Financial Markets & Risk

The Financial Markets & Risk team focuses on changes in business strategy and models stemming from new regulations and market opportunities in the financial services industry. Our team is involved in projects on MiFID II, Basel IV, FRTB, EBA guidelines and further numerous operating model projects, including shifts in investment strategy towards alternatives and sell- & buy-side advisory in M&A. Our understanding of our clients business and operating models helps us shape our services by always providing the necessary competencies for your requirements. Below are our 4 areas of focus.

pwc

Audit. Tax. Consulting.

Products & pricing

Key area of expertise is firsthand knowledge of capital markets products and pricing models.

An example is the IBOR reform and transition to new risk-free rates. As benchmarks move to be mainly transaction driven, business and operating models will need to adapt.

Key services: Impact assessments to discover and quantify IBOR exposure and transition effects; remedial operational transition planning and contract re-papering.

Capital & valuation

Capital is a key constraining factor in banking - we have experience from European banks in capital modelling & optimization.

We participate regularly in EU industry fora on Basel IV and have roundtables with clients. Key challenges facing the industry are higher risk weighted assets weighing in on conservation of capital and optimization of return on equity.

Key services: Impact assessments. Quantitative Impact Studies (QIS) and re-calibration of credit and market risk models (including IRB, SA), FRTB, CVA, etc.

Systematic Risk

Key market factors are diluting the predominant market structures e.g. Brexit, negative interest rates or significant trade transparency.

Our immediate response is to support change in the operating model; so to prepare for Brexit you need to investigate where and how you deliver your products and services.

To acknowledge a low interest rate environment we deliver advisory services in 'alternatives' and to embed the higher transparency we deliver digital services in insight and control enforcement.

Conduct regulation

In the Nordics we have seen a close link between the trust in financial institutions to the business conduct, and misconduct, such as mis-selling.

In Denmark, we have seen a broad MiFID II implementation, though still with significant backlogs and new/ amendmenting regulation coming also embracing the retail side.

Key services: Regulatory gap assessment, review and evaluation of product and service portfolio, product governance, data & controls from a MiFID II context.

Our core competencies

Regulatory quant	Credit risk models (SA, IRB, EBA, IFRS9) Market risk models/CVA/FRTB, VaR)
Business & economics	(Quantitative) trading and investment strategies, risk and return decomposition, financial risk management, financial due diligence
Functional design	Front, middle and back-office transformations also including supporting functions e.g. Treasury, risk and IT
Process optimisation	End-to-end product lifecycle, preventative and detective controls, data model and management

Key highlights of our team market analysis for H2 2019

- PwC capital analysis re bond issuance
- PwC comments on FCA update on Brexit
- PwC analysis re ESTER publication
- PwC analysis 'the time after Brexit'

Aug. 2019 | Sep. 2019 | Oct. 2019 | Nov. 2019 | Dec. 2019 | Jan. 2020 | Feb. 2020 | Mar. 2020 | Apr. 2020 | May 2020 | Jun. 2020

Oct. 2019

IBOR transition: €STER published (to replace EONIA)

Mis-selling: D-FSA guidance for 2020

Nov. 2019

Brexit: UK leaves the EU in a No deal

Jan. 2020

IBOR transition: EU BMR compliance

Basel IV

Mis-selling: "Product Governance for retail products" grace period ends

Regulators are increasingly turning their focus towards economic viability and sustainability. Prudential regulation is forcing transformation of the capital allocation process and business models are failing to earn cost of capital becomes very transparent and easily comparable to peers. Bank's handling of geopolitical shocks is becoming important differentiators as regulators expect sustainable operating models and detailed mitigation plans to ensure financial stability e.g. Brexit impacts on clearing and activity subject to MiFID II. Key themes that have formed our 4 focus areas are:

Products & pricing

prevailing areas of focus:

The Libor & Reference Rate Reform has a wide-ranging impact across global financial markets and financial products across most business lines.

After 1 January 2020, only EU BMR compliant benchmarks may be used in new contracts.

Market participants face numerous challenges in steering through LIBOR & Reference Rate Reform and becoming ready by 2022.

Capital & valuation

prevailing areas of focus

Fragmentation and 'trapping liquidity': The EU faces fragmented markets and in the event that UK exits the EU without a withdrawal agreement liquidity shortfalls could increase cost of capital.

The implementation of the Basel IV framework is already a hallenge for European banks, as methodologies for the determination of capital requirements are to be revised. The Impact of Basel IV on RWA is highly dependent on portfolio composition and business model.

The new requirements of CRR II will apply gradually starting in 2019.

The new partial use philosophy of the Basel Committee and the EBA could be the first step into a revival of the IRB approach. Both, institutions that want to use the IRB approach and banks using the IRB approach will profit from much more flexibility and cost reduction.

Systematic Risk

prevailing areas of focus:

On the transaction data side, many large investors across the globe are actively analyzing transaction data disclosures - our view is that we will see this trend continue though this is still immature and many can benefit highly from better usage of own data also (both sell and buy side) - we expect over time that this trend will have further margin pressure as outcome similar to what we have seen in the EQ space.

Industry profitability is hurting primarily due to low interest rates and further the intensified battle against financial crime - with the effect that firms fail to generate a sufficient return versus cost of capital.

One of the prevailing trends we see as a result on profitability pressure is the turn towards 'alternatives' which - as an industry - requires a redefinition of the risk modelling framework (and also derived pricing).

Brexit is synonymous with political and market uncertainty and has already meant material changes for many banks, asset managers, pension funds, insurance firms and other industries. It appears, at least for now, that the UK exit from the EU will occur on the 31st October 2019. Impacted industries and the financial markets are issuing risk warnings about sector impacts.

Conduct regulation

prevailing areas of focus

MiFID II enjoyed a soft launch as the industry was granted temporary reprives on implementing parts of it. According to market research, MiFID II has not brought the desired transparency. Discussed topics for revised and/or even more intensive regulation with expected first drafts will be published in the summer 2020:

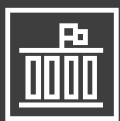
Best Execution; Algo; SI, MTF, OTF; Pre- and post-trade transparency; Commodity trading.

The Danish FSA will among other things focus on the 'conduct side' as communicated in the first half of 2019. The focus was further intensified by the letter received in the summer 2019 by the Danish bank's executive management teams actually articulating focus on misconduct such as mis-selling.

The product governance regulatory scope is diverse across the marketplace. In Denmark specifically, we have Regulation, BEK 1645, that came into effect on 01/01/2019 following most of the EBA guidelines on product oversight and governance arrangements for retail banking products - though there are many local variances also in the Nordics.

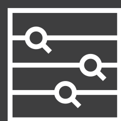
Regulatory Objectives

Basel IV



Financial innovation

Data collection, dissemination and analysis



Loss-absorbing capacity of EU banking system

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