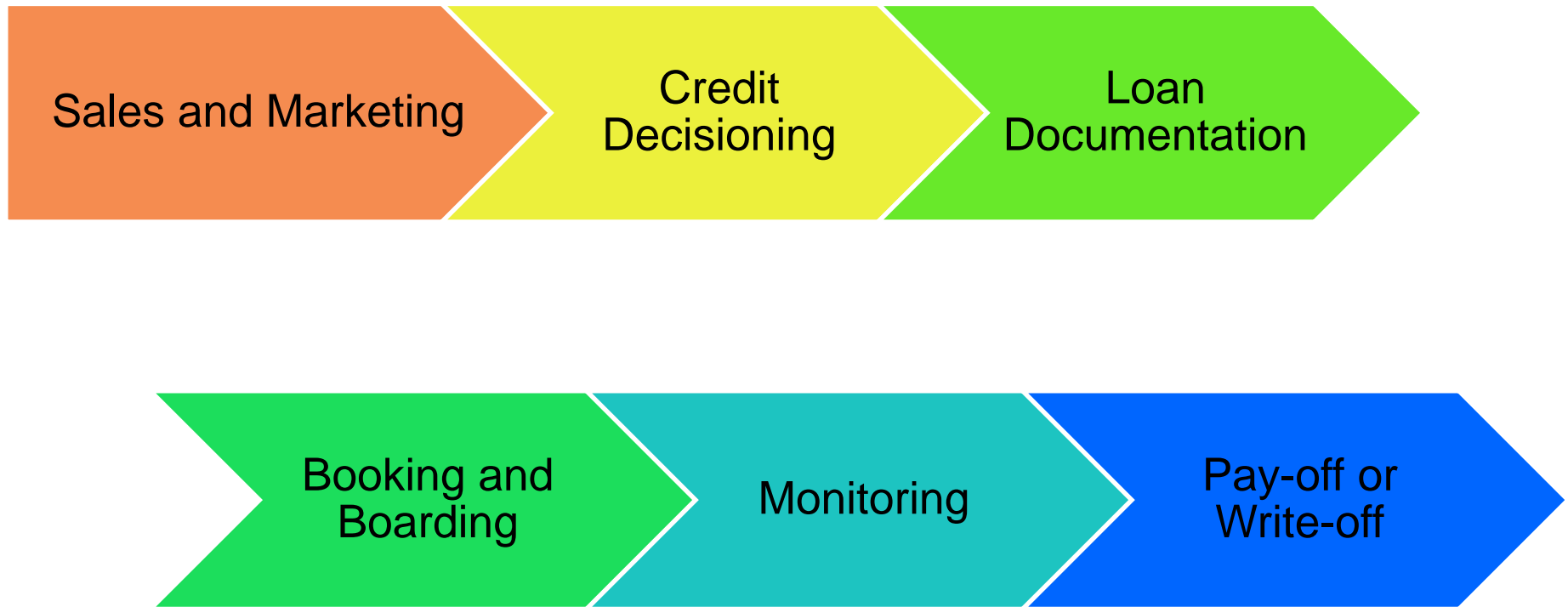


Managing Complex Risks at Origination

Simplified Origination Process



Origination Process – Regulatory Impacts

Capital Assessments and Stress Testing information collection
(Reporting Form FR Y-14Q)

FEDERAL DEPOSIT CORPORATION

12 CFR Part 327

RIN 3064-AD92

Assessments, Large Bank Pricing

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Final rule.

Principles for effective risk data aggregation and risk reporting
Basel Committee on Banking Supervision

DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

12 CFR Parts 32, 159 and 160

[Docket ID OCC-2012-0007]

RIN 1557-AD59

Lending Limits

AGENCY: Office of the Comptroller of the Currency, Treasury.

ACTION: Final rule.

SUPERVISORY GUIDANCE ON MODEL RISK MANAGEMENT

Board of Governors of the Federal Reserve System
Office of the Comptroller of the Currency

Interagency Guidance on Leveraged Lending

DEPARTMENT OF THE TREASURY
Office of the Comptroller of the Currency
FEDERAL RESERVE SYSTEM

FEDERAL DEPOSIT INSURANCE CORPORATION

Booking and Pricing

Monitoring

Pay-off or Write-off

BCBS 239 – Principles for Effective Risk Data Aggregation and Risk Reporting Case Study

BCBS 239 – Risk Data Aggregation and Risk Reporting

*“One of the most significant lessons learned from the global financial crisis that began in 2007 was that banks’ information technology (IT) and data architectures were inadequate to support the broad management of financial risks. **Many banks lacked the ability to aggregate risk exposures and identify concentrations quickly and accurately at the bank group level, across business lines and between legal entities.**”*

- Basel Committee on Banking Supervision, January 2013

*“... **many banks are facing difficulties in establishing strong data aggregation governance**, architecture and processes, which are at the initial stage of implementation.”*

- Basel Committee on Banking Supervision, December 2013

BCBS 239 – Key Definitions

Risk Appetite

- The level and type of risk a firm is able and willing to assume in its exposures and business activities, given its business objectives and obligations to stakeholders.

