

Case Study: Basel III RWA Optimisation

Brickendon was engaged in a Risk Weighted Assets (RWA) optimisation programme which achieved a multi-billion-dollar RWA reduction for the client, representing a quarter of the overall original RWA. The programme addressed the underlying data-quality issues which were also highlighted by the Basel committee in the Finalising Basel III Rules paper.



Client Challenges:

- ❁ Lack of consistency: inconsistent RWA numbers resulting from poor data quality made it difficult for the business to make strategic decisions (eg. incorrect counterparty rating etc.)
- ❁ Internal model limitations: issues with internal models due to a lack of multi-jurisdictional regulatory approval, structural rigidity, and restrictions in terms of asset-class coverage
- ❁ Differing on-boarding processes: variances in regional and local client on-boarding processes negatively impacted the quality, completeness and consistency of client reference data
- ❁ Inconsistent client reference data: Asset Value Correlation (AVC) and Credit Valuation Adjustment (CVA) flags for counterparties were determined manually
- ❁ Inaccurate client identifiers: inconsistent reference data meant that regulatory floor values for Probability of Default (PD) and Loss Given Default (LGD) were being used in RWA calculations
- ❁ Documentation referencing: issues with referencing made it difficult to consistently match legal documentation and netting flags with exposure attributes for the risk engines
- ❁ Collateral allocation: poor system identifiers meant that the collected collateral and Initial Margin (IM) charged was used inaccurately
- ❁ Inconsistent engagement: inconsistency in tracking and prioritising issues between workstreams, front-office, and risk and finance stakeholders caused transparency issues and misunderstandings across related programmes

Brickendon Solution:

- ❁ Enable the systematic determination of AVC and CVA
- ❁ Modify client onboarding processes to improve the integration of client and legal data fed to the Internal Model Methodology (IMM) platform
- ❁ Identify and resolve issues impacting client hierarchy management to ensure correct counterparty risk ratings are used in the LGD and PD
- ❁ Collaborate with global teams to raise awareness of collateral and IM impact on RWA, and develop tactical and strategic solutions to derive RWA benefits
- ❁ Implement cross-programme collaboration tools to facilitate better communication and sharing of RWA targets and results across workstreams, stakeholders and other bank functions
- ❁ Introduce training programmes, redefine processes, improve Management Information (MI), and encourage stronger governance
- ❁ Engage global front-office teams for periodic reviews of RWA numbers, and encourage discussion by providing analytics on clients to generate ideas to improve RWA

Client Benefits:

- Fewer manual adjustments thanks to improved AVC and CVA data
- Improved netting across trades thanks to better legal and client data integration and the accurate recognition of collateral and IM in the RWA calculations
- Improved LGD and PD calculations thanks to more accurate risk ratings
- Increased percentage of trades in scope for the IMM approach
- Improved data controls, auditability, regulatory reviews and approvals
- Future-proofed deliveries from other programmes with dependencies on RWA calculations
- Dashboard view of the impact of business actions across the global sales teams to demonstrate the RWA benefits across all asset classes
- Better business practices, aided by feedback-improved monitoring and validation controls from the programme back to BAU



Brickendon's innovative bespoke solutions help save our clients time, money and resources.

Brickendon is an award-winning transformational consultancy specialising in innovative solutions for the financial services industry. Our aim is to save our clients time and money by addressing their challenges in weeks and not months. The firm is divided into five practices focused on: Strategy; Risk & Regulation; Data; Quality & Testing; and Digital

Why choose Brickendon?

Our track record: We have demonstrated a long, proven track record for transforming our clients through our innovative bespoke solutions and have won a series of industry awards.

Our innovative approach: No one client is the same, therefore our intelligent, experienced and focused consultants use their domain experience to address each challenge in an innovative way, using skills from their past and knowledge from Brickendon's continual learning hub.

Our resources: All of our consultants have more than 10 years' domain experience, meaning they are well placed to combine their individual expertise with Brickendon's industry knowledge to help your firm excel.

Our drive: We love what we do and thrive on improving our clients' profitability, efficiency and increasing their competitive edge. We are driven to develop the most innovative solutions and take pride in seeing the tangible benefits of a project come to fruition.

Brickendon's Risk & Regulation Practice: More than just meeting regulations

Brickendon's Risk & Regulation practice helps our clients design and implement risk & reporting solutions and align these to their strategic objectives. We provide industry perspectives and regulatory experts to realise value from their regulatory programmes and manage new developments in the regulatory environment. Our Risk & Regulation consultants possess a deep expertise across all major regulatory initiatives.

To find out more about Brickendon's expertise, please do not hesitate to contact us:



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