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From gap analysis to solutions BCBS239 Compliance

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BCBS239 Compliance

OBJECTIVE OF THIS SPEECH

- From Gap Analysis of Risk Landscape
- To concrete implementation of Solutions
- An Action Model to fulfill BCBS239 requirements

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PRINCIPLES FOR EFFECTIVE RISK DATA AGGREGATION AND RISK REPORTING

Purpose

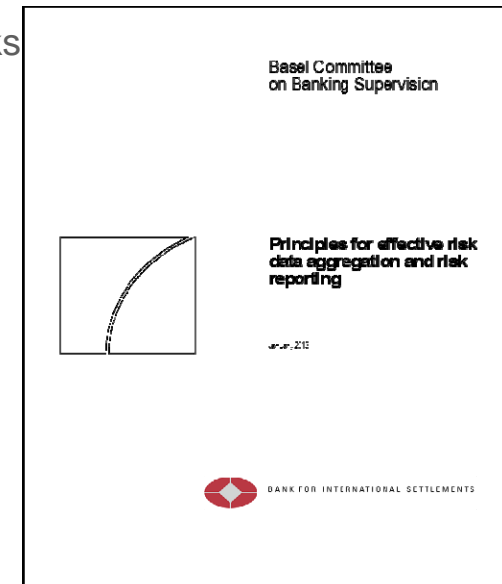
- Strengthen risk data aggregation and risk reporting practices at Banks

Expectation

- Enhance Banks' risk management and decision-making processes

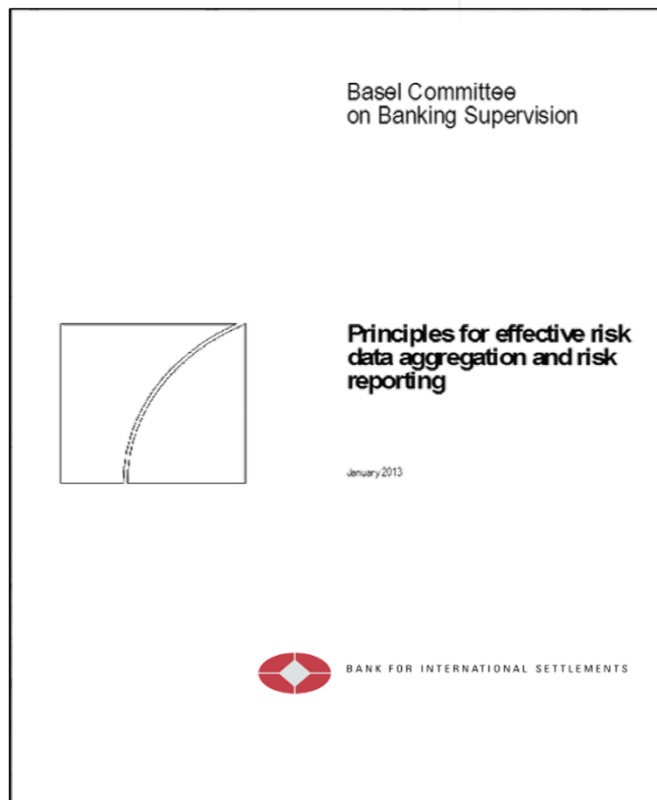
Four topics

- Overarching governance and infrastructure (Principles 1, 2)
- Risk data aggregation capabilities (Principles 3 to 6)
- Risk reporting practices (Principles 7 to 11)
- Supervisory review (Principles 12 to 14)



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PRINCIPLES IN DETAIL



Overarching governance and infrastructure

1. Governance

2. Data architecture and IT infrastructure

Risk data aggregation capabilities

3. Accuracy and Integrity

4. Completeness

5. Timeliness

6. Adaptability

Risk reporting practices

7. Accuracy

8. Comprehensiveness

9. Clarity and usefulness

10. Frequency

11. Distribution

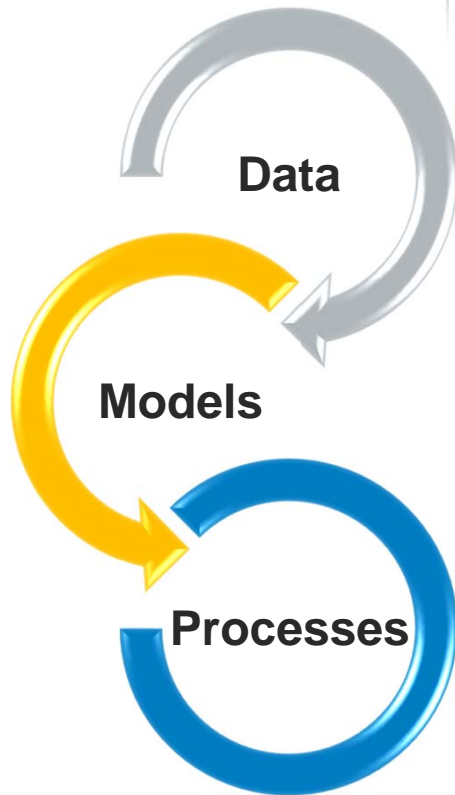
Supervisory review, tools and cooperation

12. Review

13. Remedial actions and supervisory measures

14. Home/host cooperation

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THE NEXT GENERATION RISK MANAGEMENT

Risk Data management

- Comprehensive Risk Data Governance across Banking Group entities
- Full alignment with Finance
- Appropriate risk analysis & reporting capabilities

Risk modelling activities

- Development and deployment environments for all risk models
- Validation of all internal risk models formally supported
- Monitoring and Maintenance system in place for all risk models

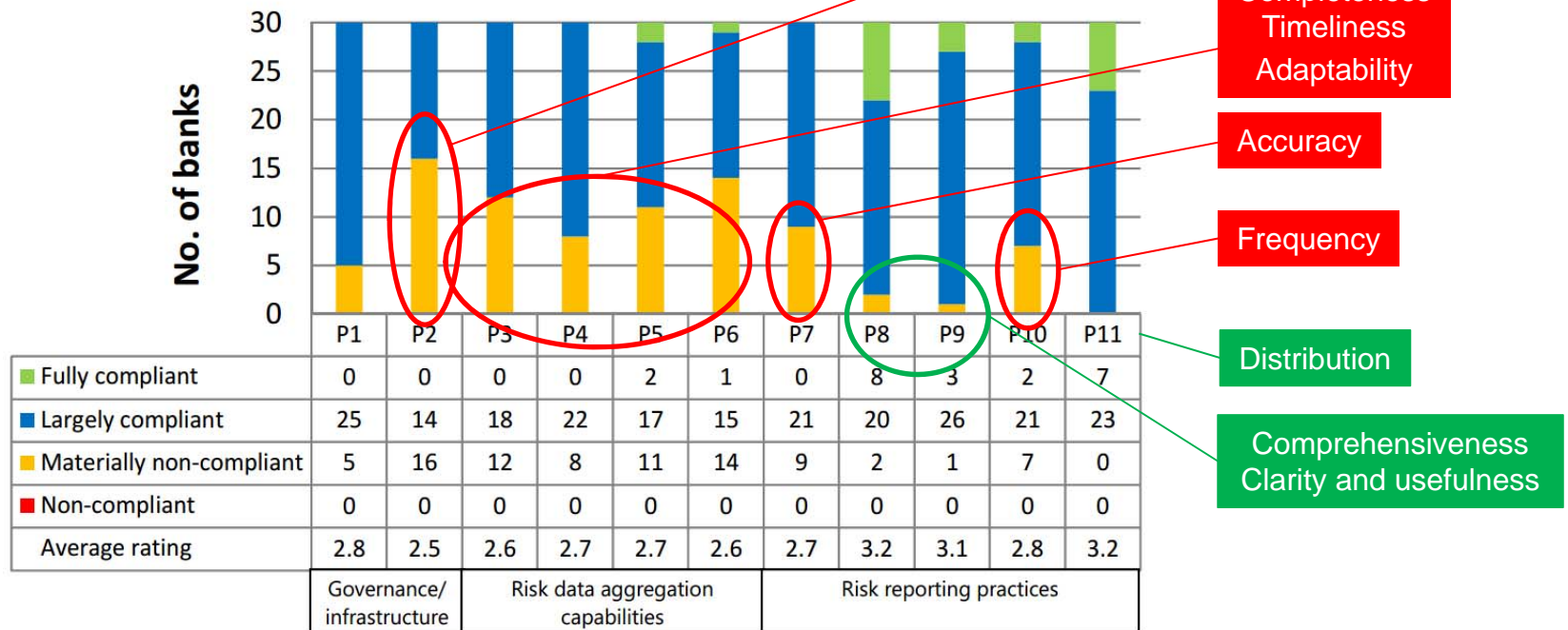
Risk Information processing and decisioning

