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# A standardised approach to risk calculation

As of 1st January 2023, banks will be required to utilise a standardised approach to their credit risk capital calculation, by applying the regulations set out in the Basel Committee (BCBS) Basel IV framework, in addition to any Credit Risk Internal Ratings Based (IRB) approaches that may be in place.

Credit risk accounts for the bulk of most banks' risk-taking activities and hence their regulatory capital requirements. The standardised approach is used by most banks around the world, including in non-Basel Committee jurisdictions.

As a revision to the Basel III guidelines, Basel IV aims to reduce the complexities experienced with the application of a constrained IRB approach, and increase risk sensitivity as a result of introducing the application of the 72.5% RWA floor. A combined output floor of IRB and Standardised Credit Risk (CR-SA) approaches limits the extent to which banks can drive down capital requirements using internal models, ultimately emphasising the need for standardised banking outputs and levelling the playing field between the various bank tiers.

## ***The revision has enhanced the regulatory framework by:***

- Improving its granularity and risk sensitivity with the introduction of loan-to-value ratio scenarios
- Reducing mechanistic reliance on credit ratings through sufficient due diligence and a sufficiently granular non-rating-based approach for jurisdictions that do not depend on external credit ratings

For banks to ensure the successful implementation of Basel IV, accurate and complete data needs to be sourced for a correct CR-SA RWA calculation.

Basel IV rules will necessitate the implementation of a robust CR-SA RWA rules engine and calculator to facilitate the required capital demand calculation and reporting processes.

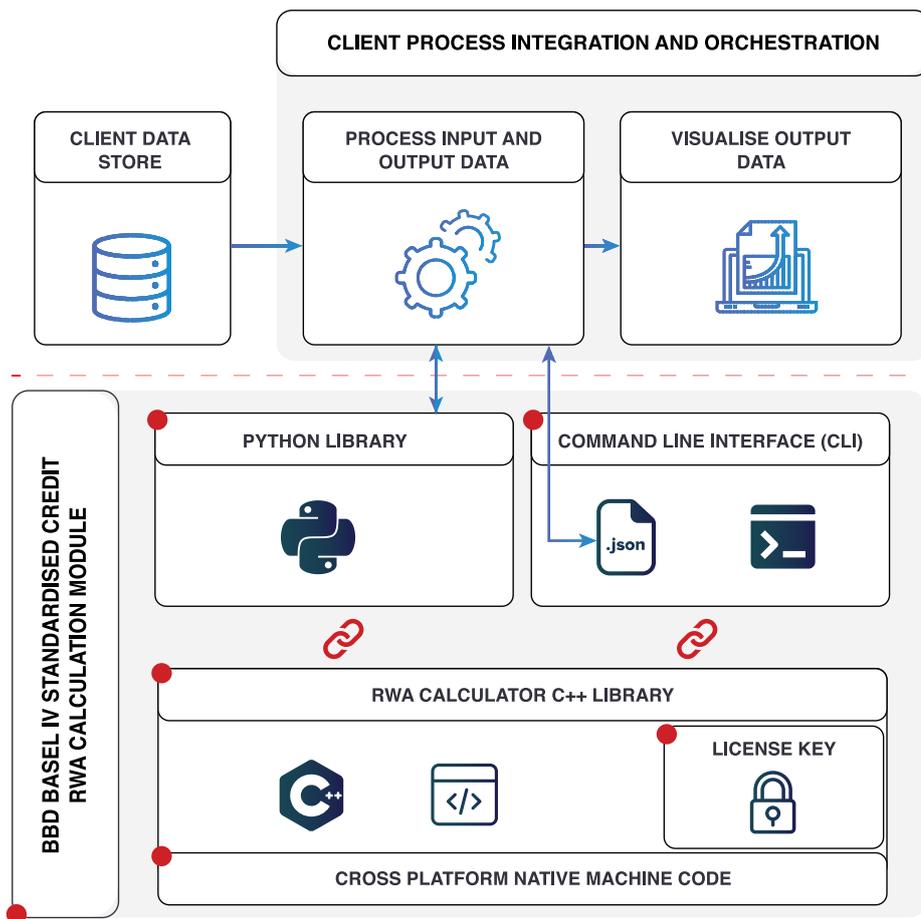
## **How BBD can help**

BBD is primed with more than 35 years' experience and a deep industry knowledge specific to the intricate requirements of all relevant Basel credit risk regulations, as well as the technological implications thereof. Our expert consultants assist our clients in complying with the Basel Accord, giving them the edge they need to swiftly and effectively implement Basel requirements whilst optimally managing the ways in which they calculate and evaluate risk.

In order to accelerate the implementation of a scalable solution for addressing the revised calculations as required for Basel IV, BBD has created a toolkit that enables seamless implementation into existing banking systems.

## ***Our toolkit includes:***

- Our world-renowned expert knowledge of all Basel guidelines and risk regulations, which extends to the identification and facilitation of sourcing new and additional data requirements
- Standardised frameworks for data input requirements
- A Basel IV standardised credit calculation engine
- System integration and implementation into existing frameworks within a bank



## Basel IV standard credit risk calculator

Ultimately saving banks time, cost and effort, the power of BBD's Basel IV credit calculation engine comes from its ability to use parallel processing to optimise the delivery of performance at high speed, as well as:

- Perform the calculations required for all asset class RWAs
- Integrate seamlessly into existing architecture
- Identify data elements to facilitate all regulatory and management reporting requirements
- Be reviewed and audited as required by internal / external teams

The creation of a software solution to address the regulatory requirement of Basel IV means that our clients' internal teams are able to focus resources on other areas of the regulatory project requirement, whilst being confident that the required data flows and calculation aspects have been addressed.