



Solution primer

OneSumX Integrated Risk and Reporting for Pillar 2 in the UK

In 2018 the UK Prudential Regulatory Authority (PRA) updated their Pillar 2 compliance requirements and expectations for banks, building societies and PRA-designated investment firms. The purpose of Pillar 2 is to identify and address risks not adequately captured by Pillar 1. Under Pillar 2, the PRA also assesses the robustness of an organization's forward looking business models under stress. As stress events impact cash flows, liquidity, profitability and solvency, it is critical for firms to carry out stress tests and scenario analysis, allowing them to build their contingency plans in order to preserve the viability of the firm as well as protect its customers and investors. This makes Pillar 2 a crucial and powerful regulatory tool.



OneSumX Integrated Risk and Reporting for Pillar 2 in the UK

The Pillar 2 framework enables firms and the PRA to appreciate 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.

The PRA's Pillar 2 puts the onus on CFOs and CROs to formulate a solution for addressing the reporting requirements. Typically, tasks such as this requires close collaboration with the 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 can be taken.

However, as most departments within a bank tend to have their own systems for stress testing purposes, Credit Risk calculations, Market Risk assessment, Interest Rate Risk forecasting and Liquidity Risk analysis, achieving an integrated view across the cash flows, liquidity, profitability and solvency remains a great challenge for most financial institutions. Modeling the same business plan, macro-economic forecasts and risk factors multiple times, using different risk systems is inefficient and resource-intensive. This can result in duplication efforts and inconsistencies, as each risk system applied draws on its own data and models – ultimately increasing the firm's operational risk. Additionally,

the fact that each risk system has its own data model increases the firm's operational risk.

Deploying a single solution using a unified data model, macro-economic forecasts and risk factors that can be combined across risk classes, allows for the deviation of baseline and stressed outcomes – before and after management actions. This approach of a single calculation run not only delivers operational efficiency, but also provides an integrated and consistent view for the CRO, CFO, CEO and the Board. This unified approach to data reporting makes Pillar 2 calculations an essential business management tool.

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.

Built on a single data model and modeling platform, the OneSumX Integrated Risk and Reporting for Pillar 2 solution provides a consistent application of analytics and scenarios delivering unified and enterprise-wide results across risk classes. The modeling tools allow users to compare business-as-usual and forward-looking plans to stress scenarios the results of which can be used for management actions. The reporting tools allow the geographical display of key risk metrics, compare outcomes across systems and deliver regulatory reporting templates for FSA071-082, PRA110 and PRA111.

Key benefits

- Improve operational efficiency
- Drive forward-looking view of the business
- Reduce costs and improve efficiency by eliminating data duplication, inconsistent modeling across risk classes and manually intensive reconciliation between Pillar 1 and 2
- Gain full data versioning and lineage

OneSumX for Integrated Risk and Reporting for Pillar 2

The OneSumX Integrated Risk and Reporting for Pillar 2 solution delivers a wide set of capabilities to support Pillar 2, ILAAP and ICAAP requirements.

In addition, our OneSumX Integrated Risk and Reporting for Pillar 2 solution also provides 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, supporting many facets of Pillar 2, including projections and stresses of expected operational losses for input into the Pillar 2A calculations.



The analysis above calculates the 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 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

Our OneSumX solution allows users to assess and stress illiquid, concentrated and one-way positions through integration of the stressed market risk factors. It also determines VaR, stressed VaR, expected shortfall (ES) and stressed ES based on a 1 in 1000-year confidence level over a one-year time horizon, as well as calculating the difference between Pillar 1, Pillar 1 adjustments for model risk and a 1 in 1000-year event to estimate the Pillar 2 add-on before reporting it through ICAAP using FSA080 and PRA111. Furthermore, our solution assesses the impact of the new FRTB rules before their deployment to manage positions and risks pre-emptively.

Counterparty Credit Risk

With the OneSumX Integrated Risk and Reporting solution clients can analyze and improve risk management practices in respect of derivatives, margin lending, securities lending, repo and reverse repo, as well as long settlement business through analysis and stressing of settlement risk, collateral management, wrong-way risk and model validation. Our solution also hosts impact assessment capabilities, analyzing the impact of the revised rules for SA-CCR as defined BCBS 279 to improve ISDA contract negotiation and capital planning.

Credit Concentration Risk

The OneSumX solution enables organizations to measure and manage single name, sector and geographic concentration using the Herfindahl-Hirschman Index (HHI) under business as usual, as well as stress scenarios. It maps HHI output ranges to capital add-ons and reports them in their ICAAP in accordance with PRA templates FSA078 and FSA079.

