Strategic Budgeting and Planning:

How to turn mandatory finance and risk disclosures into strategic tools

By **Jeroen Van Doorsselaere**

Budgeting, planning and forecasting – moving beyond a tick-box mentality

Firms can become lean, agile capital-efficient machines if they aim to become 'much fitter' instead of just 'less fat'. Psychologically this distinction is important for the board of directors. At present the budgeting, planning and forecasting process is not unlike the popular post-holiday detoxification process that often occurs in January; good intentions set against the social and economic reality of the year ahead. What is needed is a little forethought and determination.

In order to effectively adapt the budgeting, planning and forecasting process to be a more strategic tool, firms need to account for the year's planned investments and events. Quantifying the effect these will have upon the business creates a feedback loop that gives the management useful information for making strategic decisions. It will make the most of the experience of the board and step away from the 'tick-box' mentality that often preoccupies the budgeting, planning and forecasting process.

Even at a simple level, cutting back excessive capital buffers through more precise planning would significantly improve matters. It could generate additional working capital that can be applied to revenue generation instead of passively waiting to be soaked up as collateral if the firm takes a hit. Turning budgeting, planning and forecasting into strategic tool for the year can allow a business to pre-empt regulatory demands and reinvigorate the planning process, which has too often become leaden and repetitive.

Regulators want greater governance and transparency. Financial institutions should thrive in this environment, knowing that
a) information is a hugely valuable asset
b) excessive disclosure is loss-making
c) control of disclosure can only be maintained if management have real insight into the information needed for budgeting, planning and forecasting and therefore can regulate its release.

To explore these topics in more depth, this paper will address:

- The traditional budget process and its impact on shareholder value.
- The move towards a more strategic budgeting process within financial institutions.
- The drive by regulators to push financial institutions towards a more comprehensive and auditable form of strategic planning.
- Best practices and forward-looking processes which will take financial institutions onto the next level of decision making.

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Traditional budgeting and its impact on shareholder value

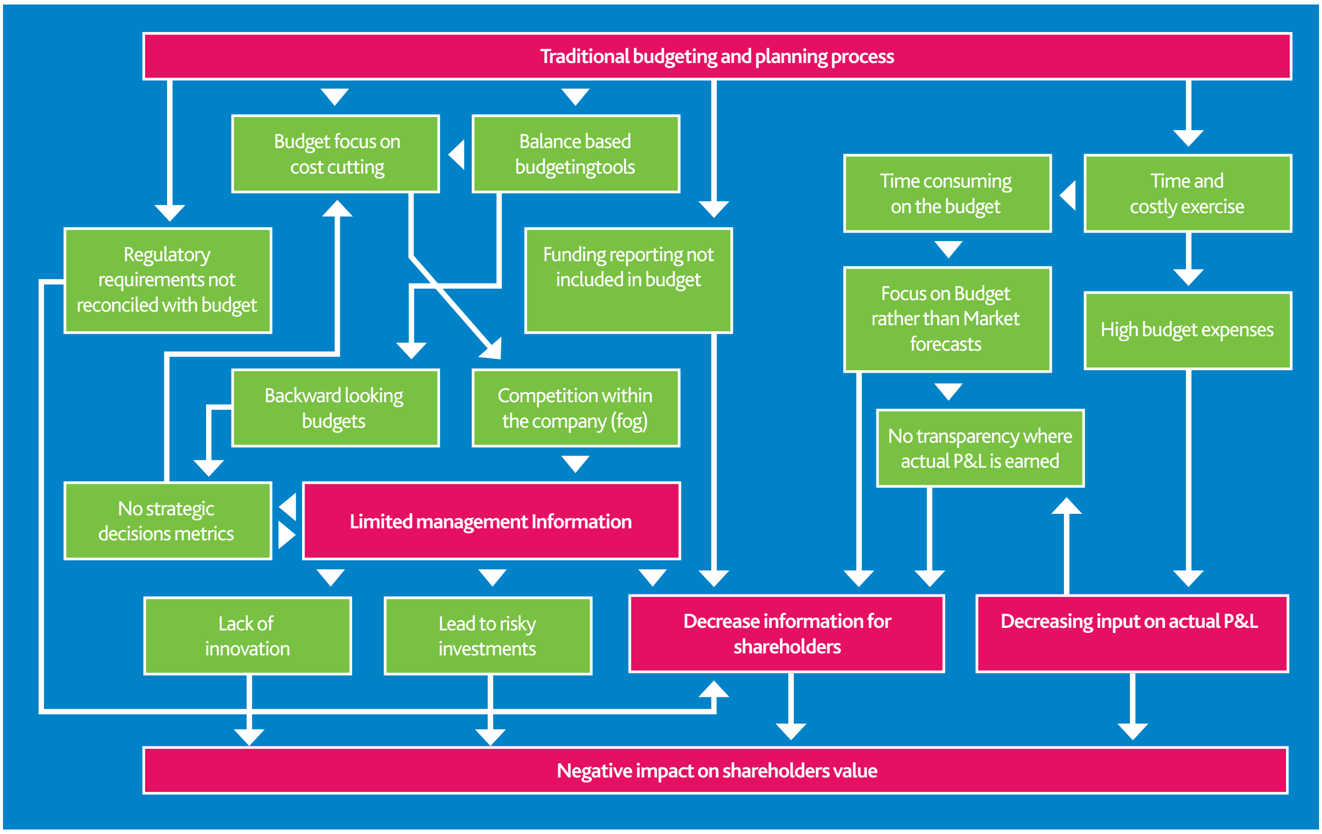
Traditional budgeting is a balance-based annual process, in which the finance department uses management targets and projected growth rates to set expenditure targets.

