When you have to be right

Solution Primer

Financial Services

OneSumX Liquidity Risk

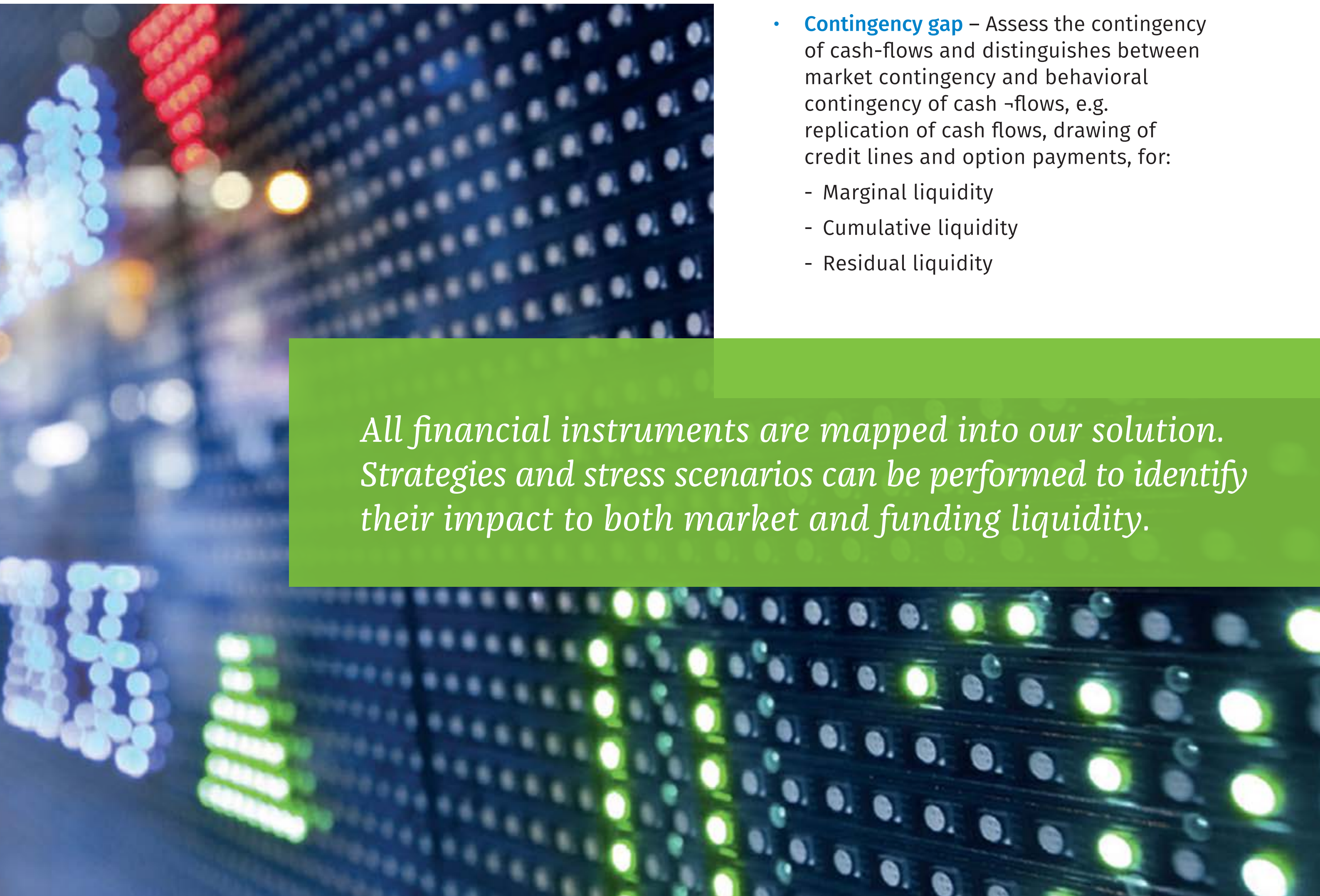
The importance of effective liquidity risk management has been highlighted over recent years. Severe market and systemic disruptions, long term disruptions of markets, and funding needs of contingent contracts were some of the failings which were identified as key issues.

