oversight
- **Horizontal Benchmarking** of findings from off-site and on-site activities against expectations expressed in the guide.
- An enhanced focus on the data quality of institutions' **supervisory reporting** (COREP, FINREP, Pilar 3) and other supervisory tests that assess the institution's **ad hoc reporting capabilities**.



More intrusive use of supervisory powers

More intensive use of its capabilities in the context of SREP, on-site and off-site inspections and internal model investigations (i.e., not necessarily through specific RDARR inspections). In this respect, the ECB is carrying out actions such as the following:

- Further strengthening the use of **quantitative and qualitative** measures to address gaps in institutions' **internal controls** and governance, in particular for RDARR. Effective supervisory tools that are being used include clear, qualitative measures with time-bound milestones for remediation.
- More severe actions if **measures and deadlines are not adequately met**, such as enforcement measures or increased **capital requirements** (add-on).
- Consider RDARR capabilities in other supervisory activities, such as in the **consolidation of institutions**.
- Assessment of the appropriateness of the members of the management body in coordination with the **Management Report on Data Governance and Data Quality** signed by at least one of the members of the management body.

4 | Why Management Solutions?

Lines of work and areas of knowledge

Detailed knowledge of regulations, extensive practical experience in multiple projects either supporting institutions in compliance and preparation for inspections or collaborating with the supervisor on inspections

Possible areas of collaboration

- 1 **Regulatory impact** analysis and adjustment of **action plans**, considering the results of inspections carried out by the ECB and periodic indications from the supervisor (publications, etc.).
- 2 Support in the **preparation and execution of inspections** (requests for information, OSIs, etc.).
- 3 **Execution of lines of work** in any of the main lines of action (reporting framework, governance, quality, architecture, change management and training, etc.).
- 4 **Benchmarking** (perimeter, governance model, roles, methodologies, etc.).



Skills and Experience

- 1 Extensive experience in **BCBS239 compliance** projects
- 2 Extensive experience in **risk and financial reporting projects, both managerial and regulatory**
- 3 Participation in **multiple inspection** processes, both on the entity's side and with the **supervisor**.
- 4 **+ 500 resources** involved in BCBS239 and Data Management projects

A | Annex Acronyms

BCBS	Basel Committee on Banking Supervision
COREP	Common Reporting
EBA	European Banking Authority
ECB	European Central Bank
FINREP	Financial Reporting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
KPIs	Key performance indicators
LoD	Lines of defence
NCA	National Competent Authorities
RDARR	Risk Data Aggregation and Risk Reporting
SREP	Supervisory Review and Evaluation Process



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