The voice of banking
& financial services

26 September 2012

baselcommittee@bis.org
c/o the Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Dear Sirs

Basel Committee consultation document on principles for effective risk data aggregation and risk reporting

The British Bankers' Association ("BBA") is the leading association for UK banking and financial services for the UK banking and financial services sector, speaking for over 230 banking members from 60 countries on the full range of the UK and international banking issues. I am pleased to say that all the major banking players in the UK are members of our association as are the large international EU banks, the US banks operating in the UK and financial entities from around the world. The integrated nature of banking means that our members are engaged in activities ranging widely across the financial spectrum encompassing services and products as diverse as primary and secondary securities trading, insurance, investment banking and wealth management, as well as deposit taking and other conventional forms of banking.

The BBA is pleased to respond to the consultation on effective risk data aggregation and reporting.

General comments

Objective of the paper

The aim of this paper is to strengthen banks' risk data aggregation capabilities and risk reporting practices, enhance banks' risk management, and improve the supervision of G-SIB banks. The BBA fully supports these principles and acknowledges that efficient data management will be central to increasing the resilience of the banking sector.

The Committee's states in para 4 that "many in the banking industry recognise the benefits of improving their risk data aggregation capabilities and are working towards this goal". This highlights a very important point; many in the banking industry are indeed already working towards this goal, and significant resources and finance have already been allocated, and will continue to be allocated, in order to achieve this objective.

There will be a considerable increase in the reporting requirements over the coming years. COREP, FINREP, G-SIB templates, recovery and resolution plans and Basel III requirements are just a few examples of the sizable initiatives firms are undertaking. The same limited resources are being used to meet all these initiatives; the challenges include changes to business models, system and IT infrastructure, and related cultural, management and procedural changes.

Bearing this in mind, we ask the Committee to consider where the objectives in this paper overlap with these new reporting initiatives. Although the BBA does support the goals of this paper, we are very concerned about overburdening the industry with numerous individual (yet broadly similar) requirements, which will in turn be counterproductive to increasing the effectiveness of risk data aggregation and reporting.

Scope

Para 19 states the Committee will track G-SIB progress towards complying with the principles through its Standards Implementation group (SIG) from 2013. We believe the Committee should make it a part of its SIG mandate to ensure there is a harmonised implementation of these principles by supervisors across the jurisdictions in order to ensure a level playing field.

Further clarification is also required on what types of risk are captured by this paper. However, we would point out there are a wide variety of types and definitions of risk, and we would recommend any further guidance is restricted to the more common and significant risks to ensure the focus of this paper is not lost.

Comprehensiveness of reporting

It is not entirely clear in this paper what the Committee expects firms to report on, nor is it apparent how detailed the reports should be. If the Committee expects qualitative analysis tailored for these requirements then this needs to be outlined. However, in order to reduce the reporting burden we would strongly recommend that where the information could be collected through other reporting requirements, this should be the first port of call for data collection and where possible should no be requested in across multiple formats.

Timeline/transitional arrangements

The current goal of closing significant data gaps before 2016 is reasonable. However, in order for banks to meet this timeline supervisors need to require the self assessments in early 2013 as outlined in this paper. If this is expectation is not met, we would expect the timeframe for the closing of the risk gaps to be extended accordingly.

Please find our comments on the individual principles in the annex below. We hope these comments are useful and the BBA would be delighted to provide any future assistance we can.

Yours sincerely

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Annex

Principle 1

Governance – A bank's risk data aggregation capabilities and risk reporting practices should be subject to strong governance consistent with other principles and guidance established by the Basel Committee.

Para 21 states a bank's board and senior management should be "fully aware" of any limitations that prevent full risk data aggregation. While we agree the board should be aware off any issues in their firm that might affect risk data aggregation, one cannot to expect the board to be "fully" aware of the details.

The role of the board and senior management is to oversee day-to-day operations and make critical business decisions; having a detailed knowledge of their bank's risk data aggregation systems is not a part of their general responsibilities, and it is unreasonable to expect them to have an intricate knowledge of such matters. We agree that the board members should be supportive of efficient risk data management, but they cannot realistically be expected to be "fully" aware of the details.

Principle 2

Data architecture and IT infrastructure – A bank should design, build and maintain data architecture and IT infrastructure which fully supports its risk data aggregation capabilities and risk reporting practices not only in normal times but also during times of stress or crisis, while still meeting the other principles.

We have no additional comments.

Principle 3

Accuracy and Integrity – A bank should be able to generate accurate and reliable risk data to meet normal and stress/crisis reporting accuracy requirements. Data should be aggregated on a largely automated basis so as to minimise the probability of errors.

Para 28(c) requests that risk data should be reconciled to accounting data. Although we can appreciate why supervisors would want the reconciliation of risk and accounting, in practice this is not possible; the information is derived from significantly different sources and is calculated and designed for different purposes. We would strongly recommending removing this request as any results produced will be wholly inaccurate.