This Excel-based process is typically managed by people far removed from the business itself. The budget process has been tested in academia such as in Christian Babbini's paper 'Reality check: is traditional budgeting under siege?' and Robert Frasier and Peter Bunce's 'Beyond Budgeting' and which characterize the process as more of a 'necessary evil' than a strategic tool.

In Terence Brimson and Robin Fraser's 'The key features of activity based budgeting', they found that the budgeting process typically eats up 20% to 30% of management time. This inefficiency is compounded in many financial institutions where the process is an Excel-based manual exercise, which restricts the potential timeliness of information. The existing costs make management reluctant to re-run budgets or forecasts unless new information would add clear cost savings or potential new revenues.

As a result management will often only look at the budget as a task to be completed, not as an information resource. Where a business lacks quality management information it can potentially develop a risk-averse culture – if the lack is perceived – or perhaps worse, an excessively risky culture based on incomplete data. Either can impact return on equity.

The traditional budgeting process and its impact on shareholder value



Financial regulations are increasing the pressure on the budgeting, planning and forecasting process to deliver more insightful information. The European Banking Authority (EBA) guidelines for funding of credit institutions, published on 30 June 2014, incorporate forward-looking information into how the business is funded.

Institutions with a budgeting system that provides qualitative and quantitative information, along with necessary regulatory disclosures, can receive funding at a cheaper rate than their peers offering opaque or even non-existent disclosures, as the organization's health will be a measurable commodity. The difficulty in producing quality management information which is transparent enough to support strategic decisions can be seen in the following:

- An excessive focus on cost cutting to tackle 'waste' activities can reduce transparency in firms by creating a push for 'internal competition' which incentivizes departments to obscure negative data within internal reports.

- Most budgets will work on a related 'balanced-based' budget which then becomes the lead for next year's budget, with occasional application of growth rates and estimates around new opportunities. As balance figures contain historical data, the output will be only backwards looking. Future evolution of the business including the current market changes and/or expectation is rarely taken into account. As a consequence, a forward-looking point of view is often missing in management information.

- Offering a top down view will not always deliver the granularity of transparency that stakeholders are looking for. In large organizations a considerable amount of product knowledge and operational information can be found at the frontline. Changing habits, or use of product, might be crucial information if sales are being affected, or a product needs updating. Since there is no room in traditional budgeting for putting business process information ahead of a management control process there is a limit to the extent that real information will be passed on, preventing granularity of data.

- Having a comprehensive budget requires a clear view of underlying data correlations, which is often lacking within a traditional budget. That lack of detail or aggregation could flatten out the general revenue and cost figures in a profitable business, masking which subsets of the business are not profitable and which are more profitable than expected. The correlation between competing products is useful to understand one might see prices driven down while divisions of the business interfere with each other e.g. a banking product may draw customers from other products within the financial institution. An integrated budgeting and cash flow expectations on a more detailed level could show these correlations.

Another danger is that a budget can become a self-fulfilling prophecy when adhered to. It may hold people back from overachievement by fixing targets that are seen as achievable but unambitious. It may also limit innovation if new projects jeopardize budget targets, by pushing people to an unachievable target a business can potentially slow down until the targets are more achievable, which may in turn impact shareholder value.

Some financial institutions are moving to a quarterly process and taking broader factors into consideration than have been traditionally considered, however that does not change the essence of budget construction, beyond acknowledging the anticipation of change. It maintains the focus on the actuals versus budget, rather than actuals versus strategy.

Financial regulations are increasing the pressure on the budgeting, planning and forecasting process to deliver more insightful information. The European Banking Authority (EBA) guidelines for funding of credit institutions, published on 30 June 2014, incorporate forward-looking information into how the business is funded. While concepts like funds transfer pricing (FTP) and funding rate determination (FRD) are most often associated with risk, the requirements are broader than that function.

Regulatory pressure from the European Banking Authority (EBA), the Dodd-Frank Act and other local rules are forcing banks to disclose more information on how funding and capital activities work via stress testing. However financial institutions often fail to reconcile the insight they gain from regulatory reporting with their budget activities. Some financial institutions still have difficulty in coming up with complete, reconciled risk (COREP) and finance (FINREP) reporting.

However there are already plans within organizations to have more integrated data sets. Most financial institutions focus on regulatory compliance first and are leaving the delivery of a complete technology overhaul for a second phase. In the US, following the spirit of Dodd-Frank, many institutions have already begun the process of integrating.

Are financial institutions pushing for change in the budgeting practice?

Many financial institutions have already made significant investments in changing reporting habits, however the main focus is on regulatory reporting, not internal reporting, with compliance driving spend over other factors.

Not only are the tools often missing, but there are also challenges at a process level. Budgeting is closely tied to 'cost accounting' which focusses on cost-control and cost cutting activities, with limited review of revenue generation. Along with using backwards-looking budgets it is an 'assumed' way that budgets are set. The cost accounting process has become part of a routine which is difficult to break.

Performance - in the context of setting targets, bonuses and linked pay outs - has made some managers slaves to cost accounting. It is very clear and measureable.

Changing the existing budgeting process has a price tag while the benefits of the change are not directly quantifiable. The process of changing from a cost accounting model and all associated changes will need wide approval. Some institutions that attempt change are dissuaded as a consequence of internal criticism.

