

# Making BCBS 239 Operational

**An AxiomSL white paper outlining the role of the regulatory platform in securing long-term compliance with BCBS 239**

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## Introduction

One of the key issues highlighted by the financial crisis of 2007-8 was the inability of market participants and regulators to quickly identify significant concentrations of risk. The Basel Committee on Banking Supervision (BCBS) responded in 2013 by publishing the 14 principles of BCBS 239. The first 11 principles set out the Basel Committee's expectations in relation to the ability of global systemically important banks (G-SIBs) to aggregate and report risk data. The principles, which come into force globally in January 2016, cover a wide a range of topics including:

- Governance
- Data architecture and IT infrastructure
- Data accuracy and integrity
- The completeness of data
- The timeliness of reporting
- The ability of banks to respond to ad-hoc reporting requests
- The frequency of reporting
- The distribution of reports

BCBS 239 has implications for several functions, including risk, finance and accounting, and for the data and IT infrastructure on which these functions rely. However, as banks continue their work on BCBS 239, many appear to have overlooked the important role that the regulatory calculation and reporting platform will have to play in their compliance with the principles.

This white paper demonstrates why a strategic regulatory platform should be the cornerstone of every bank's response to BCBS 239. It also outlines the key functionality banks need from a regulatory platform in order to not only satisfy the regulators in January 2016, but also to integrate BCBS 239 compliance as a business-as-usual (BAU) process.

## The pivotal role of the regulatory platform in BCBS 239 compliance

BCBS 239 marks a major change for risk. Having historically been an internal monitoring process, risk must now integrate rigorous, external standards. In order to comply, banks will need to make many changes. However, it is their regulatory infrastructure that will, without a doubt, be most important for securing BCBS 239 compliance, both in the short and long term.

In BCBS 239, the Basel Committee spells out a set of criteria for banks' risk data: it must be complete, accurate, consistent and fully integrated, and banks must be able to report the data in a timely manner. In order to judge whether banks meet these new standards, the regulators will rely heavily on the ever-increasing amount of data that market participants are obliged to report to them every day, week, month and quarter.

The regulators will scrutinize the data in banks' regulatory reports to ensure it is BCBS 239-compliant. They will pore over everything from Basel III capital and liquidity reports to domestic statistical disclosures and the returns mandated by new requirements, such as the European Central Bank's (ECB) Analytical Credit Dataset (AnaCredit) regulation.

As well as analyzing the data in the reports, the regulators will cross-check individual returns for signs of inconsistencies and to assess their plausibility. They will also use the big data sets they are amassing to run scenario tests and produce predictive analytics.

All of this places great importance on the ability of a bank's regulatory platform to produce accurate returns. The changes that a bank makes to its risk and data management infrastructure, as part of its compliance with BCBS 239, will be for nothing if its regulatory platform cannot produce accurate, granular and aggregated returns.

## Monitoring compliance

As well as generating accurate disclosures, the regulatory platform will have an important role to play monitoring compliance with BCBS 239 on an ongoing basis. The regulatory platform is in an excellent position to take on this task because, at most firms, the data processed for regulatory purposes is now more granular than that used by other functions, including risk, accounting and finance. This means that if the platform includes robust data quality checks, it will identify data errors that would not be picked up elsewhere and it will enable users to rectify these issues in line with the BCBS 239 principles.

A country code is an example of the type of granular data that is essential for regulatory compliance, but which may not be examined closely when used in other processes, such as the production of financial statements. As a result, the regulatory platform is in the best position to identify an error in this type of data, which can then be flagged to the owner of the source system.

The ability of a regulatory platform to highlight granular data errors will not only secure BCBS 239 compliance; it will also drive business improvements. For example, if a bank does not realize that it has an incorrect country code, it may underestimate its exposure to a particular jurisdiction. Alternatively, an incorrect country code may lead a bank to overestimate its exposure to a

*The ability of a regulatory platform to highlight granular data errors will not only secure BCBS 239 compliance; it will also drive business improvements*

country and it may unnecessarily turn down business as a result.