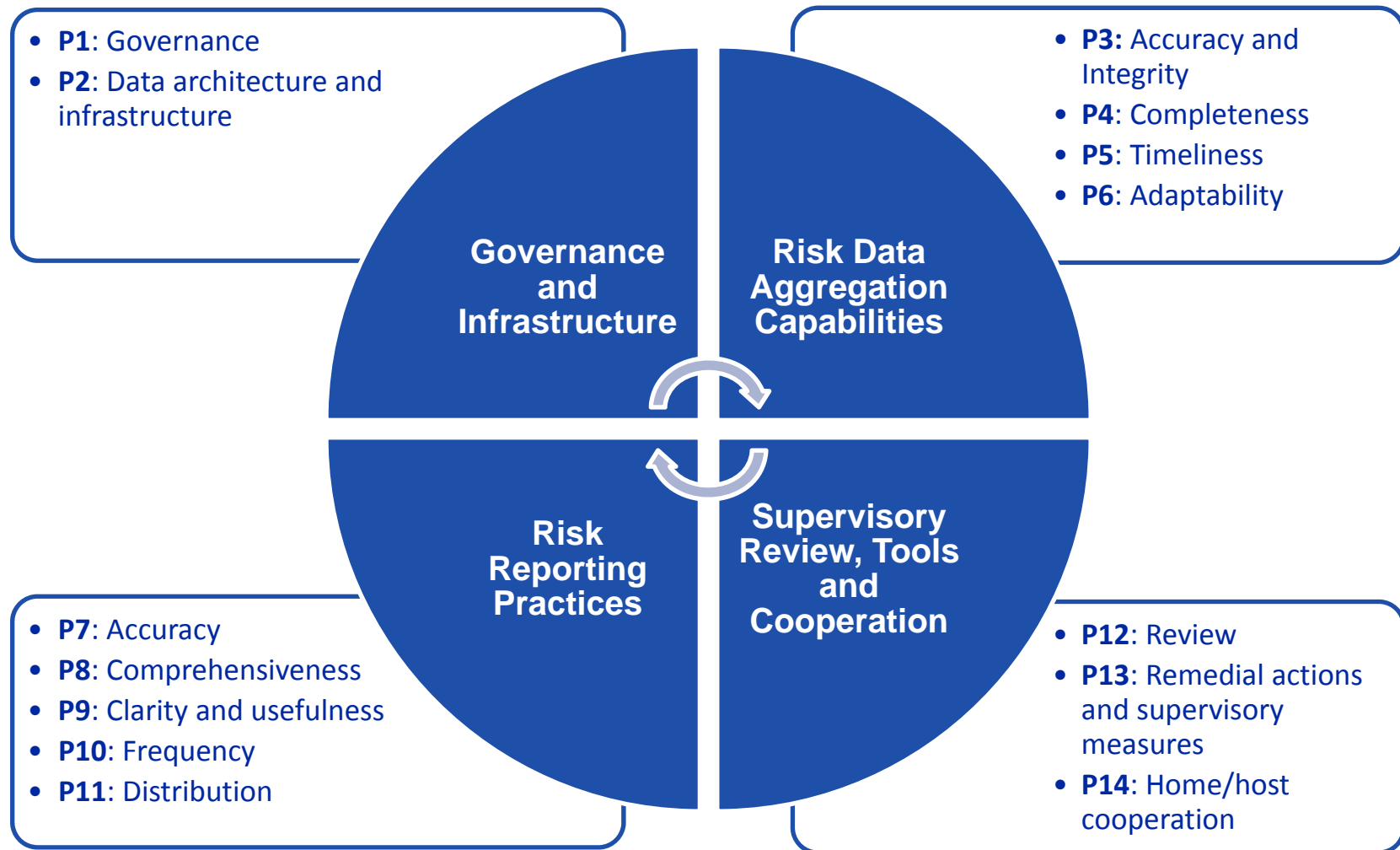
Risk Data Aggregation

- The defining, gathering, and processing of risk data to satisfy risk reporting requirements. It also refers to measuring performance against risk tolerance, including sorting, merging and slicing/dicing of data.

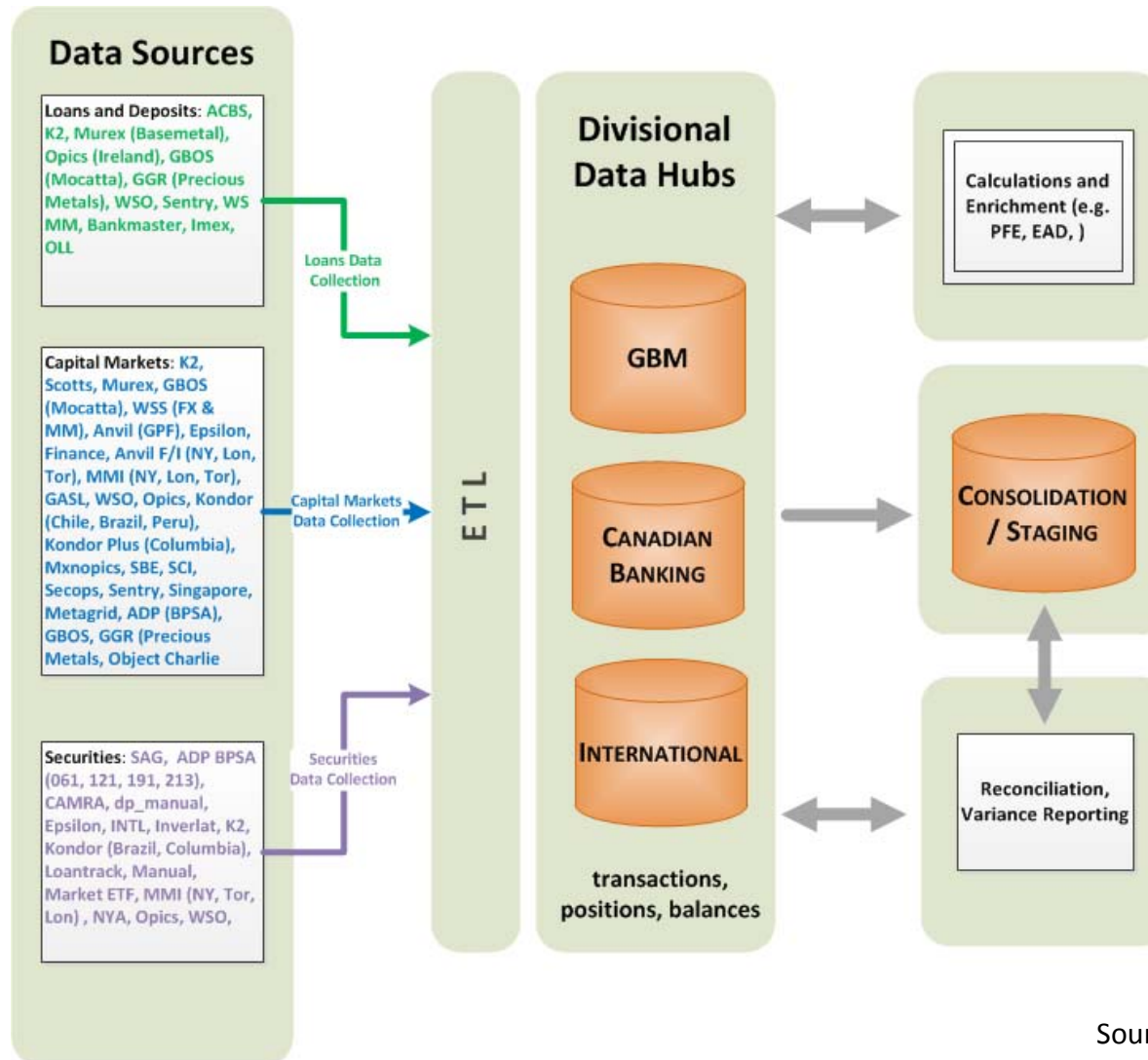
Risk Capacity

- The set of resources that are available to absorb losses, e.g. capital, earnings.

BCBS 239 – Main Pillars



BCBS 239 – Just Data Aggregation?



BCBS 239 – And Reporting?

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Scotiabank - Reporting 30/04/2013 - RFO -

Navigation search

Dashboard - Top exposures Connections Industries Connections IG Risk Rating Migration

