Achieving CECL Compliance with Oracle Financial Services Analytical Applications

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Introduction

There certainly is no shortage of challenges that CECL brings to the financial institution. From data, models, engines, reconciliation, disclosures, the list goes on and on! And to top it off, this isn't anything your organization is already doing; so everyone is starting from scratch. It's nice knowing you're not alone, but that doesn't help when it comes to your organization's compliance. Read ahead to understand how to address the challenges surrounding CECL compliance head on.

Oracle Financial Services Loan Loss Forecasting & Provisioning together with Oracle Financial Services Hedge Management and IFRS Valuations allows financial institutions to address the updated standards. Disclosures as mandated by these standards are guidelines with no fixed templates but the OFSAA applications have adopted best business practices to accurately represent the stated disclosure requirements by IFRS and FASB

Introduction

Auditability and Traceability

Flexibility is a challenge with any standard or regulation but is notably one of the most important components; without the flexibility to change your strategy and add new requirements along the way, you are setting up the organization to fail. By leveraging the Oracle Financial Services Analytical Applications (OFSAA) solution for CECL you can ensure compliance by having access to pre-configured data quality checks (data integrity checks, list of values checks, null value checks, blank value checks, referential integrity checks, custom checks, etc.) for validating and ensuring the quality of data.

The OFSAA applications come preconfigured with exhaustive drill-down, drill through and drill across capabilities, thus enabling traceability of the results and enabling supervisory and internal audit requirements .

With OFSAA you can ensure the regulators you have full traceability to facilitate data and process governance

Auditability and Traceability

Prescriptive Models

Under the coming CECL standard, institutions will have to base their allowance estimate on 'reasonable and supportable' forecasts. In addition, there is no single method prescribed by the standard and the FASB expects the complexity of the model to be aligned with the complexity of the organization's business model and processes. Risk models in a black box can be difficult to audit and assumptions made within such models need to be transparent and simple for an auditor to understand and approve .

The OFSAA CECL Solution brings in various components to accurately prescribe the models while ensuring transparency. The applications leverage both the qualitative factors to adjust historical loss data and the quantitative impact to forecast the future economic conditions. Evidence and support for the qualitative adjustments is provided for the transparency, as these can bring out large changes to the allowance amount and would come under higher scrutiny.

Prescriptive Models

Reconciliation and Disclosures

With any standard you must show consistency across values in all reporting, demonstrable granularity and quality in the underlying data inputs and reconciliation of the financial reports with the internal risk management function used to run the business. Therefore, the combination of data, quality, granularity and analytics determines that no one 'application' solution will address the CECL requirements. Indeed, it is not in any way a silo'd standard metric that is easily derived from a 'data dump'. CECL demands a technology enabled approach that combines technical and information infrastructure with risk and finance analytical processes.

With IFRS 7 financial institutions already must disclose credit provisions from one quarter to the next and this requirement only gets more further enforced with IFRS 9. All accounting standards and financial reports must be disclosed to the regulator and banks will have to provide credit quality indicators by vintage for a minimum of five annual reporting periods.

OFSAA's CECL solution comes ready out-of-the-box with the ability to specify how your expected credit loss was computed, was there a change, and if so, what contributed to the change?

Seeking Full Traceability and Auditability

American multinational financial services corporation will be publically reporting under the new IFRS 9 Standard for the accounting of Financial Instruments in 2018 for its global operations. Followed by the FASB CECL standards in 2019 for its US Operations.

With the organizations existing implementation of the Oracle Financial Services Data Foundation, 85% of the required data for IFRS 9 was already scrubbed and sourced.

The financial institution needs to report under both IFRS and FASB standard and would need an integrated yet modular approach to report under both the standards for its global and US operations.

Applying various approaches to different portfolios, along with maintaining auditability and traceability, is made possible for this FI with the OFSAA suite of IFRS and CECL related applications; together with the OFS Data Foundation

Use Case

No Prescriptive Model

Flexibility and adaptability are key when it comes to CECL compliance and now is the time to start. There is no delaying implementation of a solution to support the efforts and one that will establish an effective process moving forward, as it will take a lot of practice in finding the model that works best for your organization.

The Oracle Financial Services Analytical Applications solution for CECL is built on the integrated Risk and Finance architecture, and helps financial institutions comply with continuously changing standards and regulations.

thank you