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EUROPEAN CENTRAL BANK

BANKING SUPERVISION

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Andrea ENRIA

Chair of the Supervisory Board

To the Significant Institution

SSM-2019-0221

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Supervisory expectations on risk data aggregation capabilities and risk reporting practices

Dear Sir or Madam,

Reliable data is a fundamental precondition for a comprehensive risk management and adequate decision-making in banks. Therefore, the SSM pays close attention to institutions' data quality, risk data aggregation and risk reporting capabilities. In line with the European Banking Authority's Guidelines, the ECB assesses in the Supervisory Review and Evaluation Process (SREP) whether the institution has effective and reliable information and communication systems and whether these systems fully support risk data aggregation capabilities both at normal times and during times of stress.

The ECB launched in 2016 as one of its supervisory priorities, a "Thematic Review on effective risk data aggregation and risk reporting", seeking to carry out an in-depth assessment of institutions' overarching governance, risk data aggregation capabilities and risk reporting practices that are relevant for each institution as a whole, on the basis of a sample comprising 25 significant institutions[1]. This assessment was guided by the Principles for effective risk data aggregation and risk reporting developed by the Basel Committee on Banking Supervision (BCBS 239)[2]. The outcome of the Thematic Review as described in the final report, which was published in May 2018,[3] raised severe concerns and showed that risk data aggregation capabilities and risk reporting practices within the sample of significant institutions were unsatisfactory.

Furthermore, as part of the annual SREP assessment, the overall results of our supervisory assessment of institutions' Internal Capital Adequacy Assessment Processes (ICAAP) and Internal Liquidity Adequacy Assessment Processes (ILAAP) revealed that IT infrastructure and risk data aggregation capabilities in

1 See ECB Banking Supervision, "SSM supervisory priorities 2017", December 2016

2 See BCBS, "Principles for effective risk data aggregation and risk reporting", January 2013.

3 See ECB Banking Supervision, "Report on the Thematic Review on effective risk data aggregation and risk reporting", May 2018

banks are the most problematic ICAAP/ILAAP assessment areas. Overall institutions were not considered to be strong in that area with more than half of the institutions showing severe deficiencies.

The ECB deems that substantial and timely improvements of institutions' risk data aggregation capabilities and risk reporting practices are warranted.

The ECB makes use of the BCBS 239 principles as a benchmark of the best practices in its ongoing supervisory activities to assess institutions' risk data aggregation capabilities and risk reporting practices. The ECB assesses the institutions' risk data aggregation capabilities and risk reporting practices in a proportionate manner, taking into account the nature, scale and complexity of the institutions' activities. Moreover, as regulatory reporting is a key prerequisite for effective banking supervision, the ECB also considers that external reporting processes and systems could benefit from following BCBS 239 principles. The application of BCBS 239 principles to regulatory and financial reporting is recognised by the BCBS as an example of effective governance[4].

The SSM Thematic Review also showed that advanced banks are working towards integrated reporting solutions (a single organisational design for group-wide data governance, a single authoritative source for risk management and regulatory purposes, reconciliation by design, etc.). We consider such integrated reporting solutions as best practices and encourage institutions to implement such solutions.

The ECB Joint Supervisory Teams will assess risk data aggregation capabilities and risk reporting practices, including any improvements, in the next months, in the context of the SREP assessment.

The same letter has been sent to all significant institutions supervised by the SSM.

With kind regards,

[signed]

Andrea Enria

Chair of the Supervisory Board

4 See BCBS, "Progress in adopting the Principles for effective risk data aggregation and risk reporting", March 2017, Appendix 2, p. 15, para. 1.1.