Collibra

Solution Brief

Data Governance for Basel III

Answering the BASEL III data requirements

Basel III is a is a new global standard created by the members of the Basel Committee on Banking Supervision "to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector". The standard will require banks to hold more capital, and higher quality capital, as well as to have sufficient liquidity in case of crisis. This in turn will have a big impact on the business intelligence (BI) systems of banks. More internal monitoring will be needed, and more disclosures to regulators.

Collibra provides advanced business information management facilities that can be easily leveraged to facilitate development of functionality to implement the specific requirements of Basel III. Collibra provides a strategic platform for the semantic interoperability needed for agile responses to requests from regulators and changes in the overall regulatory framework.

Basel III Data requirements

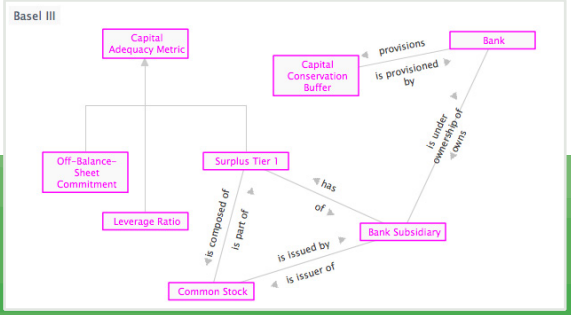
A large portion of Basel III is dedicated to definitions. At its heart, Basel III seeks to solve the problem of the definition of capital, given that in the past financial institutions have formulated their own definitions of capital which have sometimes fallen short of what regulators intended.

Basel III on capital: "Finally, to improve market discipline, the transparency of the capital base will be improved, with all elements of capital required to be disclosed along with a detailed reconciliation to the reported accounts." BIS

Basel III carefully defines the many concepts that it requires for the calculation of capital adequacy. Collibra is ideally placed as a repository for housing these definitions. Many of the definitions include both a business meaning and a calculation. That is, a data element needs both a formal definition so it can be understood across the bank, but the way it is calculated must also be unambiguously understood.

Example of Derived Data Element: "Surplus Tier 1 of the subsidiary is calculated as the Tier 1 of the subsidiary minus the lower of: (1) the minimum Tier 1 requirement of the subsidiary plus the capital conservation buffer (i.e. 8.5% of risk weighted assets) and (2) the portion of the consolidated minimum Tier 1 requirement plus the capital conservation buffer (i.e. 8.5% of consolidated risk weighted assets) that relates to the subsidiary." BIS

Collibra provides the functionality needed to manage the full range of Basel III concepts and definitions. It can accommodate both the semantic and calculation aspects of the data elements. Furthermore, it can manage the chains of relationships between different data elements, so if an analyst changes the definition of one data element, he or she can easily see what other data elements are affected.



Building Data Environments for Basel III

Basel III specifically requires the use of the most granular data. This means that banks cannot simply create spreadsheet models into which they feed highly aggregated numbers to produce regulatory reports. Instead, banks will need to build environments such as global risk data warehouses where granular data, e.g. at the level of individual payments, are accumulated and used for capital adequacy monitoring. This in turn requires a full understanding of the elementary data that will have to be obtained from many source systems. Such a full understanding means not only an understanding of the data in the context of each source system, but also how it "maps" to the definitions in the Basel III specification.

Example of Scope and Complexity of Reporting Expected by Basel III: " Indeed, one of the most procyclical dynamics has been the failure of risk management and capital frameworks to capture key exposures – such as complex trading activities, resecuritisations and exposures to off-balance sheet vehicles – in advance of the crisis." BIS

Collibra has the ability to meet this need. As part of its array of functionality, Collibra can manage concepts from both business-centric and data-centric levels. This is an efficient, reliable, and durable way to map physical data columns in many source systems to the appropriate concept in Basel III. Alternatives, such as fragmented, manually intensive mapping exercises using spreadsheets, are inherently error-prone, difficult to interpret across projects, and cannot keep up with changing source system and regulatory environments.

Collibra allows documentation and automation of this process, reducing the need for a large and costly investment in error prone human intervention to perform the semantic analysis and keeping it up to date.

Extensions to Basel III should be Expected: "Should the cyclicality of the minimum requirement be greater than supervisors consider appropriate, the Committee will consider additional measures to dampen such cyclicality. The monitoring metrics... may evolve further as the Committee conducts further work. One area in particular where more work on monitoring tools will be conducted relates to intraday liquidity risk." BIS

Basel III Reporting Requirements

An important feature of Basel III is that banks will be expected to show to regulators how the numbers they report are calculated. It is no longer just a question of reporting numbers themselves. If banks are not to invite further scrutiny from the regulators, they must have a have a precise and formal way of presenting such explanations.

Advanced Disclosure Requirements: "...banks which disclose ratios involving components of regulatory capital (e.g. "EquityTier 1", "Core Tier 1" or "Tangible Common Equity" ratios) must accompany such disclosures with a comprehensive explanation of how these ratios are calculated." BIS

The comprehensive repository functions of Collibra are well suited to containing the definitions and descriptions of the methodologies and calculations used in deriving the numbers presented to the regulators.

Collibra also has advanced data governance functions, so that these definitions and calculations can be curated by appropriate business subject matter experts, rather than IT analysts. Thus, the content of the Collibra repository can be reliably used for the requisite methodological reporting needed under Basel III. An important additional element of Basel III involves the need for banks to publicly report certain sets of financial information on their websites.

" Website Publication Example: "Banks are also required to make available on their websites the full terms and conditions of all instruments included in regulatory capital. The Basel Committee will issue more detailed Pillar 3 disclosure requirements in 2011." BIS

Naturally, this requirement needs to be handled carefully so that all information reported is coherent and consistent. Clear definitions will need to be published so that improper interpretations of financial data do not occur. Collibra has the means to alleviate this risk, with its fully governed repository of definitions of terms and concepts.

Data Quality in Basel III

Basel III will put a high premium on data quality, as data quality issues cannot be allowed to impact the integrity of the information disclosed to the regulators. A large element of data quality is ensuring that data in a database column actually corresponds to the definition of that column. In financial institutions it is all too common that operational practices change the data content of a column significantly from the original definition of the column. Collibra provides a way of capturing such details so that they can be widely shared and their implications understood by all stakeholders working on a Basel III solution.

Data Quality Specification: "Banks applying the internal model method must have a collateral management unit ... This unit must control the integrity of the data used to make margin calls, and ensure that it is consistent and reconciled regularly with all relevant sources of data within the bank" BIS

Regulatory Assurance in Basel III

Banks will not be able to simply deliver reports to the regulators in the Basel III environment. The regulators will need a far greater level of assurance concerning data management than has previously been required.

Data Management Assurance: It is important that supervisory authorities are able to assure themselves that banks using models have counterparty credit risk management systems that are conceptually sound and implemented with integrity. The bank must carry out an initial validation and an on-going periodic review of its IMM model and the risk measures generated by it. The validation and review must be independent of the model developers.

A review of the overall risk management process should take place at regular intervals (ideally no less than once a year) and should specifically address, at a minimum: (A) the integrity of the management information system; (B) the accuracy and completeness of CCR data; (C) the accurate reflection of legal terms in collateral and netting agreements; into exposure measurements; the verification of the consistency, timeliness and reliability of data sources used to run internal models, including the independence of such data sources;" BIS

Obviously, concepts, terms, and definitions will be an important component of such regulatory assurance. Banks will find it difficult, perhaps impossible, to provide such assurance by post facto documentation. By contrast, an approach that leverages Collibra from the beginning will provide these components of regulatory assurance as part of the overall delivery of the project.-