

FINANCE & RISKS

A common approach to tackle
regulatory reporting requirements

May 2023



Collapse of Silicon Valley Bank (SVB) - 2023

- Lack of diversification, unhedged bet on interest rates staying low & uninsured deposits left the bank insolvent
- When the Federal Reserve hiked interest rates in 2022 to combat inflation, the bonds & treasury values fall leading SVB's bond portfolio to drop. SVB did not have enough short-term investments to protect their liabilities leaving the bank insolvent for months



UBS takes over Credit Suisse - 2023

- Series of scandals, management shifts, significant losses in recent years & SVB and Signature Bank collapse sending fear throughout the global banking system led to Credit Suisse collapse
- Following, Credit Suisse collapse, UBS purchased Credit Suisse for 3 billion dollars. This purchase was orchestrated and approved by regulators



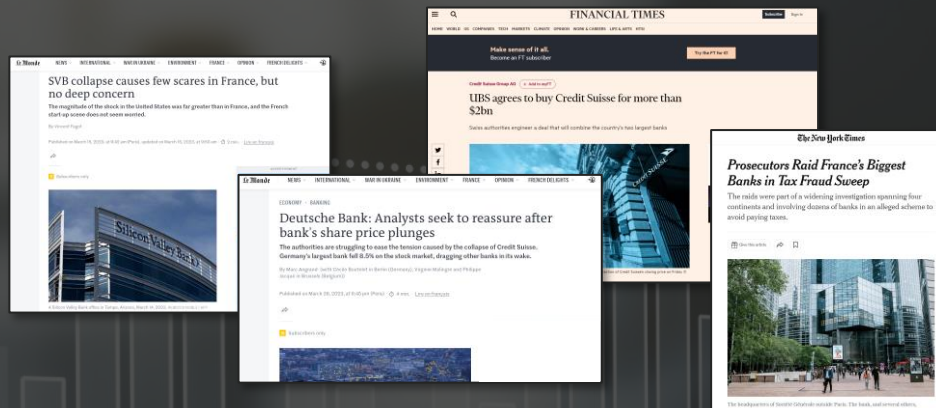
Deutsche Bank's stock market crash - 2023

- Concerns about the stability of European banks led to a spike in credit default swaps
- The Frankfurt-listed was down 8.6% triggering concerns among investors and leading to broad declines for major European banking stocks such as : Commerzbank shedding 9%, Credit Suisse / Société Générale / UBS fell by more than 7% & Barclays / BNP Paribas both dropped by more than 6%



Tax Fraud Sweep - 2023

- France's biggest banks involved in one of Europe's biggest tax thefts
- Authorities are investigating Société Générale, BNP Paribas and Paris offices of HSBC Holdings, Natixis and BNP's Exane unit for tax avoidance scheme (money laundering, tax fraud linked to dividend payments) which the banks allegedly bilked the French treasury out of vast sums