Scotiabank® Daily Risk Aggregation and Monitoring October 14, 2014 - 11:07:51

Total Industry Level Exposures

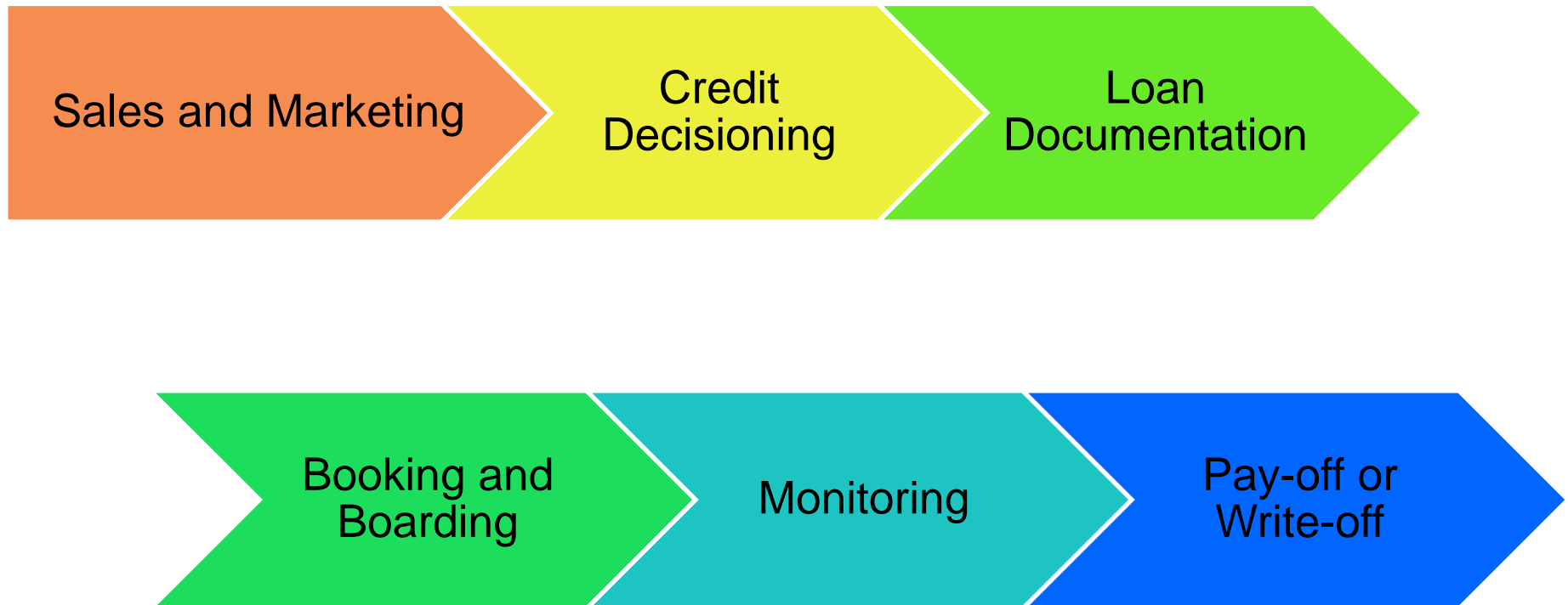
Filters Ownership: All Credit U... IBC/FI CCC COR 69872 Country Qatar Réunion Romania Serbia Industry Prim.Metals/Products Real Estate Refining/Petrochem... Retail Concern Rank: All IG Band: All

29 items

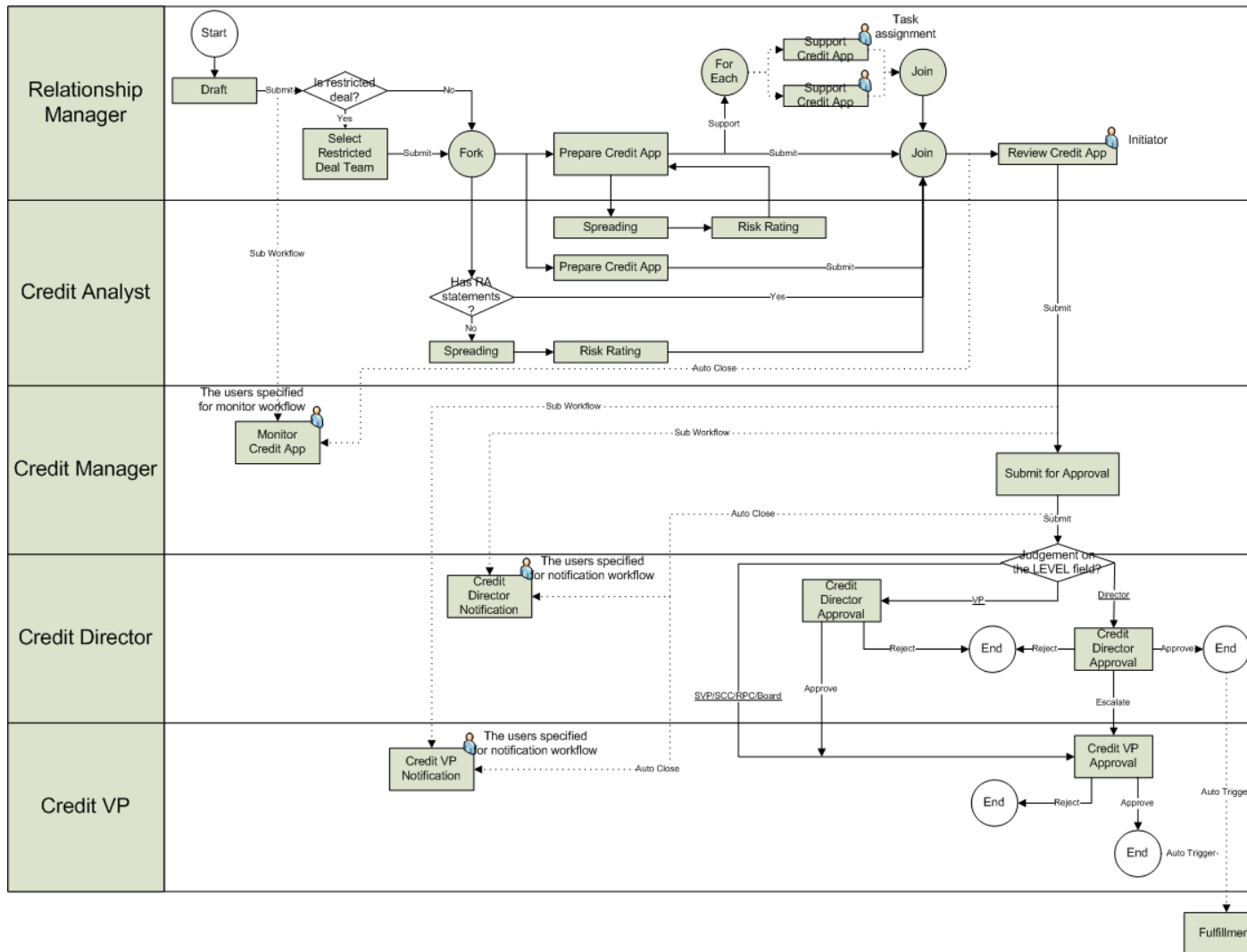
Industry		A (= B + E + J)		B		C				
Link	Industry	Indus...	Ind...▲	Concern	Total Authorized	% Total Authorized	Authorized	% Authorized	Outstanding Loan	% Out
	Prim.Metals/Products			Yellow	0	0.00 %	0	0.00 %	0	0
	Real Estate			Yellow	629,215,208	0.26 %	487,365,134	0.35 %	253,601,220	
	Refining/Petrochemicals			Green	440,482,225	0.18 %	422,063,605	0.30 %	221,951,074	
	Retail			Yellow	0	0.00 %	0	0.00 %	0	0
	Securitization Conduits			Green	265,200,000	0.11 %	265,200,000	0.19 %	0	0
	Shipping			Red	138,120,583	0.06 %	134,971,271	0.10 %	124,693,388	
	Wholesale			Green	210,163,877	0.09 %	205,988,500	0.15 %	9,311,098	
	Aerospace			Yellow	485,334,652	0.20 %	104,166,345	0.07 %	63,247,356	
	Agriculture			Green	1,692,296,916	0.70 %	1,602,871,703	1.14 %	945,738,997	
	Automotive			Green	0	0.00 %	0	0.00 %	0	0
	Banks			Yellow	37,453,241,559	15.51 %	18,665,150,375	13.27 %	2,519,898,498	
	Brokers/Dealers			Yellow	489,295,121	0.20 %	1,187,903	0.00 %	0	0
	Cable			Green	960,421,417	0.40 %	960,421,417	0.68 %	37,639,369	
	Food and Beverage			Green	64,609,210	0.03 %	44,291,070	0.03 %	42,547,714	
	Forestry			Yellow	60,954,420	0.03 %	50,795,350	0.04 %	6,289,988	
	Gaming			Red	253,792,886	0.11 %	253,792,886	0.18 %	116,075,822	
	Government			Green	27,922,372,148	11.56 %	6,324,210,171	4.50 %	882,850,082	
	Health			Green	236,250,158	0.10 %	216,842,030	0.15 %	125,936,684	
	Holding Companies			Yellow	512,092,275	0.21 %	301,799,526	0.21 %	248,198,375	
	Hotels			Red	48,725,439	0.02 %	48,725,439	0.03 %	47,823,112	

