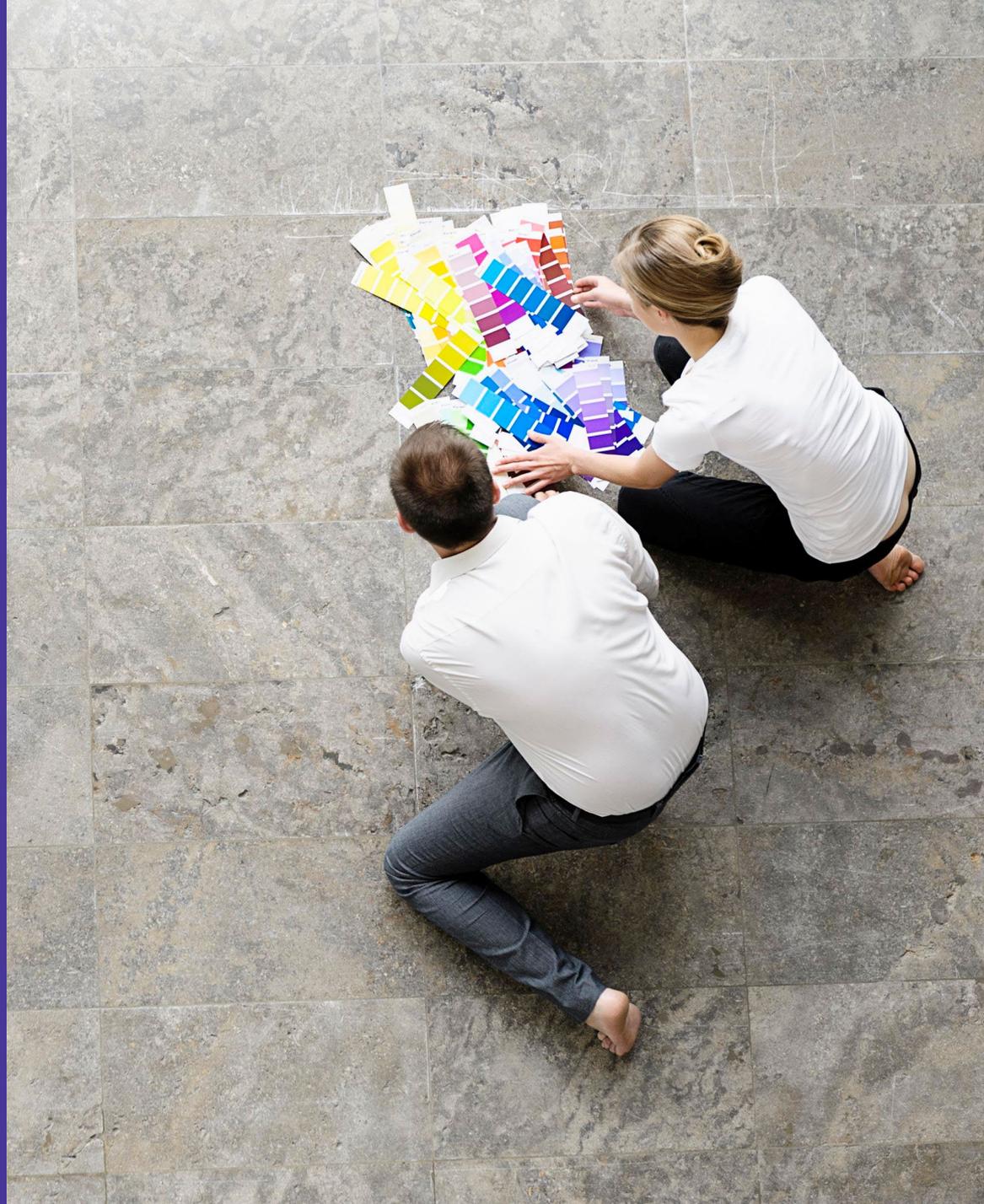




Navigating regulatory change in financial institutions

KPMG Financial Risk Management
February 2022



Regulatory and Business Context



Basel III reforms for both Deposit Taking Institutions and their Financial Holding Companies introduce increased granularity and require accounting for additional risks in the Capital Adequacy Framework.