- Automation of all relevant risk processes
- Performance of risk aggregation and reporting processes ensured
- Governance of risk decisioning fully covered

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CURRENT GAPS

Self assessment ratings by Principles



Source: Basel Committee on Banking Supervision, Progress in adopting the principles for effective risk data aggregation and risk reporting, December 2013

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COMPLIANCE BY PRINCIPLES

Category	Prn	Description	Overall rating for Principle - AS IS	Overall rating for Principle - TO BE	Compliance date	Summary comments
Governance and IT	1	Governance	3	4	Dec 2015	Standardisation and formalisation of existing capabilities largely through in-flight programmes
	2	Architecture / Infrastructure	2	4	Dec 2015	Full compliance to be achieved through a) the development and implementation of a fully capable Risk Data Governance system and b) revision of risk calculation and reporting infrastructure
Data Aggregation	3	Accuracy / Integrity	2	4	Dec 2015	Implement the standards, policies, and frameworks required in the Risk Data Governance system
	4	Completeness	2	4	Dec 2015	A comprehensive data programme including data principles, clear ownership and a Data Quality Framework (within the Risk Data Governance system) to address completeness requirements
	5	Timeliness	2	4	Dec 2015	Compliance will be achieved through a combination of adoption of Data Governance standards as well as number of projects across risk areas to revise risk reporting procedures and improve calculation performances
	6	Adaptability	2	4	Dec 2015	Compliance will be achieved through a combination of a) adoption of Data Governance standards and b) revision of risk data structures
Reporting	7	Accuracy	2	4	Dec 2015	The compliance for reporting accuracy is linked with those for principle 3 on aggregation accuracy and with the deployment of a revised risk reporting system in the context of the risk management information system
	8	Comprehensiveness	3	4	Dec 2015	Implementation of risk Data Governance framework and risk management information system
	9	Clarity / Usefulness	3	4	Dec 2015	Risk management information system to deliver reporting packs for all risk governance committees across the Bank tailored to their specific needs and requirements
	10	Frequency	3	4	Dec 2015	Implement improvements to aggregation and reporting capabilities, in particular during times of stress/crisis
	11	Distribution	3 OR 4	4	Dec 2015	Formalise processes for confirmation of distribution - Implement a specific GRC application

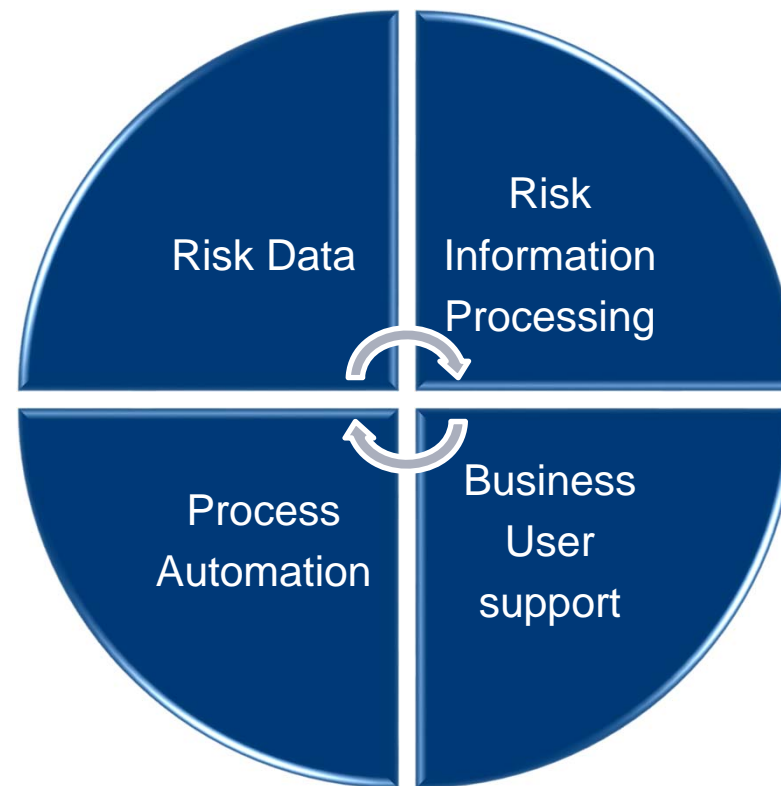
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COMPLIANCE BY FOCUS AREAS

Category	Prn	Description	Overall rating for Principle - AS IS	Overall rating for Principle - TO BE	Compliance date	Summary comments
Governance and IT	1	Governance	3	4	Dec 2015	<ul style="list-style-type: none"> Implement risk data governance system Revise risk data structures Revise reporting procedures Improve calculation performance Improve aggregation and reporting capability, including stress testing Implement GRC application on risk decisioning processes
	2	Architecture / Infrastructure	2	4	Dec 2015	
Data Aggregation	3	Accuracy / Integrity	2	4	Dec 2015	
	4	Completeness	2	4	Dec 2015	
	5	Timeliness	2	4	Dec 2015	
	6	Adaptability	2	4	Dec 2015	
Reporting	7	Accuracy	2	4	Dec 2015	
	8	Comprehensiveness	3	4	Dec 2015	
	9	Clarity / Usefulness	3	4	Dec 2015	
	10	Frequency	3	4	Dec 2015	
	11	Distribution	3 OR 4	4	Dec 2015	

