

CLIENT SPOTLIGHT:

A North American Bank Optimizes Its Regulatory Capital and Reduces its Cost of Capital By Partnering with Moody's Analytics for Basel III Compliance

A bank based in North America has selected Moody's Analytics to help deliver comprehensive Basel III compliance, in addition to streamlined business management.

Background

The bank's services cover retail and commercial banking, as well as wealth management and investment services. It has over \$150 billion in assets.

When the bank's management initially began its Basel III compliance program, its senior management team saw an opportunity to go beyond simply complying with the updated regulations. While looking to modernize its compliance processes and systems, they also wanted to improve how they managed their balance sheet, within the context of Basel III. Given the greater amount of capital that the bank anticipated putting aside to comply with the updated regulations, the bank wanted to ensure that the project encompassed both technical and strategic capital planning aspects to help successfully guide their Basel III program.

Up until 2013, the bank had used in-house applications to manage its Basel compliance program. Upon reviewing the Basel III regulations, as defined by its regulators, the bank embarked on a strategic review of their existing capital planning process. Next, it reviewed options that would allow the bank to use the regulations for more strategic capital planning. The bank selected Moody's Analytics RiskAuthority™ solution for Basel III Risk Weighted Assets (RWA) and regulatory capital calculations. The project team members liked the solution's ability to provide an efficient and scalable foundation for regulatory compliance management. The bank's managers also valued the platform's ability to help optimize the bank's RWA and capital positions under the new regulatory guidelines. Lastly, the project team also wanted to use a proven solution for the Basel III regulations, and emerging objectives such as International Financial Reporting Standard (IFRS) 9.

About the Moody's Analytics Solution

The RiskAuthority solution from Moody's Analytics helps financial institutions effectively comply with Basel I, II & III. Leveraging the Moody's Analytics RiskFoundation™ data management platform, the solution consolidates data from the bank's core systems to manage regulatory compliance and reporting. The solution uses powerful application mapping capabilities, to reduce the impact and complexity of implementing the solution. The data quality issues are managed using data cleansing tools that identify and highlight data quality issues during the data collection, calculation, and reporting stages. The bank uses the RiskAuthority solution to calculate its Basel III ratios for both credit risk and market risk. The solution embeds the calculation formulas within the application, allowing users to calculate their Basel risk weighted assets, regulatory capital, and capital ratios quickly and accurately. The solution is integrated with the Moody's Analytics Regulatory

Reporting Module which allows financial institutions to deliver regulatory reports to their respective supervisors seamlessly. Moody's Analytics produces regulatory reports for over 50 supervisors globally.

Optimizing the Bank's Regulatory Capital

The bank took a strategic capital planning perspective when considering how to plan its Basel III project with Moody's Analytics. Risk and finance specialists from the bank, together with Moody's Analytics consultants, spent time analyzing the bank's existing systems and processes, along with the structure of the existing balance sheet. The team further examined how the bank collected and analyzed data from around the institution, while also focusing on the granularity of this information.

The integrated project team, consisting of members from risk, finance, treasury, and IT, focused on areas where the bank could leverage the RiskAuthority solution for capital optimization purposes. The team identified areas where it could leverage the solution's ability to manage granular data when applying the Basel III rules. The RiskAuthority solution can also use a series of credit risk mitigants to help lower regulatory capital charges. This ability to mitigate the Exposure at Default (EAD) for retail exposures at a granular level allowed the bank to lower their regulatory capital charge, while boosting capital ratios well above the regulatory minimum. Thus far, the bank has returned a significant sum of capital, measuring tens of millions of dollars, to the business, which it could then choose to invest or return to shareholders.

The bank's management team anticipates that the bank's balance sheet, along with the Basel regulations, will continue to evolve. The RiskAuthority solution has given the bank the capability to calculate the potential impact of strategic business decisions on its capital ratios. It can therefore help the bank's managers make fully informed capital planning and balance sheet management decisions with confidence.

The ability to optimize the bank's risk weighted assets and regulatory capital, together with a more streamlined, and efficient approach to capital planning has made the project a tremendous success. The bank continues to build functionality within the platform, including the ability to manage the Leverage Ratio and to produce the newly introduced Pillar III reports.

About Moody's Analytics

Moody's Analytics, a unit of Moody's Corporation, helps capital markets and credit risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By offering leading-edge software and advisory services, as well as the proprietary credit research produced by Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges.

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