The implementation framework includes Pillar II reporting which require Financial Institutions to have a robust Internal Capital Adequacy Assessment Process ("ICAAP") which will require evaluating capital adequacy using a comprehensive assessment of risks as well as developing a capital maintenance strategy subject to supervisory evaluation and review.



Supervisory Review will involve Central Bank evaluating ICAAP documentation, Bank's risk management and controls and the integration of ICAAP within the decision making process of institutions. Process will likely involve Regulator meetings with Senior Management and Board to understand ICAAP process and the quantification of risks.



Based on the regulatory and business context, it is essential for Financial Institutions to be able to meet regulatory requirements by developing a robust Capital Planning and Stress Testing Framework and Capital Recovery & Resolution Plan.

KPMG is firmly positioned to assist you in a range of capital management services including regulatory reporting compliance, capital forecasting and stress testing and capital recovery and resolution plans.

We are amongst the leading professional services firms around the world, providing services to clients in various industries and sectors of the economy, including the Banking and Financial Services sector,

Capital Adequacy Framework

Capital Ratios



As a % of



Risk Weighted Assets



Application at level Bank & Consolidated Financial Holding Company

Implications of Changes to Capital Adequacy Framework

Impact on Capital Requirements

Quantitative Impact Study required to understand possible long term capital impacts

Action plans required to re-align business where additional capital is required.

Capital Recovery and Resolution Planning will take on increased importance as capital headroom tightens.

Increased Operational Complexity in Regulatory Reporting

More granular data required on multiple risk element assessment and quantification of risks.

Range of rules and criteria will require robust frameworks and controls to ensure accurate reporting.

Need for automation and rule based templates for reporting to ensure timely and accurate submissions.

Increased Focus on Capital Optimization & Forecasting

Capital Planning and Forecasting crucial as part of performance planning and budgeting exercises.

Stress Testing Exercises required to evaluate risk capacity and as part of evaluation of capital allocation options.

Implementaton of Risk Adjusted Return on Capital (RAROC) and Risk Based Pricing becomes crucial in order to optimize performance.

How can KPMG help?

Regulatory Capital Reporting Support

- ❑ Rules based templates that incorporate input data and output accurate regulatory calculations
- ❑ Validation of returns calculations.
- ❑ Assisting clients in responding to regulatory requests.

ICAAP and Stress Testing Analysis

- ❑ Assist in development and validation of Internal Capital Adequacy Assessment Process submissions to Regulatory Authorities.
- ❑ Development of Stress Testing scenarios to reflect Base, Adverse and Reverse Stress Test Scenarios
- ❑ Assist in assessing the Impact of stress testing on capital position, RWAs (credit, market, operational) and IFRS 9 provisions.
- ❑ Impact on liquidity, and regulatory liquidity ratios