Source: Scotiabank

BCBS 239 – Also Applies to Origination



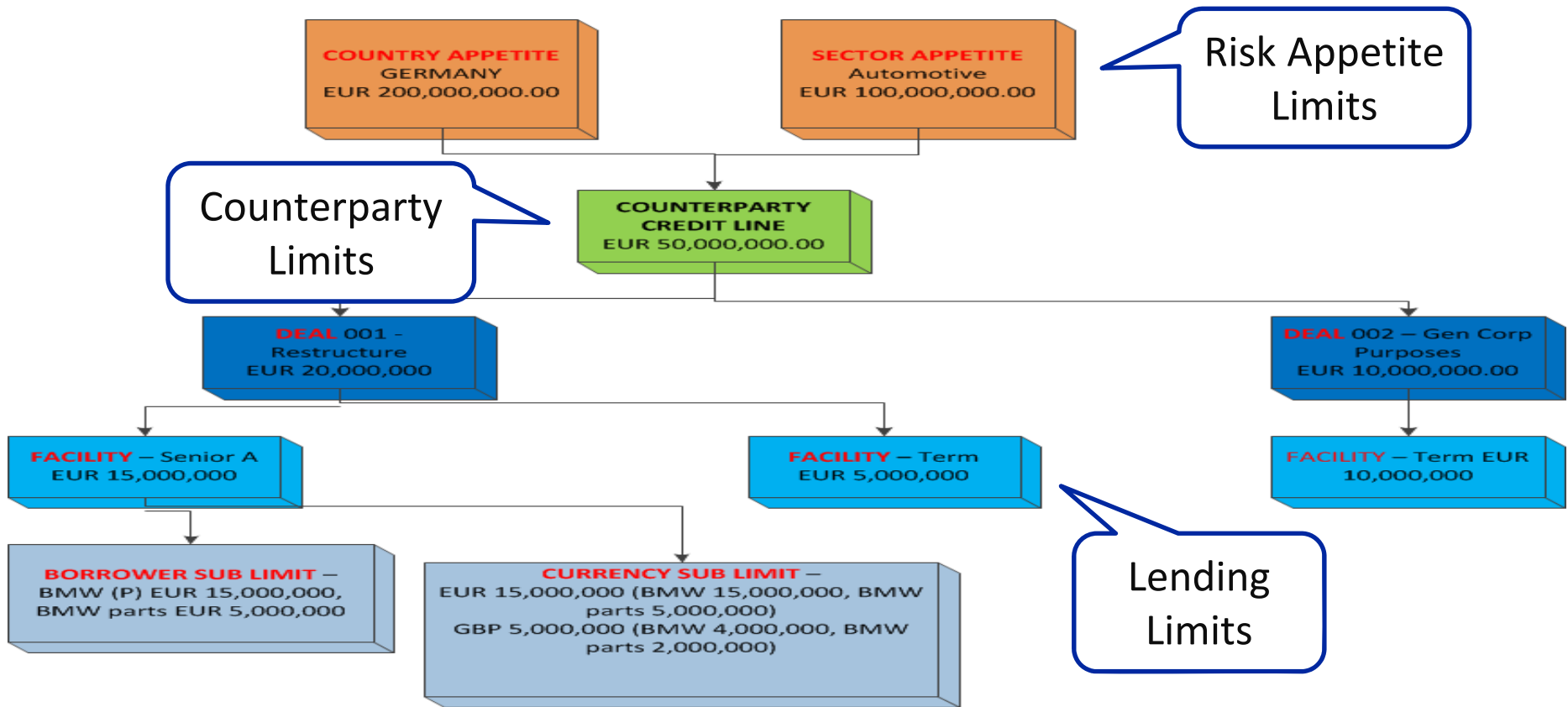
BCBS 239 – Credit Decisioning Workflow



BCBS 239 – Electronic Credit Application

Great Lakes Pet Emergency		Prepared:	05-Oct-2012	
Credit Write-up				
Industry Classification:		NAICS		
Great Lakes Pet Emergency - Credit Application				
COUNTERPARTY INFORMATION				
Borrower:	Great Lakes Pet Emergency	Industry Code:	Industry Code	Distribution
Address:	1221 Tittabawassee Road		541940	100
	United States of America	Responsible Office:		
	MI	Responsible Officer:	BRUCKERO	
	48604	Tax ID:		
RELATIONSHIP INFORMATION				
Name	Relationship	Type	Ownership	
JODIE SPENCER	Parent	Ownership	50%	
JOLYN GRANT	Parent	Ownership	50%	
Tawas Animal Hospital	Child	Ownership	75%	
CONTACTS INFORMATION				
Name	Email	Office No.	Fax No.	
Dr. Jodie Spencer	anywho@gmail.com	123-456-7890		
PROPOSAL INFORMATION				
Proposal ID	269			
Creation Date	05-Oct-2012			
RAROC				
Terms and Conditions	Jodie Spencer, one of the 50% owners of Great Lakes Pet Emergency, is making a \$300,000 personal guarantee for this loan. The bank already has a lending relationship with Jodie Spencer (home mortgage, home equity line of credit, and auto loan).			
PRODUCTS		RISK MITIGANTS		
PO334 - Fixed Rate Amortizing		RM335 - Guarantee		
Rate	0.07	Owner	14182	
System Price	0.07	Calculated LGD		
Currency	USD	Guarantor	13793	
Principal Amount	500000.00	Currency	USD	
LGD	0.11	Amount	300000.00	

BCBS 239 – Exposure Aggregation and Limits



Exposure Aggregation and Limits Management Overview

Why Manage Limits?

- » Avoid overconcentration
- » Promote efficient use of capital
- » Execute business strategy

Who Uses a Limit Management System?