### The BCBS 239 journey

As the 1 January 2016 deadline approaches, it is clear that many banks view BCBS 239 largely as a box-ticking exercise. As they did with similar requirements in the past, such as the Sarbanes-Oxley Act, they have employed large teams of external consultants to document their compliance with the principles.

This type of approach fails to take into consideration the fact that banks must be able to demonstrate their compliance with BCBS 239 not only in January 2016, but also on an ongoing basis. Banks that go down the route of documentation will therefore need to repeat this usually costly exercise at regular intervals to prove they remain compliant.

Instead of seeking external validation from consultancy firms, banks should use a platform that makes them confident, in the long term, that they are compliant with BCBS 239 by giving them full control over their processes.

Rather than marking their arrival at a final destination, January 2016 is just the beginning of a long journey for banks. By making a strategic regulatory platform the cornerstone of their BCBS 239 compliance projects, they can ensure they last the distance.

*Instead of seeking external validation from consultancy firms, banks should use a platform that makes them confident in the long term*



## Key features of a BCBS 239-compliant regulatory platform

Not all regulatory platforms provide full support for BCBS 239. The following features should be considered when assessing the ability of a platform to manage BCBS 239 and embed compliance as a BAU process:

### Data lineage

BCBS 239 will demand high levels of transparency from a bank's regulatory platform. It will not be enough for a bank to be confident that the data in its reports meets the requirements of BCBS 239; the bank will need to be able to validate this and demonstrate its compliance to regulators by responding to ad-hoc queries about individual values in its disclosures. For example, a regulator may want to know what currencies a bank has in its sight deposits.

In order to manage requests like these, banks need data lineage functionality that enables users to drill down from the aggregated data in their regulatory reports to their source data. Users should be able to understand what happens to the data at each stage in the transformation process - whether it is a netting, calculation or pre-aggregation process. The regulatory platform should give users access to regulatory interpretations and internal documentation that explains how the data is being transformed and why.

Banks that attempt to address the requirements of BCBS 239 by managing all of the relevant data in a warehouse will struggle to respond to regulators' queries because data warehouses are not good at managing the changes that are made to data over time.

Data warehouses are also poorly suited to BCBS 239 because they require the use of extract, transform, load (ETL) tools. From the perspective of business people, traditional ETL tools are black boxes, which rarely provide

data lineage information without the use of additional tools and documentation. This makes it impossible for users to properly validate the values in their final reports and respond to queries about how they produced their regulatory returns.

*Banks will need to be able to drill down from the aggregated data in their regulatory reports to their source data*

### Slicing and dicing aggregated data

To ensure they are always compliant with BCBS 239, banks need to be able to understand any potential issues in their regulatory data quickly. This will only be possible if they can segment (slice and dice) their aggregated data based on different attributes.

If an issue is detected in a particular line of a regulatory report, it will take time to retrace the journey that the source data went through during production of the report. For this reason it is important that users have the option of slicing and dicing their data based on different attributes so they can quickly hone in on any potential issues and either rectify them or explain why the values are valid.

If, for example, segmenting data based on currency does not show up anything unusual, users should also be able to break the data down based on product classification. This may immediately reveal that a product has been classified incorrectly, causing downstream issues. The owner of the source system can then remediate the data to ensure it is BCBS-239-compliant.

In order to manage their data in the most efficient way possible, banks need a regulatory platform that allows them to add internal management information (MI) attributes that are not required for regulatory purposes. For example, users may find it beneficial to include fields for 'source system', 'business line' and 'entity structure'. This will enable them to quickly find the information that is important to them by segmenting their data based on their preferred attributes.

