



Abstract

The client was experiencing difficulties with providing timely analysis and reporting to satisfy the requirements of Pillar 1 of the Basel II Accord, specifically in the area of collateral management. Advantage Reply was engaged to facilitate improvements in the speed and accuracy of Basel II reporting, with the aim of allowing reporting & collateral management teams to move steadily from "fire control" to more strategic planning and development of new processes and systems. Steps were taken also to ensure underlying data quality issues were resolved.

Basel II, Pillar 1 Reporting Analysis

THE CLIENT

The client is the French subsidiary of a large European banking group. The primary focus of the client is private banking and corporate lending.

THE CHALLENGE

Pillar 1 of the Basel II Accord requires banks to maintain sufficient levels of regulatory capital to meet risks clustered around three areas; credit, market and operational risk. These areas are enhancements on Basel I risk measures allowing financial organisations to either use standard measures or internally developed advanced risk measures. The implementation of Pillar 1 is an ongoing process where banks must show continuous improvement in their risk measures and capital allocation.

The initial challenge was to provide the client with timely analysis and reporting figures. Following month end, the on- and off-balance-sheet exposures must be reconciled to transactions to ensure appropriate treatment under the old and new rules. Differences between the two approaches must be highlighted and explained. One of the key areas where the bank was having difficulty in explaining was the valuation/usability of its collateral.

A second phase of the project is to complete iterations of the process to streamline data extraction, analysis and reporting.

APPROACH AND SOLUTION

The initial phase of the project required onsite field work to gain as much knowledge of procedures and results. This consisted of shadowing the Basel II reporting team, interviewing relevant support staff, reviewing systems and their use and identifying any relevant documentation.

Following this, several iterations of the reporting cycle were performed to ensure that procedures met both internal and regulatory requirements. Further to this, Basel II risk-weighted-asset ("RWA") figures had to be verified to ensure that the new Basel II approach was not consuming more working capital than under the Basel I rules.

Following successful completion of several reporting phases where the results presented to Group reporting demonstrated continuous improvement from period

to period in the underlying data quality, the overall Basel II RWA figure, and the speed of processing; a new phase could begin.

This involves working with both reporting and IT to streamline the processes. Where numerous data extracts are manually reconciled prior to analysis and reporting, Avantage Reply assists the Bank in making this process less onerous.

RESULTS AND BENEFITS

Several Basel II reporting periods have been completed demonstrating a steady improvement in the speed of reporting and the accuracy of the numbers reported. Further to this several underlying data quality issues where records were rejected from the processing platform or were misclassified have been resolved to the satisfaction of Group.

These improvements allow the various teams involved including reporting and collateral management to move steadily from "fire control" to more strategic planning and development of new processes and systems so that the Bank can meet challenges arising out of the new environment it finds itself in.

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