Credit Analysts

- » Define analysis frameworks
- » Perform fine modelling of customers and products
 - To propose consolidated information to credit committees
 - To track rating changes, default, and watch list entries

Risk Managers

- » Compare exposures versus limits
- » Monitor excesses and solve issues
- » Credit approval processes

Traders and Sales Representatives

- » Real time connection to trading room
- » Simulations of new exposures impact

Questions Answered by an Exposure and Limits System

Consolidated Analysis

- » What is my total exposure on World Industries, Incorporated?
- » What is my Phoenix branch's exposure on World Industries?

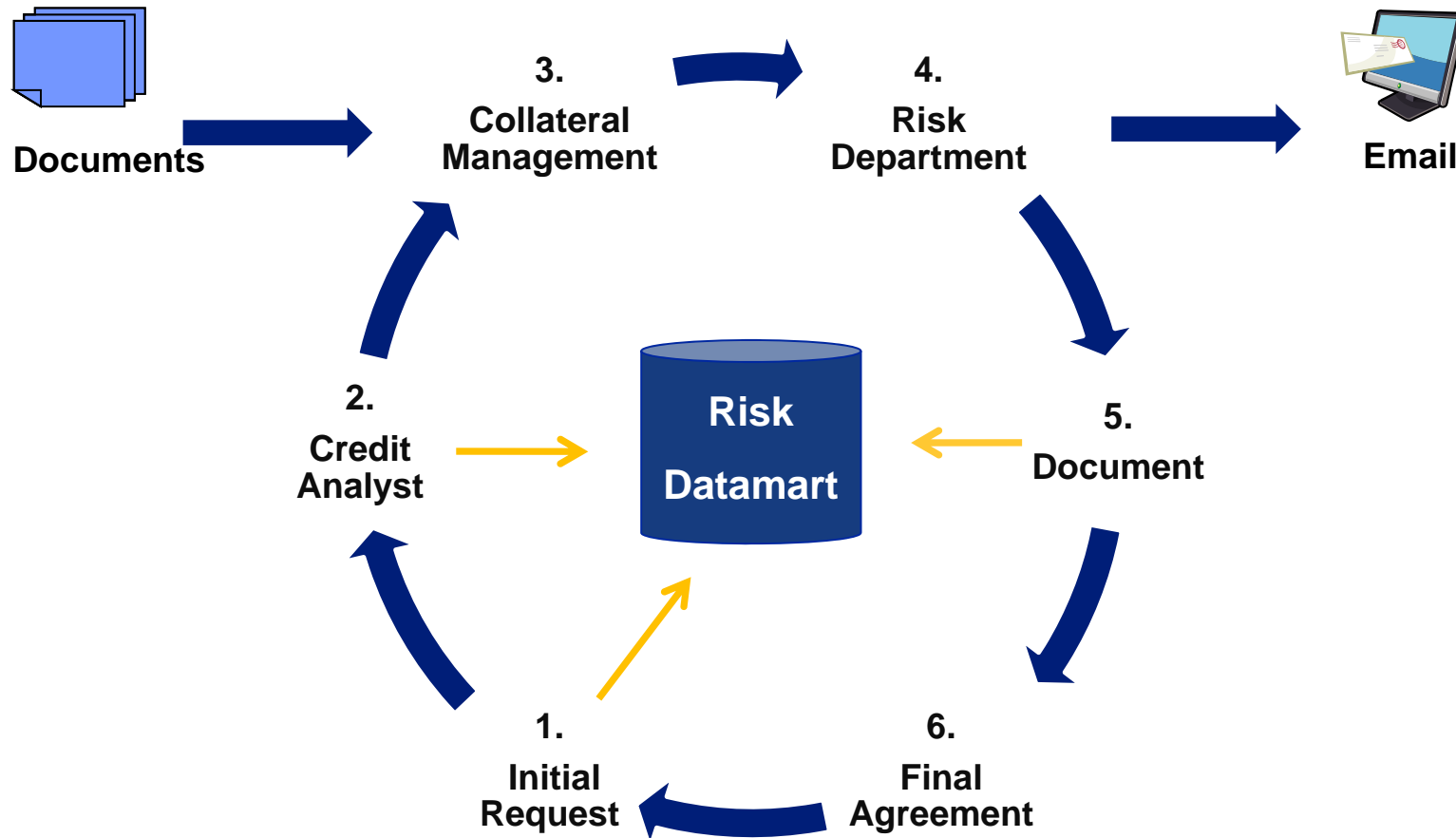
Excess Management

- » What are the top five limit excesses to manage today?
- » Why is Consolidated Industries' limit exceeded? Since when?

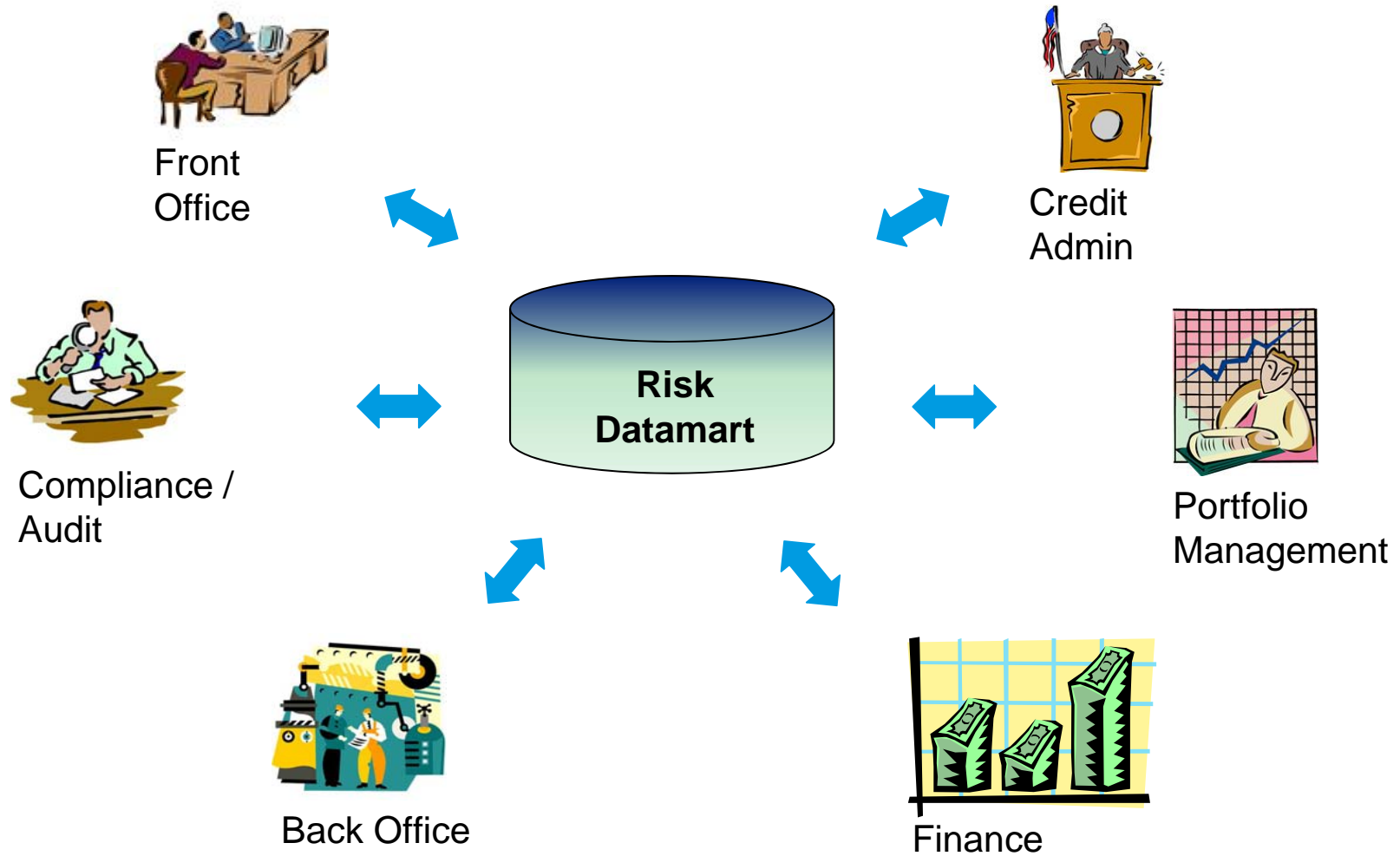
Trading, Escalation, and Position Keeping