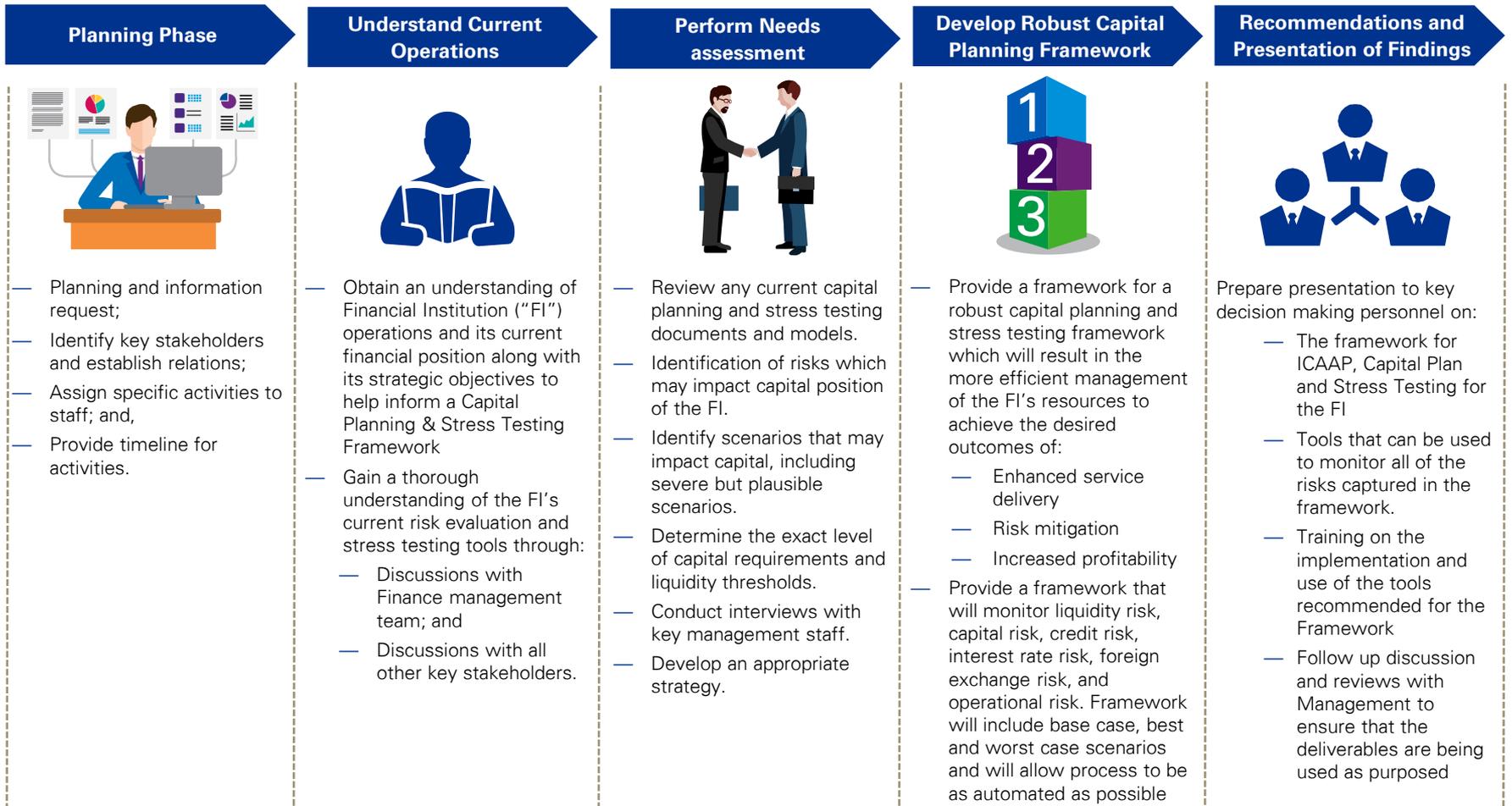
Capital Recovery and Resolution Planning

- ❑ Using stress scenario results to inform recovery actions including reverse stress testing scenario results.
- ❑ Identify criteria for Early Warning Indicators and Triggers for activation of resolution options.
- ❑ Advise on development of Playbooks that offer implementation guidance for crisis response.

