



Solution  
Primer

Financial Services

# *OneSumX Integrated Risk and Reporting for Pillar 2 in the UK*

In 2018 the UK Prudential Regulatory Authority (PRA) has updated their Pillar 2 requirements and expectations which banks, building societies and PRA-designated investment firms have to comply with.

The purpose of Pillar 2 is to identify and address risks not adequately captured by Pillar 1. Under Pillar 2, the PRA also assess how robust a firm's business model is on a forward-looking basis under stress. Stress events will impact cash flows, liquidity, profitability and solvency, and therefore Pillar 2 is a powerful regulatory tool. Hence, it is critical for firms to carry out stress tests and scenario analysis to build their contingency plans in order to preserve the viability of the firm as well as protect its customers and investors.



## *OneSumX Integrated Risk and Reporting for Pillar 2 in the UK*

The Pillar 2 framework allows firms and the PRA to understand intertemporal risk dynamics and provide important information to the PRA on how a firm may use management actions to preserve its franchise should an adverse market event occur.

From a practical standpoint, the PRA's Pillar 2 puts the onus on CFOs and CROs to consider how they address the new requirements. Typically, this would require a close collaboration with heads of various risk departments to ensure an integrated view of the impact of stress testing, cash flows, liquidity, profitability and solvency before and after management actions.

However, as most departments within a bank tend to have their own systems for stress testing purposes, one for credit risk, one for market risk, another for interest rate risk and yet another for liquidity risk, achieving an integrated view across

the cash flows, liquidity, profitability and solvency remains a great challenge for the majority. The inefficiency stems from having to model the same business plan, macro economic forecasts and risk factor forecasts multiple times, using a different risk system each time. Additionally, the fact that each risk system has its own data model increases the firm's operational risk.

Deploying a single solution which uses a single data set, requires business plans, macro economic forecasts and risk factor expectations to be defined just once and allows for the derivation of business as usual and stressed outcomes pre and post management actions through a single calculation run. This approach does not only deliver operational efficiency, but an integrated and consistent view for the CRO, CFO, CEO and Board which is much easier to follow, providing a critical tool in helping to manage the business.

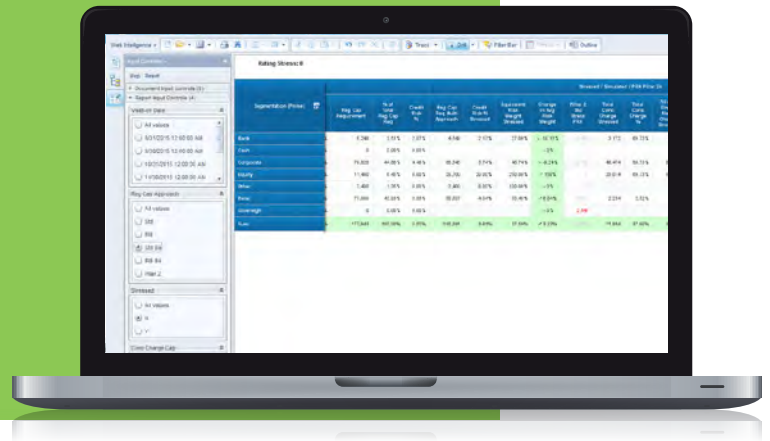
*The OneSumX Integrated Risk and Reporting for Pillar 2 solution delivers firms an integrated risk platform designed to address the key areas of the PRA’s Pillar 2 quantitative requirements across Pillar 2A and 2B.*

OneSumX Integrated Risk and Reporting for Pillar 2 solution is built upon a single data model and single modeling platform that provides consistent application of analytics and scenarios to deliver consistent outcomes across key risks. The modeling tools allow users to compare business as usual forward-looking plans to stress scenarios pre and post management actions. The reporting tools allow users to graphically display key risk metrics, compare outcomes across scenarios and deliver regulatory reporting templates for FSA071-082, PRA110 and PRA111.

**Key benefits:**

- Improve operational efficiency
- Drive forward-looking view of the business
- Overcome challenges around increased costs and inefficiency due to data duplication, inconsistent modeling of risks across Pillar 1 and 2 as well as manually intensive reconciliation between Pillar 1 and 2
- Benefit from a full data versioning and lineage

OneSumX Integrated Risk and Reporting for Pillar 2 solution delivers a wide set of capabilities to support Pillar 2, ILAAP and ICAAP requirements. The analysis below calculates the new Pillar 2 charges for the Standardized Approach and Concentration Risk alongside impact analysis for Basel III and the full Gordy-Lütkebohmert single-name concentration calculation (the basis for the PRA’s single name concentration charge).



