Aligning Finance, Risk and Treasury Operations: Meeting the Requirements of Emerging Regulations

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Financial organizations must keep regulatory requirements top of mind, since failing to meet these rules and regulations places banks in a precarious position. Potential fines and remedial actions that result from noncompliance are only part of the risk. Financial institutions also face significant business consequences if they fail to take the necessary steps to meet regulations.

The increasing number of regulations and their widening scope were enacted to protect bank depositors and customers, but they were also put in place to protect financial institutions and ensure their viability. The current regulatory framework aims to make banks and banking systems more resilient and stable. While ensuring that their technology enables the necessary transparency, analytics and reporting for regulatory compliance, financial institutions can also improve operational inefficiency, hone their competitive advantage and mitigate myriad risks.

The Big 3: Compliance Requirements and Opportunities

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and its updates greatly affect consumer financial products and services, income, operating expenses and risk management at financial institutions. The mandates require financial firms to collect, analyze and report more detailed data to consumers, management, auditors and regulators. Financial institutions must address capital adequacy, mortgages, liquidity, stress testing and other considerations to comply.

Basel III, a global regulatory standard that addresses bank capital adequacy, stress testing and market liquidity risk, requires banks to change the way they determine the capital reserve necessary to recover from losses. Basel III also mandates that banks change the way they calculate leverage and liquidity ratios. In terms of technology, Basel III drives banks to integrate data sources and find new forms of data modeling.

In 2008, when the U.S. Securities and Exchange Commission (SEC) proposed its roadmap of steps required for converting from US Generally Accepted Accounting Principles (US GAAP) to International Financial Reporting Standards (IFRS), financial institutions began to make the required and significant changes in their business processes and systems to amend their accounting treatment and satisfy IFRS reporting requirements. IFRS documentation and transparency requirements made traditional manual and siloed processes once used for these functions no longer practical.

A common theme in regulations such as Dodd-Frank, Basel III and IFRS is greater transparency or documentation for what financial institutions are doing today. These regulations make it necessary for financial firms to create information to meet compliance, and savvy financial institutions are beginning to realize that the
same information can help them run their businesses better and make better and more informed decisions.

To comply with these and other regulatory mandates, financial firms must transform their IT infrastructure. By updating and streamlining the old ways of doing things to comply with regulations, banks can also sharpen their ability to act on and profit from market opportunities.

Meeting regulatory compliance and improving business decisions are both fundamentally data challenges. Those institutions that master their management of data and information stand to benefit on both fronts.

**Meeting the New Requirements**

Raising the quality, consistency and transparency of capital as required by the Dodd-Frank Act is driving financial firms to collect, analyze and report more detailed data to regulators, auditors, management and customers. To meet these requirements, financial firms need to address not only capital adequacy, but also mortgages, liquidity, stress testing and other provisions that will challenge the need to establish real-time visibility, analysis and reporting of enterprisewide data. To do so, many financial organizations will need to transform their existing IT infrastructure.

But reacting to regulations on a rule-by-rule basis isn’t a viable strategy. Instead, financial firms must come up with a well-designed plan to transform their IT infrastructure and operations to provide visibility, analytics and reporting necessary to meet current — and future — mandates. Some organizations are aggressively consolidating their systems, seeing the need for regulatory compliance as an opportunity to fix systems that may not be working optimally. An optimal IT infrastructure can help institutions drive down both the time and cost of maintaining regulatory compliance and, at the same time, enable these firms to expand resources, expertise, intelligence and visibility across the enterprise.

To ensure compliance, financial institutions require an IT infrastructure that will normalize data to enable:

- A logical data model based on deep domain experience
- An end-use driven and predefined physical data model for sourcing and provisioning, ready for immediate deployment and use across the enterprise
- A unified and conforming reporting data model to perform fast queries across all functional domains
- Shared data, metadata, computations, calculations, business rules and controlled access that enable organizations to meet emerging or changing cross-functional business and regulatory mandates quickly and with reduced expense
- Thousands of prebuilt data quality checks contextualized to the institution’s analytical end use that enable financial institutions to eliminate accuracy and consistency issues
- A formal and centralized general ledger reconciliation process, for accurate and fully auditable reporting that eliminates inconsistencies across ledgers, books and marts

**The Need for a Real-Time View**

To meet current regulatory mandates, financial institutions are examining their data governance and quality, as well as transparency, auditability and liquidity risk within each area and using various time horizons. Previously, banks looked only at a two-week or even one-month time horizon for liquidity. However, as the 2008 global financial crisis showed, credit markets can dry up. The U.S. government had to step in to provide liquidity in the marketplace. Today, the time horizon has been redefined. Currently, a firm might have 30- to 90-day time horizon from a liquidity standpoint.

Several years ago, it was sufficient for banks to do liquidity stress testing on a monthly basis. Now financial firms need to understand their positions daily. Organizations that can get that critical information daily have a huge advantage over competitors that can get this information only every two weeks. Timely information empowers financial institutions to swiftly respond to world-changing events, such as a tsunami or political unrest.

