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BCBS 239: Major in the Major, or Major in the Minor?

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BIS – Basel Committee on Banking Supervision released a report in Jan 2015 titled "Progress in adopting the principles for effective risk data aggregation and risk reporting". The lowest reported compliance items were among risk data aggregation capabilities. In fact, risk reporting practices scored high marks relative to all other principles.

This seems contrary to the logic of risk report being a by-product of a robust enterprise risk management system. We live in a dynamic market and huge losses can be accumulated at lightning speed. Manually compiled risk analytics would probably be too late to catch any of these situations. Thus, these reports can, at most, be used for trend analysis. Besides, would these manual reports truly be comprehensive enough to provide real-time insights for meaningful risk reduction activities?

The industry has long been scrambling with risk reporting. Would that be too much information for the sake of regulatory filings, or should the major focus be real-time risk analytics? To truly address the real risk concerns, somehow we only need the vital-few intelligence at the right time!

Followings are reasons and/or challenges for banks to achieve the desired outcomes of BCBS239, as well as my suggested improvement actions:

(1) Silos

Process specialization used to serve the system well. It enabled lower cost and higher efficiency in operations. However, risks need to be looked at holistically. A dedicated PMO to consider the next-gen Enterprise Risk Management (ERM) would be helpful.

(2) Manual reports

Though significant resources were deployed into metrics and regulatory filings, the industry lacks consensus on what "should-be" the industry's data model, or do they really have the data available for a robust preventive risk management system in real-time (this can be seen from the challenges in the Consolidated Audit Trail project, the NBBO implementation, etc.). Banks ought to retake the driver seat rather than wait for the regulators to define, dictate and/or prescribe a "system" for them to follow. Implementation has to be practical in consideration of operations' nuances.

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(3) Everybody owns = nobody owns

The industry lacks big picture to see how the puzzle pieces should fit together. Many are just scrambling with different tactics. To borrow a quote from The Art of War (Chinese Proverb) by Sun Tzu: "Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat".

In conclusion, Rome wasn't built in a day, nor will all the risk data aggregation problems of financial firms be solved overnight. In my humble opinion, Volcker is the logical starting point to aggregate your risk data for a meaningful purpose (i.e. active risk prevention). When you have gotten the purpose right, the rest (e.g. BCBS 239, CCAR, DFAST, TLAC, CARDS, CAT…) will follow.

About Data Boiler Technologies, LLC

Data Boiler is a FinTech pioneer that brings big data to bear on big problems in the financial services industry. We are taking things to a whole new level with VR Machine for the Volcker Rule compliance. It is a patent pending utility to spam filtering the prohibited. It helps firms determine the reasonable expected near-term demand (RENTD) and qualify for the appropriate exemptions. To learn more, please visit us at www.databoiler.com.