



SAP Solution Brief
SAP for Banking: Chief Risk-Management Officer

EFFECTIVE CORPORATE GOVERNANCE WITH SAP FOR BANKING

To operate effectively in the complex regulatory environment governing today's financial industry, banks require a flexible, open IT architecture that addresses their need to satisfy corporate governance, compliance, and risk management regulations. The SAP for Banking solution portfolio – developed by SAP and an alliance of industry partners – offers an enterprise-wide approach that meets those needs, with embedded best practices assuring enhanced performance as banks face the industry's challenges.

As the chief risk-management officer for your bank, you know that effective corporate governance is essential to preserving your bank's reputation among analysts, ratings agencies, and investors. It can also foster enterprise-wide discipline through the observance of management best practices.

Stringent regulatory mandates, such as the U.S. Patriot Act, the U.S. Sarbanes-Oxley Act, and the new Basel Capital Accord (Basel II), require that banks be able to produce – more rapidly than ever – bankwide reports on financial positions and risk exposure. The mandates have created pressure for banks of every type and size to meet enormous compliance challenges, challenges that are particularly daunting for banks whose critical business processes and internal controls span diverse functional silos and product systems.

Today's regulatory environment demands high data quality and strong management. Given the complex product-based data environments that exist in most banks, the quality of information is a key factor in maintaining the overview required to support regulatory compliance. This can be difficult if you have multiple product families that are cumbersome and expensive to reconcile or that employ different data warehouses – which creates data redundancy and diminishes confidence in the accuracy of data that represents essential information for your financial institution.

As chief risk-management officer, you know that sound compliance-management strategies can help a bank run more effectively – and that compliance is a moving target. A bank's business processes, IT systems, and controls must be flexible enough to adapt to new requirements. In nearly all cases,

automation is the only viable, sustainable answer. As you move in that direction, you will be looking for efficient, cost-effective solutions that provide the greatest return for your investment.

The SAP for Banking solution portfolio meets a broad range of compliance and risk management needs – including fulfilling requirements for Sarbanes-Oxley, Basel II, and International Financial Reporting Standards (IFRS). You can select just the applications you need for current compliance requirements, reserving the flexibility to adapt your software to changing requirements by adding others later. With this kind of support now and down the road, you can be sure to detect violations as they occur, thus averting serious failures.

A Solid Foundation for Sarbanes-Oxley Compliance

The Sarbanes-Oxley Act has significantly increased the need for both strong corporate governance and effective control procedures. SAP for Banking solutions have long delivered sound controls for reporting, security, and document flow – as well as specific functions for auditing, risk management, consolidation, and performance measurement.

Audit information functionality within the mySAP™ ERP Financials solution in SAP for Banking supports auditors in their review of internal security controls and financial transactions. Business consolidation functions provide a central database for consolidation activities, along with powerful integration, reconciliation, and auditing features. These features include controlled support for gathering and validating data from multiple source systems and functionality for monitoring the consolidation process, which assures centralized control.

Sarbanes-Oxley requires company officers to certify the validity of their financial statements. SAP for Banking monitors the bank's overall performance as well as its performance relative to strategic success factors and provides the results in scorecards and through other tools, giving you the insight into business performance and financial results you need to fulfill Sarbanes-Oxley requirements.

SAP for Banking helps you meet the internal control requirements of Sarbanes-Oxley by enabling your bank to model its business processes, document those business processes as well as the internal controls, test the results, and correct deficiencies. Supporting functionality delivers status reports to your managers that meet specific provisions of the act, including annual assessment of your bank's internal control systems. You assign accountability for controls by business process and control owner and can roll up results to the respective managers for sign-off and certification.

SAP® Compliance Calibrator by Virsa Systems automates real-time, 24x7 detection and prevention of controls and security violations, thus assuring firm compliance with regulatory mandates and reliable deterrence of internal fraud. The SAP Compliance Calibrator software enhances management of internal controls within SAP for Banking with the following functionality:

- Automated tests for segregation-of-duties controls and reporting
- Simulation of segregation-of-duties controls
- Segregation-of-duties mitigation and remediation

The easy-to-implement software offers real-time risk assessment, remote simulation with cross-system analysis, automated segregation-of-duties rule building, effective reporting tailored to individual manager roles, and a library of best-practice segregation-of-duties rules. In addition, SAP Compliance Calibrator shortens internal control testing cycles and time to compliance, while its automated testing procedures for authorization and access controls make it easier to achieve complete Sarbanes-Oxley compliance.

Robust Credit-Risk Analysis for Basel II Compliance

Most banks will take advantage of the new Basel II requirements to improve risk management within their organizations and allocate capital more effectively. This typically requires changes in their organization, in their business processes, and in their technology.

The SAP Basel II application – one of several analytical applications within SAP for Banking – handles a broad range of asset types and supports all credit-risk calculation methods permitted under Basel II. The application’s flexible structure and open reporting functions can enhance your internal risk management while helping you meet external risk-reporting requirements. In addition to helping you establish new processes for supervisory reviews, internal reporting, and external disclosure, SAP Basel II is designed to complement other SAP applications for managing market, interest rate, and liquidity risk.