Market Overview

Key takeaway



SCANDALS, FRAUD, ISSUES HAPPEN DISPISTE CURRENT REGULATIONS



CONTAGION RISK IS STILL VERY PRESENT AND SHOULD BE CLOSELY MONITORED



ANTICIPATING BANKING SYSTEMS NEEDS AND RISKS WITHOUT FORGETTING PAST CRISIS AND SCANDALS IS CRUCIAL



REGULATIONS ARE ESSENTIAL AND SHOULD EVOLVED FOLLOWING THESE TYPES OF EVENTS

Context, stakes & objectives

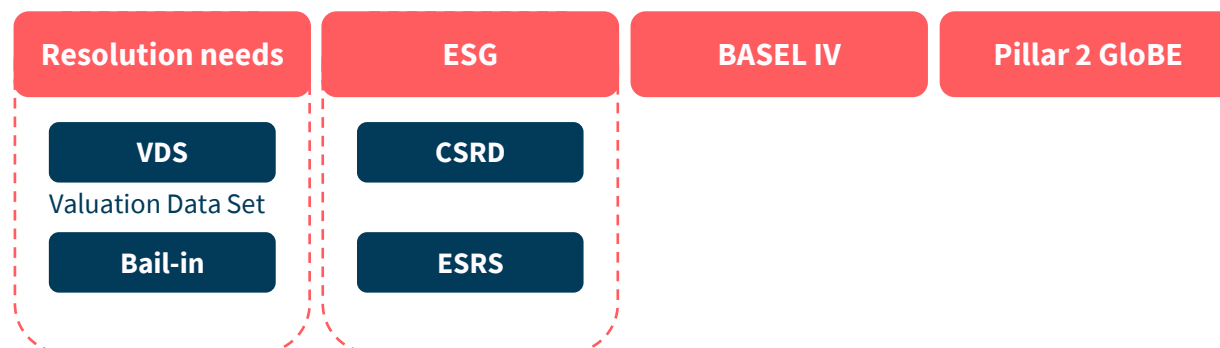
A common approach to tackle regulatory reporting requirements

Regulatory news continuously generate changes (ex.: ESG or Basel 4) with which institutions must comply.