Yet the proof of a forward-looking model sits within firms themselves. An average product control or risk manager is under duress to get all of the transfer prices within their analysis in order to price assets, determine the correct risk-return ratio and to see the future cost of funding. However, if the future cost of funding a business can be forecast in such a straightforward manner, why do financial institutions not use these forecasts within the budget process, while within risk management this is already a day-to-day activity? And what will be the expected impact on the balance sheet if funding rates decline or rise given certain market circumstances?

Why would a company be interested in applying a new generation budget mindset?

The regulatory landscape and requirements from other market participants – including investors – are becoming more demanding. Following the crisis, incentives to integrate finance and risk management information are growing. Stress testing under both Dodd-Frank and European rules are pressing firms to deliver consistent figures across their risk and finance functions.

Having a 360 degree view from a single data source is no longer a privilege of management making better decisions; doing it creates a competitive advantage, while failure creates potential inconsistencies' in data going forward.

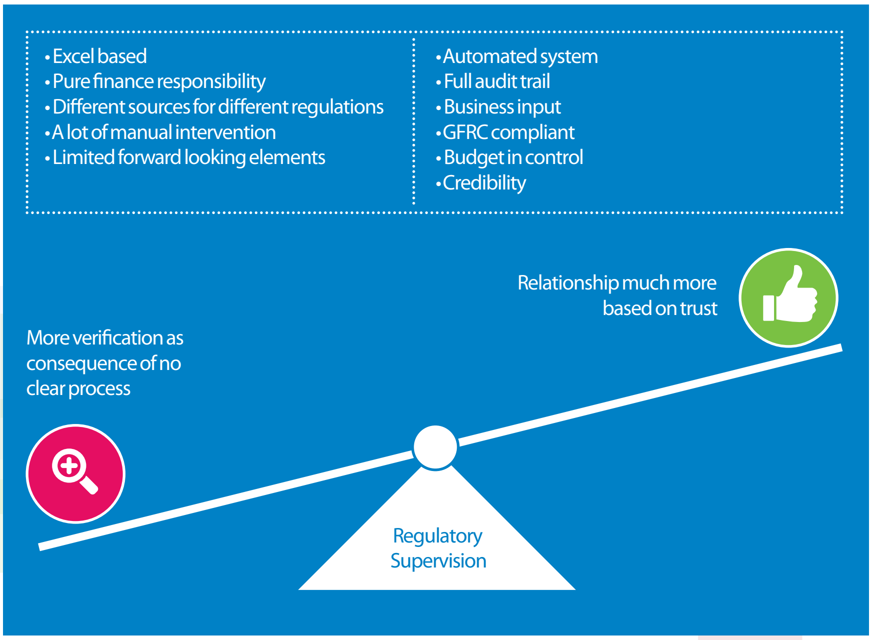
Regulations that influence the budgeting process include:

- The Comprehensive Capital Analysis and Review (CCAR) conducted by the Federal Reserve assesses whether banks with over US$10 billion in assets have sufficient capital to ride out financial stress and have forward-looking capital-planning processes to assess risk.

- The Dodd-Frank Act: The Dodd-Frank Act stress testing (DFAST) is complementary to CCAR but equally carries a forward-looking component to assess capital buffers and forward-looking financial planning. Dodd-Frank also requires banking holding companies to have an independent risk committee. This would require it to have external stakeholders as members, basing their information on management information as presented. Having better management information in this situation will trigger better decision making on the part of the risk management function.

It will also add pressure to improve the quality of management information and a jump towards governance, finance, risk and compliance (GFRC). Governance, risk and compliance (GRC) confers an operational advantage by reducing duplication of cost and data across these associated risk areas, while GFRC includes the finance function, enabling greater links to strategic planning and performance management. The strategic budget must also be seen as the baseline for the US stress-testing for banks which requires a merger between the risk and finance views and by consequence also the strategic planning requirements.

The Focus of Regulators



The real appeal of adopting a broader data management approach runs much deeper than meeting the immediate regulatory requirement.

- International Financial Reporting Standards (IFRS) provisions will potentially impact the capital definition under Basel and with Basel credit assessment data being the input for International Accounting Standard (IAS) 39's successor IFRS 9. Furthermore the performance layer within a financial institution no longer focuses on net interest income only but also reporting and the related risk-adjusted performance.

- The European Banking Authority (EBA) guidelines on funding plans set in June 2014 push for the Basel III regulations based on forward-looking risk data, current assets and liabilities as indicated within the balance sheet. These are expected to represent what the organization is planning to do by looking at projected balance sheet information. Importantly the EBA is asking for a three-year horizon projected balance analysis in order to present a three-year, forward-funding plan. Even though the pricing sheet and liquidity coverage ratio (LCR) are only demanded with a one-year horizon, suddenly credit institutions are obliged to have quantifiable balance projection capabilities. Although the aim of the EBA is not to hold banks to that model, but instead to have an idea on a national level of liquidity within the market, a bank's reputational risk is potentially the most important concern here.

- One of the objectives of the EBA is also to have more control on new product creation by credit institutions and the impact on the market. That is what a good budget should also do. In other words the funding plans are just the end point and the starting point of the EBA to see strategic decisions within the projected balances and risk metrics started from those balances. In the short term financial institutions may fill out these forms manually, but in the long term this will be not sustainable and reputation risk will get higher the longer the financial institution waits.

