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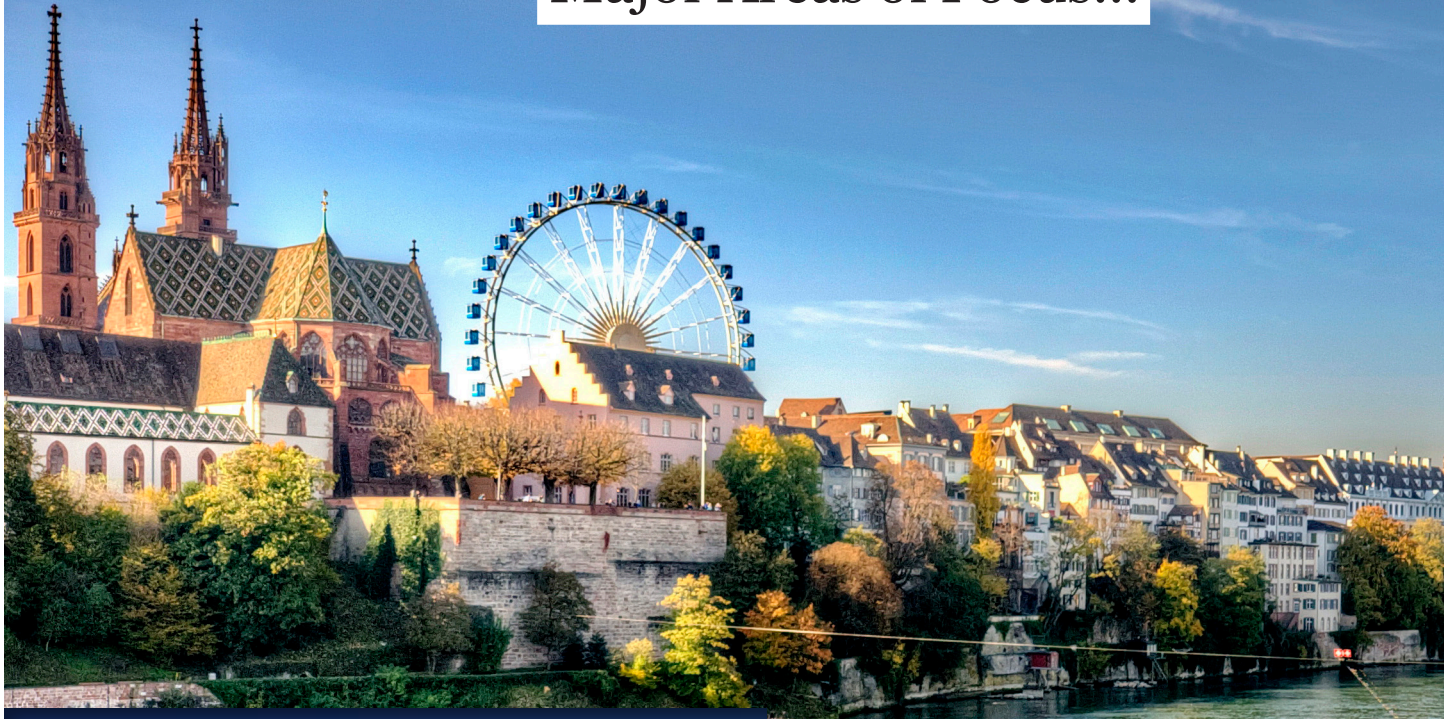# A Data Leader's Summary of the Latest BCBS Counterparty Credit Risk Guidelines

June 2024

The BCBC Highlights 118 Different Guidelines Across 6 Major Areas of Focus...

Executive Summary

On April 30th, the Basel Committee on Baking Supervision released a consultative document for comment regarding improving the guidelines for counterparty credit risk (CCR) management. You can read the 28 page document in its entirety, but in this summary we'll breakdown several key areas and highlight critical data considerations.

These considerations are focused on important non-transactional data requirements stated or implied by the guidelines. For a comprehensive understanding of all considerations including risk model and calculation methodology specifics, please refer to the full document.

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6 Key Areas of Focus

The aim is to ensure banks can withstand disruptions, minimize their impact on customers and the financial system, and swiftly recover from operational incidents. In total, the BCBS highlights 118 different guidelines across 6 major areas of focus. Let us simplify.