To face these challenges, it is interesting to opt for a **cross-functional approach** to carry out these changes while **respecting the regulatory milestones** (and therefore to avoid dealing with these requests individually).

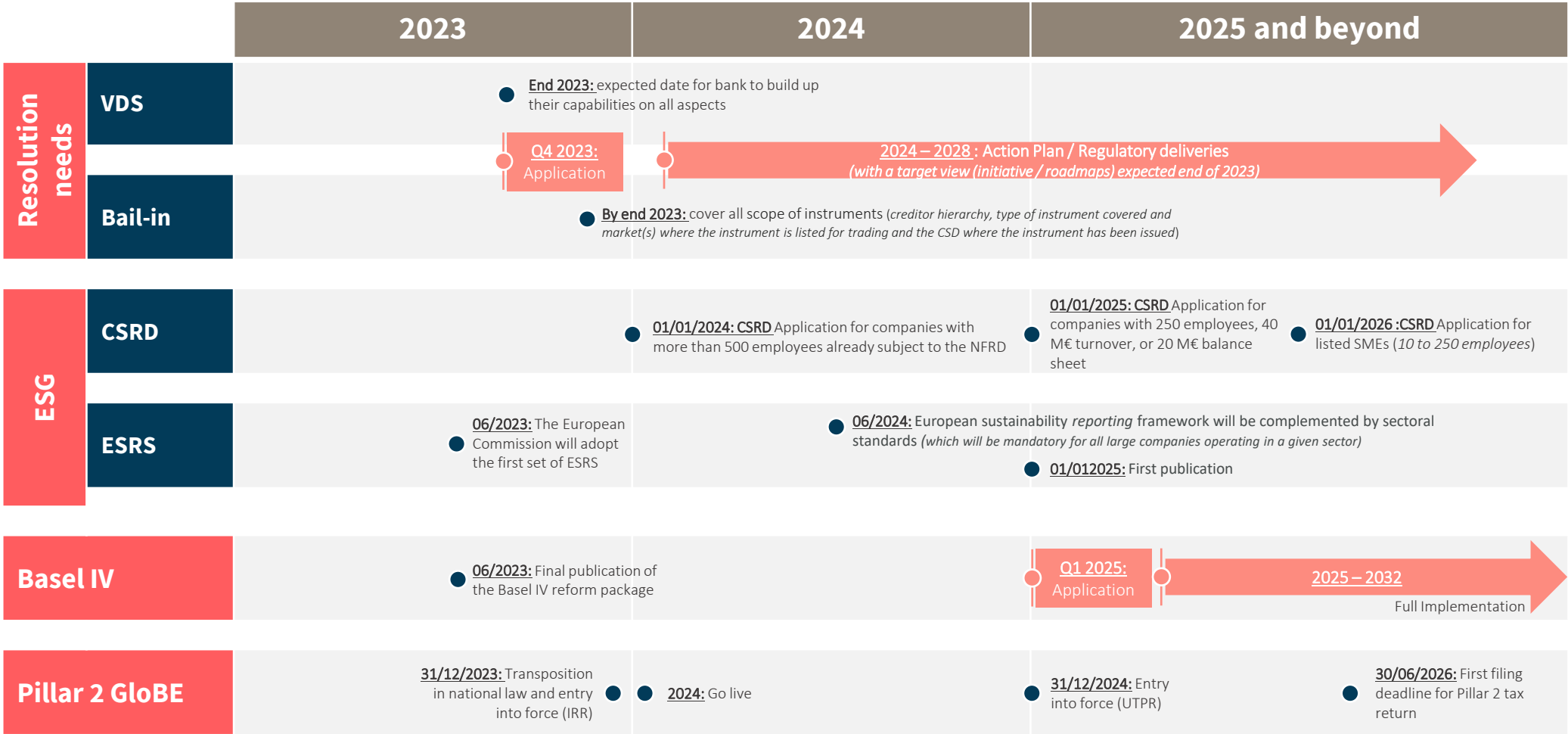
Some key developments involve **new data** with **multiple regulatory uses**. One challenge will be to identify the right level to source this data according to the existing operating model and avoid multiple workflows and overload. Within this frame, beyond the regulatory calendar, a data with **several uses** will be sourced as soon as possible to **anticipate future needs**