- Basel III: The tough capital requirements stipulated under Basel III have increased the demand for capital. Acquiring more capital is an expensive process and experiencing a shortage or an excess at the wrong moment in time will unnecessarily increase the costs. An integrated budgeting process helps by combining data sets that will give a clearer view, while the budget can also be used as a strategic tool to predict how much capital will be required when a strategic plan is executed.

- The Internal Capital Adequacy Assessment Process (ICAAP) is a requirement under Basel (Pillar 2), however Basel III has moved towards stress-test based scenarios. There are different practices within the overall ICAAP framework which require a strategic integration into broader capital planning:
  - Risk governance. The Internal Capital Adequacy Assessment Process (ICAAP) under Basel II (EY, 2009) has supported the view that financial institutions which have more senior management involvement can better survive during a crisis.
  - Strategic planning within risk management. Moving beyond measuring performance. To address this requirement, firms can take steps to improve their view on risk-adjusted performance within their general strategy. For example, clearer communication will make the kind of risk positions the bank is willing to take more apparent. That opens up the flow of information, feeding ICAAP practices as well as strategic planning.
  - Reconciliation between capital planning and strategic planning. Financial institutions typically lack the ability to define capital planning in alignment with their risk-return profile and their business strategy. ICAAP deals with more than combined planning, but it certainly promotes a joint approach.

Aside from the EBA funding plans regulators only point to this kind of necessity indirectly, however a single source of data reduces reconciliation requirements and the likelihood of error, playing to the transparency card. Moreover regulators including the Bank of International Settlements (BIS), EBA and Federal Reserve are moving towards a combined approach to risk and finance data integration. It is worth considering that firms providing transparent and integrated information are more likely to have an optimal relationship with their regulator and will get less attention from those regulators than the financial institutions that still work in a silo approach or manually. The greater the friction that exists in extracting information, the greater the suspicion amongst regulators that a firm could be trying to conceal data.

Wolters Kluwer Financial Services can help future-proof your reporting infrastructure by applying the core Austrian Smart Cube approach throughout the organization. Aside from the EBA funding plans, regulators only point to this kind of necessity indirectly, however it has been proven in studies that financial institutions who did actually came better through and over the crisis. Moreover regulators including the Bank of International Settlements (BIS), EBA and Federal Reserve are taking the combined GFRC approach to risk and finance data integration.

How financial institutions can further increase shareholder value

Having examined existing problems with budgeting, within this chapter the paper will discuss how a firm can exercise greater control over strategic planning. The key properties of a budget in control as shown in the above figure rely on strategic planning best practices (outer circle of the picture below).

Strategic planning/budget in control

There are seven key elements to a successful strategic plan. Without these, shareholder value will be reduced.

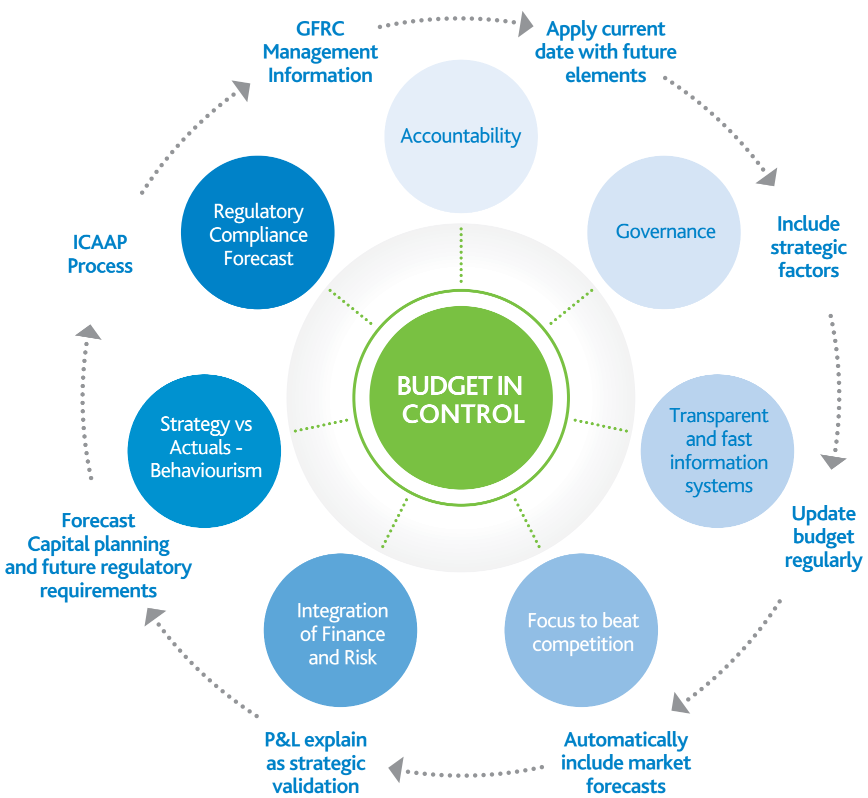
Accountability

If strategic planning is developed by a limited set of people who are not directly related to the business and the strategic decisions are taken by a management team that has limited exposure to the market, lines of business within the organization can feel undervalued and remote from the targets and processes that are imposed upon them, undermining the planning process. By including business experts in the planning process and taking account of business metrics, management can ensure that the business has ownership of the budgeting and planning process while gaining a perspective on the effect that different strategic inputs will have on spend. By extending accountability out through a decentralized information gathering framework, the organization will live and breathe the company's strategy.

Where, as happens in some jurisdictions, external enforcement of accountability is set by making senior management personally liable for decisions, delivering a more detailed process of information gathering ought to provide greater certainty around decision making.