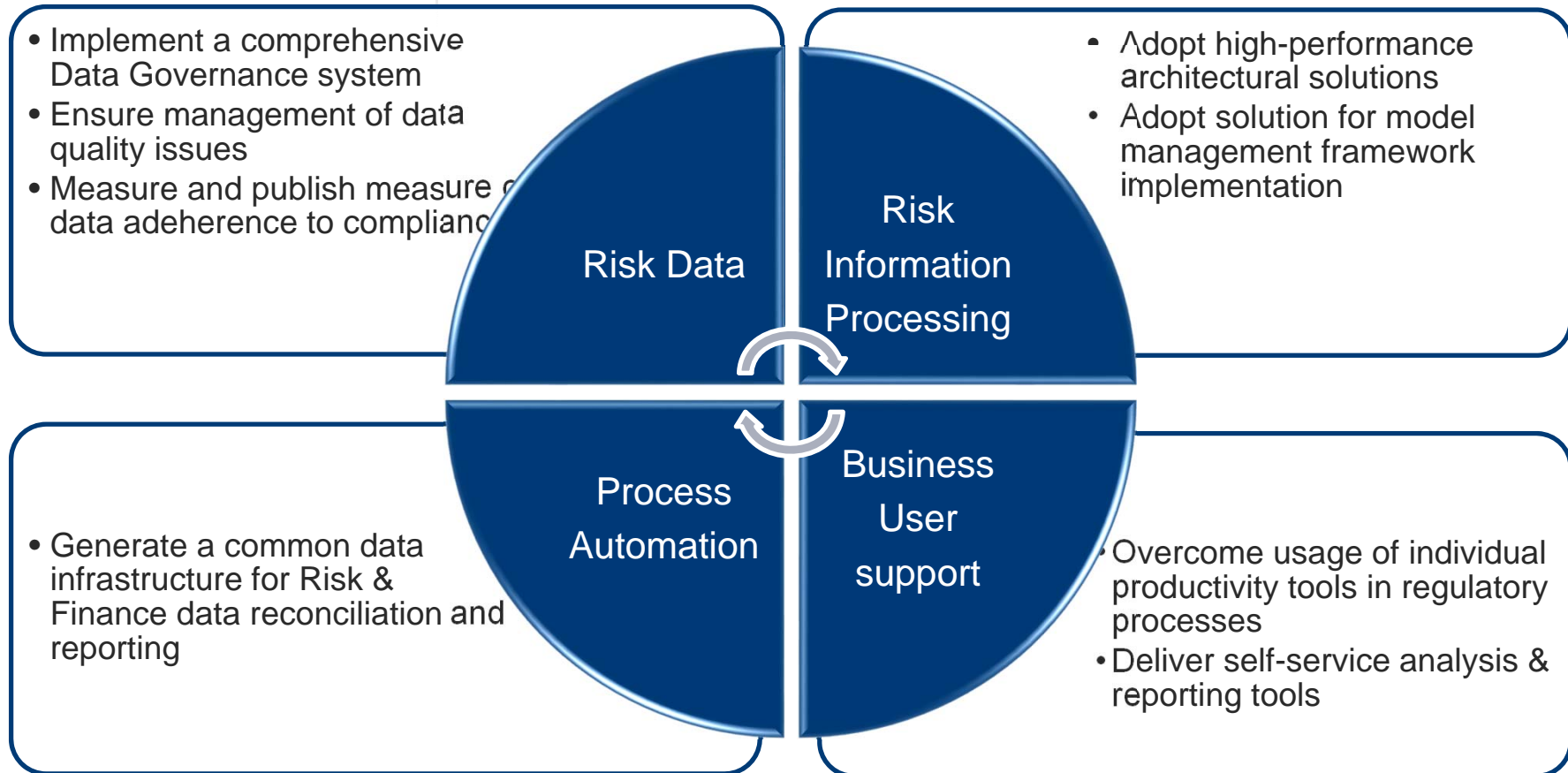
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AN IT-INTENSIVE IMPLEMENTATION AGENDA



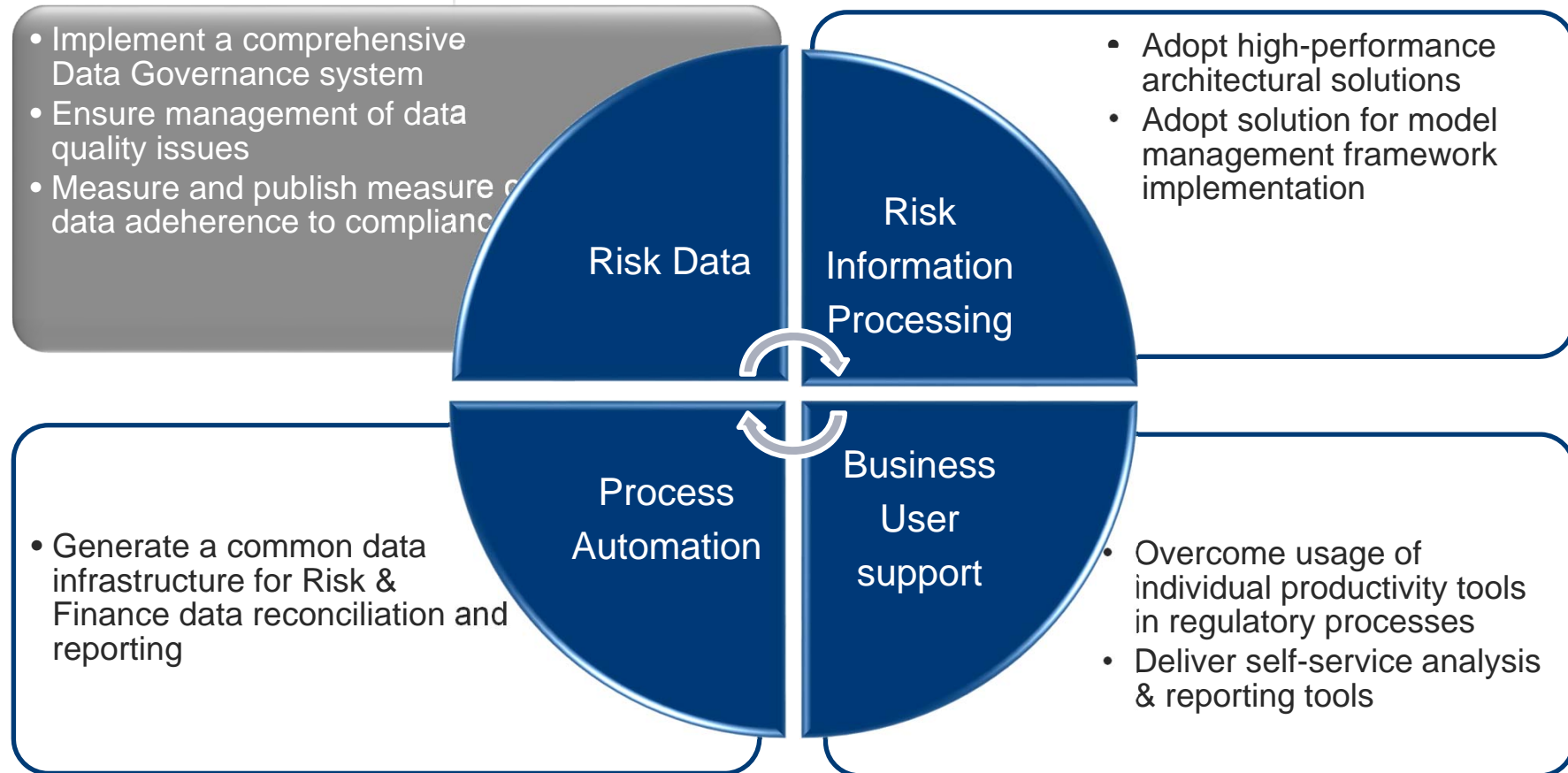
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Liquidity Coverage Ratio ✕

View Edit Monitor Relationships

Identification Hierarchy Associated Items Notes and Contacts History

Description

The Liquidity Coverage Ratio (LCR) is designed to strengthen the ability of banks to withstand adverse shocks. It will require banks to hold sufficient high quality liquid assets (cash, government bonds and other liquid securities) to meet a severe cash outflow for at least 30 days. The stressed cash outflow includes the withdrawal of a proportion of retail deposits and the withdrawal of all wholesale funding due to mature in the next 30 days – although banks can offset part of this outflow of wholesale funding by an assumed inflow of funds they have placed with other banks that mature in the next 30 days. The LCR requirement will apply on a currency by currency basis, so that banks can survive shocks that also cause sharp exchange rate movements or disrupt currency convertibility.

