

## Abstract

As part of the comprehensive assessment conducted by the ECB under the Single Supervisory Mechanism, the client was in scope of the EU wide 2014 Stress Testing exercise. The Stress Testing exercise complements the Asset Quality review by assessing the bank's resilience under severe economic scenario. In performing this exercise, the bank completed a set of templates aiming at disclosing the results of the Stress Testing as well as a narrative document explaining the assumptions and approach. Avantage Reply was engaged to provide support across all facets of the project delivery including data collection, methodology/scenario interpretation, template completion and overall responsibility for the narrative documentation and results reconciliation.



### THE CLIENT

The Bank and its subsidiaries form part of a multinational Financial Institution. The Bank's core services are to provide administration, depositary, global custody and transfer agency services to institutional clients and high net worth individuals. The Bank services a wide range of investment fund structures and management accounts. The Bank maintains a large book of business of Undertakings for Collective Investment in Transferable Securities ('UCITS') and Collective Investment Undertakings ('CIU') including complex fund structures. The Bank is also providing and expanding a series of ancillary services to its clients, including: money market trading, shareholder tax services and key investor information documents ('KIID'), etc.

The Bank was designated as a participating bank in the EU-wide 2014 Stress Testing exercise.

### THE CHALLENGE

The Single Supervisory Mechanism Regulation entered into force in November 2013. This regulation prescribes that the ECB shall "carry out a comprehensive assessment, including a balance sheet assessment, of the credit institutions of the participating Member State[s]."

The EU wide stress test comes in the midst of the process of repair of EU banks' balance sheets and follows the Asset Quality Review ('AQR') undertaken by various competent authorities within the EU. The Joint EBA and ECB Stress Testing includes:

- EBA templates
- ECB additional templates
- Narrative document supporting the assumptions in the interpretation and application of the stress scenarios

Avantage Reply ('Avantage') was engaged to assist the client with the 2014 EBA and ECB Stress Test across all workstreams including Finance (data collection and AQR reconciliation), Methodology (Credit Risk, Market Risk, Sovereign Risk, Cost of Funding, etc.), Template Completion and Reconciliation, Narrative Documentation as well as participation in the Client's ECB Stress Test Governance Committee and Regulatory dialogue with the National Competent Authority.

## APPROACH AND SOLUTION

Using the EBA Methodological Note and the description of the macroeconomic scenarios as a reference, Avantage consultants assisted the Stress Testing Project team in the following key areas:

- Finance Data collection to populate the December 2013 actual starting figures
- AQR consistency analysis
- ECB and EBA methodology/scenarios interpretation according to the client business
- Stress Testing templates supporting documentation and data sources for internal and external Stress Testing stakeholders
- Narrative explanatory note on ECB Stress Test methodology and results
- Result Reconciliation to appreciate Evolution of P&L, RWA and Capital

## RESULTS AND BENEFITS

Avantage mobilisation enabled the client to quickly establish the Stress Testing methodology workstreams and overall governance. The project initiation and ongoing delivery included:

- **Methodological options** - to identify, agree and establish the methodology and stress testing scenarios based on the regulatory guidelines and the clients business activity
- **Divergence of expectation** - to ensure all key stakeholders and workstream leads have a common understanding of methodological implications, core deliverables and data requirements
- **Existing production tools designation** - to assess, and leverage where appropriate - the existing tools, data and stress testing materials from the clients global operations
- **Critical path segregation and follow-up** - to ensure availability of appropriate resources for the project team as required including senior management, data and business analysts, developers, project managers and subject matter experts.
- **Data and content reconciliation** - to ensure the iterative process contained ongoing validation of all outputs including data, methodology interpretations and explanatory content.
- **Regulatory dialogue** - to support the client with the comments, feedback and ongoing questions from Regulator from the interim submission to final submission and ongoing questions thereafter

Through these elements, under Avantage Reply guidance, the client was able to deliver their Stress Testing Results and Narrative Documentation on time, in scope and in compliance with the regulatory requirements.

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