Governance

Governance is mentioned a lot within Basel, IFRS and audit publications as being an important success factor while regulatory bodies are also striving for better governance via ICAAP for example. To deliver a strategy based on sound planning, management must have clear boundaries around defined appetites, such as risk, and accountability for adhering to them. Being transparent to all stakeholders is an excellent motivator in delivering governance, and is also inherent in delivering shareholder value. However the demand for improved governance and accountability will necessitate an investment in the right tools that can gather the required business knowledge to make effective decisions. The more aligned corporate strategy is with capital planning, the better the use of a bank's capital.



There are existing frameworks for firms in which to establish capital and risk boundaries, stemming from current regulatory guidance. Risk appetite has itself been accounted for in ICAAP since Basel II and many financial institutions go beyond mandated requirements in setting operational risk limits. But to do so across this and other measures requires managers to obtain key information within a small window of time, in order to evaluate the impact of their decisions on the overall performance and risk indicators within a financial institution.

Governance goes hand-in-hand with management credibility for regulators and investors. Credibility itself and the quality of management have an impact on shareholder value. Maintaining a transparent business strategy and effective communication plays an important part in maintaining shareholder value. Providing annual reports had proven enough for investors until the early 2000s - when in the aftermath of the Enron accounting scandal and the dotcom bubble - quarterly reporting was introduced. However reported information was proven fallible once again in the wake of the Lehman collapse, when it was revealed that the firm moved debt off of its books using repurchase agreements, concealing its true level of leverage. Investors want to be informed about the performance of a financial institution regularly and performance in itself is not a unique quantifiable concept or ratio. Performance figures are as important as the performance drivers against which performance is measured.

Transparency for investors can only be achieved if there is full transparency for management. The complexity and number of factors which are demanded within the financial industry need to be communicated effectively, without presenting so much information that important detail is concealed or too little that it cannot be found. When a management team has full access to its company's data they will be perceived as a management team that can make the right decisions.

Furthermore transparency gives the opportunity to provide a full audit trail of decision-making relating to determining the budget, fulfilling the capital requirements and generating the regulatory reports. It also gives the opportunity to set the necessary strategic limits to enable management of decisions should processes grow too complex to be handled by the management committee. The complexity of financial products and market factors that must be included within these processes results in a system which prevents transparency inhibits management from aligning and controlling all of these complexities.

Focus on beating the competition

All too rarely budgets are set with a view to increasing competitiveness within an organization. Best practice in delivering a budget in control should include elements that are intended to assist in beating the competition. In Peter Bunce's paper 'Budgets: The hidden barrier to success in the information age' and Jeremy Hope and Bob Frasier's 'Beyond budgeting' it has been said that the necessary speed, customer focus, innovation and adaptation to be competitive is rarely met by traditional static planning ideas. Concentrating on these elements can change long-established corporate cultures. Very often long-term goals of cost management are sacrificed for the sake of short-term goals

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which actually reduce shareholder value. Management teams should be applying cost management with continuous improvements and long-term time horizons. This will help to deliver on long-term expectations rather than short-term financial performance, creating more sustainable shareholder value. The culture should not focus on beating the budget, but creating value and gaining competitive advantage.

Integration of risk and finance

A financial institution should not look at cost versus revenue alone, but should also assess the kind of risk that an organization takes to meet the numbers and how manageable things will be if things go wrong. Financial institutions have risk management departments that deal with complex regulations and utilize advanced risk management tools, and a finance and financial planning department. These departments are sometimes integrated, sometimes separate. There is no reason why there should not be an integration of the advanced tools being used by the planning and risk management departments. Regulations like IFRS 9, which requires the finance team to use expected loss data, and Dodd Frank, which apply one regulation across risk and finance reporting, actually demand this.

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Some examples where integration can help with strategic planning:

- **The use of funds transfer pricing (FTP) within strategic planning and performance management.** The cost of funding has developed, establishing more granular relationships between an asset that is funded by a liability. The cost of funding calculations has also moved on; preparing a forward-looking budget or plan could make use of more advanced methods in order to calculate product and market profitability and thereby steer strategic decisions. In a traditional budget worked with a single rate, for instance, it would be harder to spot granular differences and would have a more high-level calculation of the profitability of an asset or market.
- **Risk management on top of the strategic planning result.** Since performance - and thereby key indicators for strategic decisions - needs to be measured in a function of revenue, cost and risk, strategic planning should also be using more detailed information and by extension a forward-looking cash flow-based estimate as mostly present within an application life cycle management (ALM) system.
- **Risk sensitivities within limit management and financial performance.** The ability to use risk sensitivities helps to explain where revenue is coming from within a given strategy and what the possible outcomes of the strategy are.
- **Reduced reconciliation requirements.** When conducting performance reporting, using a single data source will avoid the need for reconciliation across the silos between departments of the institution. A lot of resources are put into reconciliation exercises that create a 'single version of the truth' on which performance can be run. Remuneration and bonus plans are often linked to these numbers, and so it often does not attain the status of true single version of the truth, as a consequence of a conflict of interest.
- **Clear planning across scenarios.** Full risk and finance integration also gives the advantage that all risk metrics can be run on a simulated forecasted balance sheet that creates forward-looking balance sheets, risk reports and even regulatory reports due in a year from now. In that situation, the consequences of a strategy will be clear from the start. It will also avoid delays due to trade-offs between departments when such effects do appear e.g. the need for additional hedging might increase volatility in the P&L which in turn would be unwanted by the finance department as it is not eligible for hedge accounting. Knowing that in advance would allow it to be factored in to the strategy.