The LCR ratio has two components:

- Value of the stock of HQLA in stressed conditions
- Total net cash outflows

Requirements

LCR Ratio: Stock of HQLA / Total net cash outflows over the next 30 calendar days $\geq 100\%$

The LCR observation period runs until 2014, after which the LCR will become a minimum standard from 1 January 2015.

Liquidity coverage ratio requirements:

The LCR requirement is that a bank must hold sufficient unencumbered high-quality liquid assets to meet its liquidity needs for 30 days under conditions of severe stress. The stress conditions are captured by assuming that a bank faces cash outflows for the next 30 days comprising:

- The withdrawal of a proportion of retail deposits (at least 5% of stable and 10% of less stable retail

Details

Status: ● On Hold

Importance: ★★☆☆ Medium

Links

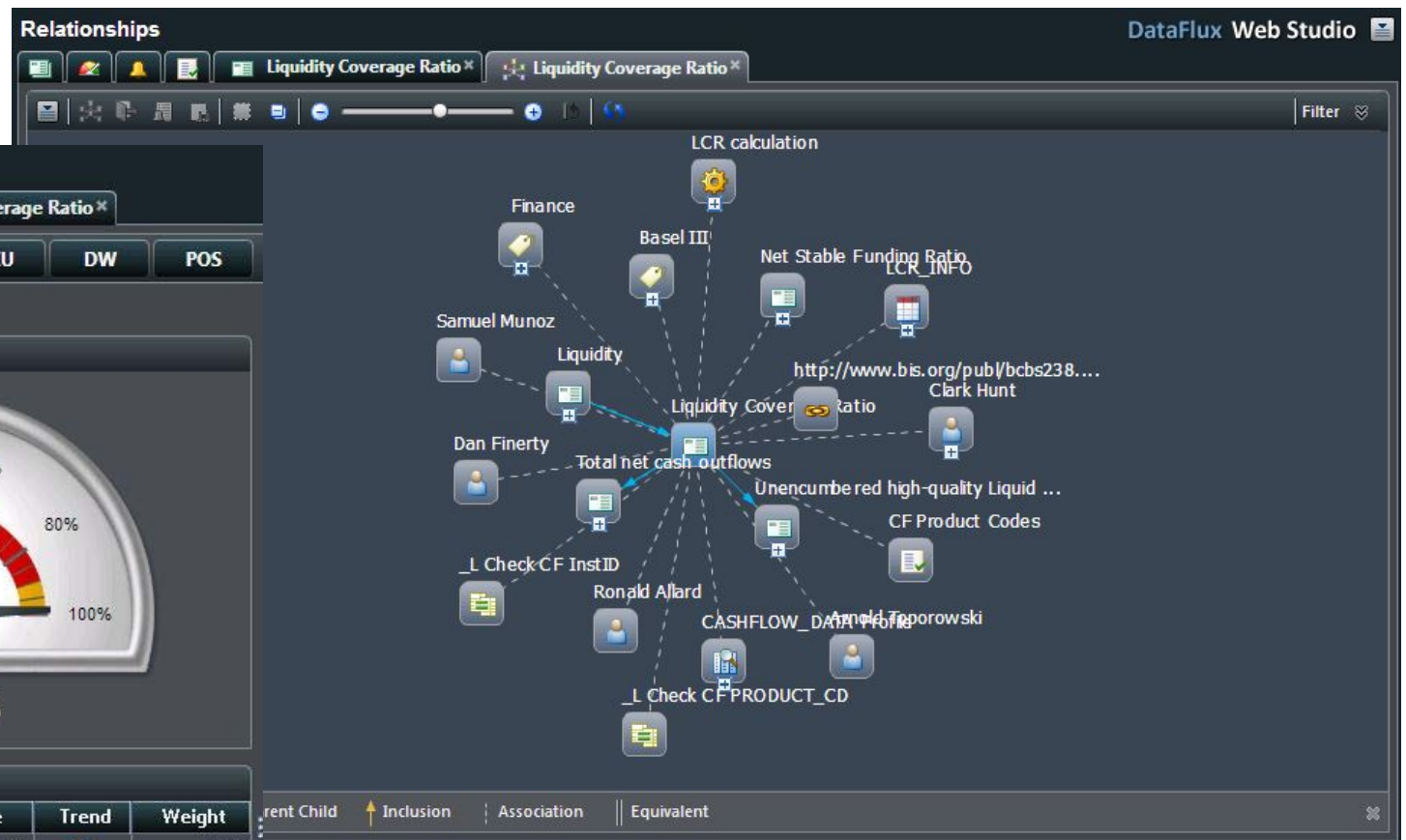
Basel III: The Liquidity Cove... Relationships

Tags

- Basel III
- Finance

Related Terms

- Liquidity
- Net Stable Funding Ratio
- Total net cash outflows
- Unencumbered high-quality Liquid Assets (...)



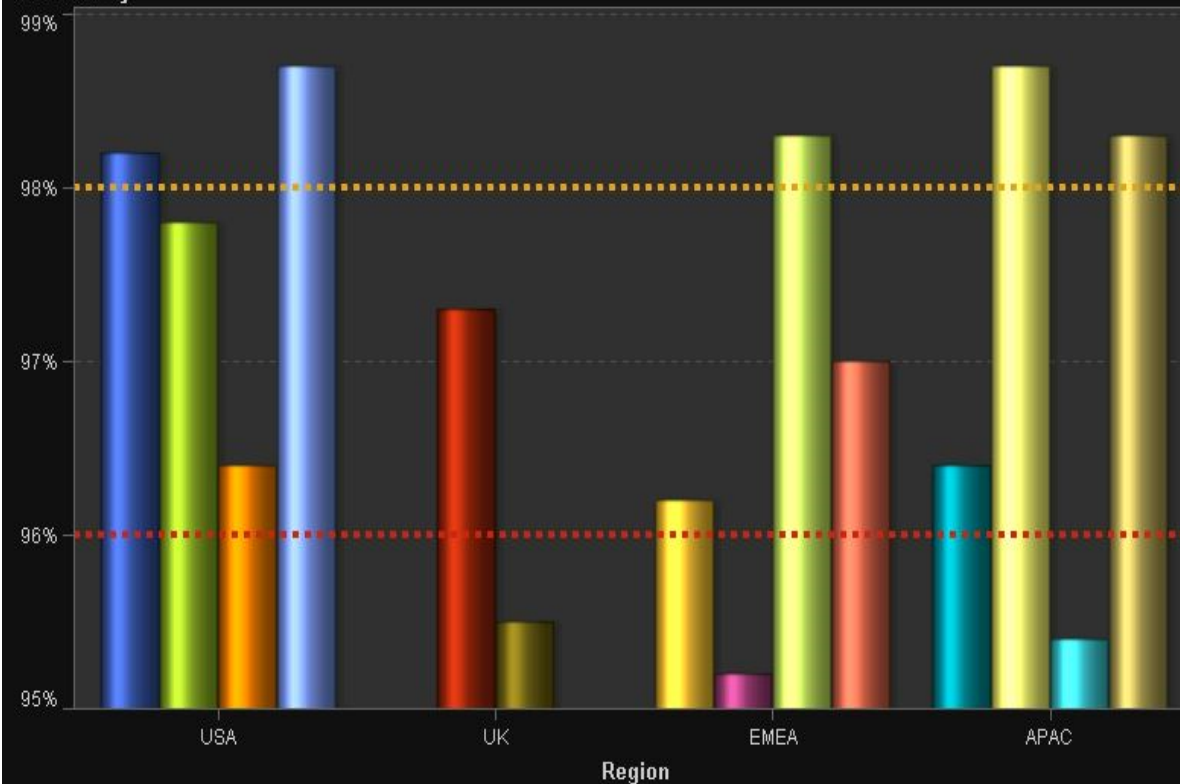
Credit Risk (70)

