

Efficiently Achieve CECL Compliance with a Robust, Controlled Analytics Platform



Business Impact

"If the CECL model is implemented properly, the data it uses could assist banks in better pricing loans and pre-purchase assessments of investments. It could also lead to improved credit risk management and transparency to investors."

- Thomas J. Curry,
Comptroller of the Currency,
US Treasury Dept.

Challenges

Managing regulatory burdens. Modeling assumptions and limitations must be well understood and documented - a challenging task, as banks are required to create large numbers of models.

Preparing for the business impacts of CECL. CECL is expected to significantly raise the overall loss reserve requirement and introduce new volatility. So banks must proactively manage their balance sheets in preparation.

Interpreting regulations. Banks are struggling to gain clarity around acceptable and compliant interpretation of CECL.

Responding to change. Institutions will need a solution that can adapt to changing CECL interpretations and quantify their resulting impacts to income and capital.

The Issue

With the onslaught of post-crisis regulations, financial institutions face enormous challenges today. While firms have responded by strengthening their balance sheets, most continue to strain under increasing regulatory demands.

Consider the new US accounting standard for loss reserving, called Current Expected Credit Loss (CECL). It greatly increases the complexity of the allowance estimation process, requiring much more data than current practice - data that is typically fragmented and of varying availability and quality. CECL will also raise the overall loss reserve requirement, which will directly affect profitability and capital.

Compliance with CECL is no small task, in part because the standards are new, and there is no consensus on implementation specifics. Regardless of how they are interpreted, compliance will require integrating risk and finance; building, testing and managing new models; and managing complex data and model risk.

The time to start preparing is now. Any delay will reduce the time available for a parallel run prior to cutting over to the new standard. What's needed is a robust, transparent and sustainable process that can be implemented quickly and easily adapted to changing interpretations over time.

Our Approach

We provide an open and modular solution for CECL as part of an analytics platform that also supports other risk processes. Use it to quickly deploy a robust, transparent CECL compliant process to:

- **Centrally orchestrate CECL and stress testing processes:** Use a risk and finance workbench to capture data, execute models, and consolidate and report results in a well-controlled environment.
- **Create models and run scenario- and simulation-based analyses:** Use prebuilt models ranging from roll rate models to Monte Carlo state transition models, or create your own using a simplified user interface.
- **Deploy existing models:** Use an open implementation platform to manage and deploy proprietary models, whether coded in SAS or other languages.
- **Streamline management of complex, granular models:** Use a model implementation platform - which includes a centralized model library - to manage models and optimize their performance. The library supports versioning, promotes sharing of best practices and reduces model risk.
- **Process large data sets in near-real time:** Harness distributed, in-memory processing to quickly generate and run models. Once results are available, perform on-the-fly aggregations and drill downs at lightning speed.
- **Adapt as needs change:** Add on new functionality as needs and regulations change.

Flexible environment

Only SAS offers a “white box” solution that can adapt to institution-specific workflows and incorporate existing models, regardless of platform. You benefit from:

- **Efficient implementation of CECL:** Quickly and efficiently implement a sustainable CECL production process to meet required transition dates with greater margin – so you have time to prepare strategically for the transition.
- **Rapid execution with high-performance analytics:** Enable business users to rapidly execute complex, granular models of large data sets and run quick, on-the-fly aggregations and drill downs, shortening both implementation time and production cycles.
- **Freedom to use in-house capabilities:** Incorporate models built in Base SAS, Python or R into an efficient, controlled execution environment. Accelerate their performance with distributed processing.
- **Better coordination and control:** Use a single, end-to-end, integrated and controlled system to manage the data and model inventory, execute risk models, and prepare the journals for accounting.
- **Platform flexibility:** Support CECL compliance and regulatory stress testing workflows in a single framework to capitalize on commonalities and operate more efficiently – all while reducing implementation and execution risks.

You can also add new modules to streamline model development and enable end-to-end management of the model life cycle for your model inventory.

A large, multinational bank in Canada

Situation

A tier-1 bank with a large, complex portfolio needed an easy-to-use solution for both CECL and IFRS 9 compliance that it could deploy quickly and integrate with other departments and existing investments.

Solution

SAS proposed a solution that:

- Addresses the interests of risk and finance, while using existing modeling resources and processes wherever possible.
- Can be used to upgrade the bank's existing stress test platform.

Results

- SAS enabled a swift and smooth model implementation that supports both CECL and IFRS 9 compliance.
- The bank can fine-tune models quickly.
- Business users can easily adjust stage allocation rules and quickly quantify impacts to reserve requirements.
- Finance and risk teams can collaborate on a common platform to quantify impacts of modeling changes on their income statement and balance sheet.

Meet the analytical challenges and tight timelines for CECL implementation?

What if you could use a highly flexible, open and user-friendly platform to quickly implement new models and adapt to changing requirements?

Create a production process that takes less time and effort to complete each month?

What if you could automate workflows, work with large data sets with ease, and run your impairment calculations faster each production cycle?

Use your CECL investment to improve your bank's efficiency and effectiveness?

What if you had a unified architecture that supports risk and finance workflows and can also streamline your stress-testing processes?

SAS Facts

SAS risk solutions are used by more than 1,400 institutions worldwide.

SAS was ranked as a top-three vendor for risk management by Chartis Research for the seventh consecutive year.

SAS is consistently recognized as a leader in risk management – including stress testing, CECL, credit risk management and model risk management – by Chartis Research, Aite, Gartner and IDC.

Learn more at sas.com/en_us/software/risk-management.html.

To contact your local SAS office, please visit: sas.com/offices