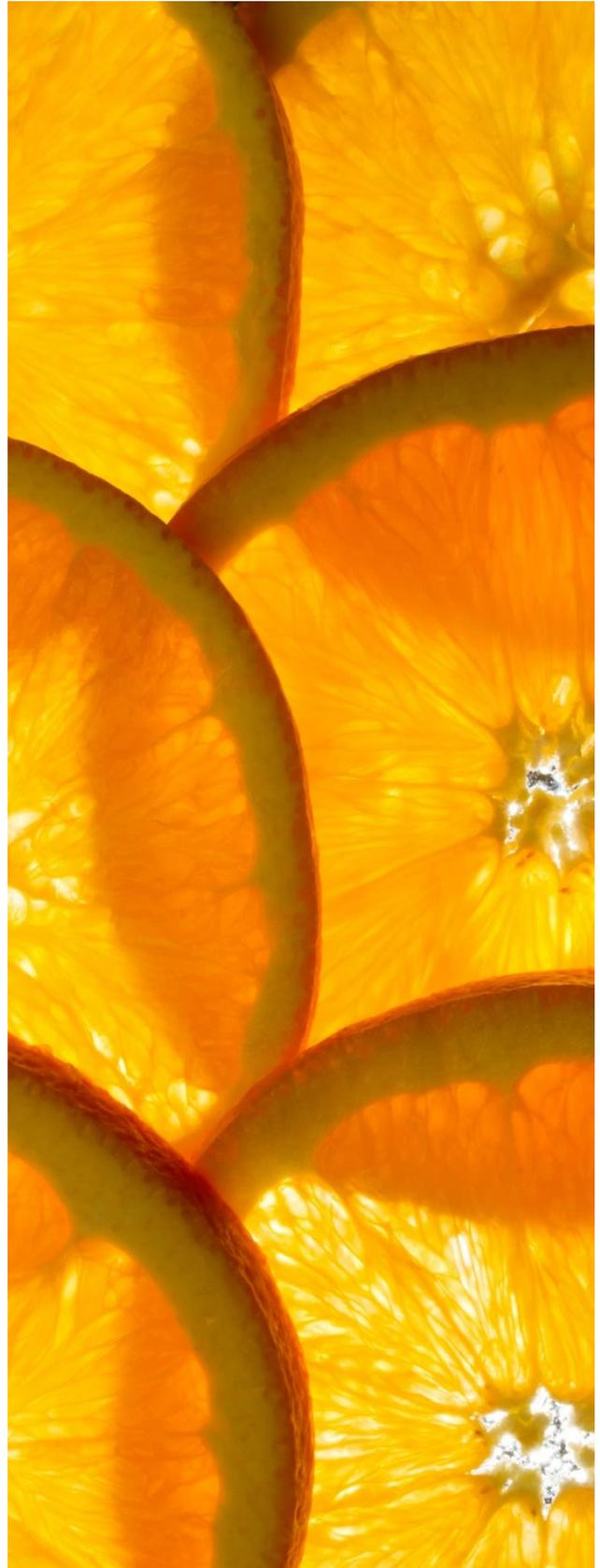
*It is important that users have the option of segmenting their data based on different attributes*

#### The ability to manage change

A bank does not exist in a static environment: it may acquire a new entity, implement a new system or become subject to a new reporting requirement. Its regulatory platform must therefore be able to adapt to both internal and external changes, while ensuring the data it submits to regulators remains BCBS 239-compliant throughout.

A bank's regulatory platform should sit across all of the entities in its group and all of the systems it uses to manage different types of data. The platform should aggregate all of the data provided by these entities and systems, and subject it to the same controls and validations to ensure it all meets the requirements of BCBS 239.

It is also important that a bank can adapt quickly when a regulatory requirement changes. The best way to do this is by using a



platform that allows it to segregate changes to the regulatory-specific functionality from changes to the core platform functionality. This will mean the entire platform is not required to undergo regression testing, which is often costly and time-consuming, every time a regulatory requirement is updated.

A bank will not receive an exemption from the requirements of BCBS 239 simply because it has recently acquired a new entity or implemented a new system. Therefore, its regulatory platform must be able to ensure there is no break in its compliance.

