

The challenges and opportunities of implementing Basel III

As banks get to grips with the business and financial implications of Basel III, the next step for many is to understand how they can develop their banking infrastructure to implement the regulations. **Pierre-Etienne Chabanel**, Senior Director, Moody's Analytics, outlines the challenges and opportunities

The challenges involved in developing a banking infrastructure that delivers Basel III compliance are significant. However, many banks see Basel III as an opportunity to drive greater operational and business efficiency, as well as delivering compliance, by ensuring they fully understand the challenges involved, and by applying a few best practice principles when implementing the regulations.



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New challenges of Basel III

Some of the challenges involved in implementing Basel III include:

1. Managing the data

To deliver compliance against Basel III, all banks must now ensure that risk and finance teams have quick and easy access to centralised, clean and accurate regulatory capital data. This must fully reflect their risks so they can deliver accurate reports to their regulators from January 1, 2013.

2. Managing Basel III across different geographies

Different regions and countries face different challenges in applying Basel III. The European Union and several nations in Asia-Pacific – Australia, Japan, Singapore and Hong Kong – are well advanced in their preparations. However, other states are following their own schedules and, in the US, the Dodd-Frank Act means that many banks will be adopting Basel III from 2015 onwards. This complex regulatory picture adds an additional level of complexity for banks when implementing Basel III and reporting the results.

3. Managing stress testing

Stress testing is central to Basel III. The challenge for a bank will again be consolidating its regulatory capital data, so that it will be able to utilise the stressed scenarios from its regulators and produce accurate and meaningful results using its own validated models. This complex process requires clean and accurate data to deliver results that are consistent with the other reports that a bank submits to its regulators.

An integrated approach to Basel III

Despite the challenges, there are several best practice approaches open to banks that can help them implement the regulations on time, without disrupting the day-to-day operations of the bank.

A Basel III solution must be integrated so that it fully reflects the structure of the regulations themselves.

The ideal solution would utilise a central data repository to house the critical risk data that is required for Basel III compliance. It should be able to collect all the essential data, providing the complete enterprise-wide regulatory risk picture.

The ideal solution would consolidate, calculate, test and report an organisation's capital and liquidity risk from a single platform. It would seamlessly integrate with other source systems and have strong data-quality checking and storage capabilities. Fast calculation engines would facilitate weekly and even daily calculations.

The solution would also deliver fully integrated stress-testing management. Utilising the same core data set to deliver consistent results alongside the other regulatory capital reports, the solution should have the capacity to create and validate stress-testing models to use with regulators' stressed scenarios and meet the complex stress-testing requirements of Basel III.

Regulatory reporting would be seamlessly integrated into the solution, and would be able to handle reporting for the largest number of regulators, delivering accurate results in the correct format, including Excel, XML, XBRL and ASCII.

Leveraging Basel III beyond regulatory capital

While banks have no choice in complying with Basel III, how they choose to implement it can offer scope for competitive advantage.

Having a consolidated data set will help streamline the regulatory process, and it allows managers to have a complete, seamless and consolidated picture of the business. This will allow banks to make timely and informed business decisions, based on stronger insight.

Conclusion

Basel III is a challenge for any institution. However, by taking an integrated approach to implementing the regulations, covering data management, calculations, reporting, as well as stress testing, the optimal solution can help a bank take Basel III in its stride.

To read further on this topic, please download the Moody's Analytics White Paper at www.moodyanalytics.com/Basel3Implementationasia2012 or visit our product page at www.moodyanalytics.com/Basel3Asia2012

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