



Overview BaFin/ECB Readiness

Booking Model

Bundle of topics to be considered

Impact Assessment	
Markets	High
Finance	Medium
Risk	High
Compliance	High
IT	High
Operations	Medium

■ high
 ■ medium
 ■ low

Current Status and BaFin Expectations

- Limited number of products actually booked and risk managed
- Remote / Back-to-Back Booking for remaining products
- BaFin / ECB aim at preventing „empty shells“ and expects (SSM) entities to be able to identify, manage, control and monitor material risks on a stand-alone basis
- It is necessary to increase business managed and booked locally – build up of own front office, risk management, back office, finance and IT capabilities will be necessary
- No UK Back Branching / material functions should not be located in London

Aspects to Consider

Solve optimization problem:

Financial optimization

- Capital (RWA)
- Liquidity needs
- Operational cost
- Tax efficiency



Regulatory requirements

- Governance structure
- Risk management
- Booking model policy

Involved Functions and To-Dos

- Management body – onshore-based management body exercising its executive function (clear understanding of the entity's booking model and associated control environment)
- Front Office – increase capabilities to manage global / local books
- Risk – Build-up of risk management capabilities related to market and counterparty risk (including IPV) including process documentation
- IT – implementation of booking model in systems as well as assurance of operational continuity in crisis events
- Finance / other function – Design of booking model policy / booking models and the related control environment

To address the risks banks are encouraged to take the following steps*:



* Supervisory expectations on booking models, ECB, August 2018

Due Date and Implementation Timeline

- Current due date under discussion is end of 2020
- Given the estimated work load, the institution should aim at negotiating a final date in 2021 agreeing on a dedicated implementation plan
- In order to facilitate negotiations with BaFin we suggest to perform a dedicated gap analysis starting as soon as possible
- Such an analysis should be outlining the portfolios that should be moved, the necessary risk management and limit system adjustments (counterparty and market risk), affected IT systems as well as the resulting functional and technical implementation timeline

ECB Onboarding

Preparation for AQR and EBA Stress Tests

Impact Assessment	
Markets	Medium
Finance	High
Risk	High
Compliance	High
IT	Medium
Operations	Medium

■ high
 ■ medium
 ■ low

Current Status and Changes through IFR

- The institution will gradually increase business booked and managed on-shore over the next years
- According to Investment Firm Regulation (IFR) the institution will be deemed Class I Investment Firm and subsequently be treated like a CRR Credit Institution
- With an expected balance sheet volume above € 30bn, the institution will additionally be subject to the Single Supervisory Mechanism (SSM) including AQR and Stress Test

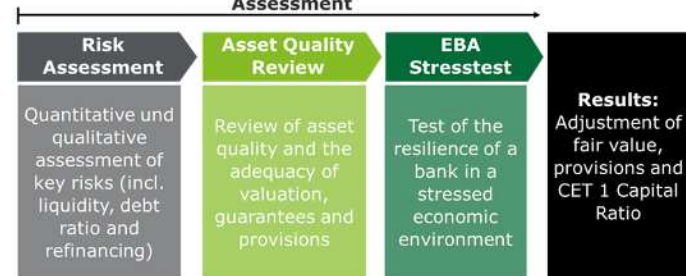
Aspects to Consider

- According to the institution business model, AQR will most likely be focused around work block 8 (fair value exposures review) and CVA Challenger Model (part of work block 1)
- New ECB AQR Conduct Checklists need to be considered
- Stress Test requires close cooperation between Finance and Risk to align the data requirements from the cut-off date (mainly based on financial reports like FINREP and COREP) with the methodological requirements in modelling the projections
- The institution should start data collection (mainly risk data) and model review (SME involvement) well in advance as data requests will be very complex in those areas
- In addition to AQR and Stress Test, the institution will be exposed to ad-hoc JST requests
- Furthermore, the institution needs to populate and submit STE as well as EBA Funding Plan templates
- ECB Onboarding work load is independent from start date of ECB supervision

Involved Functions and To-Dos

- Risk & Finance will bear most of the work load pre and during AQR and stress test – SMEs need to be on-boarded early in the process in order to cope with risk data and model requirements

Comprehensive Assessment



Due Date and Implementation Timeline

- Most likely AQR will start Q3/2021 and will take 4 month (relevant work blocks 1 and 8 might take less)
- Stress Test used to follow AQR but in the latest exercises a parallel start was exercised (estimated start Q3/2021)
- We deem 8-10 months of preparation work with a start in Q4/2020 appropriate (data gathering, document package, identification of SMEs, work block resource planning)