### The ability to record change

When a bank implements a change to the way it manages its risk data, users should have the ability to record an explanation for the change within the bank's regulatory platform.

For example, it is important for users to have a record of the decision that was taken about which country code to use for particular reports or which assumptions were made if the country code was unavailable. Similarly, it is useful for users to have a record of the queries the bank received from regulators about individual reports or lines in a report, and the responses that were submitted.

Unfortunately, this type of information is often either documented outside the regulatory platform or not recorded at all. As a result, users may struggle to respond to internal or external queries about different aspects of the bank's data. If the reason for a change is not recorded, the bank will have no understanding of this aspect of its data after the person who implemented the change leaves the company.

A bank's regulatory platform should be a living, breathing compliance organism, which collects information about the bank's data and operations over time by enabling users to enter commentary at the level of individual reports or report lines. All of this information should

be easily accessible so that users can explain the bank's data to managers and regulators without delay.

## *A bank's regulatory platform should be a living, breathing compliance organism*

### Access to the vendor's interpretations and to regulatory rulebooks

To enable a bank to quickly respond to a regulator's queries and demonstrate that its data is BCBS 239-compliant, it is important that the bank's regulatory platform provides easy access to the vendor's regulatory interpretations. The platform should include links to the regulatory rulebook and should connect individual report attributes to the corresponding articles in the regulation.

For example, a regulator may question the retail mortgage exposure reported by a bank as part of the standardized approach to credit risk. To quickly and efficiently respond to this type of query, the bank will need to understand not only how it has classified retail mortgages in its upstream systems, but also how the vendor has treated and calculated the retail mortgage exposures and how that relates to the regulatory rulebook. The bank's regulatory platform should give users access to all of this information, so they can satisfy the regulators that their data is in compliance with BCBS 239.

## Data governance functionality

The granular regulatory reports that are mandated today - and upon which a bank's compliance with BCBS 239 will be assessed - require input data from multiple systems and the collaboration of different functions. This is true in the case of counterparty exposures: while risk is responsible for counterparty data, finance usually signs off on the size of exposures because this depends on balance sheet and other financial data.

In order to manage attributes like this, it is important that a bank's regulatory platform provides an environment in which risk, finance and accounting can collaborate with one other. The platform should allow a bank to control which users have access to particular data fields and should record who the data owners are for individual attributes.

Data governance functionality like this will bring a number of benefits: it will enable a bank to produce the high standards of data quality needed to comply with BCBS 239; it will help the bank to review its BCBS 239 compliance at regular intervals, as it will be clear who should sign off on individual attributes; and it will also mean that if regulators have any queries about the data, the bank will immediately know who should respond. The right data governance functionality will also increase a bank's trust in the data it uses and facilitate the data curation process.

## Multiple reports - single platform

BCBS 239 places great importance on the consistency of risk data. Banks that use separate systems for individual regulatory requirements and for internal reporting will struggle to achieve consistency between the data in their different reports. It will be complicated and expensive for these institutions to do data and report reconciliations because they will need to use a network of integration tools.

Instead of going down this route, banks should use a single, integrated platform to manage all of their external and internal reporting. The fact that all of the data is managed by the same platform will greatly reduce the likelihood of inconsistency. Using a single platform will also make data and report reconciliations far easier by removing the need for integration work.

*Banks should use a single, integrated platform to manage all of their external and internal reporting*

## Conclusion

BCBS 239 promises to be a challenge for banks around the world. However, they have an opportunity to significantly reduce the impact on their operations by thinking strategically and leveraging the infrastructure they use to manage regulatory calculation and reporting requirements.

The regulatory platform has a central role to play in BCBS 239 projects because banks' compliance with the principles will be judged largely on the data in their external disclosures. The regulatory platform is also in a unique position to monitor a bank's compliance with BCBS 239 because the data a regulatory platform processes is often more granular than the data that is used for other purposes. A regulatory platform can therefore detect data issues that would not be captured elsewhere.

