AGILE© Reporter

Newsletter Issue 3 | October 2020 VERMEG

Welcome to the AgileREPORTER Newsletter for October 2020.
VERMEG hopes that all of our readers are continuing to stay safe as the global situation evolves.

Impact of COVID-19

As VERMEG continues to function at full capacity continuing to deliver AgileREPORTER as well as taking on new clients, firms as faced with dilemmas as to how to respond to the gradual reopening of economies globally.

Recent conversations suggest a desire to facilitate return to office as an option for those with a preference. We see offices reopening with safety measures applied against a backdrop of restrictions easing and then reapplied, for example the new 'rule of six' in the UK. This is not an easy environment in which to operate as a business and we hope that all in the global financial community are managing to deal with the changing situation.

AgileReporter Enhancements

The VERMEG Professional Services team continue to deliver to clients during the crisis and, as part of our ongoing efforts to ensure optimum efficiency of projects during this time, we are introducing features to improve ability to promote individual configuration components between environments. In our most recent release, we have incorporated the ability to export and move Approval Workflow components, e.g. from a Development to Production environment.

Additionally, we have been listening to clients with regard to the impact of regulators issuing sudden changes to, for example, return validations and the impact that can have on internal delivery and regulatory teams. Although our experience is that regulators try to ensure that all parties involved in the regulatory reporting process are given sufficient notice to plan for changes, there are occasions when such changes are issued at short notice. AgileREPORTER now incorporates a UI that allows for such last minutes changes to be patched as a 'Hot Upgrade' – in other words with no requirement to bring a platform down so as to minimize disruption as a result of such activities.

VERMEG Regulatory Updates

Our Regulatory Update Service removes the burden on our clients associated with maintaining templates, validations and calculations and Q3 saw considerable activity in this area, some highlights of which are described below.

As usual the US Federal Reserve issued their quarterly update to reporting requirements including updates to the Call Report (FFIEC031/FFIEC041) Edit Checks and Transmission as well as updates to the Form, Edit Checks and Transmission of a number of schedules that form the FRY14Q. All of these changes and more were delivered to our client base in Q3.

Functionality to support the successful generation and submission of the latest versions of the Bank of England's AS & FV returns (based upon version 3.3.0 of the Bank of England Banking XBRL taxonomy) was released to support the 1st September submission deadline for both Q1 and Q2 2020 reports set by the Bank of England.

Clients using our EBA reporting product received an update reflecting the mandated changes introduced in the EBA's DPM v2.10. These changes comprised updates to the Recovery & Resolution Directive (RES), Supervisory Benchmarking Portfolios (SBP) and Funding Plan (FP) returns (effective from 31-Dec-2020).

We were pleased to continue the expansion of our reporting scope in Continental Europe with the first phase of automation for the Bundesbank returns required by our foreign bank branch clients in Germany.

Our ambitions in Asia-Pacific were reflected in the delivery of the first phase of automation for the schedules comprising the HKMA Capital Adequacy Ratio return (R1).

Additionally, we delivered an update relating to the application of the late changes to the Revised MAS610. These were published by the MAS in August 2020 and the team have worked to ensure that the update is delivered in early October.

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Regulator Responses to the Crisis

As the pandemic evolves around the world, many regulator measures are scheduled to end in the near term, for example, loan and mortgage forbearance. Questions are being raised as to what actions will be taken after these measures expire.

In the event of a U or W shaped recovery will these fall away at time of greatest economic vulnerability and peak of unemployment? Measures such as forbearance may be seen as favored by politicians but not the regulator, whose primary consideration is for banks and the financial services industry in general to remain in a competitive state. Will we see the creation of "Bad Banks" in any regions to absorb non-performing loans, defaults etc.?

At the moment questions seem to outnumber solutions – but we continue to monitor the situation.

Security and Governance

Our continuing enhancement of governance of the platform saw increasing richness and detail in audit trails. This will be further enriched in future releases which will see additional approval workflow to administrative activities.

VERMEG's continuous scrutiny of security requirements of the industry resulted in enhancements to logging to ensure that no restricted information is written to application or system logs. Additionally, a change AES encryption from ECB mode to GCM mode sees a significant increase in platform resilience.

European Banking Authority

In August the EBA published their revised work program for 2020 in light of the COVID crisis. The intent of these revisions is to assist banks in focusing their support on specific areas, e.g. local SMEs.

The program also contains measures to ease Banks' burden e.g. moratorium on consultation papers, industry exercises will be voluntary, ad hoc data collection to support policy options etc. are suspended and, significantly, the EU wide stress test will be postponed to 2021.

U.S.

The Federal Reserve conducted a sensitivity analysis (Assessment of Bank Capital during the Recent Coronavirus Event, June 2020), based on a set of scenarios that are more dire and stressful than were implied by then current economic and banking conditions.

The scenarios considered in the analysis were as follows:

/ A V-shaped recession and recovery;

/ A slower, U-shaped recession and recovery;

/ A W-shaped, double-dip recession.

The scenarios, understandably, assumed that the path of the economy was heavily dependent on U.S. measures implemented to deal with COVID. A U-shaped recovery, for example, is consistent with prolonged social distancing to combat ongoing outbreaks of the virus across the country; with a W-shaped recovery, a second COVID event begins in late 2020 and leads to a second increase in unemployment and drop in GDP.

In short, the results of the analysis can be characterized by depletion in capital due to an increase in loan loss across all three scenarios.

U.S. (continued)

Additionally:

/ In the scenarios in which the unemployment rate remains elevated for a long period of time, losses on credit cards rise as well as other secured forms of consumer credit, like auto loans and mortgages, also take on material losses.

/ In all scenarios, the results suggest that corporate credit and commercial real estate would take large losses.

/ The analysis showed that the U-shaped downside scenario had the highest overall loan loss rate over the nine-quarter projection horizon; however, loan losses remain particularly elevated outside the projection horizon under the W-shaped downside scenario, which features a second COVID event.

/ Those higher loan loss provisions in the W-shaped downside scenario result in lower net income and thus lower post-stress capital ratios than the U-shaped downside scenario.

/ In short, a delay in the economic recovery as a result of a second COVID event could have significant negative effects on many banks' capital levels.

Brexit

2019's dominant story in the UK has, understandably, been relegated to second place in recent months but the transition period is still due to end at 11pm on Thursday 31 December 2020. This will usher in the Temporary Permissions Regime (TPR).

The Temporary Permissions Regime allows EEA firms using a passport to operate for up to a maximum of three years from the end of the transition period - The intention being to mitigate the impact of a potential no deal Brexit.

The Prudential Regulation Authority issued a summary of necessary measures for firms to ensure full operational preparedness for this period in September and have encouraged firms to get in touch in the event of issues in this process - particularly as firms that fail to make notification by the end of the transition period will not be able to enter the Temporary Permissions Regime and will have to seek full UK authorization.

VERMEG Regulatory Webinar Series

The VERMEG Regulatory Webinar Series is now well underway with the following presentations having taken place:

/ Anacredit - The Devil's in the Detail

/ CRR2/Basel IV - What's to come & what is postponed?

/ Data Onboarding - Creating the foundation.

All sessions have been recorded for the benefit of those unable to attend so please contact your Account Manager if you would like access to any of these and for information on those being scheduled.

As usual, all of us at VERMEG would like to wish a safe last quarter 2020 to all in the regulatory community.