



Credit Risk Weighted Assets Quantitative Impact Analysis

Abstract

In order to engage in a QIS exercise Avantage Reply was consulted to develop a temporary solution that would source reliable data and enrich the data for the purpose of preparing the information templates required by the regulator, since the client had not yet fully implemented its Basel II platform.

Firstly, Avantage Reply defined and agreed the high level requirements of the exercise. Secondly, the Avantage Reply team engaged with the stakeholders in several countries to retrieve available data and establish data gaps and data quality issues. Besides, a set of assumptions was developed for any missing data and agreed with business owners.

This approach led to a timely and successful submission of the QIS templates, and marked milestone in client's implementation of Basel II. Finally, an essential step in the discussion on the proper calibration of the new regulatory minimum capital requirements was taken.

THE CLIENT

The client is an international bank with European roots with a focus on consumer and commercial clients in some key local markets and a global focus on select multinational corporations and financial institutions, as well as private clients.

THE CHALLENGE

The Basel Committee on Banking Supervision reviewed the calibration of the Basel II Framework to ensure that the envisaged new capital requirement was based on the most recent, high-quality data and to evaluate the impact of the new proposal. For this purpose, the Committee undertook a number of Quantitative Impact Studies (QIS) in collaboration with participating banks.

The client decided to participate in the review and assigned to Group Finance the ultimate responsibility for submitting the QIS results to the local regulator. The client had not yet fully implemented its Basel II platform so source systems were leaving gaps in the data quality. Avantage Reply was engaged to develop a temporary solution that would source reliable data and enrich the data for the purpose of preparing the information templates required by the regulator. The results were to be delivered to Group Finance for consolidation and submission based on the schedule imposed by the regulator.

APPROACH AND SOLUTION

Firstly, Avantage Reply defined and agreed the high level requirements of the exercise designed by the Basel Committee's working group on Overall Capital and Quantitative Impact Studies. The Committee had prepared templates to support the national exercises, namely: (i) a questionnaire in the form of an Excel workbook and (ii) corresponding instructions that specified how to complete the questionnaire. Additional requirements were defined with the client: (i) all exposures should be reconciled back to books and records and (ii) Credit Risk mitigation/collateral should be reflected in capital requirements producing pre- and post-CRM numbers.

The Avantage Reply team then engaged with the stakeholders in the "in-scope" countries (Australia, Japan, Singapore, Germany, France, UK and the USA). An initial decision had been made to obtain the data from source systems and use spreadsheets to create QIS-compliant inputs. Regular communication channels

had been established with all the teams in the various locations to support the data collection.

A set of assumptions was developed for any missing data and agreed with business owners. Preliminary Basel II numbers were generated from the data collection and enrichment exercise.

RESULTS AND BENEFITS

A pragmatic approach to deliver the results not only allowed timely and successful submissions of the QIS templates but the studies were also an important milestone in client's implementation of Basel II. This process also formed an essential step in the discussion on the proper calibration of the new regulatory minimum capital requirements.

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