7. Principles for Effective Data Aggregation and Risk Reporting FRM Part 1: Foundations of Risk Management

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1 Introduction

Effective risk analysis requires sufficient and high-quality data. As such, data plays a key role in the *input risk* portion of model risk.

The *Basel Committee on Banking Supervision (BCBS)* examined bank data collection, storage, and analysis practices and published a report on risk data management.

The conclusion of the report was that data quality in banking was inadequate and published BCBS 239, which outlines the principles of effective risk management data.

Risk data aggregation is the process of defining, gathering, and processing risk data according to a firm's risk reporting requirement to enable the bank to measure its performance against its risk tolerance/appetite.

2 Key Governance Principles

2.1 Principle 1: Governance

Governance - a firm's risk data aggregation capabilities and risk reporting should be subject to strong governance arguments consistent with other principles and guidance established by the Basel Committee.

Effective risk data governance is achieved by implementing policies that set "clear delineation of roles, incentive schemes, and responsibilities for risk data management.

Ineffective risk governance is "a lack of structured policies and frameworks to consistently assess and report risk data activities to board and senior management

2.2 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 and risk reporting practices.

2.3 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 also be aggregated on a largely automated basis to minimize the probability of errors.

2.4 Principle 4: Completeness

bank should be able to capture and aggregate all material risk data across the banking group.

2.5 Principle 5: Timeliness

A bank should be able to generate aggregated and up-to-date risk data in a timely manner while also meeting the principles relating to accuracy and integrity, completeness, and adaptability.

2.6 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 stress/crisis situations, requests due to changing internal needs, and requests to meet supervisory queries.

2.7 Principle 7: Accuracy

Risk management reports should accurately and precisely convey aggregated risk data and reflect risk in an exact manner.
(umm...why is accuracy on here twice?..)

2.8 Principle 8: Comprehensiveness

Risk management reports should cover all material risk areas within the organization.

2.9 Principle 9: Clarity and Usefulness

Risk management reports should communicate information in a clear and concise manner.

2.10 Principle 10: Frequency

The board and senior management should set the frequency of risk management report production and distribution.

2.11 Principle 11: Distribution

Risk management reports should be distributed to the relevant parties while ensuring that confidentiality is maintained.

2.12 Principle 12: Review

Supervisors should periodically review and evaluate a bank's compliance with the other principles.

2.13 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.

2.14 Principle 14: Home/Host Cooperation