

SHUSA Risk Transformation: Risk Reporting

Update for Brian Gunn

28 July 2015

Agenda

1. Summary of Progress
2. July Risk Reporting Quick-Wins
3. Target Reporting Landscape Framework
4. Next Steps

Appendix

1. Risk reporting – recap of deliverables and target reporting landscape
2. Risk reporting – recap of Fed plan / timeline
3. Risk reporting summary of recommendations to-date and implementation feasibility assessment

Summary of Progress






Over the last month, we've focused on implementing quick-wins for the CRO report and in-depth assessments of 5+ reports

- ✓ Completed **in-depth reviews of over 5 reports**, providing commentary and mock-ups of example improved outputs for each individual section
 - Reports with detailed reviews include the SHUSA & SBNA CRO report and 3+ SHUSA risk-type committees (e.g., credit, market, operational)
- ✓ For each of these 5 reports, provided **detailed recommendations** and **assessed their feasibility** (i.e., July Quick-Win for CRO report, September, or longer-term) to improve the report
 - Recommendations cover several areas; including providing more forward-looking metrics, analytical commentary, executive summaries, resolution plans with actions/owners
 - Met with risk type managers to assess timeline for implementing recommendations
 - **Implemented 5 quick-wins for July's CRO report** (*detailed on the following page*)
- ✓ Developed a **framework to define the target reporting landscape**

Note that reviews have not assessed data quality/accuracy

July Risk Reporting Quick-Wins

For July's Board materials, the team identified and implemented 5 quick-wins focused on the CRO report and new accompanying deep dives

Quick-Win	Description	
✓ Overall Executive Summary with Analytical Commentary	<ul style="list-style-type: none"> Added an overall executive summary for each of the risk type areas, with more analytical/insightful commentary 	 <p>See CRO Report, pp. 7-11</p>
✓ New Metrics for July	<ul style="list-style-type: none"> Added back 2 existing metrics: RoRWA by line of business and criticized/classified assets 	 <p>See CRO Report, pp. 16-17</p>
✓ Updated Model Risk Section	<ul style="list-style-type: none"> Reformatted the model risk section with updated inventory data and more compelling outputs 	 <p>See CRO Report, pp. 45-47</p>
✓ Credit Risk Deep Dive: SBNA Mortgages & Home Equity	<ul style="list-style-type: none"> Designed and developed a credit risk deep dive on key SBNA portfolios 	 <p>See Deep Dive, pp. 2-12</p>
✓ Credit Risk Deep Dive: SCUSA	<ul style="list-style-type: none"> Designed and developed a credit risk deep dive on SBNA consumer risk 	 <p>See Deep Dive, pp. 13-20</p>

Target Reporting Landscape Framework

There are two elements necessary to define the target reporting landscape

Note: Data quality/accuracy not assessed

Target Reporting Landscape Overview For Core Risk Reports

Complete for SHUSA

1

Identify Right Number / Frequency of Reports & Reporting Protocols

Key Questions

- What reports should be produced and at what frequency?
- Are there gaps in the existing landscape and/or opportunities to consolidate existing reports?

Key Deliverables

- Overview of Target Reporting Landscape (in terms of frequency, format, and audience) for SHUSA and each of the legal entities
- Define escalation and sign-off process

2

Evaluate Existing Report Inventory

- For existing reports to be included in the target state, does each report have the right optics, content and governance (based on the reporting assessment framework)?
- List of quick-wins to enhance current reports
- Templates of suggested improvements and/or additional reports/deep dives, where applicable

Once the target set/frequency of reports has been determined, the quality of the existing inventory will be evaluated to assess which current reports fit the target state

Next Steps

Over the next few weeks, we will work to draft and finalize a target reporting landscape

Note: Data quality/accuracy not assessed

- OW team to **complete review of existing inventory** for SBNA, SCUSA, and the other legal entities (7/27 – 8/3)
- OW-SHUSA team to **draft a target landscape** for SHUSA/SBNA/SCUSA and the other legal entities, and assess opportunities to consolidate/expand/improve existing reports (8/3 – 8/7)
- OW-SHUSA team to **validate and refine recommendations** to close gaps between the current and target reporting landscape state (8/7 – 8/31)
- OW-SHUSA team to **finalize recommendations for the target reporting landscape**, and define reports to be included in Waves 1,2 and other (8/31 – 9/6)