Liquidity Risk (70)

Market Risk (70)

Operational Risk (70)

Data Quality

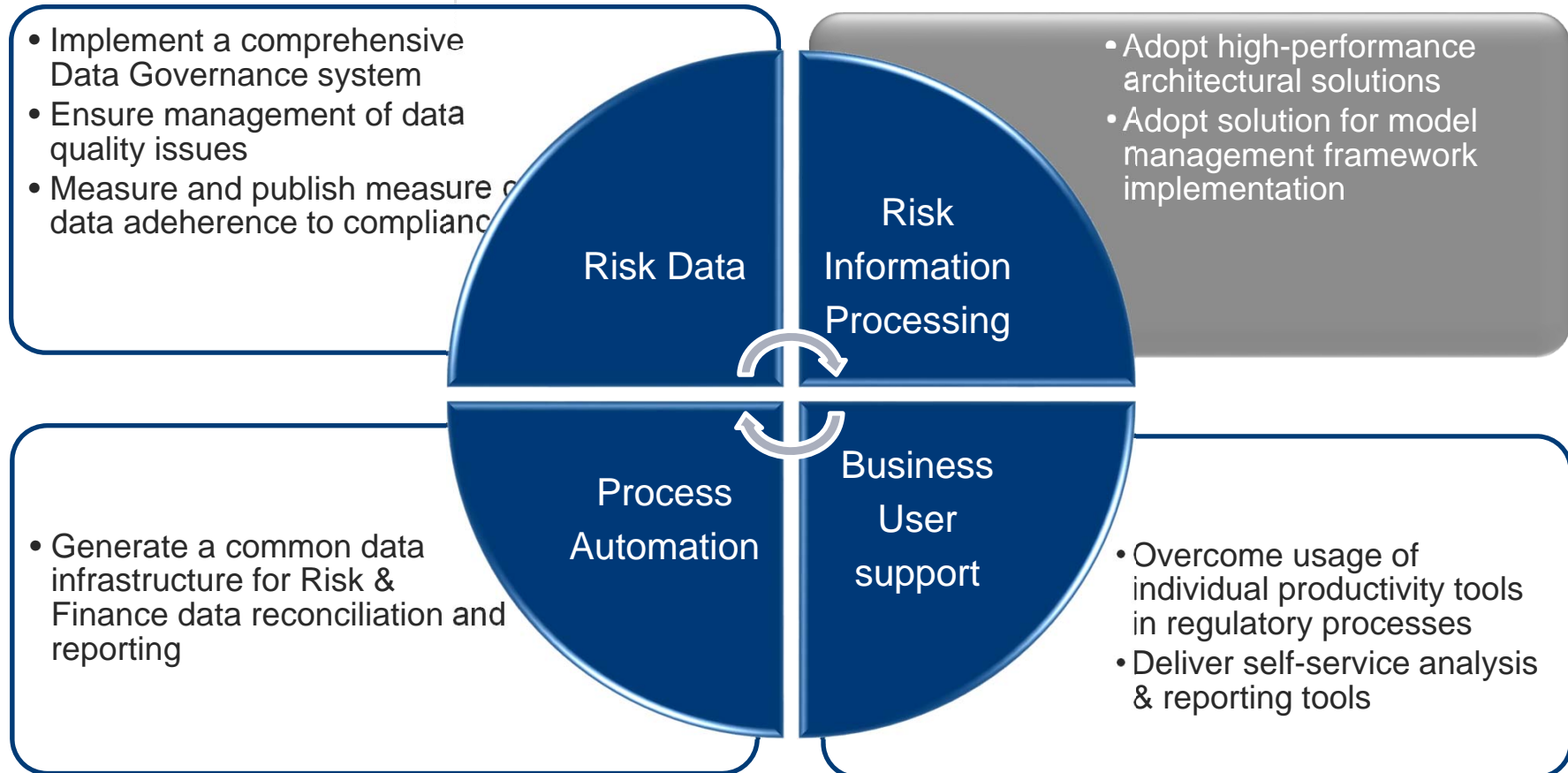


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Date	Region	Office	Data Quality
05Aug2013	APAC	Hong Kong	97.1%
12Aug2013	APAC	Hong Kong	97.9%
19Aug2013	APAC	Hong Kong	95.4%
26Aug2013	APAC	Hong Kong	98.4%
02Sep2013	APAC	Hong Kong	96.4%
05Aug2013	APAC	Singapore	95.1%
12Aug2013	APAC	Singapore	95.3%
19Aug2013	APAC	Singapore	97.7%
26Aug2013	APAC	Singapore	97.7%
02Sep2013	APAC	Singapore	98.7%
05Aug2013	APAC	Sydney	97.4%
12Aug2013	APAC	Sydney	96.1%
19Aug2013	APAC	Sydney	95.6%
26Aug2013	APAC	Sydney	95.6%
02Sep2013	APAC	Sydney	95.4%
05Aug2013	APAC	Tokyo	96.8%
12Aug2013	APAC	Tokyo	96.1%
19Aug2013	APAC	Tokyo	95.9%
26Aug2013	APAC	Tokyo	96.7%
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05Aug2013	EMEA	Frankfurt	98.5%
12Aug2013	EMEA	Frankfurt	95.2%

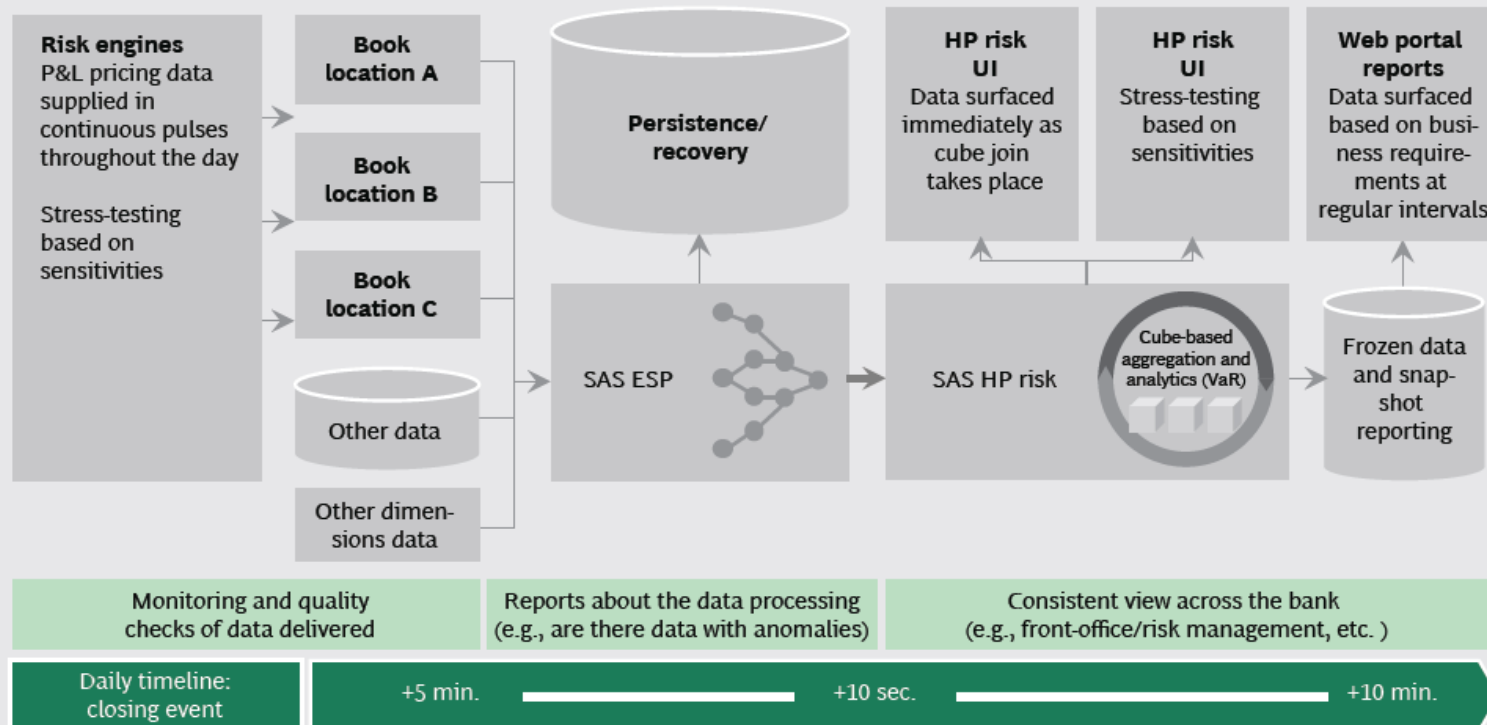
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Group Market Risk reporting – trading operations