6 Key Areas of Focus	Guidelines
Due Diligence & Monitoring	15
Credit Risk Mitigation	22
Exposure Measurement	32
Governance	32
Infrastructure, Data & Risk Systems	11
Closeout Practices	5

Data Considerations: Our Take

The BCBS CCR offers extensive guidance for banking operations, risk, and regulatory professionals. For those leading data programs, we have taken each of the 6 areas of focus and highlighted important data considerations to help practitioners know where these BCBS requirements may impact their data initiatives.

1. Due Diligence & Monitoring

- Initial onboarding, due diligence and on-going monitoring should factor financial and non-financial information, which can be much more legal, regulatory, reputational, and operational risks data than historically collected.

- Credit standards should be aligned with product and industry, which requires consistent and accurate classification of products and industries.

- Relevant information about the entities, related entities, and individual executives, officers, and directors who influence the entity's decisions should be included during onboarding. The standards expect a "holistic view", which will require more data to improve practices.

- Risk decisions and on-going credit monitoring should include non-financial risks such as geopolitical, country, and industry risks that can be difficult to quantify, but require consistency across existing or new data attributes. Today, inconsistency is often traced to the application of credit standards, initial due diligence, or credit reviews

2. Credit Risk Mitigation

- Margining framework should be aligned with the overall risk profile of the counterparty not just the trading relationship. Maintain clear relationship data to delineate related counterparties, desks, offices, and authorized traders is essential.

- Accurate data capturing of contractual terms consistently and accurately is required to reliably perform market, liquidity, and counterparty credit risk calculations and to evaluate key terms including product features, termination rights, margin lock-up requirements, and default notifications. This process may include extracting data out of a wide variety of agreements particularly across different operating groups or entities.

- Products and collateral must be classified accurately and consistently by product type and collateral type to support the required margin and risk monitoring models.

3. Exposure Measurement

- Accurate identification of counterparties and counterparty relationships is required to support the multi-dimensional nature of evaluating risk across thousands of counterparties, underlying assets, and various portfolios across risk configurations including linear and non-linear, concentrated and diversified, and hedged or directional.

- Data attributes must support accurate and comprehensive exposure calculations by counterparty, industry, product type, desk, book, portfolio, geography, business area, and other characteristics.

- Data indicating contractual terms are accurate and consistent to support the wide variety of exposure models as well as potential future exposure (PFE) models.

- Unique data sets may be required to support more sophisticated hypothetical modeling of geopolitical, natural disaster, or other significant risks and stress testing, by industries and sectors more susceptible to specific types of risks (e.g. commodities, insurance).

4. Governance

- A fostered culture of valuing data and models, capabilities to refine data, test new models, and elicit feedback and challenge are important in building support and confidence.

- Data standards aligned with data sets across market risk and credit risk will mitigate issues with silo'd assessment of counterparty credit risk exposure and issues.

- Tools should be used to capture risk monitoring activities and facilitate the engagement of all relevant parties and risk committees on risk decisions and limiting exceptions will support faster and more confident decision making, and allow for future analysis of decision making data for continuous improvement of governance practices.

5. Risk Systems

- Systems, models and data management capabilities should be evaluated to support newer practices, internal and external data sets, and sophisticated models to enhance the bank's risk monitoring capabilities.

- Consistent data taxonomies aligning with enterprise classifications across the business will help to ensure risk metrics estimated by different systems are aggregated accurately, and support required data issue/incident remediation processes.

- Robust capabilities must be available to maintain data quality controls to facilitate the identification, monitoring, and escalation of system, data and model issues, and preventative and detective controls to identify data anomalies.

- Robust systems/processes to conduct data remediation and to manually adjust missing or incorrect data identified via technology, data reconciliation and variance analysis, or other detective controls.

6. Closeout Practices

Closeout playbooks and exercise mock closeouts should be maintained to identify deficiencies in data-related systems and practices.

Data Refinement Empowers Banks To Make Improvements And Address Their Critical Data Needs...

Final Thoughts...

While the updated guidelines for CCR are still out for comment, data leaders can clearly see the areas of focus and investment that will be coming. New techniques and technologies such as **data refinement** are empowering banks to make improvements and address many of the highlighted data considerations in a complementary way that doesn't disrupt current risk and reporting systems.

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