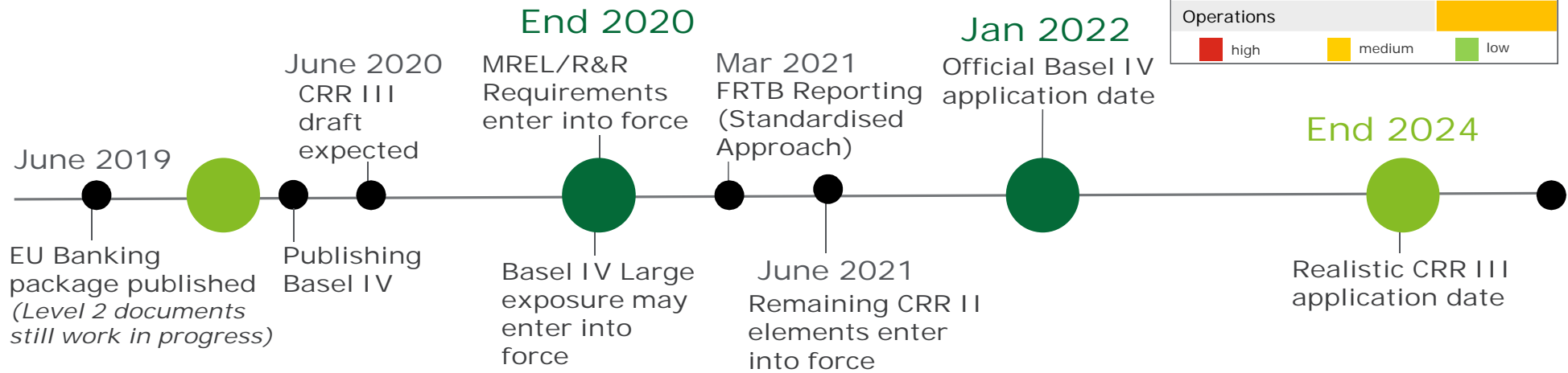
Further Considerations (HGB vs. IFRS)

- HGB Financial Accounting can result in higher bank levy as HGB allows less netting than IFRS
- Furthermore, ECB will most likely request IFRS numbers in the context of the AQR and for the request subsequent to the AQR
- Analysis regarding the difference between HGB and IFRS reporting numbers has to be considered

CRR II/CRD V/BRRD II EU Banking Package

Impact Assessment	
Markets	High
Finance	High
Risk	High
Compliance	Low
IT	Medium
Operations	Medium

■ high ■ medium ■ low



Basel III

- Large Exposures
- Leverage Ratio
- Exposures to CCPs
- NSFR
- Counterparty Credit risk (SA-CCR)

Basel IV

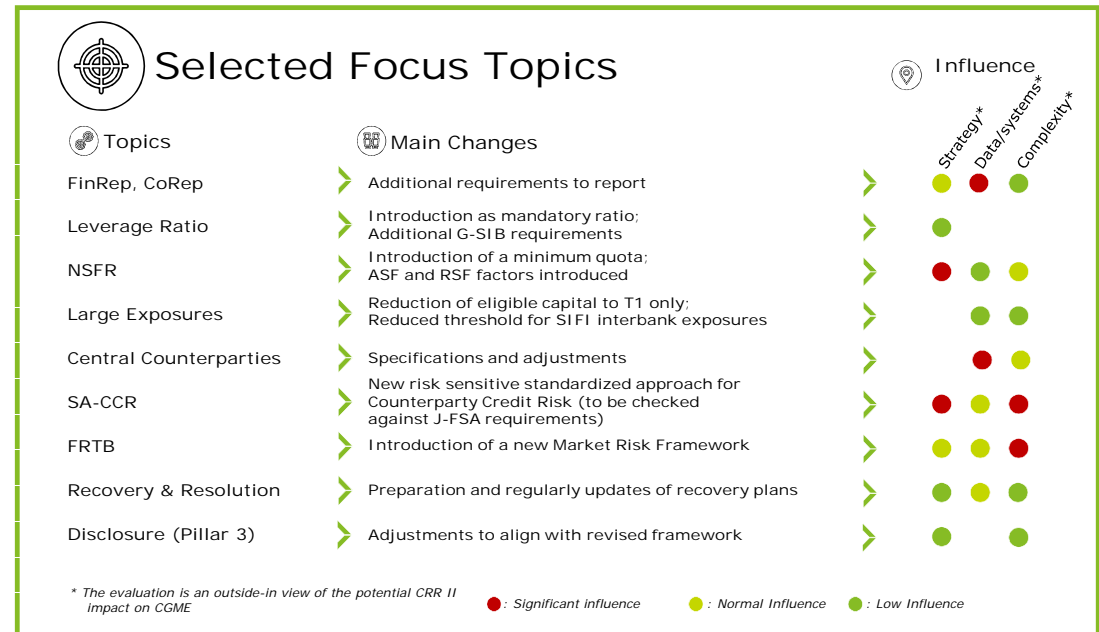
- Market risk (FRTB – Reporting Requirement)
- Interest Rate Risk the Banking Book (IRRBB)
- Disclosures and proportionality