Below are presented **the main regulatory evolutions** which will involve the Finance / Risk / Data Office teams and you will find a detailed view in the following slides.



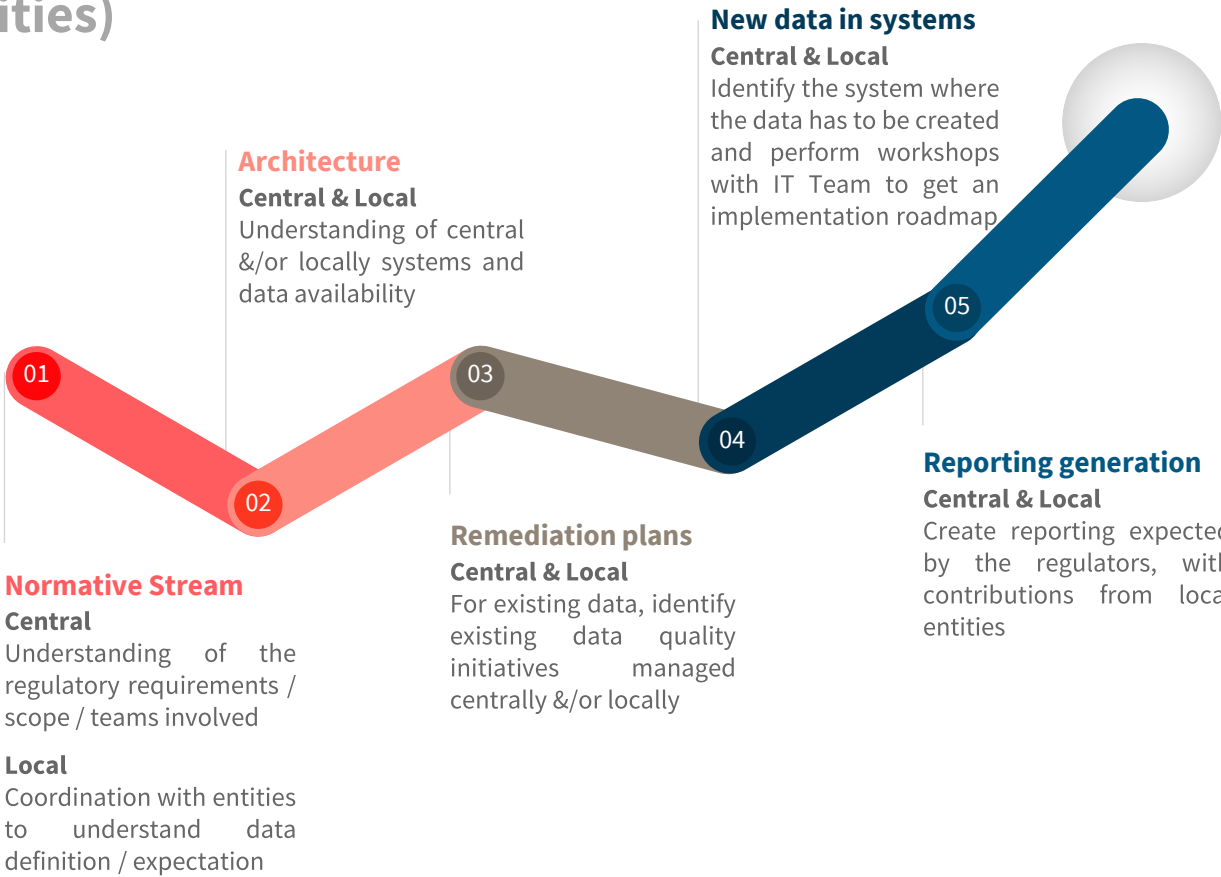
Milestones

Regulatory reporting upcoming key dates



Our standard approach

5 common steps at both Central level (Group) & Local level (Entities)



SOME OF OUR SUCCESSFUL EXPERIENCES ...

Implementation of a new P1L certification process

Understand the IT architecture with the data availability

Implementation of accounting regulatory standards

Understand reg. requirements & provide support to complex transformation (framework, steering, IT implementation...)

Change management and data sourcing & quality for ALM

Build a cartography of all data quality remediation plans with dedicated roadmap and TOM

Implementation of regulatory reporting (LTS/VDS/LOM)

Ensure a good communication between Group and entities and mutualize on works on-going

The strengths of Aurexia

Aurexia has already been involved in many regulatory projects within the major actors in the market, such as AnaCredit / IFRS 9 / Stress tests / LOM / etc.



OUR ASSETS



On-going assignments with major banking groups



Aurexia's presence across 3 continents, with 7 offices worldwide, provides direct access to our experts and a comprehensive understanding of local needs in the financial sector



Projects involving different actions: Operational declination of regulatory guidelines, analysis of data to be sourced, challenge of the group's target solution definition, workshops with the various contributors/stakeholders at central/local levels, etc



Consultants are currently involved in the management of the implementation of LTS/VDS/LOM/ESG

Market watch:

Regulatory watches are currently and regularly carried out to capture needs and anticipate solutions for our clients.
From the same guiding principle of anticipation we build benchmarks regularly.



Data:

Assignments in data quality, governance , visualisation.
Expertise in data management.
Benchmarks for data office CDOs.
Partnerships with some editors like Collibra, AB initio ...



Innovative Approach:

Capture of Fintechs or Vendors solutions that may be relevant.
Capacity to deliver ready-to-use tools.
Use agile methodology to reach regulatory timeline milestones.



Focus on Resolutions requirements from SRB

Valuation Data Set (VDS) and Bail-in

Presentation

Valuation Data Set The SRB approach to valuation relies on **banks’ ability** (*on the assets’ side*) to provide accurate and timely information in case of resolution. It consists of evaluating the capacity of banks to collect and provide this information on a timely basis to resolution authorities and/or valuers.

Bail-in The SRB expects that the fully-fledged version of the bail-in playbooks **covers all bail-inable instruments**. The scope of instruments to be covered in the playbook may **vary from bank to bank**, depending on the **bank's liability structure** and the **level of progress** in the operationalisation of the bail-in.

