

<b>Client</b>	The client headquartered in Japan, has established a European Global Markets Division co-ordinated from London. The Division offers corporate, institutional and governmental clients foreign exchange and money market services in a wide variety of currencies.
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<b>Project Name</b>	Pan-European Credit Data Consortium (PECDC) membership application process
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<b>Project Start Date</b>	March 2005	<b>Project End Date</b>	May 2005
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<b>Industry</b>	<input checked="" type="checkbox"/> Commercial banking	<input type="checkbox"/> Insurance
	<input type="checkbox"/> Investment banking	
	<input type="checkbox"/> Private banking	<input type="checkbox"/> Asset and wealth management
	<input type="checkbox"/> Retail banking	
		<input type="checkbox"/> Corporate

<b>Category of Service</b>	<input type="checkbox"/> Performance measurement and monitoring	<input type="checkbox"/> Regulatory compliance and reporting
	<input type="checkbox"/> Portfolio risk management	<input type="checkbox"/> Business process improvement
	<input type="checkbox"/> Specialised risks	<input type="checkbox"/> Training and people change
	<input checked="" type="checkbox"/> Data Quality	<input type="checkbox"/> System selection and implementation

<b>The Challenge</b>	<p>One of the key challenges facing global banks when implementing the Basel II Accord is the scarcity of reliable, consistent and representative default data to support the estimates of Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EaD). In this context, a number of organisations initiated data pooling programmes, including the Pan-European Credit Data Consortium (PECDC).<sup>1</sup></p> <p>The Basel II Accord sets out a number of explicit requirements that banks must satisfy with respect to their PD, EAD and LGD data. Whilst many of these requirements apply to banks regardless of whether they are using internal or external data sources, there are a number of additional requirements that must be satisfied where a bank subscribes to external data.</p> <p>The client requested advantage to assist its London operations to understand the implications of the PECDC, should the bank decide to participate in the programme.</p>
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<b>Approach and Solution</b>	<p>The project involved preparing a management paper, outlining the key implications and requirements associated with the PECDC initiative. This included an analysis of Basel II requirements and implications for the client, a high-level analysis of alternative data pooling initiatives that may be available to the client and an implementation plan (should the client decide to join a data pooling initiative).</p> <p>Our approach to this engagement involved a combination of interviews and research. The first activity involved meeting with senior management to understand better the</p>
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<sup>1</sup> Additional information is available at <http://www.pecdc.org/>.

	<p>client’s requirements and reasons for interest in the PECDC. Furthermore it provided an understanding of the product and customer segments which were of most interest for data pooling (e.g., specialised lending – construction and property).</p> <p>The second activity was to validate the Basel II requirements with respect to the use of external data pools and meet with the external regulators to understand the latest views on these initiatives. The next set of activities involved understanding (in detail) the precise terms, approach and nature of the PECDC initiative through a combination of research (publicly available information) but more importantly, direct interviews and discussions with PECDC representatives. In addition to analysing the PECDC, avantage also undertook a high level review of similar initiatives from other service providers.</p>
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<b>Results and Benefits</b>	<p>avantage delivered a comprehensive management paper that presented the following:</p> <ul style="list-style-type: none"> <li>• Background and summary of the initiative;</li> <li>• Fit with the bank’s business – credit portfolio, nature of business, rating models, etc;</li> <li>• Basel II requirements – Summary of requirements that must be satisfied by the bank where loss and default data from external data pool vendors is obtained;</li> <li>• Evaluation and assessment of the extent to which the PECDC meets these requirements, and where not, what remediation action is required;</li> <li>• High-level implementation plan and timelines; and</li> <li>• Conclusion and recommendation on action required by the bank.</li> </ul>
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<b>Software used</b>	Not applicable.
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