COMPREHENSIVE CAPITAL ANALYSIS AND REVIEW (CCAR)
CFO ATTESTATION – RECOMMENDED APPROACH
**The context**

Comprehensive Capital Analysis and Review or CCAR as it is popularly known, is today a well-known term in the mainstream financial news media. CCAR is a regulatory framework that the Federal Reserve (Fed) introduced in 2011 to ensure that large financial institutions have robust capital planning processes and adequate capital.

In the last five years, the Fed has made significant progress in eliminating large bank failures by administering annual stress tests under the auspices of CCAR, adjusting the stress test scenarios from year to year, and making banks maintain a sufficient capital cushion in the face of adverse conditions.

However, the Fed observed that while Bank Holding Corporations (BHCs) generally reported in accordance with the instructions, material inaccuracies were identified in the reported information. This indicated internal control deficiencies that affected not only the accuracy of a BHC’s reported data, but also the strength and credibility of the BHC’s capital planning process.

As a consequence, the Fed has increased its focus on banks’ data management and reporting capabilities and controls therein, as these are critical to the accuracy of data reported via CCAR and other regulatory reports. This is reinforced by the expectation that banks comply with 14 principles laid out in BCBS 239 (by the Basel Committee for Bank Supervision 239) for risk data aggregation and risk reporting. BCBS 239 seeks to improve the data management and decision-making process at banks by improving how each bank defines, collects, and manages risk and finance data and how it measures performance against its risk tolerance / appetite.
The CFO attestation rule

On January 21, 2016, the Fed issued the final version of a new rule that would require the chief financial officer (CFO) of BHCs that are overseen by the Federal Reserve’s Large Institution Supervision Coordinating Committee and are required to report on Forms FR Y-14A, FR Y-14Q, and FR Y-14M (collectively, the FR Y-14 Forms), to make certain attestations on those forms.

In keeping with the focus on risk data and reporting, this CFO-attestation rule sets a formal expectation about accuracy of the reported data and controls surrounding it, with the bank’s CFO and management held accountable for the same. The effective date which was initially set for June 30, 2016, has since been extended to December 31, 2016, giving banks more time to implement processes and systems to comply with this rule.

Key provisions of the final rule include the following attestations:

- **Conformance to instructions**: Attestation that actual data (FR Y-14A/Q/M) and projected data (FR Y-14A/Q) have been reported with a good faith effort to reasonably interpret and conform to the applicable Federal Reserve form instructions.
- **Internal controls for accuracy of actual reported data**: Attestation that the CFO is responsible for internal controls over reporting of the data and the actual data reported are materially correct to the best of the CFO’s knowledge.
- **Effectiveness of internal controls**: Attestation that actual data being reported are subject to internal controls that are the joint responsibility of the CFO and senior management and these internal controls over reporting are effective as per the Internal Control – Integrated Framework outlined in the COSO report.
- **Audit of internal controls**: Attestation that internal controls are audited annually by internal audit or compliance staff, and are assessed regularly by management.
- **Reporting of material weaknesses or errors**: Attestation to promptly report any material weaknesses in internal controls and any material errors or omissions in submitted data.

The timing of the various attestation requirements is staggered as follows:

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<td>• Reporting of material weaknesses or errors</td>
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How should BHCs respond?

BHCs will need an integrated response that brings together multiple initiatives to effectively address all the attestation requirements. They should leverage and extend existing infrastructure and capabilities where possible, and establish new processes and systems to plug the gaps. To tackle all the attestation requirements cohesively, at a minimum, the following four initiatives are necessary:

1. **Process repository**: A process repository to capture all manual / automated process steps and associated controls across workstreams involved in the generation of CCAR reports. An enterprise process modeling tool / platform could be extended to host regulatory reporting processes. In addition to providing the evidence to the Fed, this initiative will also result in the identification of potential automation opportunities for manual steps in the CCAR process.

2. **Controls assessment**: An inventory of all internal controls with owner attestation, testing details, and corresponding issues / action plans. Existing GRC platforms used in SOX 404 certification for financial reporting could be leveraged here.

3. **Data flow**: An end-to-end record to MDRM view for each report that captures data sources, validations, transformations and enrichments, calculations and aggregations, and edit checks. Existing metadata and data lineage solutions could be extended. To accelerate this step, firms can deploy advanced BI visualization tools for discovery of the data flows.

4. **Report taxonomy**: A database of all regulatory reports / schedules / lines, linkages to Fed instructions, and processes that have the capability to record for each reporting cycle:
   - Questions asked to Fed and clarifications received
   - Certification of conformance to instructions for each report by report owners
   - Attestation of correctness of data / reports by data / report owners
   - Attestation of processes by process owners – process repository
   - Attestation of data flows by data stewards / owners – data traceability
   - Attestation of effectiveness of controls by control owners – controls assessment
   - Audit of internal controls by internal audit owners – controls assessment
   - Disclosures of material weaknesses and/or errors by report owners – DQ metrics in data traceability
   - Covering attestations by CFO
The way forward

To define a roadmap for compliance with the CFO attestation rule, BHCs need to assess the completeness and readiness of the organization across the four initiatives – process repository, controls assessment, data traceability, and report taxonomy.

However, firms should invest in laying the foundation by defining an attestation framework and plan to leverage a strategic attestation tool. While the first few cycles may require significant bandwidth from specialized finance and risk subject matter experts (SMEs), moving towards a common platform with well-defined procedures will enable a fast transition to a shared services operating model which can help reduce the recurring cost of compliance with this rule and afford opportunities to optimize the overall attestation process further.

Given tight deadlines, the game plan to an integrated and automated solution could involve early phases with manual workarounds to meet the various deadlines established by the Fed with a clear roadmap to the end goal which should be a highly automated and integrated platform.
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