Achieving FRTB Compliance With Fusion Markets

The new market risk capital charge is forcing banks to review every aspect of the current market risk calculation. For banks to get the most from their investment, it is imperative they begin the process of transformation now.

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The BCBS deadline to implement the Fundamental Review of the Trading Book (FRTB) is January 2022 and it will have a far-reaching impact on financial institutions. Although the deadline for capital allocation is not immediate, financial institutions within the EU are required to report FRTB a year earlier in January 2021. It is crucial banks act now by analyzing its likely impact, to ensure their operations and infrastructure can deliver full compliance.

Full Data Control and Transparency
The Finastra FRTB solution delivers the Standardized Approach (SA) off-the-shelf as a baseline. Full data control and transparency by desk and on an aggregated level instantly provides better business intelligence on to which decisions can be made.

Front-to-Risk Alignment
Part of the intention of FRTB is for the front office systems to provide the sensitivities required. While Finastra advise FRTB-SA compliance first, the solution’s open architecture delivers greater agility and performance, enabling customers to adopt the Internal Model Approach (IMA) when the time comes.

For Finastra customers using Fusion Summit and Fusion Kondor, the FRTB solution offers a coherent pricing engine that delivers pricing consistency across the risk and front office functions. It supports P&L attribution and back-testing to help optimize desk performance. As a result, users are able to achieve faster deployment and reduced TCO, over using a standalone FRTB solution.

For all users, Finastra’s FRTB solution protects and enhances your existing systems, integrating with other trading and in-house systems and taking care of required data inputs, alignment to regulatory buckets, aggregation, and reporting needs.

Connected Innovation
To succeed in the race for regulatory compliance, the FRTB component offers a strategic path to transformation where open, innovative components can be shared beyond compliance and form the base layer to unite disparate data across the organization while adding performance, scalability, and visibility for timely and better decision making.
Pre-Packaged Regulatory Reporting
Finastra’s FRTB solution offers a rich sensitivities and stress-test framework with full data control by desk and on an aggregated level. With the SA package you are able to:

• Monitor the exposure of the full trading book and protect your investments
• Manipulate very large P&L sets or reconcile complex P&L and store large results for audits
• Get transparency on each aggregation level, from trade level sensitivities to capital charge. This enables you to analyze where exposure lies (e.g. with customers, desks or individual trades), what the underlying cause is, whether to apply corrective measures, and what measures to adopt (e.g. hedging trades or re-allocating budget amongst desks)
• Determine which desks are most capital-efficient.
• View detailed dashboards per SBA Risk Class, DRC and RRAO
• Request on-demand re-runs with transparent data mergers
• Adopt all new metrics to limit management and introduce the required data granularity
• Rapidly process all data inputs and store large volumes of simulated results
• Conduct real-time re-calculations using an in-memory calculator.

High-Performance
The FRTB micro-service allows you to build an open framework. By using the latest technology and scalable performance, it can grow with changing market and regulatory demands.

• Using a big data approach, analysis, drill-down, and reporting are made simple from one intuitive dashboard
• A radically de-coupled architecture creates opportunities for smaller, more incremental software updates that minimize disruption
• Open standards connectivity allows the seamless integration with existing infrastructure

A Transformational Base
Finastra’s solution is designed to quickly adapt to FRTB and other market practices while minimizing costs and disruption. The solution is designed to incorporate wider transformative activities, such as the SA-CCR and SIMM, introducing global limits or overall better capital planning to optimize treasury operations.

Finastra’s technology adds aggregation, speed and easy-to-deploy components that can be leveraged to improve internal governance.

Easier maintenance, with fewer and simpler updates, enable ongoing cost controls. Finastra’s reusable components can be designed and deployed rapidly, re-energizing traditional solutions with value-added functionality.

New components can be added without having to upgrade the platform, achieving a wider transformative vision.
An Adaptable Solution
Finastra’s FRTB solution is compliant with the Basel Committee’s (BCBS) recommendations on market risk capital requirements computation methodology, and will help customers remain up-to-date with the latest amendments of the FRTB regulation.

Finastra has already included the changes required by BCBS in 2019, especially for:

- FX Risk: Updates on liquid pairs combination
- Sensitivity computation: Brings consistency between delta and curvature and extends implied volatility assumptions.
- Curvature Risk: Updates calculation of curvature risk for options.
- Correlation Scenarios: Updates low correlation scenarios
- Simpler approach for sensitivity computation for index instruments and multi-underlying options
- Risk weight revision in core solution for GIRR, FX and CSR risk classes

The solution has been also designed to provide flexibility in the aggregation workflow. This will enable users to easily include adjustments that may be required by local regulators, and also help future-proof the solution for inevitable future regulatory updates.

For more information please visit finastra.com/frtb, or contact us at capitalmarkets@finastra.com
About Finastra
Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world’s top 100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at finastra.com

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