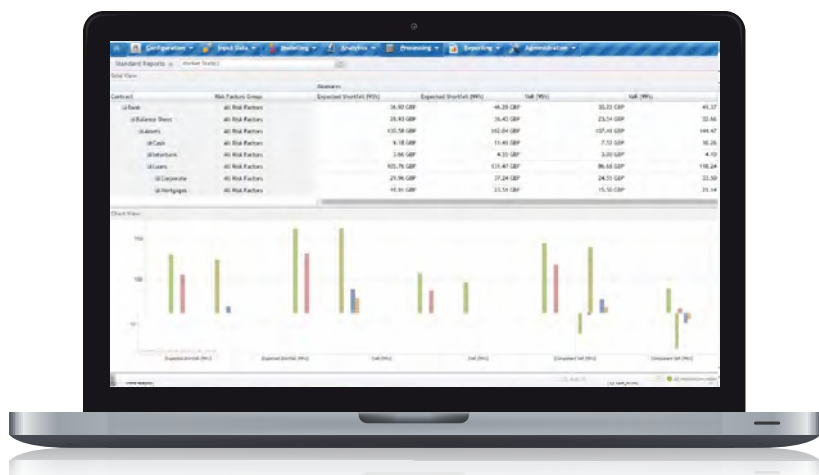
Interest Rate Risk in the Banking Book

Classifying the positions exposed to interest rate risk, identifying and determining the expected cash flows, measuring, managing and reporting duration risk, basis risk and optionality risk under business as usual, the use of alternate behavioral, stochastic and deterministic stress scenarios to estimate interest gap, VaR, NII, NIM, EVE, ΔEVE and EaR is all covered by the OneSumX solution's capabilities. Additionally, the solution allows users to understand and mitigate the risks from different interest rate shocks on fixed, floating, derivative and non-maturing assets and liabilities. Furthermore, OneSumX also allows for the application of capital add-ons and regulatory aggregation rules, enabling our clients to meet regulatory reporting obligations through ICAAP as well as FSA017 and PRA111.

Pension Obligation Risk

Our solution enables organizations to 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. In addition, the solution lets users model more appropriate scenarios where required, including any offsets and management actions that meet the PRA's eligibility criteria. Finally, the OneSumX solution equips our customers to apply stress scenarios in market prices, such as equity, property, in interest rates, inflation, in credit spreads, in FX rates, and longevity risk. With OneSumX firms can directly report the assessment through their ICAAP as well as meet the regulatory reporting requirements of the PRA111 and FSA081.

It is critical for firms to carry out stress tests and scenario analysis, allowing them to build their contingency plans in order to preserve the viability of the firm as well as protect its customers and investors.





Ring-Fenced Bodies (RFB) Group Risk

The OneSumX solution capabilities cover the calculation of 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, the solution assesses the impact of pension obligation risk on RFB group risk and reports it through the ICAAP and in FSA071.

PRA Buffer

With our solution, organizations can calculate the amount of capital, both quality and quantity, to cover the firm's Pillar 1 and Pillar 2A risk under severe stress, as well as assess the impact of additional Risk Management and Governance (RM&G) scalar of 10% to 40% as an additional capital buffer above other buffers. It also allows users to support the PRA's SREP, run scenarios and sensitivity analysis against PRA-specified and internal scenarios for the assessment at the same time as modeling

the multi-year impact requirement of an additional buffer, all the while meeting regulatory reporting obligations through the firm's ICAAP and reporting of PRA111.

Liquidity Risk

The OneSumX solution enables our clients to measure, monitor, manage and stress all aspects of contractual funding as well as market liquidity risk from cash flow miss-match. It can assess risk to survival horizon, net liquidity position, peak marginal and cumulative outflows across a wide range of scenarios, including debt-buy back, margined and non-margined derivatives, as well as securities financing transactions. The solution helps firms to reduce their L-SYSC risk and buffer requirement through a holistic solution that fully supports the ILAAP process and PRA110 reporting obligations.

Leverage

Our solution measures, monitors, manages and stress tests all aspects of leverage ratio, including changes to SA-CCR and NSFR that directly impact leverage. All ICAAP reporting obligations, including the relevant parts of PRA111 that relate to leverage are fully met by our OneSumX solution.

Profitability

In both static and going concern dynamic analysis, our solution lets organizations define, measure, monitor and manage profit or loss, net interest income and net interest margin as well as FTP rates, RoRWA, and RoE. It also meets all ICAAP reporting obligations including the relevant parts of PRA111 within these analyses.

Economic Capital

The OneSumX solution allows firms to 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 a forward-looking view of the business

The 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 the forward-looking business view regulators require, by linking 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, making up our comprehensive solution suite, that allows clients to meet the key quantitative requirements of PRA's Pillar 2 framework.



Deploying a single solution using a unified data model, macro economic forecasts and risk factors that can be combined across risk classes, allows for the derivation of baseline and stressed outcomes – before and after management actions. This not only improves operational efficiency, but also provides an integrated and consistent, and easy-to-follow view, becoming a critical tool in effective business management.

Related products

OneSumX for Regulatory Reporting

OneSumX for Regulatory Reporting has been recognized in the industry as a leading solution over many 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 behavior of its counterparties.

OneSumX for Basel

OneSumX for Basel is a holistic, integrated solution that combines data, calculations, and, reporting to help financial institutions stay compliant with UK Basel 3.1, EU CRR 3 and Basel IV.

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Wolters Kluwer reported 2023 annual revenues of €5.6 billion. The group serves customers in over 180 countries, maintains operations in over 40 countries, and employs approximately 21,400 people worldwide. The company is headquartered in Alphen aan den Rijn, the Netherlands.

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Learn more about the OneSumX for Finance, Risk and Regulatory Reporting solutions. [Click here.](#)

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