SAP Basel II supports both the standardized supervisory rules (foundation methodology) and internal assessments (advanced methodology) of the internal-rating-based approach that Basel II promotes, methodologies that calculate values for risk-weighted assets and expected loss. For calculations based on individual financial transactions and positions, SAP Basel II offers functionality that drills down to the transaction level for detailed risk analysis.

SAP Basel II has the flexibility and capacity to accept parameters defined by users according to their specific requirements, allowing both regulatory supervisors and your bank to make discretionary choices. In addition to credit calculations based on current data, SAP Basel II determines potential capital requirements based on stress tests that explore hypothetical changes in market data, business partner ratings, transactions, positions, and other parameters of the calculation framework. SAP Basel II captures results calculated in other systems covering market and operational risk dimensions, combining them with its own results to provide regulatory capital calculations and reporting across all risk factors.

Comprehensive Valuations for Compliance

The SAP Accounting for Financial Instruments application, another analytical application within SAP for Banking, provides full support for IFRS and multi-GAAP reporting. The software, which includes subledger functionality, handles a comprehen-

sive array of financial products. You can value diverse financial instruments and create journal entries for them and then post and report on those instruments, all from a single solution, which ensures consistent data and valuation methods.

The SAP Hedge Management application helps you manage hedging activities in compliance with international accounting standards and other local GAAP regulations. In applying specific hedge-accounting guidelines, the application identifies hedged items and hedging instruments and indicates the appropriate hedging relationships. SAP Hedge Management supports both fair-value and cash-flow hedges. Prospective and retrospective effectiveness tests and hedge accounting functions are integrated into a hedge management workplace so you can manage hedging processes with the greatest efficiency.

SAP Partners for Governance, Risk, and Compliance

SAP for Banking provides business applications targeted to support specific regulations. It has an open and flexible architecture, which ensures interoperability with other systems and the ability to adapt quickly and easily to new regulations. Due to the complexity of today’s regulatory environment, SAP has actively engaged partners to provide solutions covering the broadest range of governance, risk, and compliance needs within a single, comprehensive framework.

Acertus software from Securac, a global provider of software for managing enterprise governance, risk, and compliance activities, provides integrated software that addresses immediate, ongoing, and strategic corporate governance needs. Acertus uses a process-driven approach that produces a clear road map for successful business performance and operational risk management. In addition, Acertus lets corporate users ascertain whether they are in compliance with national and international business practice standards such as Sarbanes-Oxley and Basel II.

REG-Reporter, the flagship reporting solution from IDOM, has become the industry standard for automating banks' regulatory reporting needs. This innovative software addresses the financial reporting requirements of both domestic and international financial institutions by automating the process of issuing mandated reports to regulatory authorities, senior management, and head offices. REG-Reporter helps ensure the accuracy and integrity of financial reports, while increasing reporting efficiency.

Broader Business Benefits Leverage Your Investment

SAP for Banking provides robust support for corporate governance, which contributes significantly to improving your business processes. Banks seeking to enhance internal controls and financial reporting will enjoy the following benefits at all levels of their organization:

- More efficient business performance
- Effective risk management
- Improved strategy planning and monitoring
- Increased transparency and disclosure
- Enhanced reputation and shareholder value

SAP Compliance Calibrator enables you to establish compliance practices that can result in better business practices and lower costs for IT, audit, and compliance. With SAP Basel II, you can reduce regulatory capital and improve capital allocation. With more effective risk management, you are in a position to improve risk-based pricing and accept greater risk for potentially higher returns.

SAP for Banking can provide focus for an even larger picture when introduced as an integral part of a comprehensive credit-risk strategy that includes limit and credit portfolio management relevant to regulatory and economic capital requirements. Incorporating regulatory requirements into your internal credit-risk strategies by introducing SAP solutions assures a sound basis for managing all areas of credit risk.

Handle Corporate Governance More Effectively

Today's regulatory environment demands a holistic, enterprise-wide approach toward risk management and compliance. Such an effort requires the collection, management, and analysis of transaction-level data. These are core functions of the SAP for Banking solutions.

SAP analytical banking software is built on a robust financial accounting platform. The architecture is designed to support applications for finance, risk, and compliance management that are themselves designed to provide the highest degree of control, transparency, traceability, and accuracy.

To learn more about how SAP for Banking can help you make the most of a fast-changing regulatory environment, please call your SAP representative or visit us on the Web at www.sap.com/industries/banking.

Powered by SAP NetWeaver®

SAP for Banking is powered by the SAP NetWeaver® platform. SAP NetWeaver unifies technology components into a single platform, allowing organizations to reduce IT complexity and obtain more business value from their IT investments. It provides the best way to integrate all systems running SAP or non-SAP software.

SAP NetWeaver also helps organizations align IT with their business. With SAP NetWeaver, organizations can compose and enhance business solutions rapidly using enterprise services. As the foundation for enterprise services architecture (ESA), SAP NetWeaver allows organizations to evolve their current IT landscapes into a strategic environment that drives business change.