The outlined next steps / timelines will meet our near-term commitments to the Fed for risk reporting

Today, we need to define the go-forward cadence for updates on risk reporting

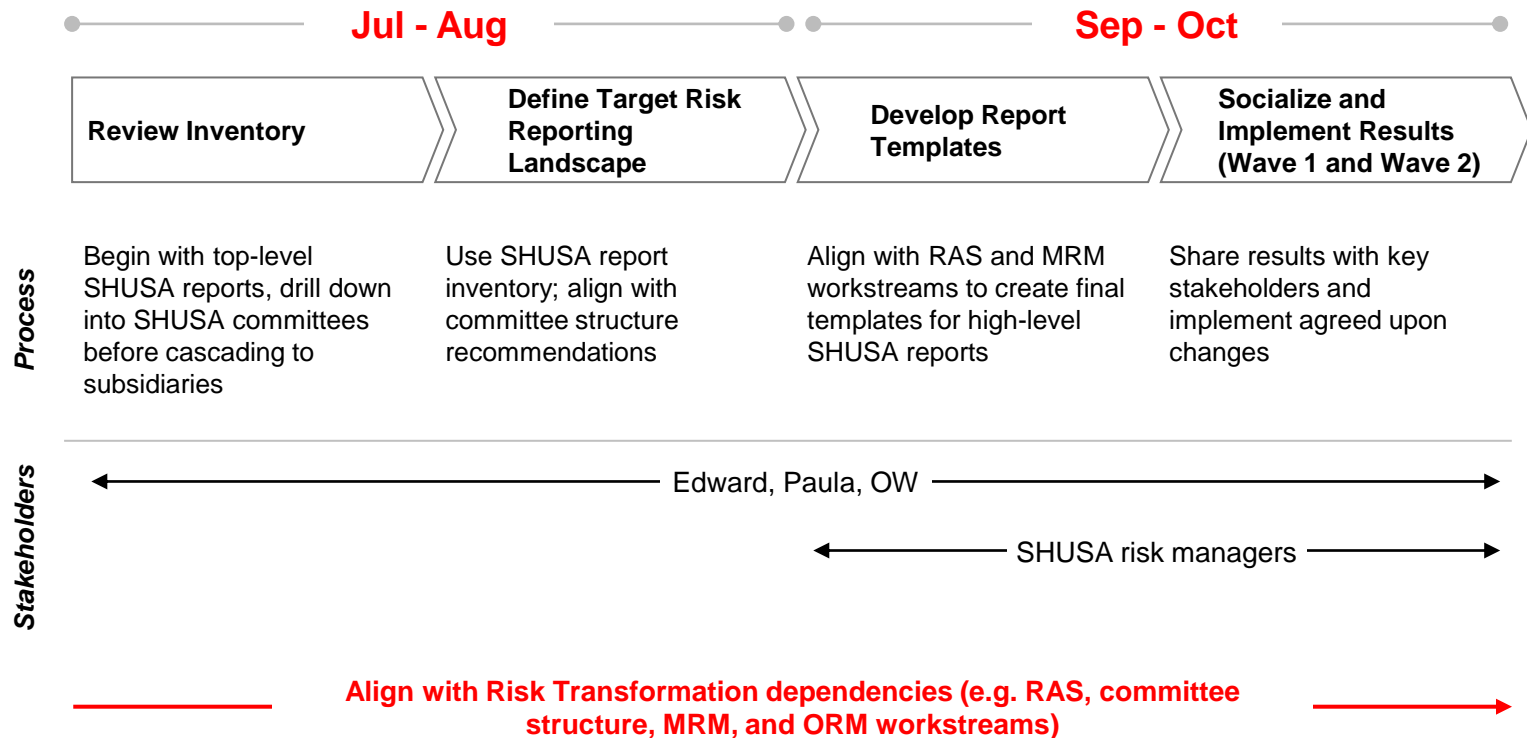
Appendix 1

RECAP OF DELIVERABLES AND TARGET REPORTING LANDSCAPE

Risk Reporting: Timelines

