Emerging Leaders Program

Vancouver

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Emerging Leaders Program:

Risk Reporting

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“What gets measured, gets managed”

Introduction

- Risk reporting is a key tool for management decision-making and board oversight and governance
- Requires access to accurate and timely data, as well as tools for aggregation and manipulation
- Needs to be tailored to the audience and have appropriate, frequency, timeliness and granularity for the business covered
- Must foot to finance data where appropriate – at the very least, risk and finance should be using common source data

Agenda

1. Best (or aspirational) Practices
2. Objectives of risk reporting
3. Mechanics and complexities, including technology
4. Role of AI
5. Strategic implications

Best Practices: BCBS 239 “RDARR”

2013 Basel standard on risk reporting, focused on

- Governance and infrastructure
- Risk data aggregation capabilities
- Risk reporting practices
- Supervisory review, tools and cooperation

There are 14 principles outlined in the standard

Genesis was the recognition during the financial crisis that banks’ IT and data infrastructures were inadequate to support the management of financial risks

Governance and Infrastructure

- Reporting and aggregation should be subject to strong governance
- The Board and senior management should review and approve the aggregation and reporting framework and ensure that adequate resources are deployed
- Data architecture and IT infrastructure should be designed, built and maintained such that it supports risk data aggregation and reporting during normal times and periods of stress
- Roles and responsibilities should be clear, as should data ownership
- There should be an adequate control structure in place

Risk Data Aggregation Capabilities

Accuracy and integrity

- Controls should be as robust as those for financial reporting
- Manual processes should be subject to controls and EUC policies
- "Golden source" and data dictionary

Completeness

- Must be able to capture all material risk – on and off-balance sheet
- Data should be available by business line, legal entity, industry, region and product

Timeliness

- Data production and aggregation must be available quickly for critical risks during times of stress or crisis

Adaptability

- Capabilities should be flexible enough to adapt to changing business and regulatory demands

Risk Reporting Practices

Accuracy

Comprehensiveness

- Report on concentrations, key and emerging risks, limits/risk appetite
- Forward-looking, not just current and past data

Clarity and usefulness

Frequency

- Should match the risk horizon: intra-day/daily for market

Distribution

- Procedures should be in place to distribute in a timely manner to relevant parties while maintaining appropriate confidentiality

BCS 239 Implementation

Different regulatory approaches to adoption

- OSFI/US Regulators – embed principles into existing regulation/principles for DSIBs/GSIBs primarily
- ECB expects full adherence
- 2022 BIS report showed only 2 of 31 banks surveyed to be fully compliant
  - Most programs too limited in scope, underfunded and lack sufficient support from Boards

Even a limited implementation takes years and is extremely costly

Types of Risk Reports

Governance

- Monitoring utilization against limits or risk appetite

Risk Transparency

- Provide risk information to senior management and the board on portfolio trends, emerging risks and key risk indicators

Compliance

- Ensure that the organization is operating within regulations and laws
- Data required by regulators for micro- and macroprudential regulation

Reporting Details

- Usage vs limit reporting

- Can be at the business line, geographic, product, business unit, legal entity or enterprise level

- Frequency of reporting dictated by type of business, data availability and complexity of report
  - Trading businesses report daily, board reporting is monthly or quarterly
  - Ad hoc reports

- Granularity of the report
  - Hundreds of reports covering hundreds of risk measures and thousands of limits for trading

Audience

- Board/Board Committees
- Regulators
- Senior Management/Senior Committees
- Business line leaders/Independent Risk & Compliance Teams

Board Reporting

Regular risk package

- CRO/CCO report
- Risk appetite utilization
- Key measures and metrics – quantity and direction of risk

Deep dives and ad hoc reports

- Business reviews from a risk perspective
- Review of regulatory issues

Must be succinct, free of jargon and update on management actions

- Can't just present problems without management action, even if it's to continue monitoring

Regulatory Reporting

- Note that all reporting can be requested by regulators
- Reports done for regulatory compliance that need to be filed with the regulator have a prescribed cadence and format
- Ad hoc reporting requested by regulators
  - "Fire drills" to assess readiness and capabilities of supervised entities
  - Detailed and frequent bespoke reporting during stress or crisis situations

Senior Management Reporting

- Reports for senior committee or for circulation to senior leaders
- Typically, much less granular and should have a broader view
  - Focus on portfolio issues, trends
  - Limit monitoring would generally focus on CRO-level limits
- Less technical and granular
- Should have some degree of tailored content
  - Important trends and issues should be brought forward and highlighted in the report

Business Line Reporting

- Typically, most frequent and most granular
- Target audiences are subject matter experts and so reports can be detailed and technical
- Often monitor usage against limits and KRI/KPIs
- Degree of automation can restrict commentary and ability to customize
- Can be produced by 1LOD and/or 2LOD