Implementation of RAROC & Risk Based Pricing

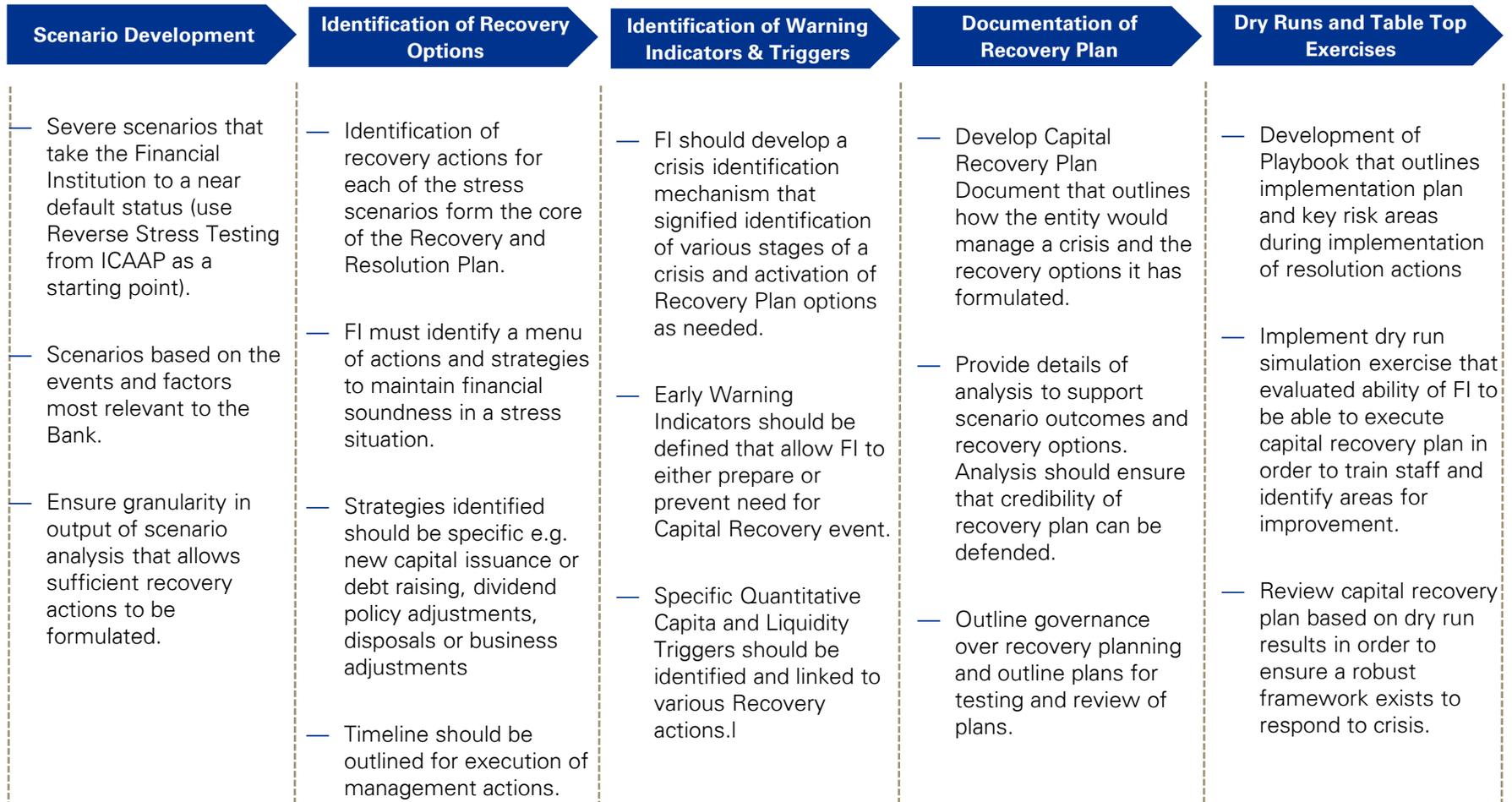
- ❑ Assisting clients in measurement of Risk Adjusted Return on Capital (RAROC) to evaluate performance.
- ❑ Advise on methodologies and best practices to implement Risk Based pricing.

KPMG ICAAP & Stress Testing Approach



We tailor our approach as depicted above, to satisfy your needs.

Best Practices in Capital Recovery Planning



A process that is continuously analyzed and reviewed to ensure plan is in line with current risk profile.

Contact Us



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