Risk Reporting Overall Deliverables

SHUSA Risk Transformation: Risk Reporting Overview

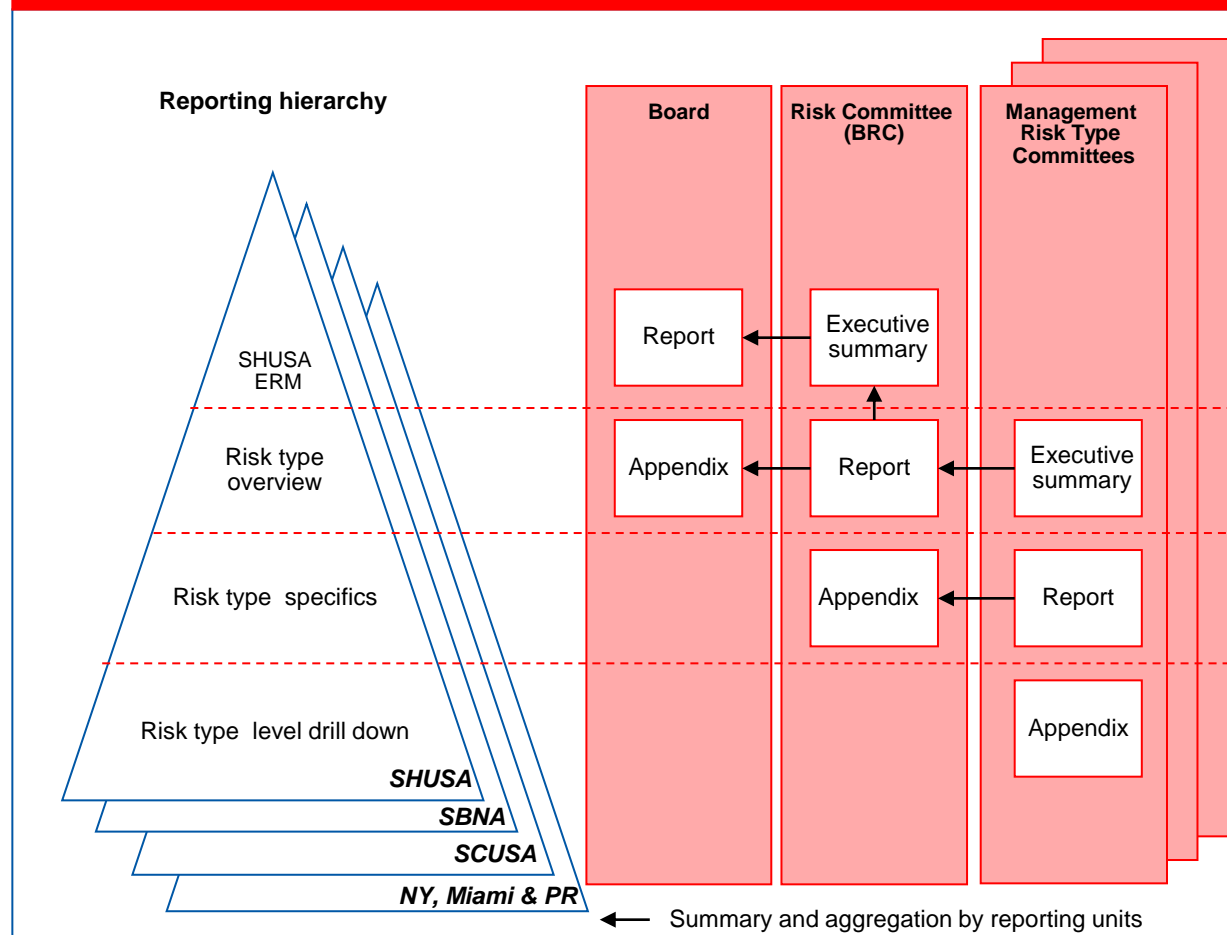


Risk Reporting: Target Reporting Landscape

The goal target state is a well designed reporting hierarchy enabling modular report production and aiding management interpretation