- » Do I have enough available on ABC Bank for this Forex transaction?
- » Can I get additional limit for it?
- » What is my new available?

Limit Excess Approval



Goal: Systematize Dependencies during Origination



FR Y-14Q Reporting Case Study

FR Y-14Q Reporting

Board of Governors of the Federal Reserve System

About the Fed

News & Events

Monetary Policy

Banking Information & Regulation

Payment Systems

Economic Research & Data

Consumer Information

[Home](#) > [Reporting Forms](#) > [Activities monitoring](#)

Reporting forms

FR Y-14Q

Capital Assessments and Stress Testing

Forms	Instructions
Current (964 KB ZIP)	Current (1493 KB PDF)
Supplemental information	
▼ Current and historical ▼	

Description: This report collects granular data on bank holding companies' (BHCs) various asset classes and pre-provision net revenue (PPNR) for the reporting period. The BHCs are required to complete the following FR Y-14Q schedules: the Securities Risk; Retail Risk; PPNR; Wholesale Risk; Mortgage Servicing Rights; Trading, Private Equity, and Other Fair Value Assets; Basel III/Dodd-Frank; Regulatory Capital Instruments; and Operational Risk. The number of schedules each BHC completes is subject to materiality thresholds.

OMB: 7100-0341

Forms by Category

- [Financial statements](#)
- [Applications/structure change](#)
- [FFIEC](#)
- [Monetary policy](#)
- [Research](#)
- [Business/consumer credit](#)
- [Securities Exchange Act of 1934](#)
- [Municipal and government securities](#)
- [Activities monitoring](#)

Review and Updates

- [Information collections under review](#)
- [Recent Reporting Form Updates](#)

FR Y-14Q Reporting – Corporate Loan Data Schedule

A. Loan Population

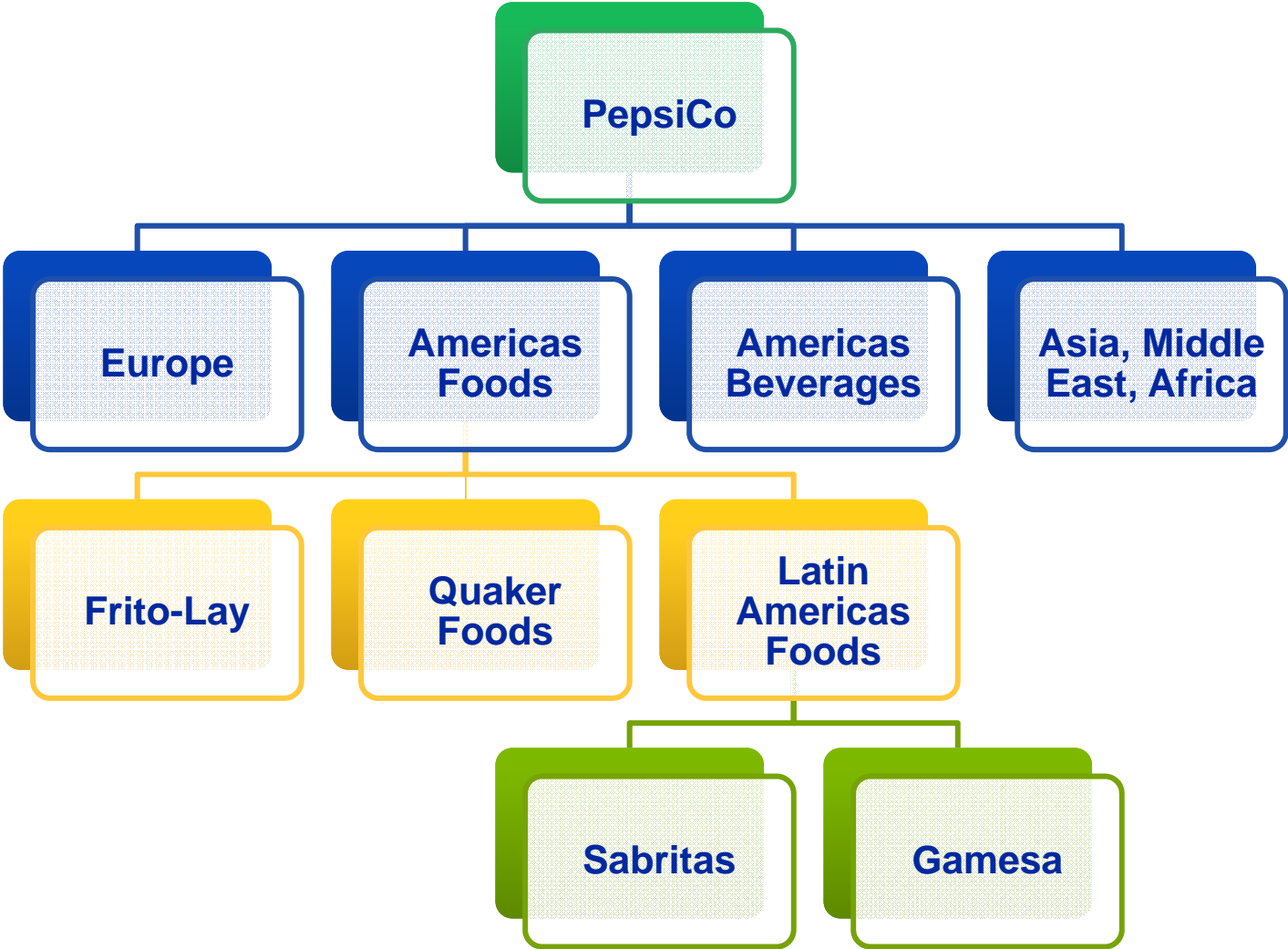
Show all data as of the most recent quarter end prior to the submission

Report only loans “graded” or “rated” using the reporting entity’s commercial credit rating system, as it is defined in the reporting entity’s normal course of business. Include all corporate loans with a committed balance equal to or greater than \$1 million.