Other Topics

- Intermediary Parent Undertaking

Recovery & Resolution

- Enhanced MREL for G-SII
- Restriction to distributions in cases of MREL breaches



Fundamental Review of the Trading Book (FRTB)

Market Risk / FRTB

Impact Assessment	
Markets	Medium
Finance	High
Risk	High
Compliance	Low
IT	High
Operations	Medium

■ high
 ■ medium
 ■ low

Current Status

- EMEA CRR II Program: Roles and responsibilities, timeline, scope defined on high level
- If above the size of Trading Book currently approx. > € 500 mn.
- Currently, PRA approved IMA in place until 2022; for standardized approach delta-plus and scenario approach in use

Involved Functions and ToDos

- Risk
- Finance
- Front Office
- IT

- Set-up of FRTB-SA calculation engine incl. deviation of risk sensitivities
- Complete F2B integration of the institutions positions
- Set-up of FRTB-SA reporting template

Aspects to Consider

- In CRR2 two-phased approach for FRTB:
 - Phase 1 Reporting
 - Phase 2 Own funds requirement
- Phase 1 Reporting for FRTB-SA (Standardized Approach) for all CRR-institutions with trading book > € 500 mn.:
 - 3 parts of FRTB-SA: Sensitivity-based Approach (SBA) + Default Risk Charge (DRC) + Residual Risk Add-on (RRAO)
- FRTB-IMA is subject to BaFin/ECB permission
- FRTB-IMA reporting earliest by 2023
- Continuation of current own funds requirements for market risks until CRR3 in force

Due Date

Delegated Act EU-Com: 31.12.2019

Reporting Requirement:

- FRTB-SA: 31.03.2021
- (FRTB-IMA: not before 2023)

Own Funds Requirements:

- Phase-in after entry into force of CRR III (not yet scheduled)

Implementation Effort

- High
- Implementation timeline: 12 months
- EU FRTB-SA reporting requirement 1 year early compared to Basel timeline
- CGME-specific implementation of calculation and reporting engine

BCBS 239 - Risk Data Aggregation and Reporting

BCBS 239 is already casting its shadows ahead, while MaRisk compliance has to be met today

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Current Status and BaFin Expectations

- At the beginning of 2013, the Basel Committee on Banking Supervision (BCBS) issued BCBS 239 Principles for Risk Data Aggregation and Risk Reporting; it contains requirements for the integrated interaction of processes, data and methods across risk types and groups. (see illustration on the right)
- The supervisory authority has made it clear that "risk data" is not risk data in the narrower sense, but also the bank's business data

Aspects to Consider

- In addition, the fifth MaRisk, AT 4.3.4, amendment transposes the requirements of the Basel paper BCBS 239 in conjunction with §25a KWG into national law and into German banking practice
- Data requirements for AQR, EBA stress tests, CRR II implementation and fire-drill-down exercises already demonstrate the beginning of data requirements with respect to MaRisk, BCBS 239
- Alignment with the global BCBS 239 framework and its data requirements and data ownership responsibilities

Involved Functions and To-Dos

- | | | |
|-----------|--|--------------|
| • Risk | • Markets | • Compliance |
| • Finance | • Operations with client business (first line) | • IT |
-
- Management board of the institution as reliable instance for regulatory requirements
 - The institution as BCBS 239 compliant G-SIB with its defined standards and the required (data feed) input from the institution



Due Date and Implementation Timeline

- Current due date for BCBS 239 of the institutions readiness is assumed for end of 2024
- Given the estimated work load and our experience of BCBS 239 implementations, the institution should start to implement BCBS 239 in 2020/2021
- Beside the implementation of a BCBS 239 framework the German MaRisk, AT 4.3.4, are already applicable for the institution. (e.g. accuracy, comprehensiveness, timelines, ...)
- In alignment with the growing business (volume and products) the enhanced data reporting requirements become effective in 2020/2021. (AQR, EBA stress test, FinRep/CoRep-reporting, ...)
- Data ownership rules and data sources etc. should be collected and documented already w.r.t. BCBS 239 to avoid duplication of work



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