



FRTB Standardized Approach with Abacus360

On 23 November 2016, the EU Commission published the first draft of its revision of the Capital Requirements Regulation (CRR) with important adjustments in the treatment of market risk. These changes are based on the final Basel Committee standards “Minimum Capital Requirements for Market Risk” published in January 2016 (the finalization of the topic “Fundamental Review of the Trading Book (FRTB)”), which elaborate the standardized approach and internal models approach for the determination of capital requirements for market risk.

The FRTB standardized approach is mandatory for the determination of own funds requirements for all institutions with a trading book of more than EUR 300 million or more than 10% of the balance sheet total - either as an independent model or in parallel to an approved internal model. The sensitivity-based standardized approach (SBA) represents the new supervisory philosophy of a balance between risk sensitivity on one hand and standardization on the other hand. The affected banks face the challenges of implementing the complex calculation logic of the SBA.

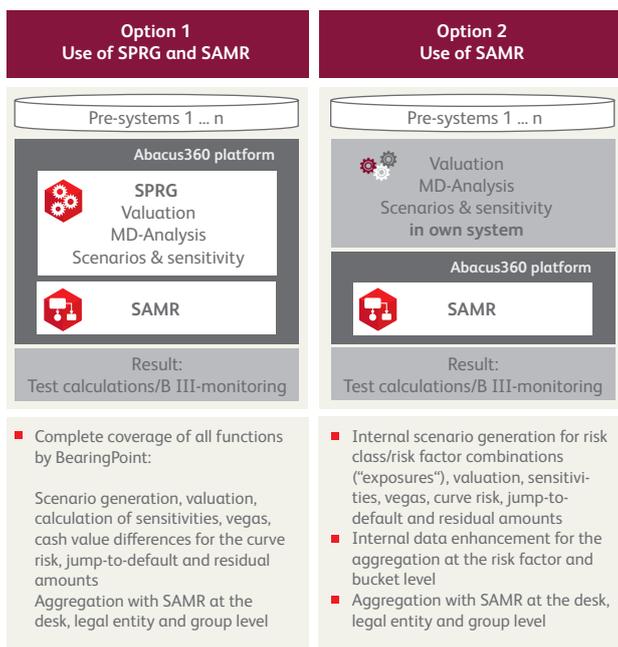
BearingPoint has developed a modular software for the SBA, which offers numerous configuration options for maximum user flexibility. The FRTB modules are already available for test calculations and impact analyses.

All institutions whose trading book amounts to more than EUR 300 million or accounts for more than 10% of the balance sheet total must calculate market risk capital requirements according to the FRTB standardized approach within two years of CRR coming into effect.

With SPRG and SAMR ready today for FRTB

Within BearingPoint's solution, the requirements of the modified sensitivity-based approach are separated into the following processing steps: preprocessing, aggregation and reporting.

FIGURE 1: MODULAR STRUCTURE OF THE ABACUS360 FRTB SOLUTION Preprocessing takes place in the **SPRG (Standardized Preprocessing)** module. The trading book positions are valued for different FRTB-specific market data scenarios, and the resulting present value differences and sensitivities are calculated.



Due to its modular structure, the FRTB solution is also suitable for IT architectures with own valuations/preprocessing.

For the valuation, the entire spectrum of financial calculation models is available, including different Black Models, Hull-White Models, etc. which will be applied based on the respective trading book position. Additionally, the profit and loss amounts are calculated for the default risk charge along with the required amounts for the residual risk.

The SPRG processing generates data records with a flat structure (“exposures”) for each financial instrument and market data scenario,

which directly corresponds to the SAMR (Standardized Approach Market Risk) data model.

