



FEDERATION  
BANCAIRE  
FRANCAISE

*Banking supervision  
And Accounting issues Unit  
The Director*

Paris, September 28<sup>h</sup> 2012

**French Banking Federation comments on the Basel Committee on Banking Supervision Consultative Document on Principles for effective risk data aggregation and risk reporting.**

Dear Sir,

The French Banking Federation (FBF) is the professional body representing the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 450 commercial and cooperative banks. FBF member banks have 40,000 permanent branches in France. They employ 400,000 people, and service 60 million clients.

The French Banking Federation (FBF) welcomes the opportunity offered by the Basel Committee on Banking Supervision to comment on the Principles for effective risk data aggregation and risk reporting, and supports the aim to ensure that continued progress is made in strengthening bank's risk data aggregation capabilities and risk reporting practices.

In a nutshell, the French Banking Federation

- believes that 2016 is not a realistic date for implementing such an ambitious project ;
- asks for more coordination between home and host supervisors, and between the different competent regulators in order to avoid a double gearing on requests ;
- believes that the Board should not be involved in the issues of data aggregation ;
- considers the used wording not always appropriate within this Document.

**Mr Wayne BYRES  
Secretary General  
Basel Committee  
on Banking Supervision  
Bank for International Settlements  
CH-4002 Basel  
Switzerland**

You will find in the annex our comments to the Principles raised in the Consultative Document. We thank you for the consideration of our remarks and remain at your disposal for any question or additional information you might have.

Yours sincerely,

A handwritten signature in black ink, consisting of a long horizontal line with a small loop at the end, followed by a shorter horizontal line below it.

Jean-Paul CAUDAL

## **French Banking Federation comments on Banking Supervision Consultative Document on Principles for effective risk data aggregation and risk reporting.**

We will answer you the different sections within your Consultative Document. Firstly we will give some overall remarks regarding the definition, the objectives and the scope of this matter and then share our comments on the different principles with you.

### **1- Definition and objectives**

In our understanding, “risk data aggregation” means the capacity of aggregating at any time data on specific risks related to credit or trading exposures, operating limits, market concentrations, liquidity risks, etc. and then to report them to the supervisors on request.

However, there are some paragraphs describing the way to report these data, but it seems not clear whether they are intended to the supervisor or the top management. It seems obvious that in order to be operational i.e. “clear and useful” to the top management, these reports should provide only relevant and condensed information instead of being drowned through a lot of insignificant data.

Moreover, during the crisis banks were able to give supervisors on time all risk data they required, regarding Greek exposure for instance, so currently there is already a capacity of banks to provide relevant data if required. We feel that there is a lack of recognition by the regulator of the benefits of enhancements in IT risk data and reporting processes for internal risk management that have already been done. Then we ask the BCBS to be consistent with other regulators especially the FSB with its G-SIBs Common Data Template in order to avoid duplication of requested data.

At last, we would like to draw your attention to the wording used in this Consultation paper. Indeed it would be very helpful if some clarifications could be made on many expressions described within the text, such as: “fully aware” (23), “business impact analysis” (24), “clear and useful” (57) etc, in order to avoid subjective interpretation by both recipients and supervisors.

### **2- Scope of application and initial considerations**

Under paragraph 11, the principles should apply to SIBs, on a solo and consolidated basis, but as supervisors could additionally retain others entities they consider eligible, we wonder which criteria will be recognized to select these relevant entities: size, nature, risk profile, business model, etc. to assess the criticality of an institution.

Furthermore the application of the principles to a given firm need to be agreed on a group level within colleges and applied on a consistent basis throughout the group, this will avoid double or inconsistent request from home and host supervisors.

With regard to the implementation date of 2016, it could be sufficient to implement these requirements if taken in isolation. But besides all new data reporting requirements incoming from CRR / CRD IV or Resolution and Recovery Plan etc., banks will need more time for producing a relevant framework for risk data aggregation in this meantime.

On the other hand we recommend that the assessment, which starts in 2013, should focus on institutions project plans to comply with these principles and not on their effective implementation. Indeed IT infrastructures are of a high complexity, so we cannot afford to scamp the redesign of all IT systems and overarching infrastructure. Some phase-in measures should be considered.

### **3- Overarching governance and infrastructure**

#### Principle 1

22(a). The document recommends that an independent validation unit with specific IT, data and reporting knowledge may be better positioned to perform the review of the risk data aggregation capabilities. Actually our internal audit units are sufficiently independent to conduct the requirements to comply with these principles, so we do not get what value a new unit could add. Moreover, it would be appropriate that the supervisors have the same requirements in terms of assessing institution's compliance with the principles (cf. paragraph 64).