Analytical requirements are dramatically increasing. Financial firms must capture and analyze more data than ever before, in chunks that are close to a terabyte. Moving this scale and scope of data around in a network is no longer practical; running applications in memory inside the database is becoming the preferred strategy.
• The capability to handle high volume, what-if computations across business domains to support enterprise-level stress testing and scenario analysis
• Analytical applications that can combine results from multiple business areas to easily and securely support cross-functional analytics throughout the enterprise
• A self-service business intelligence environment with all key business dimensions and vocabulary prebuilt to help users get answers quickly and efficiently
• Fast query response when performing time-sensitive ad hoc analytics and reporting
• Consolidation of data across business lines to help reduce the IT footprint and the total cost of ownership

Unifying the Core Platform
CIOs and CTOs today are typically charged with helping business make better purchasing decisions. Banks and financial services companies have traditionally acquired technology in a reactionary way, implementing solutions such as market risk systems or credit risk systems to address an acute problem. Over the years, financial services organizations can wind up with dozens of disparate systems from dozens of different vendors, all acquired at a time of need. This disparity, however, creates massive problems.

If a firm has 30 different systems, each providing the firm with information on different time horizons, on different time frames and on top of different data, the organization won’t be able to reconcile the information to create a single view of the organization. In a competitive operating environment, it’s essential to have a holistic, enterprise-wide view that makes it possible to drill down into the lines of business or different product or asset types. Consolidating these disparate pieces into a single system is a practical means to get this essential holistic view.

Under the audit and transparency data governance requirements, regulators need to see how the data came in, how it came together and what rules were used to clean, scrub and transform the data. Financial organizations must show how they do the quantitative steps, as well as how data landed in a reporting area. Organizations that have dozens of disparate, siloed systems will find it difficult — if not impossible — to be able to show end-to-end flow and continuity.

The diverse array of different tools from different vendors results in complicated support issues as well. If a bank is dealing with 300 vendors, renegotiating contracts becomes time-consuming.

**ORACLE FINANCIAL SERVICES APPLICATIONS**

Oracle Financial Services Analytical Applications enable financial institutions to measure and meet risk-adjusted performance objectives, cultivate a risk management culture through transparency, lower the costs of compliance and regulation, and improve insight into customer behavior.

With an integrated solution, financial services firms can relieve the regulatory burden and ensure that all applications and capabilities work together. Oracle’s engines, applications and reporting capabilities are unified on a common platform and use a common data model. All applications sit on top of the common data layer, and banks don’t need to be concerned about the data location, integrating data schemes or platform issues. When it’s time to upgrade hardware, operating systems, applications or middleware, for instance, everything still stays in sync.

Due to the new IFRS requirement and other regulatory requirements for documentation and transparency, traditional manual and siloed processes used for these functions are no longer practical. Oracle Financial Services Hedge Management and IFRS Valuations, a solution that’s fully integrated with Oracle’s Financial Services Analytical Applications, helps financial firms compute the fair value of financial instruments and manage effective hedge relationships. This solution not only addresses the regulatory requirements for IFRS, but also creates and fine-tunes hedging strategies for optimal capital utilization, leverages common data quality and reconciliation processes across finance and risk applications, and leverages a common computation engine for consistent valuations between treasury and accounting departments.

Oracle Financial Services Liquidity Risk Management enables financial firms to measure and meet risk-adjusted performance objectives, promote a risk-management culture and mitigate the costs of regulatory compliance. The solution makes it easy for banks to assess and improve liquidity resilience across multiple horizons by estimating liquidity ratios and identifying funding concentrations under multiple stress scenarios in accordance with the Basel III guidelines.
and costly. If the institution can pare down the number of technology vendors to 20, it stands to save a significant amount of time and money.

Piecemeal technology acquisition also creates integration headaches. As an organization’s IT environment becomes more complex, the integration challenges only get more complicated and costly. In the long run, integration isn’t sustainable.

Having a common platform facilitates the introduction of new products and services, which can make a huge difference in a competitive marketplace. Integrating a new offering is as simple as dropping in the new functionality when everything is on the same platform and data model. IT can support business and respond to ever-changing market conditions much more quickly.

**Four Steps to IT Transformation**

Creating and implementing an IT transformation initiative to help meet regulatory compliance can be a daunting proposition. However, financial firms can get started with four steps:

1. **Obtain IT transformation expertise and resources.** Financial firms must identify internal personnel with the experience, skills and time necessary to plan and manage the transformation, hire more staff or turn to a third-party outsourcing relationship for the needed expertise.

2. **Firms must define their IT transformation strategy, garnering support from management.** The strategy must include a balanced allocation of funding for personnel and tools.

3. **Financial organizations must implement an automated and intelligent real-time analytical infrastructure.** This should consist of a business intelligence platform, analytical computations and a unified financial services model.

4. **Organizations must establish a baseline for data and anticipated activity.** Dodd-Frank requires institutions to enable their businesses to perform complex what-if scenarios and enterprise-level analytics. Banks must be able to simultaneously provide fast query response for time-sensitive ad hoc analytics and reporting, and also to cut operating costs by combining siloed functional warehouses across business lines. This can be accomplished by centralizing all relevant data to empower the organization’s personnel to efficiently enter information or automatically gather the information and then store it in a database for high-performance data warehousing and online transaction processing.

Financial services organizations must be proactive in taking steps to comply with regulatory mandates. A sensible, comprehensive approach to industry and government mandates gives banks the opportunity to transform their IT infrastructure, improving not only regulatory compliance, but also operational efficiency and competitive positioning.

**ABOUT ORACLE FINANCIAL SERVICES**

With more than 900 customers in 135 countries Oracle Financial Services Software, a majority-owned subsidiary of Oracle, offers a comprehensive suite of offerings encompassing retail, corporate, and investment banking, funds, cash management, trade, treasury, payments, lending, private wealth management, asset management, compliance, enterprise risk and business analytics, among others. To help financial institutions, Oracle has brought together the industry’s best application and technology ecosystem for evolutionary transformation, providing customers with the largest footprint of functional assets.

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