Reporting hierarchy: illustrative example of “modular approach” for audiences of differing seniority

Illustrative Example



Note: Current state for SHUSA (operational risk example) shown in appendix

Appendix 2

RECAP OF FED PLAN / TIMELINE

Risk Reporting: Timelines

Target Reporting Landscape Detailed Project Plan

Target Reporting Landscape: Project Plan

Activity	Jul		Aug				Sep		Owner
	19.	26.	02.	09.	16.	23.	30.	06.	
Define Draft Target Reporting Landscape									OW
Identify right number / frequency of reports									
Evaluate existing report inventory (SBNA, SCUSA, NY/Miami/PR)									
Identify gaps between current & target state									
Develop long-list of recommendations to close gaps									
Validate & Refine Draft Target Reporting Landscape Recommendations									OW, SAN
Validate long-list of recommendations for SHUSA / SBNA / SCUSA									
Validate long-list of recommendations for NY / Miami / Puerto Rico									
Finalize Target Reporting Landscape									OW, SAN
Definition of Reports in Wave 1, 2 and other									OW, SAN
<i>Weekly Working Team Sessions</i>	♦	♦	♦	♦	♦	♦	♦	♦	
<i>Bi-Weekly Executive Updates</i>		▲		▲		▲			

Weekly Working Team

- Paula Coutinho
- Oliver Wyman Team
- Other IHCs as necessary

Executive Updates

- Edward Smith
- Paula Coutinho
- Oliver Wyman Team
- Other IHCs as necessary

Note the timeline aligns with the Risk Monitoring Fed deadlines (due 9/6)

Risk Reporting Timelines: Plan for Fed

- Deliverables
- Milestones under the deliverable
- ✓ Completed

Sub-workstream	Deliverables / milestones	Start	Finish	Owner
Risk Monitoring / Risk Reporting	<ul style="list-style-type: none"> Assess current reporting landscape and make quick-win enhancements to priority reports (Board and Level 1 Risk Committees) and reporting protocols <ul style="list-style-type: none"> Document detailed business and data requirements for SHUSA Monthly Risk Report and deliver to T&O for BCBS 239 compliance 	06/15/15	08/17/15	Coutinho
	<ul style="list-style-type: none"> Define target exec. mgmt. risk reporting landscape and scope of remediation (linked to committee structure) 	06/15/15	08/17/15	
	<ul style="list-style-type: none"> Identify risk aggregation needs and cultivate dedicated resources to manage reporting 	07/27/15	09/07/15	Coutinho
	<ul style="list-style-type: none"> Develop and implement Wave 1 of exec. mgmt. reporting enhancements <ul style="list-style-type: none"> Develop template reports for Wave 1 and socialize 	08/31/15	01/29/16	Coutinho
	<ul style="list-style-type: none"> <ul style="list-style-type: none"> Roll-out of Wave 1 reports (similar process for all waves) <ul style="list-style-type: none"> Review business/data requirements for interim and target state of Wave 1 reports and update as needed 	08/31/15	11/09/15	Coutinho
	<ul style="list-style-type: none"> <ul style="list-style-type: none"> Identify and document data gaps and develop remediation plans 	09/28/15	11/09/15	
	<ul style="list-style-type: none"> <ul style="list-style-type: none"> Pilot reports using available data (manual where necessary) 	09/28/15	10/23/15	
	<ul style="list-style-type: none"> <ul style="list-style-type: none"> Collect feedback from key stakeholders and refine reports 	09/28/15	11/09/15	
	<ul style="list-style-type: none"> <ul style="list-style-type: none"> Implement refined reports in-production 	09/28/15	11/09/15	
	<ul style="list-style-type: none"> Develop and implement Wave 2 of exec. mgmt. reporting enhancements <ul style="list-style-type: none"> Development of template reports and socialization of Wave 2 (based on materiality) 	10/05/15	12/28/15	
	<ul style="list-style-type: none"> <ul style="list-style-type: none"> Roll-out of Wave 2 reports (similar process as Wave 1) 	10/05/15	10/30/15	Coutinho
	<ul style="list-style-type: none"> <ul style="list-style-type: none"> Roll-out of Wave 2 reports (similar process as Wave 1) 	11/02/15	12/28/15	
	<ul style="list-style-type: none"> Develop and implement Wave 3 of exec. mgmt. reporting enhancements <ul style="list-style-type: none"> Development of template reports and socialization of Wave 3 (Remaining Entities) 	12/28/15	04/01/16	
	<ul style="list-style-type: none"> <ul style="list-style-type: none"> Roll-out of Wave 3 reports (similar process as Wave 1) 	12/28/15	01/29/16	Coutinho
	<ul style="list-style-type: none"> Execute on Remediation Plans and Roll-out Enhanced Reports 	02/01/16	04/01/16	Coutinho
	<ul style="list-style-type: none"> Develop and launch additional waves of reporting enhancements as needed 	04/01/16	01/02/17	Coutinho
	<ul style="list-style-type: none"> Refine data requirements/resources to enhance quality of reports 	04/01/16	09/30/16	Coutinho
	<ul style="list-style-type: none"> Develop quality assurance plans and controls for newly enhanced reports 	04/01/16	09/30/16	Coutinho
	<ul style="list-style-type: none"> Assess resource needs and implement additional refinements to monitoring requirements 	04/01/16	09/30/16	
		04/01/16	03/31/17	