Impacts

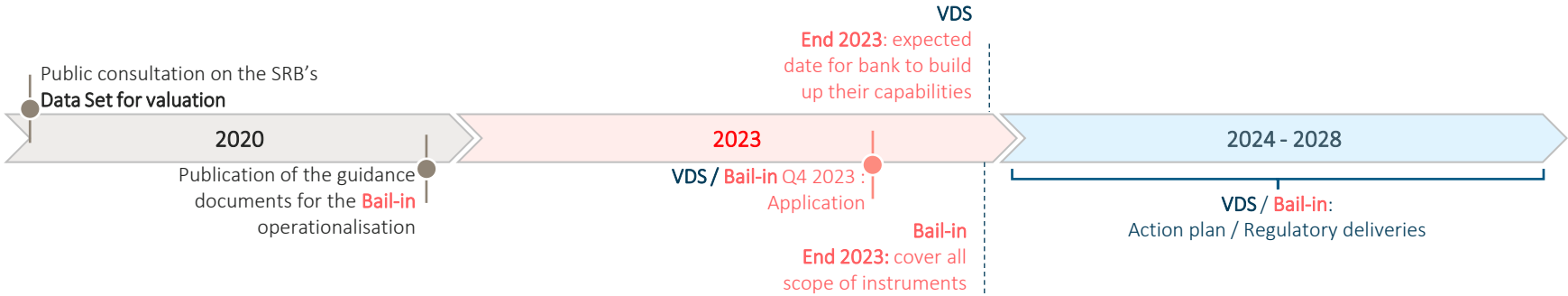
- 01

Enhance functional and technical architecture in order to be able to generate reports on the financial health of the bank, within a really short timeline 24 hours), with a high level of granularity, of a large volume of data (existing & new)
- 02

Involve all teams (centrally and locally) to define a reliable cartography of data (existing vs new) and deploy collection processes front-to-end
- 03

Improve the management / follow-up of data quality remediation within the frame of a cross/consistency check performed at regulator level, between existing reports based on common data reported

Roadmap



Presentation

CSRD is the latest European regulation concerning **financial** and **non - financial companies**. The SFDR and the EU Taxonomy led the change for sustainability integration and corporate reporting. It introduces new developments such as **Assurance** requirements, the **detailed disclosure requirements** and **exemption for subsidiaries** and non- EU Parents companies.

Impacts

01

Assurance

Mandatory insurance : Limited Assurance to move to reasonable in the future as the reporting framework evolves
NFRD : Voluntary assurance

02

Exemption

- Exemption for subsidiaries to publish sustainability reporting in their management report, if the sustainability reporting in the parent’s consolidated management report complies with EU sustainability reporting standards
- For non-EU parents if they publish information that is equivalent to EU standards and includes information related to the subsidiary and is available when the subsidiary publishes its management report.
- The CSRD would not put any new reporting requirements on small companies, except for SMEs with securities listed on regulated markets. The reporting requirements would also not apply to SMEs with transferable securities listed on SME growth markets or multilateral trading facilities (MTFs).

03

Reporting

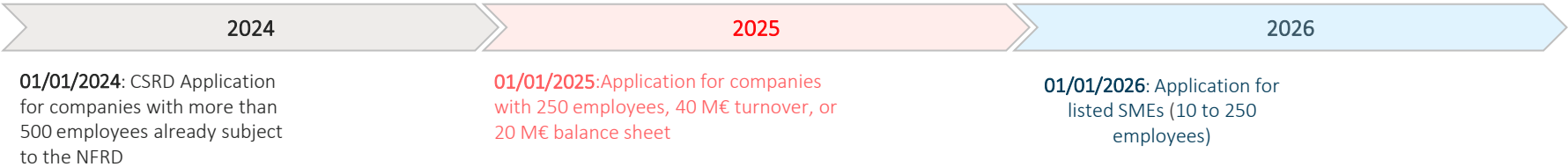
- Where to report: Included in the management report which is generally included in the annual report
NFRD : *Included in the annual report*
- Reporting format: To be submitted in electronic format (in XHTML format in accordance with ESEF regulation
NFRD : *Online or pdf*

04

Double materiality

- The CSRD proposal emphasizes the concept of double materiality, whereby entities need to consider both the impact of sustainability topics on the company’s value (financial materiality), and the entity’s impact on the economy, the environment, and people (impact materiality).
- The double materiality implies the need to assess the interconnectivity of the two.
- EFRAG (expected before the end of November 2022) will develop a coherent and comprehensive set of reporting standards, covering all sustainability matters from a double materiality perspective.