Para 28(d) suggests that firm should strive towards a single authoritative source for risk data. Clarification is needed to further define exactly what the Committee means by this.

Principle 4

Completeness – A bank should be able to capture and aggregate all material risk data across the banking group. Data should be available by business line, legal entity, asset type, industry, region and other groupings that permit identifying and reporting risk exposures, concentrations and emerging risks.

We have no additional comments

Principle 5

Timeliness – A bank should be able to generate aggregate and up to date risk data in a timely manner while also meeting the principles relating to accuracy and integrity, completeness and adaptability. The precise timing will depend upon the nature and potential volatility of the risk being measured as well as its criticality to the overall risk profile of the bank. This timeliness should meet bank-established frequency requirements for normal and stress/crisis risk management reporting.

While we understand that data may need to be produced quickly in a crisis situation, it should be acknowledged that if the available time-frame to provide the date is significantly shorter than would normal, or the data requested is substantially different from the norm, then the level of detail in the data provided by firms will need to be proportionately less than usual.

Principle 6

Adaptability – A bank should be able to generate aggregate risk data to meet a broad range of on-demand, ad hoc risk management reporting requests, including requests during crisis situations, requests due to changing internal needs and requests to meet supervisory queries.

We have no additional comments.

Principle 7

Accuracy - Risk management reports should accurately and precisely convey aggregated risk data and reflect risk in an exact manner. Reports should be reconciled and validated.

We have no additional comments.

Principle 8

Comprehensiveness - Risk management reports should cover all material risk areas within the organisation. The depth and scope of these reports should be consistent with the size and complexity of the bank's operations and risk profile, as well as the requirements of the recipients.

While we agree with the sentiments of this principle, it should be noted that extensive stress testing is currently undertaken by firms as part of their risk management exercises. Stress testing practices have been significantly developed over the last couple of years (for example, the introduction of reverse stress testing); these are designed to monitor and capture material risks within banks, and we would recommend that the Committee uses stress testing as a starting point when thinking about principle 8.

The scope of this principle requires further definition; currently it is very wide ranging which is unhelpful in identifying exactly what risks are to be covered and in what situation. More details are needed so firms better understand exactly what the requirements are.

Principle 9

Clarity - Risk management reports should communicate information in a clear and concise manner. Reports should be easy to understand yet comprehensive enough to facilitate informed decision-making. Reports should include an appropriate balance between risk data, analysis and interpretation, and qualitative explanations.

We note in para 53 the Committee refers to “risk-bearing capacity”. This is not a term commonly used in this context, and we would recommend that the term is either replaced, or a further explanation on its definition should be provided.

We would also ask for clarification as to whether “risk data items” actually means risk reports.

Principle 10

Frequency – The board and senior management (or other recipients as appropriate) should set the frequency of risk management report production and distribution. Frequency requirements should reflect the needs of the recipients, the nature of the risk reported, and the speed at which the risk can change, as well as the importance of reports in contributing to sound risk management and effective/efficient decision-making across the bank. The frequency of reports should be increased during times of crisis.

We have no additional comments.

Principle 11

Distribution - Risk management reports should be distributed to the relevant parties and include meaningful information tailored to the needs of the recipients, while ensuring confidentiality is maintained.

We have no additional comments.

Principle 12

Review - Supervisors should periodically review and evaluate a bank’s compliance with the eleven principles above.

Para 63 states that supervisors may request information on selected risk issues within short deadlines. We are not opposed to ad-hoc requests in times of severe stress, but it should be acknowledged that the data provided in very short time frames in unlikely to be as detailed as the data provided in normal reports.

Para 64 discusses the possibility of independent auditing. Extra levels of auditing are clearly time consuming; further guidelines are needed to outline under what circumstances independent auditing will need to take place, and the timeframes that will be required in doing do. We would emphasise independent auditing in these matters should not be a standard practice and should only be required in exceptional circumstances.

Principle 13

Remedial actions and supervisory measures - Supervisors should have and use the appropriate tools and resources to require effective and timely remedial action by a bank to address deficiencies in its risk data aggregation capabilities and risk reporting practices. Supervisors should have the ability to use a range of tools, including Pillar 2.

Para 69 lays down potential supervisory requirements for new business initiatives. We would recommend a good deal of pragmatism should be employed here; for example, a small pilot with a low infrastructure should not be subject to the same requirements as a significant new business with a mass market.

Principle 14
Home/host cooperation - Supervisors should cooperate with relevant supervisors in other jurisdictions regarding the supervision and review of the principles, and the implementation of any remedial action if necessary.

We fully support the objective of ensuring home/host cooperation. However, we would strongly recommend the Committee develops a clear framework outlining the responsibilities of both home and host supervisors in order to ensure a level playing field.