OneSumX Integrated Risk and Reporting for Pillar 2 solution also delivers liquidity stress testing, multi-year ad-hoc projections of risk, income/expense, liquidity, profitability and capital adequacy with shared micro-and macro-economic assumptions, growth assumptions and stresses, to support many facets of Pillar 2, including projections and stresses of expected operational losses for input into the Pillar 2A calculations.



# OneSumX Integrated Risk and Reporting for Pillar 2 in the UK

Highlights of the OneSumX Integrated Risk and Reporting for Pillar 2 solution coverage by risk type:

**Credit Risk** – application of the PRA’s benchmark risk weights to respective asset classes as defined in Tables A1 and A2 of the PRA’s methodology notes to produce PRA111, FSA076 and FSA077.

**Market Risk** – assess and stress illiquid, concentrated and one-way positions by taking into account the integration among the stressed market risk factors. Determine VaR, stressed VaR, expected shortfall (ES) and stressed ES based on a 1 in 1,000 year confidence level over a one-year time horizon. Calculate the difference between Pillar 1, Pillar 1 adjustments for model risk and a 1 in 1,000 year event to estimate the Pillar 2 add-on and report it through your ICAAP using FSA080 and PRA111. Furthermore, assess the impact of the new FRTB rules before they go live to pre-emptively manage positions and risks.

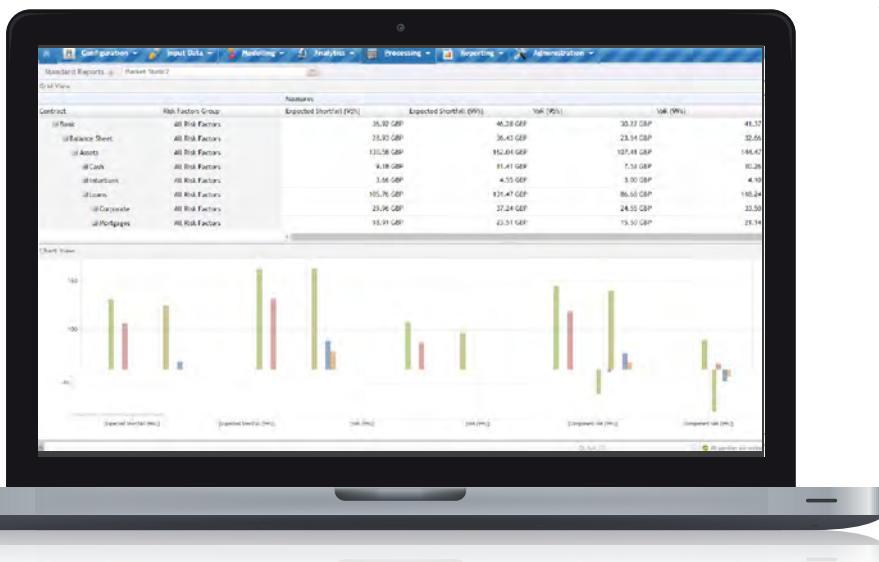
**Counterparty Credit Risk** – assess and improve risk management practices in respect of derivatives, margin lending, securities lending, repo and reverse repo or long settlement business through analysis and stressing of settlement risk, collateral management, wrong-way risk and model validation. Assess the impact of the revised rules for SA-CCR as

defined BCBS 279 to improve ISDA contract negotiation and improve capital planning.

**Credit Concentration Risk** – measure and manage single name, sector and geographic concentration using the Herfindahl-Hirschman Index (HHI) under business as usual, stress scenarios pre and post management actions. Map HHI output ranges to capital add-ons and report them in their ICAAP accordance with PRA templates FSA078 and FSA079.

**Interest Rate Risk in the Banking Book** – classifying the positions exposed to interest rate risk, identify and determine the expected cash flows, measure, manage and report duration risk, basis risk and optionality risk under business as usual, alternate behavioural models as well as stochastic and deterministic stress scenarios pre and post management action to estimate interest gap, VaR, NII, NIM, EVE, ΔEVE and EaR. Understand and mitigate the risks from different interest rate shocks on fixed, floating, derivate and non-maturing assets and liabilities. Applying capital add-ons and regulatory aggregations rules. Meet regulatory reporting obligations through your ICAAP as well as FSA017 and PRA111.

