# Moving beyond the burden to opportunity

The creation and implementation of such an IRB system proves challenging for the majority of financial institutions. The tools, processes and organization overall will be affected by the new regulatory framework, including:

**MEETING MINIMUM DATA REQUIREMENTS**
Sufficient data is needed to create valuable loss-forecasting models, including historical master file data as well as adequate macroeconomic data to predict probability of default (PD), exposure at default (EAD) and loss given default (LGD)

**OPERATIONAL DEPLOYMENT AND USAGE**
Incorporating loss forecasting data into the day-to-day decision making can prove challenging with the linking of customer-level data to external data sources, implementing models into decision systems and refining the process on an ongoing basis

**DISCLOSURE AND REPORTING**
Alongside the analysis comes the challenge of disclosing and reporting data to all of the appropriate regulatory bodies while continuing to analyze and make modifications to business operations based on the findings

## COMPREHENSIVE CAPITAL ANALYSIS AND REVIEW (CCAR) AND DODD–FRANK ACT STRESS TEST (DFAST)

In 2011, the Federal Reserve issued a final rule on capital plans that requires U.S. bank holding companies with total assets of $50 billion or more to submit to an annual capital planning review process referred to as CCAR. This nationally mandated review was put in place to mitigate another financial collapse, similar to that of 2008, by ensuring that the largest bank holding companies can sustain in times of economic and financial stress by maintaining adequate capital reserves. As part of the CCAR, the Federal Reserve evaluates institutions' capital adequacy, internal capital adequacy assessment procedures and plans to make capital distributions, such as dividend payments or stock repurchases.

The CCAR capital planning review process includes a supervisory stress test designed to test a firm's internal analysis of its capital adequacy. Bank holding company boards of directors and senior management bear the ultimate responsibility for developing, implementing and monitoring their firm's capital planning strategies and internal capital adequacy processes.

Understanding and analyzing the potential vulnerabilities of portfolios under stressed scenarios using more granular economic data gives lenders the opportunity to meet regulatory requirements in a robust manner and identify opportunities to expand portfolios responsibly in these challenging times.

DFAST is similar to CCAR in that it requires financial institutions to conduct annual stress tests to ensure that the institution can sustain adverse economic scenarios while maintaining adequate capital to continue business. Unlike CCAR, DFAST requires financial institutions with assets greater than $10 billion to conduct these tests, and the largest organizations with assets greater than $50 billion are subject to more stringent scenario-based standards.

The bottom line for all three regulations, regardless of national jurisdiction and asset size, is to ensure that financial institutions can sustain healthy, operating businesses, protecting consumers with the necessary capital to endure the most severe of economic situations. Ultimately, the goal is to avoid a financial collapse similar to the one in 2008 where consumers were left out to dry — many of whom are still trying to rebuild.