Even outside of strategic planning a lot of benefits can be reached by having integrated risk and finance, given the reduced costs from duplication of work, systems and staff.

Forward-looking strategy vs. actuals

Constantly focusing on the budget and making analysis of actual finances versus budgeted costs can be counterproductive, as discussed previously in this paper. However, doing the same analysis when comparing actuals against the firm's strategy does make a difference. It gives a transparent view on the strategy's success and takes it to the next strategic

planning cycle. This is why there should be an integration of all available information.

A strategic plan should include and test different scenarios of the strategy to be able to compare it with the actuals. The need for forward-looking information within a budget is a must to test the different business scenarios it envisions. In combination with risk this will give the entity the advantage of being ahead of the market in the event that capital becomes more expensive to acquire. Its capital will be less expensive as it buys ahead of the market based on forecast, with others only seeing the effects within their actuals later. Being prepared gives the financial institution the edge which will support it in giving a competitive edge.

Regulatory compliance
Regulatory compliance is often the only motivator for change in the IT landscape as it is mandatory. Regulations increasingly require forward-looking balance sheet information which is represented within the strategic planning exercise. Understanding how strategic developments and decisions actually impact regulatory reports will also be important, and consequently what the risks are for going beyond regulatory limits, either through fines or even restructuring the business. When a financial institution knows what its FRY¬_9 or FINREP (CRDIV) will look like in advance (or both in a multi-GAAP environment), it could act upon that information in order to maintain a good regulatory reputation.

The budget process
Traditional budgeting systems or advanced strategic planning starts with defining a strategy. This is the key to driving the business forward and sets the lines in which the business can operate and investments can be made. This must then be translated into a business strategy and into business data. Challenges in this process include consolidation of data, which figures to include, etc. The business data and strategy in itself is the key to defining measurable targets, objectives and risk limits in order to measure the strategy going forward given the key indicators, which can also be forward-looking.

Within this measurement process, cost management, revenue recognition, and strategic organization and budget hierarchy play a standard role in the how the budget takes shape. Whenever the strategy is implemented it should be monitored by having performance reports alongside the indicators that have been identified as the key measures, which the strategy will impact. Measurement and monitoring is just a fraction of the process. If a limit is breached it is the interpretation and the analysis that comes afterwards which will be of critical importance in steering the strategy in the right direction or opting for another strategy.

Financial Institutions live in a dynamic world in which they should adapt rapidly. It is important to steer the budget in line with market circumstances. An ideal planning system also should have the ability to react to a change in strategies by predicting the outcomes of the new strategies. A good budgeting system should be based on rolling or perpetual budgets and forecasts which take in the most up to date market information to improve management information.

The following section will highlight some elements within the strategic planning and forecasting process, which along with the budget process will deliver a more agile enterprise. It will also look at alternative management strategies rather than the first steps of gathering the necessary drivers and data to do the analysis.

Revenue of the past does not guarantee future revenue

As mentioned in the first section of this paper, a lot of planning instruments within financial institutions and large corporates are used for little more than budget growth and target setting based on the previous year's financial statements. To advance that approach, a budget should be based on behavioral models instead of number-oriented static budgets.

A solution for this can be 'zero-based budgeting' (ZBB). These are budgets built from the ground up in every budget cycle in which concepts like 'business as usual' do not exist and for which every investment, even those with prior approval, is put to the test. However completely breaking with history is often impractical for large financial institutions as a lot of these investments cross different budget periods. Additionally, ZBB is often very time consuming. However the concept itself is valid, and if used sparingly could help financial institutions to keep focus on their key activities. Changing the firm's way of working by having more transparent systems and analytical tools could free up time to produce more analytics.

Another solution is activity-based management (ABM), which focusses on the primary activities of the financial institution and allocates investment more towards those base strategies. However, the real key to change is inclusion of more behavioral aspects within the process, so that strategic decisions are put to the test and given different scenarios. Including forward-looking elements is one of the most important parts, as it makes financial planning more adaptable to stresses within the financial market.

A dynamic approach for a dynamic market

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Keeping oversight by having trust in underlying methodologies

Management can engage with high level activities when they trust that the numbers they see at a high level are based on solid and predefined budget and planning processes. They also need an audit trail in order to interrogate the data at source.

Since a strategic plan should include and risk and finance elements, both should be integrated in the process. A lot of financial institutions focus on balance-based budgeting when they should focus on more granular cash-based processes. Even though management looks at high level information, to impose limits and key performance indicators the methods used must be the same as those within financial and risk management. Bringing in ALM practices will gain trust within the ICAAP requirements for governance and also give the unique opportunity to 'stress test' strategic plans on potential future market circumstances. By integrating ALM practices within the planning process it will give the ability to see the effect of strategic and market influences on financial statements going forward.

Finally, when management has the ability to rely on auditable and advanced processes which they can use to analyze their strategic decisions, and also have the ability to measure them and to steer where possible, they will have more faith in the figures, enabling them to make better strategic decisions.

Transparency giving the ability to explain

Seeing the result of strategic decisions and forecasts also gives management the capability to better monitor strategic decisions. Monitoring decisions using higher forms of ratio analysis and limit management, across different departments, will make the financial plan more flexible and will significantly reduce the time to react to market circumstances.

Aside from monitoring, the effect of having detailed strategic information available on the lowest level makes it also easier to explain what has happened regarding financial statements when delivering them to the public. If a result is exceptionally good as consequence of positive factors, accelerating the strategy which was communicated at the beginning of the year will make the management gain credibility as they are able to better explain the profits and losses they encountered during the year.

