



FRTB

Time to accelerate your FRTB response programme

We will hit the ground running. Adsatis has been working on FRTB with leading banks for 18 months+

The Fundamental Review of the Trading Book (FRTB) is a Basel Committee on Banking Supervision (BCBS) initiative to address perceived shortcomings of the current market risk framework. FRTB is intended to harmonise the treatment of market risk across national jurisdictions and will result in higher global capital requirements, particularly in less liquid and more complex products.

FRTB will have a profound impact on banks' business strategy as banks seek to rebalance their business models in response to changes in market risk capital requirements. The revised market risk framework will also require data and technology changes that will impact banks' infrastructures from front to back.

Even though banks do not need to be compliant with the guidelines until January 2019, given the significance and complexity of the changes, banks need to initiate programmes now to assess the impact and define the strategic changes that need to be in place to be compliant.

Complex structural changes – and a tight deadline

FRTB Reforms

The BCBS explanatory note on the revised minimum capital requirements for market risk issued on January 2016 identifies three key FRTB reforms:

Revised internal models approach

The enhancements to the internal models approach have three main aims:

- More coherent and comprehensive risk capture that takes better account of ‘tail risks’ and market illiquidity risk
- A more granular model approval process whereby internal models are approved for use at the trading desk level
- Constraints on the capital-reducing effects of hedging and portfolio diversification

Revised standardised approach

The standardised approach for market risk has been revised so:

- It remains suitable for banks with limited trading activity
- It is also sufficiently risk sensitive to serve as a credible fallback for, as well as a floor to, the internal models approach

Revised boundary

The boundary between the banking book and trading book has been revised to reduce incentives for a bank to arbitrage its regulatory capital requirements between the two books

Revised Pillar 3 Disclosure Requirements

In addition, the BCBS issued a consultative paper in March covering Revised Pillar 3 disclosure requirements for market risk. These correspond to the FRTB market risk framework and are expected to be finalised and implemented in parallel with FRTB

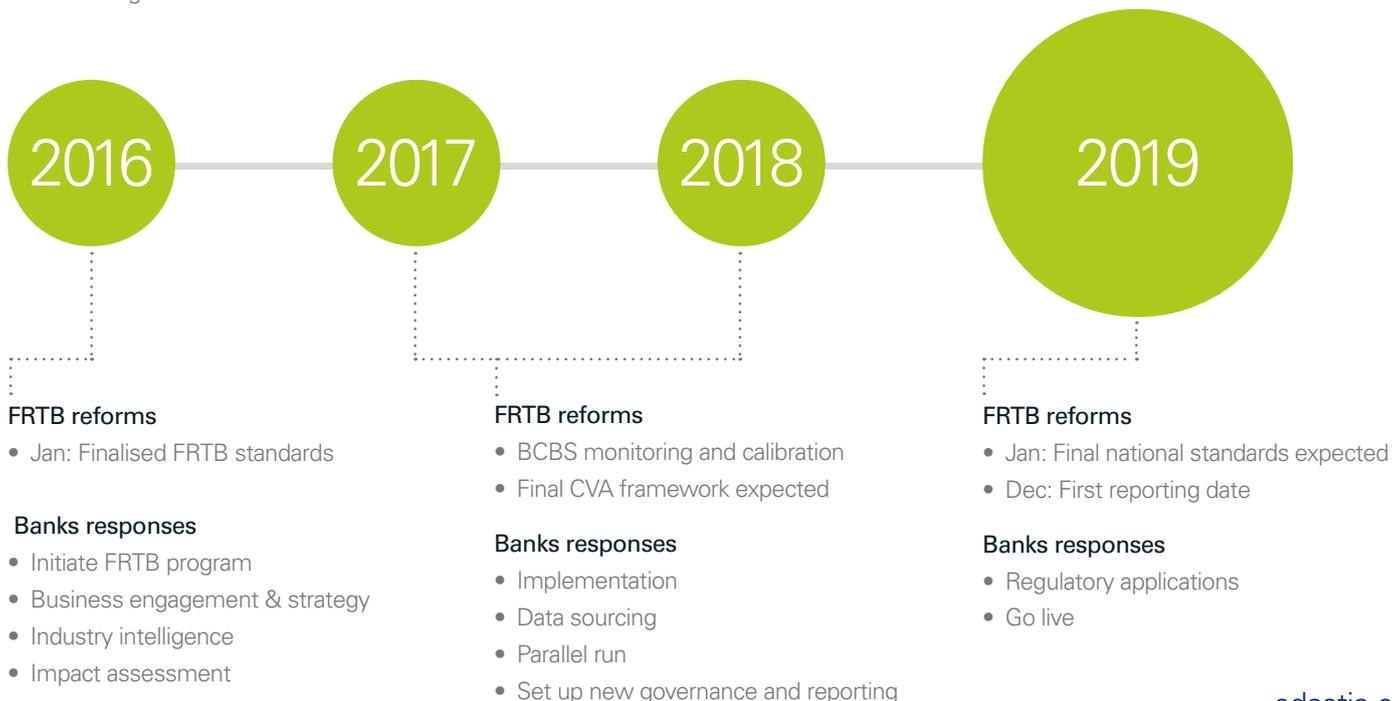
Banks’ Response to FRTB

Between now and the introduction of FRTB banks need to coordinate a complex set of responses:

- First and foremost the majority of banks will either need to find more capital and/or mitigate the capital impact of the new regulations by rebalancing business models. Banks may choose to exit some businesses entirely
- The regulations will require changes to operating models and the introduction of additional governance to service the new regulations
- Upgrades to market risk processing capacity and risk models will be required. Banks risk data infrastructure will need to be enhanced to take more granular trade data and source ‘real price’ transaction data to meet model eligibility criteria

Timelines

In order to meet the regulatory deadlines banks need to have their initial analysis, planning and strategy well underway as well as mobilisation plans for build and implementation commencing 2017.



Risk Services

Key Focus Areas

The table below summarises the areas that banks will need to focus on. The criticality, workload and urgency of each depends on the current position and strategy of each bank.

FRTB Market Risk Framework	Business Intelligence, Advisory and Strategy	Risk Models and Data	Operating Model and Governance ¹	Requirements Analysis and Change Management
Revised Trading/Banking Book Boundary				
Definition of Trading Book	•	•	•	•
Limit to Movement between BB and TB	•	•	•	•
Additional Reporting Requirements	•		•	•
Internal Risk Transfers	•	•	•	•
Revised Internal Models Approach				
Risk Measurement	•	•		•
Non-modellable risks	•	•	•	•
Hedging and Portfolio Diversification	•	•		•
Model Approval	•	•	•	•
Revised Standardised Approach				
Sensitivity Based Approach	•	•		•
Standardised Default Risk Charge	•	•		•
Residual Add-on	•	•		•
Pillar 3 Market Risk Disclosures				
	•			•

Notes: 1. Indicates areas where major changes or new governance required outside of existing frameworks (which will also need to be updated)

The Adsatis advantage – we will hit the ground running 18 months+ working on FRTB with leading banks

High calibre experienced team

- Market Risk and Trading expertise – leading practitioners in Market risk, trading and pricing with a track record of successful delivery. Senior consultants have 15 years+ industry and consultancy experience
- FRTB experience – ability to hit the ground running with 18 months+ experience of working on FRTB with leading banks
- Ability to engage effectively at both senior stakeholder and detailed operational level
- Extensive experience on highly critical regulatory and business driven change programmes

Partnership with our clients

- Collaborative approach – we prioritise close communication, knowledge sharing and knowledge transfer with our clients
- We work highly effectively within and across client teams using agile and waterfall project methodologies- extensive experience of driving and facilitating change across multiple functional areas including front office, risk management, finance and technology

Our capability

Our FRTB capability covers many of the areas that banks will need to focus on. We can provide consultancy teams to take overall responsibility for specific streams and deliverables as well as SME resource to augment existing teams.

Business Intelligence, Advisory and Strategy

Enabling banks to pull together information to assess the impact of FRTB on their business, and providing analysis to make informed decisions on their business strategy, solution design and operational strategy. Adsatis expertise includes:

- Initial assessment and impact analysis
- Running quantitative impact studies (QIS), analysis and identification of mitigation opportunities
- Business liaison and senior management reporting
- Providing industry intelligence on best practice and material for regulatory advocacy

Risk Models and Data

Interpretation of the new rules, assessment of the impact of these on models and advisory on the changes that need to be made. Adsatis can support the design and implementation of tactical processes and prototyping

Comprehensive understanding of the additional data requirements for transaction data, historical price time-series, and enhanced internal trade level data, that FRTB creates

Adsatis advises banks on the design and implementation of optimal strategies for data sourcing and data management to meet FRTB driven requirements

Operating Model and Governance

FRTB will require significant changes to banks' Operating Models. Adsatis can assist with the review of their current operating model, gap analysis, and design of the target operating model and the processes to support this

Adsatis expertise also includes the design and setup of the appropriate governance to support the target operating model to include review/enhancement of policies and procedures, and coordination of regulatory assessments and approvals

Change Management and Requirements Analysis

Adsatis has proven capability in the Programme Management of large scale change programmes for leading banks covering the full programme lifecycle, as well as extensive experience in SME driven business analysis, and business and functional requirements documentation

Getting in touch

Find out how Adsatis can help accelerate your FRTB response programme

London +44 20 7663 0800 | New York +1 646 475 8497 | adsatis.com

Adsatis is a specialist Financial Markets consultancy. Our Risk practice provides risk management, regulatory, and change expertise to help our clients meet regulatory deadlines and optimise their risk management processes. Our expertise spans the current regulation – FRTB, Ringfencing and Resolution, BCBS 239, CRDIV, Basel III, IRIIBB – as well as Market Risk and Credit Risk methodology. We specialise in providing senior level capability to facilitate and drive change to meet demanding and business critical timeframes.

Adsatis