**Pension Obligation Risk** – apply the two scenarios defined in Table D of the PRA’s methodology notes to determine the accounting deficit of a firm’s pension scheme that would be deducted from CET1 as required under CRD IV. Model more appropriate scenarios if required including any offsets and management actions that meet the PRA’s eligibility criteria. Apply stress scenarios in market prices i.e., equity, property, in interest rates and inflation, in credit spreads, in FX rates, as well as in longevity risk. Report the assessment through your ICAAP as well as regulatory reporting requirements of the PRA111 and FSA081.





**Ring-Fenced Bodies (RFB) Group Risk** – calculate the difference between the amount of capital applicable at the RFB sub-group level to cover credit concentration risk identified on a sub-consolidated basis and the RFB’s sub-group’s share of capital held by the consolidated group to cover credit concentration risk identified for the consolidation group as defined by the PRA in their methodology notes. Furthermore, assess the impact of pension obligation risk on RFB group risk and report it through the ICAAP and in FSA071.

**PRA Buffer** – calculate the amount of capital, both quality and quantity, to cover the firm’s Pillar 1 and Pillar 2A risk under severe stress. Assess the impact of additional Risk Management and Governance (RM&G) scalar of 10% to 40% as an additional capital buffer over and above other buffers. To support the PRA’s SREP, run scenarios and sensitivity analysis against PRA-specified and internal scenarios for the assessment and model the multi-year impact from being required to hold an additional buffer. Meet regulatory reporting obligations through the firms ICAAP and reporting of PRA111.

**Liquidity Risk** – measure, monitor, manage and stress all aspects of contractual funding as well as market liquidity risk from cash flow mismatch risk to survival horizon, net liquidity position and peak marginal and cumulative outflows across a wide range of scenario including debt-buy back, margined and non-margined derivatives as well as securities financing transactions. Help to reduce your L-SYSC risk and buffer requirement through a holistic solution that fully supports your ILAAP process and the PRA110 reporting obligations.

**Leverage** – measure, monitor, manage and stress all aspects of leverage ratio taking into account forthcoming changes to SA-CCR and NSFR which directly impact leverage. Fulfil ICAAP reporting obligation including the relevant parts of PRA111 that relate to leverage.

**Profitability** – in both static and going concern dynamic analysis, define, measure, monitor and manage profit or loss, net interest income and net interest margin as well FTP rates, RoRWA, RoE. Fulfil ICAAP reporting obligation including the relevant parts of PRA111.

**Economic Capital** – compare regulatory capital requirements against alternative measures of economic capital using classical models based on VaR, CreditRisk+ and CreditMetrics with proprietary enhancements at different confidence levels.

# Improve operational efficiency and drive forward-looking view of the business

OneSumX Integrated Risk and Reporting for Pillar 2 solution is a best-in-class risk management and reporting solution. The solution helps firms improve operational efficiency and drive a more forward-looking view of the business required by regulators by maintaining a link between a firm's risk profile, risk management, risk mitigation systems and its capital and liquidity planning.

The solution complements OneSumX for Regulatory Reporting and OneSumX for Financial Risk Management, bringing the suite together in a focused manner, allowing clients to meet the key quantitative requirements of PRA's Pillar 2 framework.

*Deploying a single solution which uses a single data set, requires business plans, macro economic forecasts and risk factor expectations to be defined just once and allows for the derivation of business as usual and stressed outcomes pre and post management actions through a single calculation run. This approach does not only deliver operational efficiency, but an integrated and consistent view which is much easier to follow, providing a critical tool in helping to manage the business.*

## OTHER RELEVANT SOLUTIONS:

### OneSumX for Regulatory Reporting

*OneSumX for Regulatory Reporting has been recognized in the industry as a leading solution over the years, receiving top places in Chartis Research Risk Tech 100 rankings for regulatory reporting, and awards from Banking Technology, Finance Monthly and Wealth & Finance International, among others.*

### OneSumX for Financial Risk Management

*As a contract centric integrated financial risk management solution, OneSumX for Financial Risk Management generates expected and unexpected cash flows based on anticipated events over the lifetime of the contract. These events reflect the outlook for the macro economy, market risk factors, the strategy of the firm and the expected behaviour of its counterparties.*

### OneSumX Business Analytics

*OneSumX Business Analytics provides a quick yet powerful way to leverage the data and results held in the OneSumX platform and other external data sources, to reap the benefit of the effort that went into generating that information, thereby improving ROI on existing infrastructure, complying with the supervisory demands for use of such data in decision-making and delivering the ability for all levels of the financial organization to operate in a more agile, responsive and forward-looking way.*







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