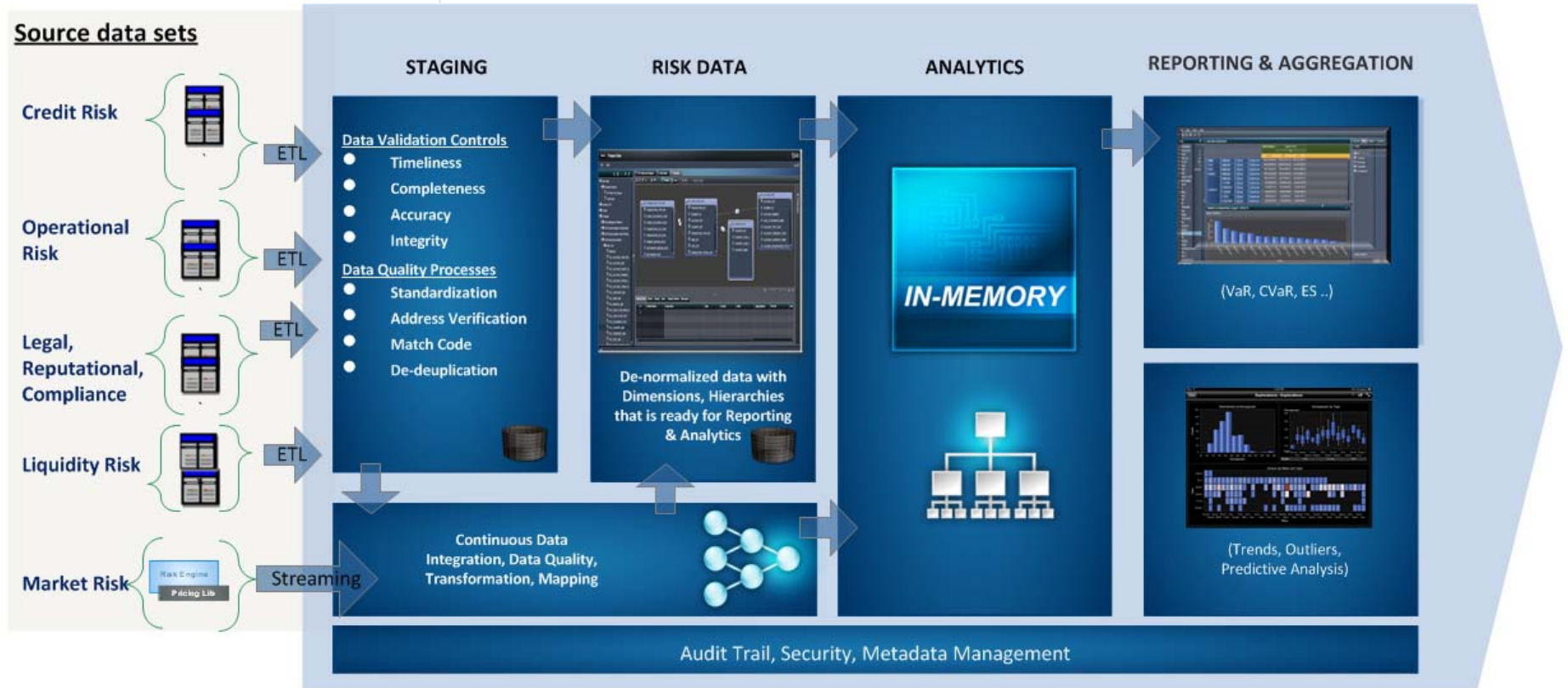
EXHIBIT 5 | Market risk reporting was improved using HPT



Source: High Performance Bank Steering – Boston Consulting Group and SAS, August 2013

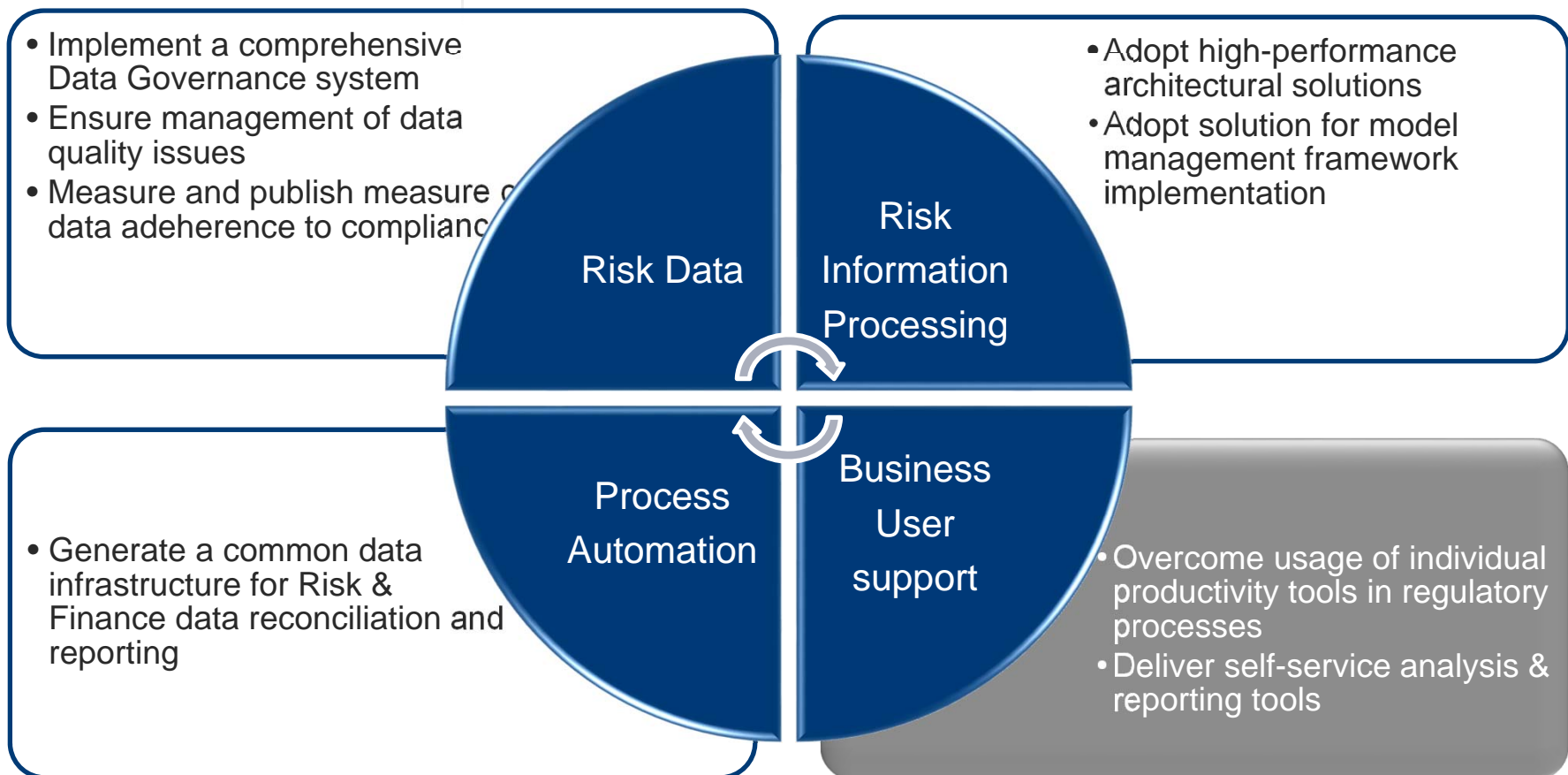
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IN-MEMORY GRID COMPUTING: TIMELINESS, ACCURACY AND ADAPATIBILITY