23. This paragraph states that the Board and the top management should be "fully aware" of any limitations that could prevent the full risk data aggregation, such as risks not captured or entities not included in a technical or legal terms (i.e. no cross-jurisdictions data sharing). Is the intent to push for more than a "be informed" standard, in the sense that top management should coverage all limitations that could appear? As already listed supra, we wonder if it is appropriate for the Board and the top management to focus substantially on this issue, instead of focusing completely on strategic and critical issues. It is necessary to define clearly the articulation between management and business oversight in order not to divert them from their objectives.

In a two-tier governance model, the governance function is divided between two governing bodies: a supervisory board and the executive management. The shareholders' meeting is the company's highest decision making body. It appoints a supervisory board, which then appoints the executive management. There is normally a strict division of functions between the supervisory board and the executive management. The executive management is responsible for looking after the administration of the company. The supervisory board supervises the work of the executive management and may in general only intervene in the direct management of the company in a very limited way. That is why we believe that the Board should not be involved in the issues of data aggregation. The executive management or the top management is responsible and must report to the board.

Moreover it must be underlined that any cross-jurisdictions difficulty on data sharing could impeditment an institution to provide relevant and accurate data.

### Principle 3

28(c). It is stated in this paragraph that risk data should be reconciled to accounting data to ensure that the risk data is accurate. This makes sense theoretically but operationally it will not be possible in all cases, as data are not daily warehoused. Moreover, during a business day, some problems could happen regarding data production that could also be an impediment to such reconciliation.

28(d). This paragraph indicates that firms should "strive towards" a single authoritative source of risk data. We think there might be circumstances where it is more efficient for institutions to implement one single database for each risk type or business, with appropriate bridging capabilities for aggregation purposes.

30. It is stated that there should be an appropriate balance between automated and manual systems and that a higher degree of automation is desirable to reduce the risk of errors. On the contrary, we think that there is need for having a robust and effective data system regardless of whether it is automated or not. The regulator should keep in mind that risk data relies on a mix of both manual and automated process.

### Principle 4

This principle should be reformulated in order to be more realistic. Actually a distinction should be made among the different risk categories: for credit and market risks, data are generally available across banking groups by business line, legal entity, asset type, industry, and region, but this is not generally the case for operational risk. The latter can generally be made available by entity, business line and risk factor but it is much more difficult, and not necessarily relevant, to report data by geographical region.

### Principle 5

This principle should also be reformulated, as there may be an inconsistency between providing accurate data in a timely manner (which is also stated in paragraph 59). Providing relevant and accurate data within a very short meantime, such as expected, could be unrealistic.

38. As explained below, the list of critical risks should be reviewed to be in line with what is expected by the FSB. It seems that this level of granularity is already within the FSB G-SIB Common data template.

### Principle 6

39. The notion of "forward-looking" need to be clarified. Indeed we understand it is the capacity to anticipate potential risks, but what will be the articulation with stress-testing exercises already made and accounting data?

### Principle 7

The wording of this Principle reflects the high level of expectation of the Consultation paper: "[...] reports should "accurately" and "precisely" convey aggregated risk in an "exact" manner [...]" . While we understand the reasons for this wording, we think that a reasonable level of approximation should be allowed depending on the circumstances.

In periods of stress, it is difficult to expect aggregations of information to be as accurate as in the ordinary course of business and in such circumstances reasonable approximations are still useful.

#### Principle 9

57. According to the statement, reportings have to be "clear and useful" for the supervisor. We would be grateful if some clarifications upon the use of these data by the supervisor could be made. We want to underline that the risk data reporting cannot comply with both supervisors and top management needs, as their expectations are not the same.

#### Principle 10

If justified in principle, the possibility to increase the frequency of reportings during times of crisis may be time consuming. A right balance between data production and data analysis should be reached.

#### Principle 12

63. According to this paragraph, supervisors may test the compliance of an institution with these principles via specific risk data requests in short time, in order to test their capacity to produce accurate data and risk reportings.

We agree with this idea but fear that this will lead to a multiplication of demands, some of which could be redundant with other reviews or stress-testing exercises. Any such testing exercises should be planned carefully with other regulator exercises in order to avoid multiple demands in constrained time periods. This implies an home/host coordination on these issues, with a strong home-supervisor leadership (cf. Principle 14).

64. This paragraph mentions that supervisors may draw on controls realized by internal and also external auditors in order to assess the compliance with the principles. We state that our internal auditors do their controls, at the second level and at the third level as well, with a total independency from the operational units. So we do not see clearly the opportunity to have this task done by external auditors. BCBS should explain why internal audit is not sufficient.

#### Principle 13

68.69. "Supervisors should be able to set limits on a bank's risks or the growth in their activities where deficiencies in data aggregation are assessed [...] and may require that robust risk data aggregation capabilities are demonstrated before allowing a new business venture or acquisition to proceed".

We are strongly opposed to these provisions are too tough and seem to be disproportionate with the issue of the Consultation paper. We therefore ask to delete those two paragraphs.