

OneSumX[™] FOR LIQUIDITY RISK LIQUIDITY COVERAGE RATIO (LCR) AND 2052

Today, U.S. regulators are moving forward with initiatives that will require financial institutions to reassess their liquidity risk management, moving from a prescriptive approach to a much more complex and detailed process.

One of the biggest pain points for financial institutions is the shift in the way the liquidity coverage ratio (LCR) is calculated and reported to federal regulators. Gathering the required data attributes, creating classifications and running calculations has evolved into a tremendously complicated and time consuming task. Added to that, regulators are demanding transparency and auditability into an organization's LCR process at such a level of detail that they must be able to point to the individual inputs that created each classification.

While the finalization of the LCR rule marks a milestone, these initiatives are just a stepping-stone toward a comprehensive regulatory reform program aimed at enhancing the liquidity risk management practices of U.S. financial institutions. Like CCAR before it, as LCR continues to evolve, banks will face an increased need to build a sustainable and flexible reporting infrastructure to meet regulators growing demands for transparency and data lineage.



Meet Liquidity Reporting Requirements

Although LCR is based on the liquidity standard adopted by the Basel Committee on Banking Supervision, the U.S. version is much more stringent in some aspects. And, as regulators apply greater pressure on financial institutions' ability to manage their LCR, it is becoming increasingly important for firms to be able to assess and monitor liquidity risk effectively.

However, staying ahead of the liquidity curve is a huge undertaking for any financial institution. Capturing every requirement of the LCR is challenging. Tasks, such as identifying and extracting the many different data points from source systems and creating detailed classifications using combinations of that data to run calculations, are difficult and time consuming.

OneSumX for Liquidity Coverage Ratio provides financial institutions with the technical and functional tools and infrastructure they need to meet liquidity reporting requirements and dynamically measure liquidity risk. OneSumX also facilitates greater visibility into HQLA and Net Cash Flow, enabling management to take control for effective decision making and mitigate any potential exposures or shortfalls.

Financial institutions not only need to submit a wider range of information to their regulators, but the depth and detail of the information required is also greater. Our OneSumX for Regulatory Reporting solution can help financial institutions manage the transparency and auditability of their data collection by providing drill back functionality. This feature allows users to click on any item within the report to track back to its origination. The solution also allows financial institutions to re-run past reports to monitor the impact of regulatory changes on their LCR, enabling them to evaluate what type of assets to hold and those to release.

As further guidance emerges on FR 2052 (a) and (b), it appears as if the LCR and 2052 reporting processes will be very similar. OneSumX for Regulatory Reporting helps eliminate duplicate work by enabling financial institutions to leverage the common processes of their LCR reporting for use with their 2052 reporting requirements.

Gain a Real Competitive Advantage

LCR reporting has evolved into a complex data and classification logic exercise, making it increasingly difficult and burdensome for financial institutions to manage. In fact, the Federal Reserve Board estimates that LCR reporting could possibly reach 396,120 person hours per year. Wolters Kluwer Financial Services provides solutions that can help financial institutions tackle an undertaking of this size and complexity, while making the right decisions when it comes to managing liquidity risk.

Our comprehensive OneSumX solution is scalable and can manage different demands relating to data volume and granularity, allowing financial institutions to address the changing reporting requirements of multiple stakeholders. Most importantly, OneSumX can assist with the cumbersome data collection and classification work as well as help maintain it in accordance with evolving regulatory requirements.

Moving forward, we anticipate tremendous evolution in the LCR and FR 2052 reporting requirements. Similar to CCAR, these requirements could potentially change on an almost monthly basis. As part of our regulatory update service, our in-house compliance experts continually monitor and interpret these changes and provide software patches to keep financial institutions compliant.

With greater visibility and control over liquidity risk across their business, our OneSumX solution helps financial institutions gain a real competitive advantage, enabling them to make business decisions that are in alignment with their strategic objectives and risk tolerance.