The Obligor Financial Data Section should be reported for the legal entity which provides the primary source of repayment for the facility identified in Field 15. If this entity is the same as the Obligor identified in Field 2, the Obligor Financial Data Section should reflect financial information of that Obligor and Fields 49-51 should be left blank. However, if the primary source of repayment is provided by an entity which is different than the Obligor identified in Field 2, the entity should be identified in Fields 49-51 and the Obligor Financial Data section should reflect the financial information for this entity. All other Obligor Fields reported in the “Loan and Obligor Description Section” should continue to reflect the Obligor identified in Field 2.

Data in Fields 54 through 82 should be reported or calculated in accordance with GAAP standards. Note descriptions in the Obligor Financial Data Section provide guidance on what should be reported in each field based on commonly-used definitions; unless otherwise instructed, a reporting bank should report the Fields as defined by its financial spreading systems (i.e., software programs on which the BHC spreads and analyzes the financial statements of its customers) in accordance with its credit policy.

Who is the Obligor vs. the Primary Source of Repayment?



FR Y-14Q Reporting – CRE Loan Data Schedule

A. Loan Population

A Commercial Real Estate Loan (“CRE Loan”) is defined as a legally binding loan commitment or credit facility to an obligor as defined in the Credit Agreement. Provide all CRE Loans that are reported in the FR Y-9C categories outlined in Field 4, as well as any legally committed but undrawn CRE Loans that would be reported in the relevant FR Y-9C category if such CRE Loan were drawn on the last day of the quarter, excluding nonfarm, nonres, owner occupied loans originated in non domestic offices included in the FR Y-14Q Corporate Loan schedule. For reporting purposes, refer to the FR Y-9C instructions Glossary section for the definition of loans secured by real estate.

9	Property Type	PropertyType	K451
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11	Location	Location	K453
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12	Net Operating Income	NetOperatingIncome	K454
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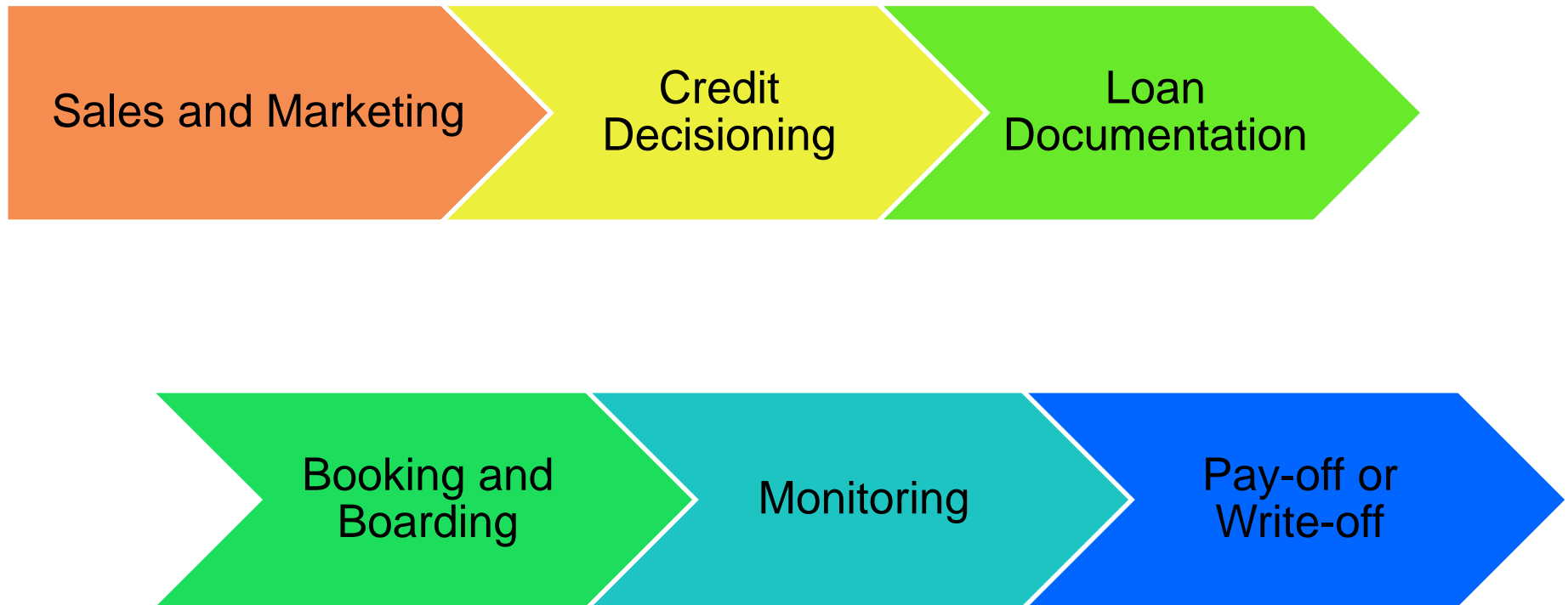
23	Current Occupancy	CurrentOccupancy	K459
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24	Anchor Tenant	AnchorTenant	K460
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39	Property Size	PropertySize	K471
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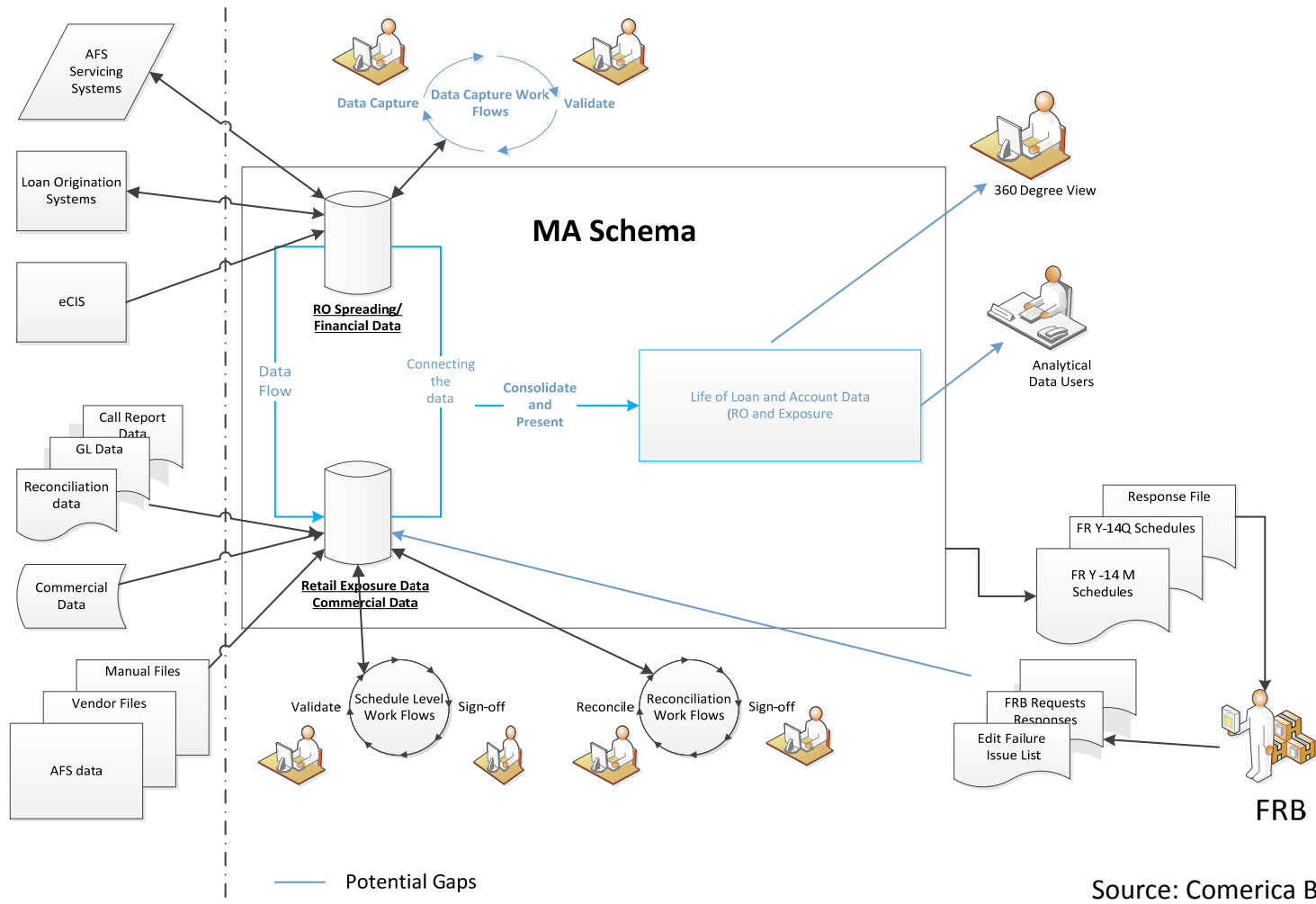
42	Current Value	CurrentValue	M209
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FR Y-14Q Reporting – Also Applies to Origination