Exercise: Undrawn Commitments Case

1. Given what we've discussed, what are some of the key questions we need to address with respect to:
   - Scope of the report
   - Granularity vis-à-vis intended audience
   - Cadence of reporting

2. What are some of the BCBS 239 issues that might arise in the development of the report, especially in terms of:
   - Governance and infrastructure
   - Risk data aggregation
   - Risk reporting practices

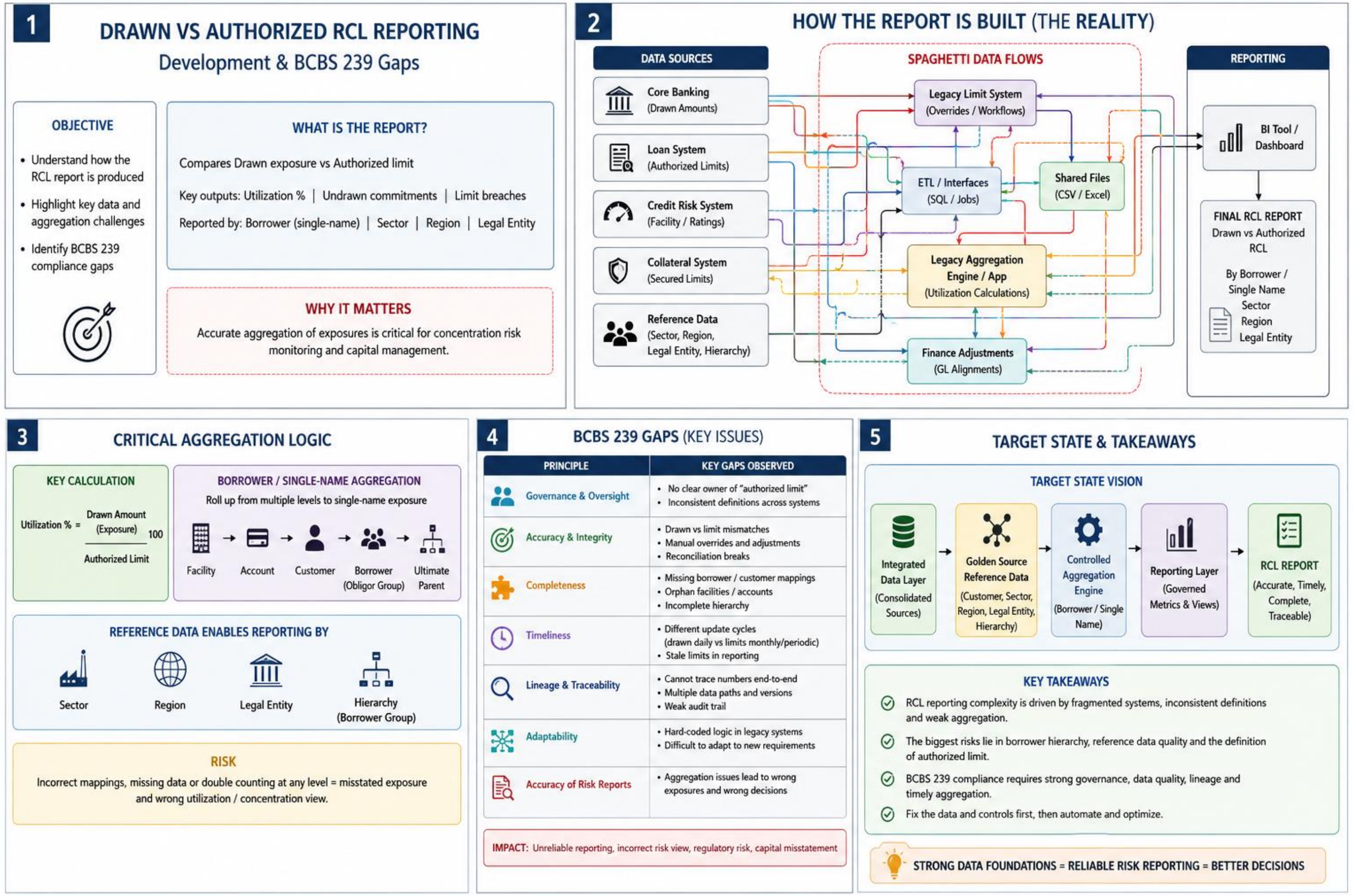
Reality

- This is one of the simplest reports we might produce in a banking context
  - Literally, we are subtracting one number from another and adding it up by single name, currency, business segment, product and so on