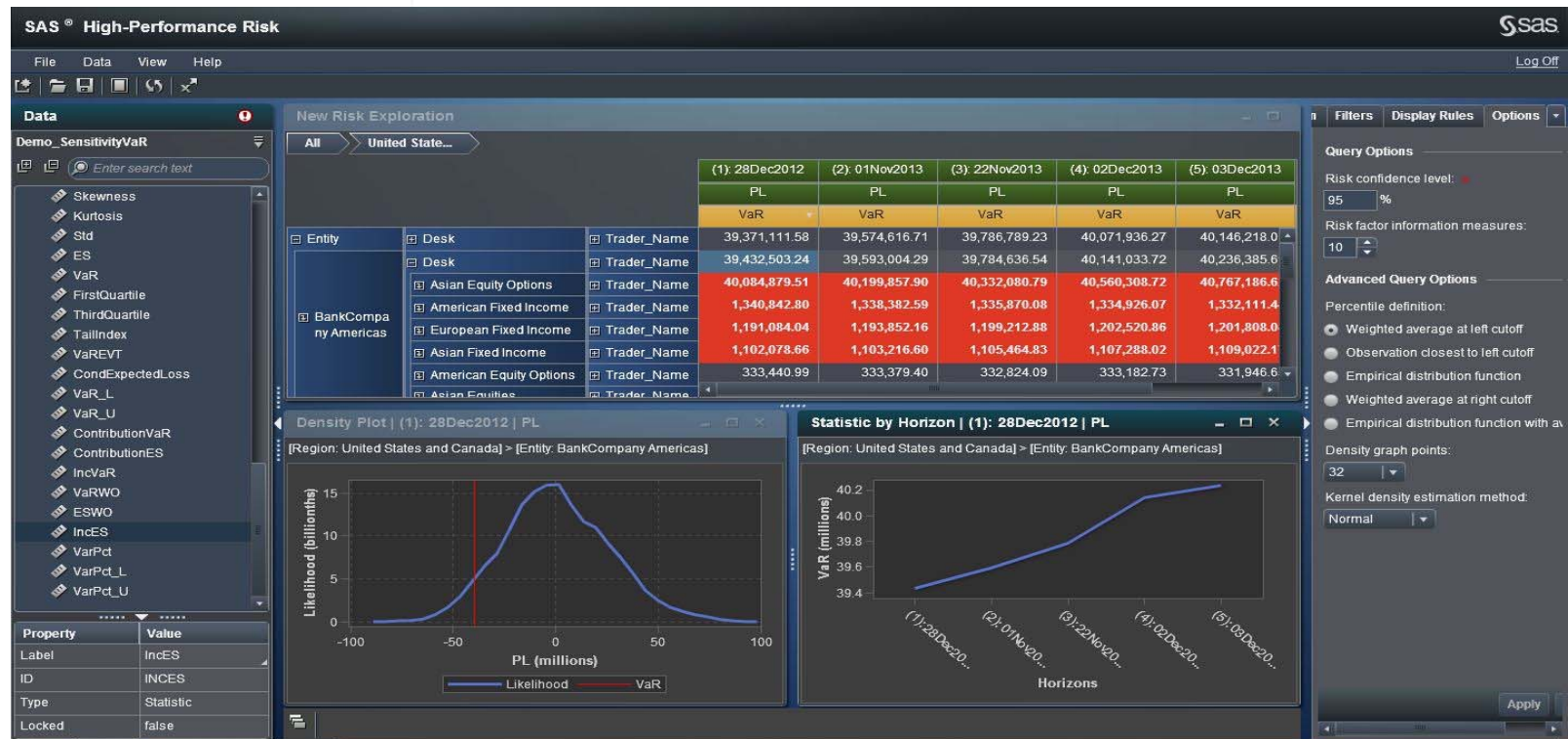
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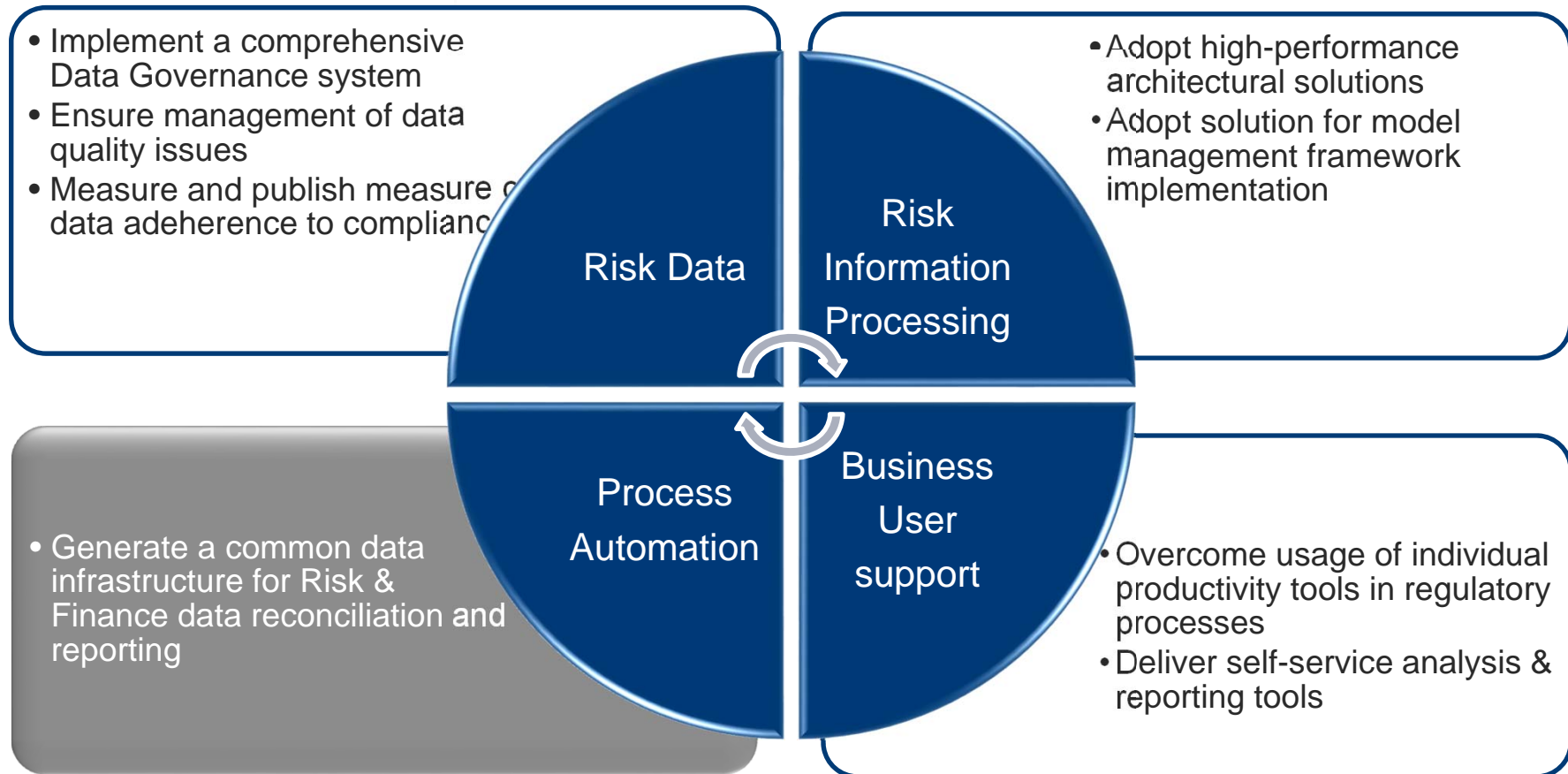
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RISK EXPLORATION