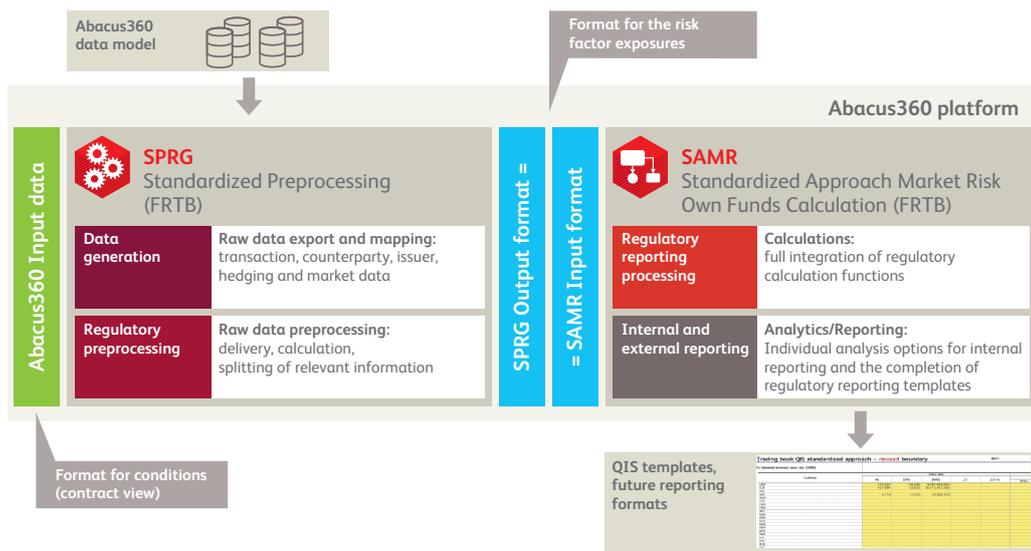
SPRG is based on the Abacus360 data model containing all the transaction, counterparty, issuer and market data. As such, the data requirements for all regulatory reports and risk calculations will be mapped consistently and without redundancies on a single platform.

The **SAMR (Standardized Approach Market Risk)** module calculates the own funds requirements per risk class and risk bucket based on a multi-stage exposure offsetting and aggregation process. This calculation takes place simultaneously on the (sub-)group level, institution and trading desk level. The SAMR processing includes several plausibility and consistency checks to ensure maximum data quality. The Audit Trail functionality allows SAMR results to be tracked.

For reporting and analysis purposes, the SAMR module generates the relevant reports on all three levels. This approach provides a comprehensive overview of potential concentrations in the overall portfolio as well as the sub-portfolios, thus supporting and facilitating strategic decision-making.

With the SPRG and SAMR software modules, Abacus360 Banking offers integrated modules for the FRTB standardized approach based on the Abacus360 data model.

FIGURE 2: DATA FLOW, DATA FORMATS AND PROCESSING STEPS



Abacus360 Banking also offers extensive simulation possibilities, for example, to simulate the impact of new transactions or portfolio reductions. In addition to these transaction-based simulations, the effects of market data changes can also be determined. Finally, the Abacus360 BI tool (Smart Cube Analyzer) allows for a structured analysis of the FRTB results data.

Prepared for FRTB and flexible for the future

The modules are already available for test calculations, impact analyses and the potentially compulsory Basel III Monitoring. The software can be used as a stand-alone solution or within Abacus360, for example, during a potentially mandatory monitoring/parallel phase.

BearingPoint offers in-depth FRTB knowledge as well as comprehensive consulting services provided by experienced project consultants, to help clients analyze the various effects on their business strategy, capital requirements, data requirements and organizational structure.

About BearingPoint RegTech

With its RegTech product line, BearingPoint is a leading international provider of innovative regulatory and risk technology solutions (RegTech and RiskTech) and services across the entire Regulatory Value Chain for Financial Services.

Customers representing 5,000 firms worldwide, among them large international banks, a major part of the largest European banks, leading insurance companies as well as supervisory authorities and central banks, trust BearingPoint's RegTech products and services.

We work closely with regulators and as a member of standardization bodies like XBRL consortium, we actively contribute to the process of standard setting. We combine our regulatory expertise with our proven, reliable and future-oriented Abacus Solution Suite and expert consulting capabilities as well as training seminars and managed services.

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