

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 including 'LCR', 'FR 2052', and 'CCAR'. The main area shows a flowchart with various nodes and arrows representing the logic of the rulesets. An 'Inspect' window is open, showing details for a calculation named '500004 4/2/2015 US LCR Inflows'. The window includes fields for 'Calculation', 'Date', 'Contract ID', 'Product ID', and 'Product class name'. Below these fields is a table with columns for 'Account ID', 'Entity', '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', and 'US dep Treasury'. At the bottom of the interface, there is a 'Link to regulation' section with a URL: 'US LCR Federal Register (1/16/15, 76, 167, 21-26, 2015, 1) Liquid Assets (United States Government Securities)'. A blue arrow points from the 'Inspect' window towards the regulatory text on the right.

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market participants, and has historically been a higher-quality asset.

Also considering the constraints, the agencies are adopting the proposed criteria in the final rule with respect to certain bank reserves. The agencies are not adopting a counterparty's obligation to include 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 reserve requirements.¹⁰

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 liquidate non-accrued assets with ensuring that the cash can be immediately used to meet the covered company's needs. However, as set forth in section 10(a) of this Supplementary Information section, 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 all level 1 liquid assets to calculate the RQR A component. The agencies believe that the amount to be included in the covered company's reserve balance requirement calculation (as a of Regulation D) (2015) A reserve balance requirement is the amount that a representative institution would be able to pay to a Federal Reserve Bank in accordance with the fair value of the institution's reserve requirement that is not met with cash.

The agencies also believe to adopt a counterparty's obligation to include cash

to include U.S. government securities as level 1 liquid assets in Certain Nonbank and Multilateral Organization Reserves

The proposed rule would have included as level 1 liquid assets securities that are a direct or indirect ownership interest in a security issued by a covered entity, a covered entity's subsidiary, or a covered entity's affiliate, provided that such securities met the following four requirements:

First, these securities must have been assigned a non-prime risk weight under the standardized approach for risk-weighted assets of the agency's risk-based capital rules.¹¹ Generally, securities issued by nonprime covered entities would have been assigned a non-prime risk weight because the proposed rule would have required these securities to be liquid and readily marketable, or disclosed above. Thus, these securities would have been required to have been issued by an issuer whose obligations have a primary asset as a reliable source of liquidity in the repayment or other markets during stressed market conditions. A covered company could have demonstrated a historical record of liquidation of market value 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 stress to see if the asset could bear loss in order to be a reliable source of liquidity. Fourth, these securities must be issued by a U.S. government agency or an identified company or an associated subsidiary of such company.

Our counterparty proposed criteria above the inclusion of all ownership interests that qualify the asset



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®

Mortgage Solutions and Wiz®. Wolters Kluwer Financial Services is part of Wolters Kluwer, which had 2014 annual revenues of €3.7 billion (\$4.9 billion), employs 19,000 employees worldwide, and maintains operations in over 40 countries across Europe, North America, Asia Pacific, and Latin America. Wolters Kluwer is headquartered in Alphen aan den Rijn, the Netherlands. Its shares are quoted on Euronext Amsterdam (WKL) and are included in the AEX and Euronext 100 indices.

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