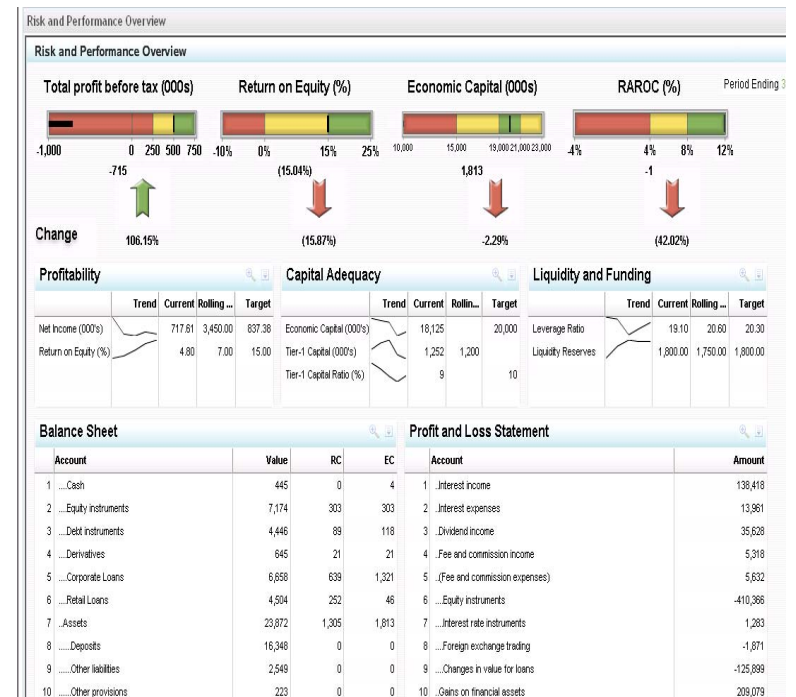
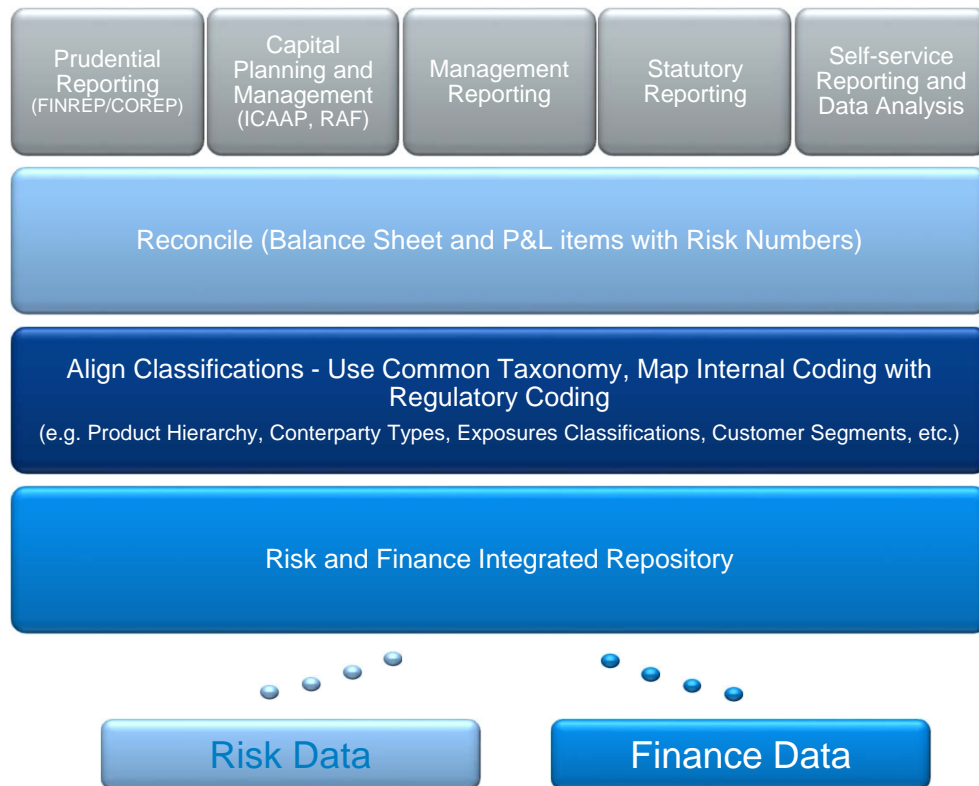
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RISK AND FINANCE DATA INTEGRATION



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SAS ON-GOING PROPOSALS - GSIBS

- **Data Governance system**
 - Based on SAS Data Governance solution
- **Data Quality Monitoring system**
- **Risk processing performance improvements / new risk model deployment architecture**
 - In-memory solutions, In-database solutions, Grid
- **Model Lifecycle Management,**
 - Internal Rating and credit scoring models primarily
- **Credit Strategy / Credit decisioning**
- **Market Risk Calculation performance improvement**
 - Based on Event Stream Processing solution and HPRisk
- **Stress Testing Solution**
 - Specific risk categories
 - Firmwide risk stress testing
- **Risk Information management system**
 - Based on Risk Repository and Capital Planning and Management Solution
- **Risk Analysis and Reporting**
 - Based on In-memory data architecture, SAS HPRisk and Visual Analytics
- **TOP exposure reporting**
- **Group risk cockpit**
- **Regulatory Capital calculation / speed up**
- **Capital Forecasting, ICAAP**

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USE CASE – AREAS OF COOPERATION

- **Credit risk management in Retail and Commercial**
 - Improve quality & performance of credit scoring / internal rating component models
 - Model performance monitoring
 - Credit Risk monitoring & control
 - Regulatory Capital calculation
- **Financial Planning and Monitoring – RAF**
 - Capital Planning and Management
- **Group Risk Reporting**
 - Common Finance & Risk data structure for business reporting
 - Advanced Analysis and Reporting
- **Stress Testing engine**
- **Validation of risk models**
 - Operational Risk AMA model

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SUMMARY / CONCLUSIONS

- BCBS239 is generating high pressure on IT for improvement in risk management infrastructure and SLA
- To deliver the required capabilities IT will have to consider substantial options
 - High performance technology / applications
 - Self-Service Analysis & Reporting
 - Integration of detailed Risk and Finance data
- The successful adoption of those solutions can improve substantially Banks competitive position
- After being initially set on Data, focus will extend to Models and Process

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THANK YOU

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