1 Refer to Model Development and Model Risk Management workstreams for relevant dates on development and validation

Appendix 3

SUMMARY OF RECOMMENDATIONS TO-DATE & IMPLEMENTATION FEASIBILITY ASSESSMENT

Risk Reporting Assessment: June 2015 CRO Report (1/2)

Summary of Recommendations To-Date & Implementation Feasibility Assessment

June 2015 CRO Report¹: Overall Findings & Recommendations

For discussion

Component	Dimension	Findings & Recommendations	Implementation Options		
			Jul	Aug/Sep	LT
Optics	Structure (Overall)	<ul style="list-style-type: none"> Move the Capital Risk section upfront after the RAS and move the Economic Background to the back 		✓	
	Structure (Credit)	<ul style="list-style-type: none"> Structure credit risk section so that it includes as many of these subsections as currently possible: Exec Sum, Exposure, Capital, Credit Quality, Stress testing, Limits, Concentration, Early Warning Signal 		✓	
Content	Metrics (Overall)	<ul style="list-style-type: none"> Include better information on risk v. return. Examples: <ul style="list-style-type: none"> Include risk adj. margin, ROA, ROE v. credit risk – in addition to GM Show assets & liabilities as % of total balance sheet 	✓	✓	
		<ul style="list-style-type: none"> Provide forward-looking projections of existing risk metrics where possible 		✓ (market risk ST)	✓ Credit risk ST)
	Metrics (Capital)	<ul style="list-style-type: none"> Disaggregate capital metrics: Split the view of risk-weighted assets by risk type and split other capital metrics by product/segment where possible 			✓
	Metrics (Credit)	<ul style="list-style-type: none"> Credit risk metrics should include the following: <ul style="list-style-type: none"> EAD, PD, LGD, EL More detail metrics on consumer credit risk quality (e.g., delinquency rates, lease quality metrics, mortgage quality detail) Limit utilization & breakdown (i.e., track exceptions to policy limit) 			✓

The goal of today's discussion is to agree on the recommendations that will be implemented for the July CRO Report

1: Supporting page numbers cited from SHUSA Risk Committee – CRO Report June 2015 FINAL.pdf

Note: Model and operational risk reporting recommendations will align with the parallel workstreams. For all recommendations, further details and example outputs are available in the appendix

Risk Reporting Assessment: June 2015 CRO Report (2/2)