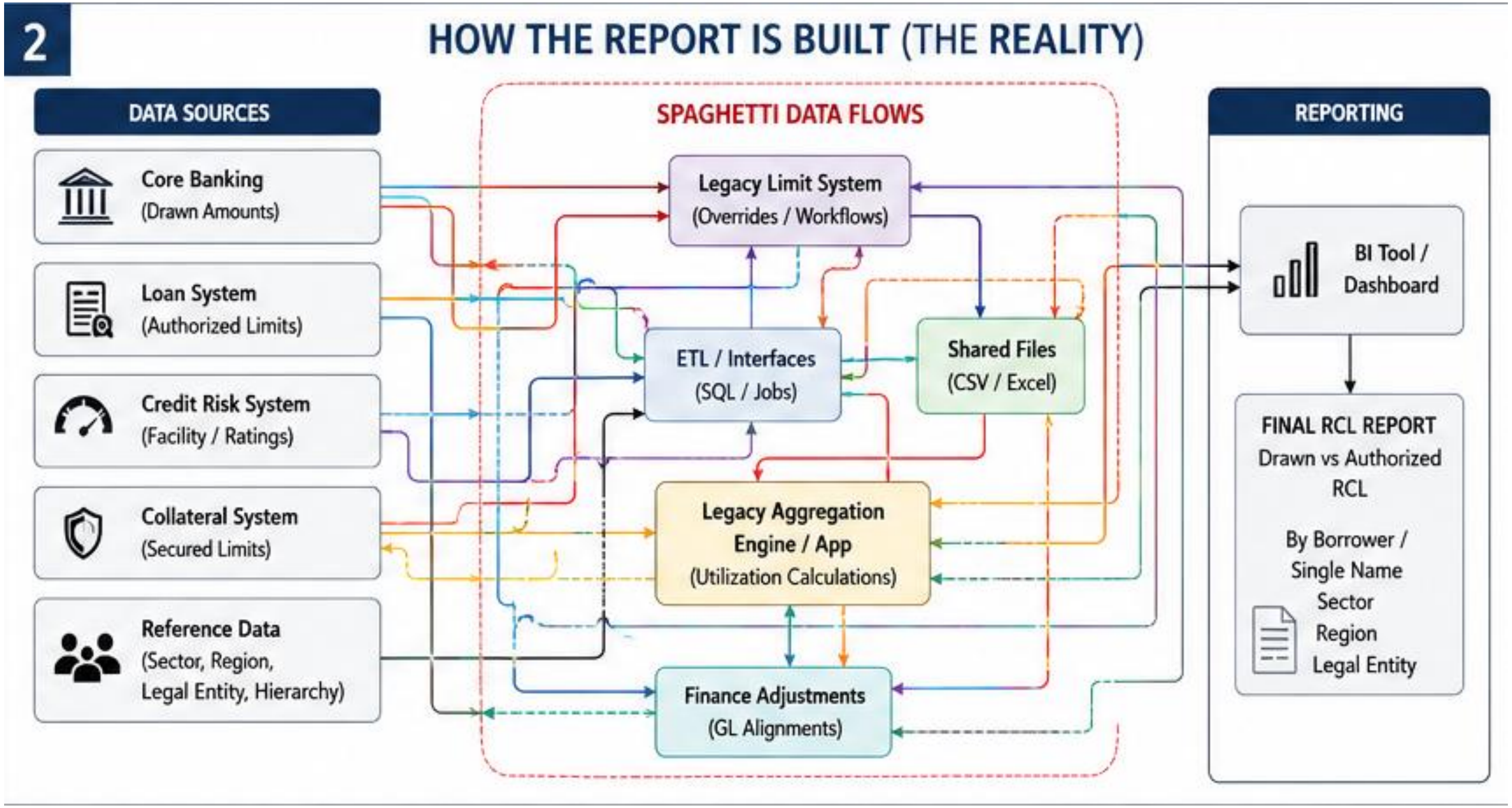
- We are leveraging legacy data, systems and processes that may or may not be complete, accurate nor robust

- Despite its simplicity, it will require development and maintenance that is likely incremental to existing reports and add further "spaghetti" to the Risk IT ecosystem

ChatGPT Visual



Risk IT Schematic



AI for Risk IT and Reporting

Automated and real time: shift away from reactive to predictive inferences about risk

- Gen AI interface to generate insights and reports

Risk IT infrastructure and data architecture that will enable AI adoption

- Don’t build AI on bad data – can’t avoid the clean up!

Governance

- No black boxes – models must be explainable
- Integrity of data retrieval – only from verified internal sources

Talent and resources

Strategic Implications

FIs that have clean data and robust IT architectures have a tremendous advantage

- Quality of data and processes will enable better decisions
- You can't say you're "data driven" if you won't invest in your data
- Data and Risk IT are complicated and expensive to maintain and fix

AI is coming fast

- Transformative impact on risk management both in terms of efficiency and effectiveness
- Not everyone is ready – not everyone can afford to be ready

Break

Risk Oversight and Insight: A Board Perspective

Sonia Baxendale
President & CEO, GRI

Lunch

GLOBAL RISK INSTITUTE