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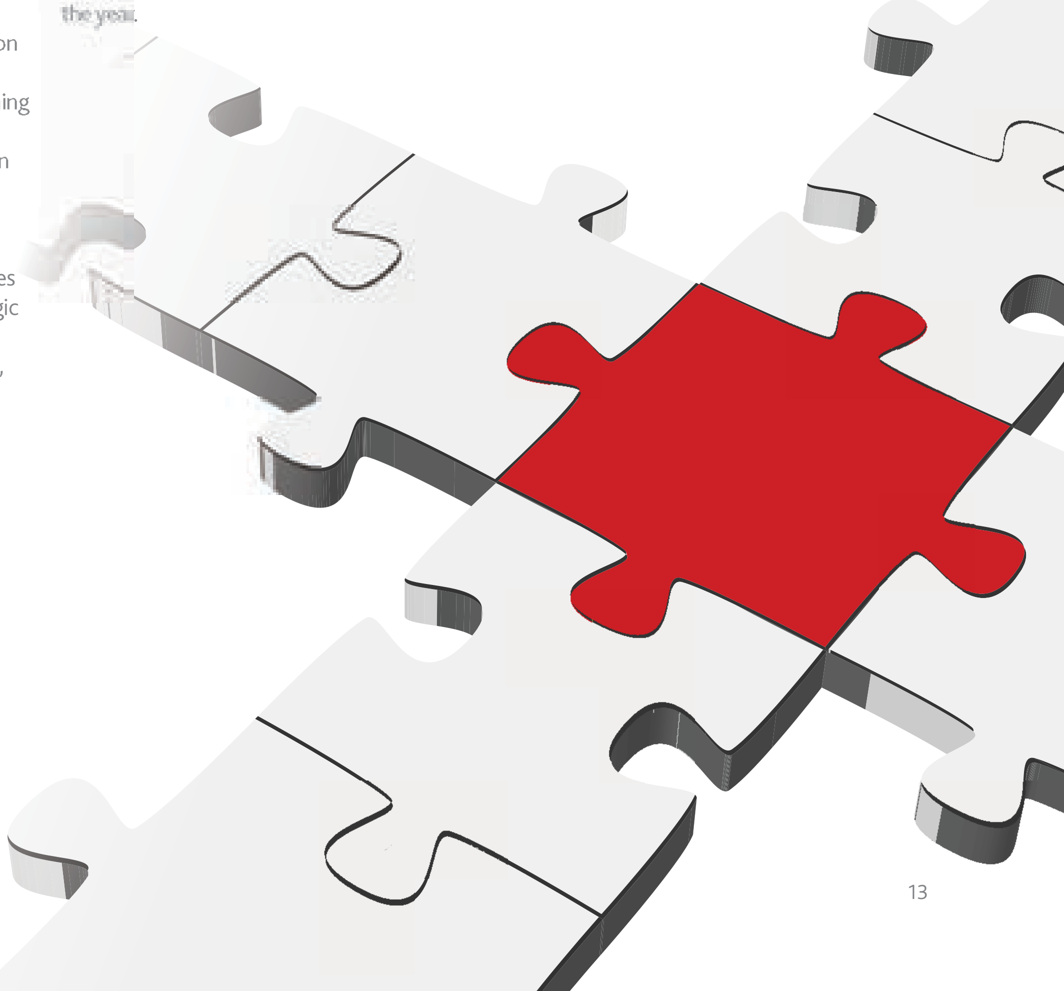


Tools like an automation of KPIs, limit management and the ability to conduct risk-adjusted performance (including P&L Explain) will give the organization the ability to have more transparency over their current, forecasted and budgeted financial statements in the future. Having more transparent management information will also give management the capability of making better decisions as it is backed by the right tools.