Regulators are understandably now applying greater focus on the liquidity risk within firms and it is therefore becoming increasingly important for firms to be able to assess and monitor liquidity risk effectively.

Effective liquidity risk management requires the establishment of a robust liquidity risk management framework (i.e. strategy, policy and practices) that ensures sufficient liquidity. This includes the maintenance of a cushion of unencumbered, high quality liquid assets in order to withstand stress events, including those involving the loss or impairment of both unsecured and secured funding sources.

Our OneSumX Liquidity Risk solution provides standard and customized liquidity (cash flow) projections and reporting including:

- **Stress scenarios for Liquidity Risk** – Defining and applying deterministic and/or stochastically driven stress scenarios on the integrated Market, Credit/Counterparty and Behavior risk factors to identify their impact in both Market and Funding Liquidity
- **Static liquidity gap** – Calculate the anticipated cash-flows decomposed by principal and interest, over the remaining term of existing financial contracts (contractual liquidity) with the following reporting possibilities
  - Marginal liquidity gap showing the anticipated net in-flow / out-flow of cash per time period over the remaining term to maturity
  - Cumulative liquidity gap showing the anticipated cumulated cash ¬flow and can therefore highlight the point in time when a financial institution is expected to face a liquidity problem
  - Residual liquidity gap showing the open anticipated cash balance at any point in time over the remaining term to maturity
- **Contingency gap** – Assess the contingency of cash-flows and distinguishes between market contingency and behavioral contingency of cash ¬flows, e.g. replication of cash flows, drawing of credit lines and option payments, for:
  - Marginal liquidity
  - Cumulative liquidity
  - Residual liquidity



All financial instruments are mapped into our solution. Strategies and stress scenarios can be performed to identify their impact to both market and funding liquidity.

- **Dynamic gap** – Assess the anticipated cash flows in deterministic and probabilistic dynamic analysis taking the behavior and strategies of the financial institution into account
- **Cash management / margining** – Analysis and pricing of a broad spectrum of derivative contracts including the calculation of margin cash flows
- **Systemic and concentration risks** – Analysis on how systemic and concentration risk can impact both funding and market liquidity

The reporting of the portfolios and/or accounts of balance sheet items on the asset and liability side can be set into a relation, depending on whether assets are liquid or illiquid, and on whether their funding is stable or volatile, which allows the derivation of liquidity ratios and funding diversification.

Several regulatory liquidity standard reports are available in our solution including: Liquidity coverage ratio (LCR) Net stable funding ratio (NSFR), Individual Liquidity Guidance (ILG). Liquidity events and ratios can be structured and presented based on templates and/or customized OLAP and/or dashboard reporting.

All financial instruments are mapped into our solution. Financial events referring to liquidity are calculated based on past, current conditions as well as future assumption in market, credit and behavioral characteristics. Thus, strategies and stress scenarios can be performed to identify their impact to both market and funding liquidity. The liquidity results are reported on a dashboard view provided to risk analysis, liquidity managers, regulators and decision makers.

Our comprehensive solution combines a risk management/stress engine and regulatory reporting platform which enables firms to monitor, manage and report liquidity risk. In addition, our solution allows firms to build and develop a library of stress tests in accordance with the regulators' requirements.

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Contact information:

APAC:
Wolters Kluwer
4 Robinson Road, #11-01
Singapore 048543

EMEA:
Wolters Kluwer
25 Canada Square, 41st Floor,
Canary Wharf,
E14 5LQ London,
United Kingdom

Americas:
Wolters Kluwer
130 Turner Street,
Building 3, Fourth Floor,
Waltham, MA,
U.S.

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