Abstract

The client had recently acquired institutional banking and trading book exposures, and faced challenges in the integration of credit risk reporting for these exposures. Avantage Reply assisted the client by analysing key data and system issues and delivering a comprehensive solution for both regulatory and internal reporting requirements.

THE CLIENT
The client is a major UK commercial and retail bank integrating with an international wholesale banking conglomerate.

THE CHALLENGE
The client is a member of an international banking consortium that purchased a European-based, major international banking conglomerate. The business acquired by the client was predominantly the institutional banking book and trading book exposures.

The initial challenge was to explore, at a high level, the regulatory issues with reporting the exposure to the original (non-UK) home regulator whilst at the same time transitioning to reporting under the authority of the UK regulator. Complicating this issue was the diversity of jurisdictions under which the purchased entity had previously operated (exposures were domiciled in over 100 countries).

An additional, and more pressing challenge was to develop an internal reporting process that would inform the client Board’s decisions with regard to the quality, size and changes to the portfolio that was purchased. The final element of the challenge was to address the practical implication of physical integration with regard to risk systems and processes.

APPROACH AND SOLUTION
The knowledge and experience of Avantage Reply consultants in Basel II and Sarbanes-Oxley-related projects was leveraged to identify the possible scenarios that may be pursued with regard to home and host regulatory reporting. In collaboration with the client’s Group Risk functions, several alternatives for interim and long-term reporting were prepared for presentation to the two national regulators concerned in the transfer of ownership of the portfolio.

Once the regulatory concerns had been satisfied, the more immediate, internal reporting requirements were addressed. An Avantage Reply consultant was engaged to collect, interpret and present the credit risk data of the purchased portfolio in a manner consistent with the Business-as-Usual credit risk reporting produced for the client’s existing portfolio. Essentially a robust, tactical reporting solution was required.
The consultant conducted a number of small workshops with members of the respective reporting teams with the aim of identifying key data fields required for reporting. Through these workshops, combined with further analysis and data reconciliation the relevant fields were isolated and appropriate systems accessed to provide regular data feeds.

Regular reporting was to primarily take the form of a portfolio-specific and consolidated Board report. However, from this pool of credible, reliable data a range of additional requirements for regional and sector reporting plus ad-hoc reporting to external ratings agencies were developed. Key stakeholders in such additional reporting were engaged to determine, insofar as was possible, a standard suite of reports containing pertinent information on essential risk metrics.

RESULTS AND BENEFITS
Avantage Reply delivered a comprehensive solution that:

- Achieved acceptance by regulators of interim reporting measures and integration timeframes; and
- Established a process for gathering, interpreting and presenting high-quality data of such a standard that all the client’s divisions rely on it to make their decisions pertaining to the newly acquired portfolio.