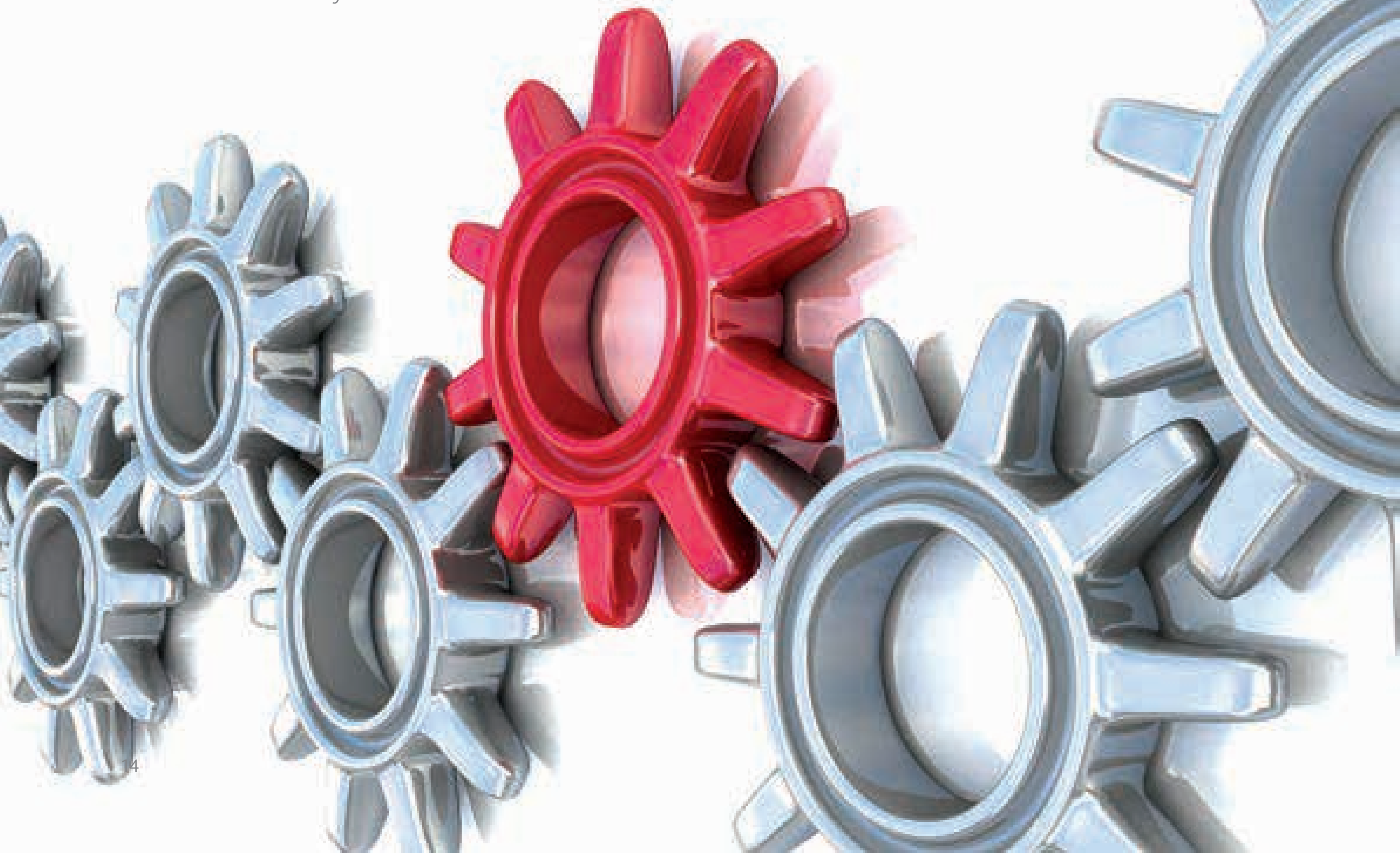
Your regulatory reports on your desk one year before the actual figures

No one in the management team can predict what is going to happen, but from their experience and with the necessary figures provided they can make decent management judgments.

There are two aspects to this. One is related to required regulatory disclosure. Having the data available in an auditable way and based on well thought and funded figures will increase the credibility of the figures. The second aspect is that management can take decisions based on the regulatory report, given all the regulatory limitations on top of the strategic planned financial statement. In this it could also easily organize parallel runs in order to inform stakeholders of a change in policy, increasing the transparency within the organization.

Being a 360° CFO is possible

The last part of the budget process is making sure that all management information becomes available in the right format, giving the ability to trace it back if necessary. This last step will also serve as the first step for a new budget cycle or within a revision of an existing cycle. It has been mentioned throughout this paper that having clear and complete management information will only benefit strategic decisions to be taken forward.



Traditional budgets have had their day. Without upgrading to an integrated risk, finance and compliance infrastructure, financial institutions will find themselves facing more challenges in complying with regulations but also to keep ahead of the competition. Financial institutions should take advantage of a system with integrated finance and risk data in order to overcome reconciliation and other problems that reduce shareholders value. To be ready for the next era, firms should include more forward-looking and granular information within their planning activities as well as establishing the necessary controls to follow up the different strategic decisions, making the budget not a target to achieve but a strategic tool with which to deliver optimum return on equity.

The management of financial institutions is externally accountable and need to trust in what they bring to the outside world. Using a forward-looking model will enable this and allow them to make better decisions in meeting expectations. Finally they will also have the ability, by setting up decentralized accountability, to guarantee that the organization will live and breathe the strategy that has been communicated, with the necessary reports to tell them which strategies are creating the most shareholder value. The future truly lies in expanding the view.

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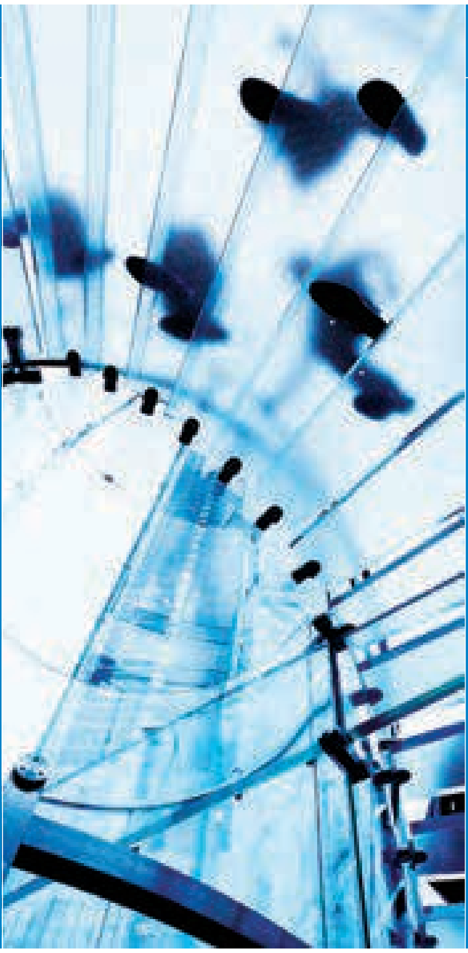

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