FR Y-14Q Reporting – Creating a Credit Hub

Credit Hub Vision - Conceptual Model



Exposure Aggregation Case Study

Case Study: Exposure Aggregation

Financial Institution Profile

- » \$175+ billion asset bank
- » Global operations
- » Investment management is primary business
- » “Bank of banks”
- » Limited commercial and retail banking

Case Study: Exposure Aggregation

Project Background: How the Project Began

- » Legacy and decentralized global limits system
- » Limited global exposure monitoring
- » Basel II
- » Data warehouse created and integration of numerous core data system around the world

Case Study: Exposure Aggregation

Project Objectives

- » Leverage the “cleaner” Basel II data
- » Reduce manual entry
- » Centralize limit and exposure monitoring that supports global and local reporting views
- » Expand exposure monitoring and limit management beyond legal entity and product levels – new cross division, cross product views
- » Automation of the low-risk approval process
- » Strengthen risk controls with workflow (alerts, warnings, reports, audit trail)

Case Study: Exposure Aggregation

Project Details

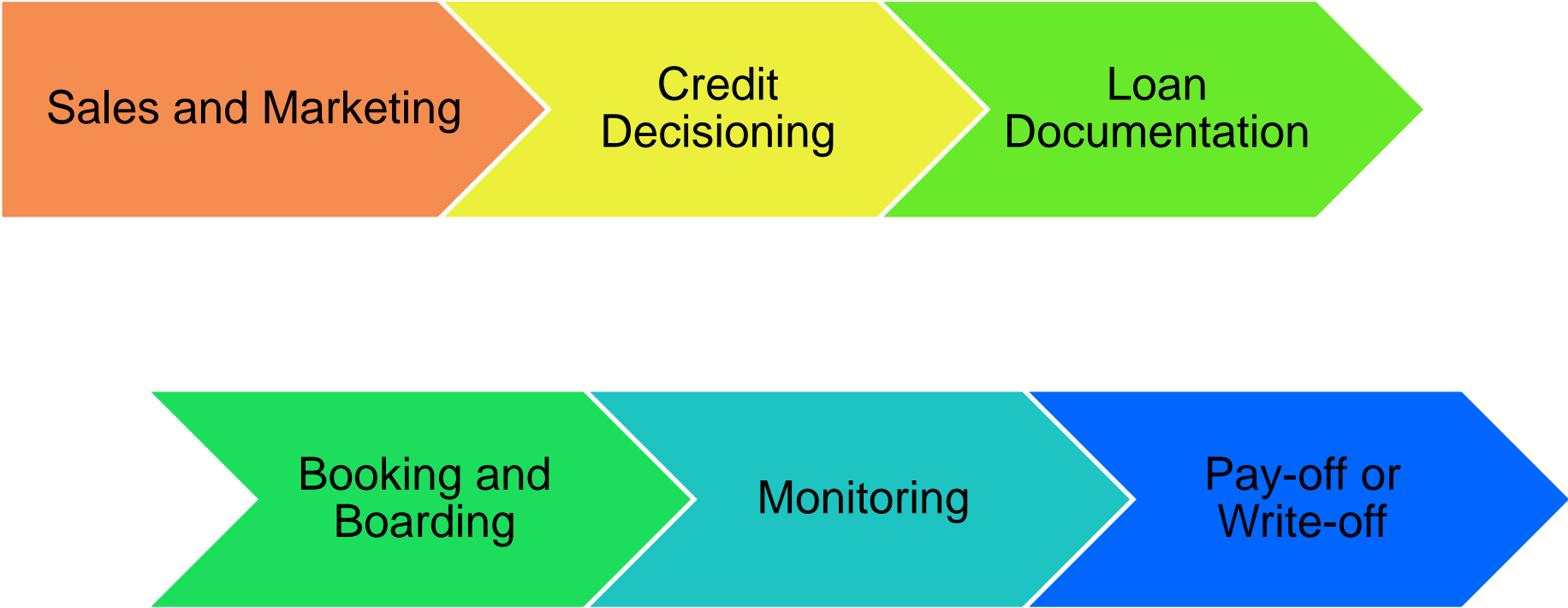
- » Migration of legacy limits to new and extended limit framework
- » Implementation of new global and local credit policies – workflows, approximately 40 different reports
- » Big bang roll out approach – testing complex
- » Daily Extract, Transform, Load (ETL) with the Basel data warehouse
- » Approximately 100 direct users
 - Local limit requests by analysts
 - Local approvals
 - Head office approvals
- » Approximately another 100 users receive the reports

Case Study: Exposure Aggregation

Benefits Realized

- » Better leveraging the Basel framework
- » Stronger communication and collaboration across business units
- » Enables advanced analytics
 - Charges for unallocated limits
- » Ability to move to “real-time” limits

Case Study: Exposure Aggregation



To learn more about this topic:

- » **Make an appointment to meet 1-1 with our experts in the Solutions Café:**
 - Brad Saegesser, Solution Specialist
 - Arun Mohan, Product Manager
 - Jun Yao, Product Manager

- » **Attend related sessions taking place after this session:**
 - Tuesday Plenary Session – Kyle McNamara, Scotiabank
 - How to Thrive in the New Regulatory Environment – Mark Fontana, Comerica and Amy Steingrebe, US Bank
 - What's on your RADAR? The Importance of Data Quality in Origination & Credit Decisioning Processes – Jeff Fundukian, Comerica