The screenshot displays the OneSumX software interface. On the left, a 'Regulatory rulesets' tree shows a hierarchy of rules, with 'FRB - LCR' selected. The main area shows a flowchart of these rules, with various nodes and decision points. A large blue arrow points from the 'Inspect' window to the 'FRB - LCR' rule in the tree. The 'Inspect' window is titled 'Inspect' and shows details for a calculation: '500004 4/2/2015 US LCR Inflows'. It includes fields for 'Calculation', 'Date', 'Contract ID', 'Contract number', 'Product class name', and 'Number of contracts (items)'. Below these fields is a table with columns for 'Account', 'Equity', 'Product class', 'LCR market value', 'Currency', 'Industry date', and 'Sector'. The table contains one row of data: '001 SECURITY 1,000,000.00 USD 4/10/2015 US dep treasury'.

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market participants, and has historically been a highly-liquid asset.

Also considering the constraints, the agencies are adopting the proposed criteria in the final rule with respect to central bank reserves. The agencies are not adopting a counterparty's obligation to provide required reserves on the level 1 liquid asset amount because the assets held to satisfy a counterparty's required reserves would continue to be available for use during a liquidity stress event due to the nature of the assets.

The final rule does not include cash, whether held in branches or ATMs, in level 1 liquid assets, as such cash may be necessary to meet daily business transactions and flow to liquid assets associated with ensuring that the cash can be immediately used to meet the covered company's needs. However, as set forth in section 10(b) of this Regulatory Information Notice, the final rule does include the calculation of the RQR A component by the proposed rule, the level 1 liquid asset amount would have been calculated based on the fair value of all level 1 liquid assets by the covered company based on the calculation date. The proposed rule requires covered companies to use the fair value of the assets to determine the level 1 liquid asset amount.

20. United States Government Securities

The proposed rule would have included as level 1 liquid assets securities issued by, or unconditionally guaranteed or to the benefit payment of, and insured by, the U.S. Department of the Treasury. Generally, these types of securities exhibited high levels of liquidity even in times of extreme stress in the financial system, and typically are the securities that experience the most flight to quality when interest rates shift. Holdings of U.S. government agency debt securities are fully and explicitly guaranteed by the full faith and credit of the U.S. government, provided that the securities are included in the list of U.S. Treasury securities.

21. U.S. government securities as level 1 liquid assets

In Certain Nonbank and Multilateral Organizations

The proposed rule would have included as level 1 liquid assets securities that are either (i) a claim unconditionally guaranteed by a sovereign entity, a central bank, the Bank for International Settlements, the International Monetary Fund, the European Central Bank and European Central Bank, or a multilateral development bank, provided that such securities met the following four requirements:

First, these securities must have been assigned a non-zero risk weight under the standardized approach for risk-weighted assets of the agency's risk-based capital rule. Generally, securities issued by nonbanks that are assigned a non-zero risk weight have shown recent liquidity characteristics. Second, the proposed rule would have required these securities to be liquid and readily marketable, as discussed above. Third, these securities would have been required to have been issued by an entity whose obligations have a primary asset as a reliable source of liquidity in the repurchase or sales markets during stressed market conditions. A covered company could have demonstrated a historical record of liquidation of market jobs during times of stress, such as the period of financial market stress experienced since 2007, to show Covered companies should also have looked to other periods of stress and demonstrated a strong ability to be a reliable source of liquidity. Fourth, these securities must have been issued by a U.S. government agency whose obligations are fully and explicitly guaranteed by the full faith and credit of the U.S. government, provided that the securities are included in the list of U.S. Treasury securities.

22. Other covered securities

The agencies proposed criteria above for the inclusion of all securities in level 1 liquid assets.



ABOUT WOLTERS KLUWER FINANCIAL SERVICES

Whether complying with regulatory requirements or managing financial transactions, addressing a single key risk, or working toward a holistic enterprise risk management strategy, Wolters Kluwer Financial Services works with customers worldwide to help them successfully navigate regulatory complexity, optimize risk and financial performance, and manage data to support critical decisions. Wolters Kluwer Financial Services provides risk management, compliance, finance and audit solutions that help financial organizations improve efficiency and effectiveness across their enterprise. With more than 30 offices in 20 countries, the company's prominent brands include: AppOne®, AuthenticWeb™, Bankers Systems®, Capital Changes, CASH Suite™, GainsKeeper®, NILS®, OneSumX®, TeamMate®, Uniform Forms™, VMP®

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