Summary of Recommendations To-Date & Implementation Feasibility Assessment

June 2015 CRO Report¹: Overall Findings & Recommendations

For discussion

Component	Dimension	Findings & Recommendations	Implementation Options		
			Jul	Aug/Sep	LT
Content	Metrics (Market)	<ul style="list-style-type: none"> Detail liquidity buffers and encumbrance assets by the consolidated entities and the parent entity 		✓	
	Metrics (Liquidity)	<ul style="list-style-type: none"> Include metrics on deposit trends and behavioral analysis <ul style="list-style-type: none"> Cash Credit and Overdraft – drawdown (absolute and % of limit) Letter of Credit - devolvement rate % Bank guarantees- invocation rate % Term deposit – rollover / premature withdrawal Retail term loans - premature payments % Early warning signals 			✓
	Metrics (Structural)	<ul style="list-style-type: none"> Provide limits at the SBNA & SCUSA level 			Already completed for July
	Commentary	<ul style="list-style-type: none"> For each section, provide more forward-looking commentary describing the future implications of any charts/tables shown 		✓	
	Actions	<ul style="list-style-type: none"> For each section (within the section's executive summary), list the key actions that need to be taken to resolve issues (if any) with a defined owner and timeline Within the overall executive summary, list the key decisions that need to be made by the Board 	✓ (mock up)	✓	✓

The goal of today's discussion is to agree on the recommendations that will be implemented for the July CRO Report

1: Supporting page numbers cited from SHUSA Risk Committee – CRO Report June 2015 FINAL.pdf

Note: Model and operational risk reporting recommendations will align with align with the parallel workstreams. LT refers to long-term initiatives (3+ months).

Risk Reporting Assessment: May 2015 ERM Credit Report (1/2)

Summary of Recommendations To-Date & Implementation Feasibility Assessment

May 2015 ERM Credit Report¹: Overall Findings

For discussion

Component	Dimension	Findings & Recommendations	Implementation Options		
			Jul	Aug/Sep	LT
Optics	Structure	<ul style="list-style-type: none"> Create an Executive Summary upfront including subsections on Main Risks, Overall Summary (Risk Profile), Risk Appetite, and Overall Exposure 		✓	✓ (RAS)
		<ul style="list-style-type: none"> Structure each entity's section so that each one includes as many of these subsections as currently possible: Exec Sum, Exposure, Capital, Credit Quality, Concentration, Early Warning Signal 		✓	
	Ease of Interpretation	<ul style="list-style-type: none"> Tie commentary clearly to the numbers that are called out on charts (e.g., KRIs on the P&L Tracking slides for SCUSA and SBNA) 		✓	
Content	Metrics	<ul style="list-style-type: none"> Where possible, limit the use of business and financial metrics. Examples include: <ul style="list-style-type: none"> 2015 Budget and 2015 YTD vs. Budget in SBNA and SCUSA Volume and Pricing (SCUSA Origination Trends) 		✓	
		<ul style="list-style-type: none"> Provide forward-looking projections of existing risk metrics where possible 			✓
		<ul style="list-style-type: none"> Credit risk metrics should include the following: <ul style="list-style-type: none"> RWA, EAD, PD, LGD, EL Limit utilization & breakdown 			✓

The goal of today's discussion is to agree on the recommendations that will be implemented for the July CRO Report

1: Supporting page numbers cited from CRRP.1. US Credit Risk Overview_March 2015_ERC April 2015_V3.pptx

Note: LT refers to long-term initiatives (3+ months).

Risk Reporting Assessment: May 2015 ERM Credit Report (2/2)

Summary of Recommendations To-Date & Implementation Feasibility Assessment

May 2015 ERM Credit Report¹: Overall Findings

For discussion

Component	Dimension	Findings & Recommendations	Implementation Options		
			Jul	Aug/Sep	LT
Content	Comprehensiveness	<ul style="list-style-type: none"> Expand the Puerto Rico, NY & Miami sections to provide sufficient level of detail to understand the credit risks (even if low) 			✓
	Commentary	<ul style="list-style-type: none"> For each section, provide more forward-looking commentary describing the future implications of any charts/tables shown, especially where forecasts already exist (e.g., SCUSA Provisions Forecast) 	✓		
	Actions	<ul style="list-style-type: none"> For each section (within the section's executive summary), clearly list the key actions that need to be taken to resolve issues (if any) with a definite owner and timeline 		✓	

1: Supporting page numbers cited from CRRP.1. US Credit Risk Overview_March 2015_ERC April 2015_V3.pptx

Note: LT refers to long-term initiatives (3+ months).