d-fine

CRR III is coming

Changing credit risk management and regulatory reporting

analytical. quantitative. tech.

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01. CRRIII is coming...

According to current plans, CRR III will come into force at the beginning of 2025 and will bring changes to credit risk, market price risk and operational risk. Credit risk is particularly affected, meaning that the requirements of CRR III will lead to a gradual increase in regulatory capital requirements for credit risk for most banks, and in particular for IRB institutions, by 2030. This regulatory adjustment will have far-reaching effects on overall bank management and reporting:

- The planned output floor for the RWA is determined at bank or group level. This total requirement for regulatory capital must then be allocated back to individual transactions. Significant shifts to the status quo are to be expected, with an impact on capital requirements and profitability in many business areas.

- The reorganization of the exposure classes creates new opportunities for optimization. By removing some restrictions on the use of Permanent Partial Use (PPU), for example, the further use of internal models should be examined. In order to be able to evaluate the complex interdependencies realistically, simulations are indispensable for finding and analyzing solutions.

- Reporting must be enabled to meet the new regulatory requirements. Due to the reorganization of the exposure classes and new features for the assignment of items to exposure classes, adjustments to the ETL jobs from the core banking systems to the reporting layer are also to be expected.

d-fine can effectively support you in preparing for CRR III. Thanks to our overarching and diverse project experience in overall bank management, risk management and reporting, as well as our proven tools in many projects, we can advise you comprehensively on the introduction of CRR III.

02. A new measure of risk

An important aspect of the output floors introduced by CRR III from a management perspective is that it is calculated at the overall bank level. Thus, a consideration of the corresponding floor at the level of individual positions is not expedient. Instead, a step-by-step adjustment of the use of capital for individual positions must be developed using mathematically sensible and organizationally feasible allocation schemes.

To make matters worse, the successive increase in the output floor from 2025 to 2030 means that the dominant components of the final total capital requirement at individual banks can change several times between IRB and SA!

d-fine has provided technical and methodological advice to a vast number of banks on issues relating to overall bank management and the allocation of capital requirements to individual positions and therefore has the necessary experience to offer real added value for the customer in this challenging and sensitive topic.

03. IRB or not IRB – that is the question

In recent years, many banks have been working to make the processes around their internal models more efficient. Essential approaches were a progressive automation of the necessary care and maintenance tasks. Nevertheless, internal models remain a relevant cost factor. In addition to the reorganization of exposure classes, CRR III will make it easier to permanently use the SA to determine the regulatory capital requirements for subportfolios in the future. Especially for portfolios where no relevant savings are expected through the use of internal models, the application of the PPU could be a further measure to increase efficiency.

In order to make sound decisions here, it is essential to be able to carry out accurate simulations in advance, which on the one hand allow a preview of the effects of CRR III and on the other hand can be used for such scenario analyses. With the CRR III Suite, d-fine has developed its own toolbox with which such simulations can be carried out in an agile and efficient manner. The toolbox can be efficiently supplied with the necessary institute data via a standardized interface to established regulatory reporting software and the underlying data models (Abacus360, Abacus/GMP, BAIS, OneSumX).

04. Highway to reporting

The use of the d-fine CRR III Suite thus enables the determination of capital requirements far earlier than typical reporting solutions such as Abacus360, Abacus/GMP or BAIS will be able to determine it. The new RWA figures according to CRR III are in turn required for management reporting (e.g. board reporting of future CRR III effects), preparation of CRR III-compliant medium-term planning and completion of QIS studies. With the introduction of the CRR III modules of the reporting software used, the d-fine toolbox provides further added value, e.g. as fall-back solutions in case of problems with software solutions or for benchmark calculation of the new CRR III modules.

Another task in connection with CRR III is the adaptation of the ETL jobs to the reporting system to be able to map the new exposure classes of CRR III. Typical challenges here are the heterogeneous system landscape of the source systems, from which the required data must be obtained, and the complexity of the assignment of the different items as well as the connection to the reporting software.

d-fine can look back on more than 100 successfully completed projects in the field of regulatory reporting. In addition to the experience gained from a large number of successful projects, d-fine also benefits from an alliance partnership with Regnology.

d-fine can provide you with effective support in preparing for CRR III for all risk types. Thanks to our comprehensive and diverse project experience in overall bank management, risk controlling and reporting as well as our tools, which have proven themselves in many projects, we can support you with the introduction of CRR III.

Get in touch!

Dr. Felix Huerkamp
Senior Manager and Credit Risk Expert
d-fine GmbH, München
Felix.Huerkamp@d-fine.com

Dr. Oliver Kayser-Herold
Partner and Banking Regulation Expert
d-fine GmbH, München
Oliver.Kayser-Herold@d-fine.com

Berlin
d-fine GmbH
Kranzler Eck
Kurfürstendamm 21
10719 Berlin
Germany
berlin@d-fine.de

Dusseldorf
d-fine GmbH
Dreischeibenhaus 1
40211 Dusseldorf
Germany
duesseldorf@d-fine.de

Frankfurt
d-fine GmbH
An der Hauptwache 7
60313 Frankfurt
Germany
frankfurt@d-fine.de

Hamburg
d-fine GmbH
Am Sandtorpark 6
20457 Hamburg
Germany
hamburg@d-fine.de

London
d-fine Ltd
14 Aldermanbury Square
London, EC2V 7HR
United Kingdom
london@d-fine.co.uk

Milan
d-fine s.r.l.
Via Giuseppe Mengoni 4
20121 Milano MI
Italy
milano@d-fine.com

Munich
d-fine GmbH
Bavariafilmplatz 8
82031 Grünwald
Germany
muenchen@d-fine.de

Stockholm
d-fine AB
Nybrogatan 17
114 39 Stockholm
Sweden
stockholm@d-fine.se

Utrecht
d-fine BV
Stadsplateau 7
3521 AZ Utrecht
Netherlands
utrecht@d-fine.nl

Vienna
d-fine Austria GmbH
Seilerstätte 13
1010 Vienna
Austria
wien@d-fine.at

Zurich
d-fine AG
Brandschenkestrasse 150
8002 Zurich
Switzerland
zuerich@d-fine.ch

d-fine