Roadmap



Focus Basel IV

Set of reforms complementing Basel III for better risk management



The final publication of the Basel IV reform is scheduled for June 2023. This will specify certain developments and the implementation timeline

Objectives

Basel IV aimed at reforming the level of capital quality, enhancing risk sensitivity, and harmonizing methods across banks to improve risk management and banking supervision, includes a set of reforms impacting banks, including:

OUTPUT FLOORS

The internal method's Risk-Weighted Assets (RWA) must be at least 72.5% of the standard method's RWA

STANDARD APPROACH (credit risk)

Improvement in granularity and risk sensitivity, as well as reduction in reliance on credit ratings

IRB Approach (credit risk)

Removal of the IRB-A approach for certain asset classes and adoption of "inputs floors" for PD, LGD and EAD

REVIEW OF THE OPERATIONAL RISK FRAMEWORK

Removal of internal models and replacement with a standard method that takes into account historical results and losses

REVISION OF THE CVA RATIO

Removal of the Internal Model Approaches for Credit Valuation Adjustment (CVA) and introduction of two new CVA approaches: Basic and Standard

REVIEW OF THE LEVERAGE RATION

Introduction of a leverage ratio buffer for GSIBs (Global Systemically Important Banks) meeting specific criteria

Impacts

01 Internal models

Adapting internal models to comply with the generalization of the standard method, the limitation of internal methods, and the implementation of thresholds (input and output floors)

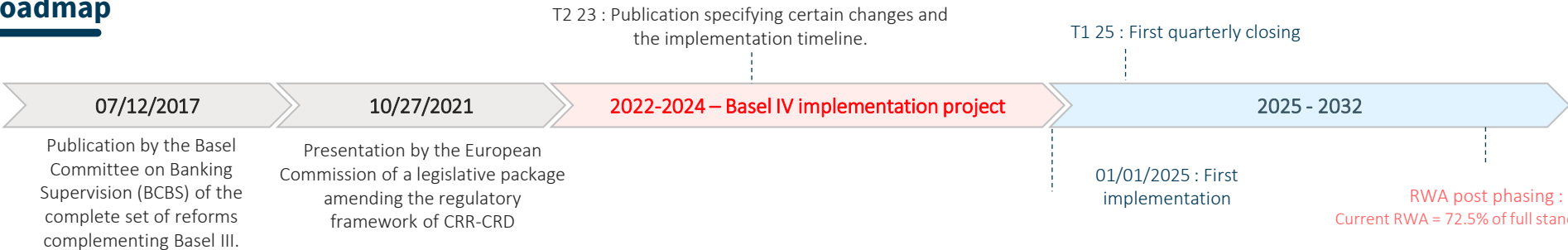
02 Governance and data quality

Enhancing governance and data quality is necessary to have more granular data with improved quality. This includes strengthening control mechanism and implementing measures to ensure data accuracy, completeness, and reliability.

03 End-to-end process

Reviewing the processes and reporting chain: setting the target, adjusting operational models, operational implementation, change management, etc.

Roadmap



Pillar 2 Focus - GloBE (Global Base Erosion)

New international tax reform aimed at combating tax evasion and based on 2 pillars

Objectives

- Pillar 1** Reallocation of profits of companies based on their business activity and profits earned, rather than solely on physical presence in the country → *The financial sector is excluded from the scope of application*
- Pillar 2** Implementation of a global **minimum tax of 15%** on corporations, regardless of the jurisdiction where they operate, in order to combat base erosion and profit shifting (**GloBE¹**) → Profits taxed in tax havens **will be subject to taxation by their home country**.

Impacts

- 01** Implementation of the GloBE "Collect to Report" process and its specifics

 - Scope analysis, management of safeguard measures, restatements, validation workflow, auditability.
 - Define a realistic and achievable IT roadmap to integrate the new GloBE processes.
 - Anticipate the creation of a deployable Core Model as temporary measures phase out gradually.
- 02** Transfer pricing calculation and reporting module

 - Redefine calculation process of the allocation of profits.
 - Modification of tax planning strategies, intercompany transactions and pricing.
 - Build qualitative reporting on transfer drivers
- 03** Implementation of reporting elements and tax declarations

Roll out to all subsidiaries: content and format, comprehensive or streamlined reporting depending on safeguard measures (and automated treatments)...

Roadmap



¹ The Global Anti-Base Erosion Rules (GloBE)
² Source <https://www.touteurope.eu>

³ EU member states with at least 12 MNEs with consolidated revenues > €750 million



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