This does not mean that all regulatory platforms are equally equipped to deal with the demands of BCBS 239. It is clear that certain functionality will be essential for securing compliance. This includes data lineage functionality; the ability to slice and dice aggregated data; the ability to manage and record change; access to the vendor's regulatory interpretations and to regulatory rulebooks; data governance functionality; and the ability of a single platform to support multiple reporting requirements.

By making a regulatory platform the cornerstone of their BCBS 239 projects and by demanding the functionality that has been discussed in this white paper, banks can confidently achieve compliance with the Basel Committee's principles not only in January 2016, but also in subsequent years.



## About the authors

### **Ed Royan, Chief Operating Officer EMEA, AxiomSL**

Ed has more than ten years' experience working on regulatory, accounting and IT projects in the financial industry. As AxiomSL's EMEA COO, he is responsible for all aspects of the company's strategy in the region, including the development of its award-winning regulatory reporting solutions. He also oversees the company's EMEA policy, implementation and client support work.

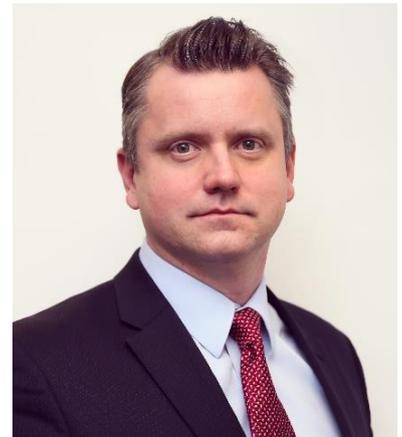
Before joining AxiomSL, Ed worked at Royal Bank of Scotland, Allied Irish Bank and Barclays, where he focused in particular on Basel calculation and financial operating model projects. Ed is a qualified accountant who is registered with CPA Australia.



### **David Attenborough, Business Development Manager EMEA, AxiomSL**

David has over 25 years' experience in IT sales, consulting and implementation within the financial services industry, spending the last five years focusing on finance, risk and regulation. His experience in selling and delivering IT and transformational projects ranges from initiation, planning, design and development to implementation and control.

At AxiomSL, David is responsible for the sales and marketing strategy across EMEA. He has an in-depth understanding of best practice when approaching regulatory compliance and reporting challenges. Prior to joining AxiomSL in 2011, David formed part of JPMorgan Chase's internal finance IT team, after working at banking IT and consulting firm Sopra as Program Manager and IT Consultant. David has built up a wealth of experience in client relationship management across EMEA.



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## About AxiomSL

AxiomSL is the leading global provider of regulatory reporting and risk management solutions for financial services firms, including banks, broker dealers, asset managers and insurance companies. Its unique enterprise data management (EDM) platform delivers data lineage, risk aggregation, analytics, workflow automation, validation and audit functionality.

The AxiomSL platform seamlessly integrates clients' source data from disparate systems and geographical locations without forcing data conversion. It enriches and validates the data, and runs it through risk and regulatory calculations to produce both internal and external reports. The platform supports disclosures in multiple formats, including XBRL. The unparalleled transparency offered by the high-performance platform gives users the ability to drill down on their data to any level of granularity.

AxiomSL's platform supports compliance with a wide range of global and local regulations, including Basel III capital and liquidity requirements, the Dodd-Frank Act, FATCA, AEI (CRS), EMIR, COREP/FINREP, CCAR, FDSF, BCBS 239, Solvency II, AIFMD, IFRS, central bank disclosures, and both market and credit risk management requirements. The enterprise-wide approach offered by AxiomSL enables clients to leverage their existing data and risk management infrastructure, and reduces implementation costs, time to market and complexity.

AxiomSL was voted Best Reporting System Provider in the 2015 Waters Rankings and was highlighted as a 'category leader' by Chartis Research in its 2015 Sell-side Risk Management Technology report. The company's work has also been recognized through a number of other accolades, including success in the Best Reporting Initiative category of the American Financial Technology Awards and the Customer Satisfaction section of the Chartis RiskTech100 rankings.

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