



# The right tool, the right time

Turmoil in the financial markets emphasized the importance of high-quality liquidity risk management for the safety and soundness of financial institutions. In light of this, many global regulators have issued new requirements. Specifically, the Basel Committee on Banking Supervision has issued Basel III: *International framework for liquidity risk measurement, standards and monitoring*, which mandates compliance with the Basel *Principles for Sound Liquidity Risk Management and Supervision* and introduces two quantitative standards (the short-term liquidity coverage ratio and the longer-term structural liquidity net stable funding ratio), as well as specific monitoring

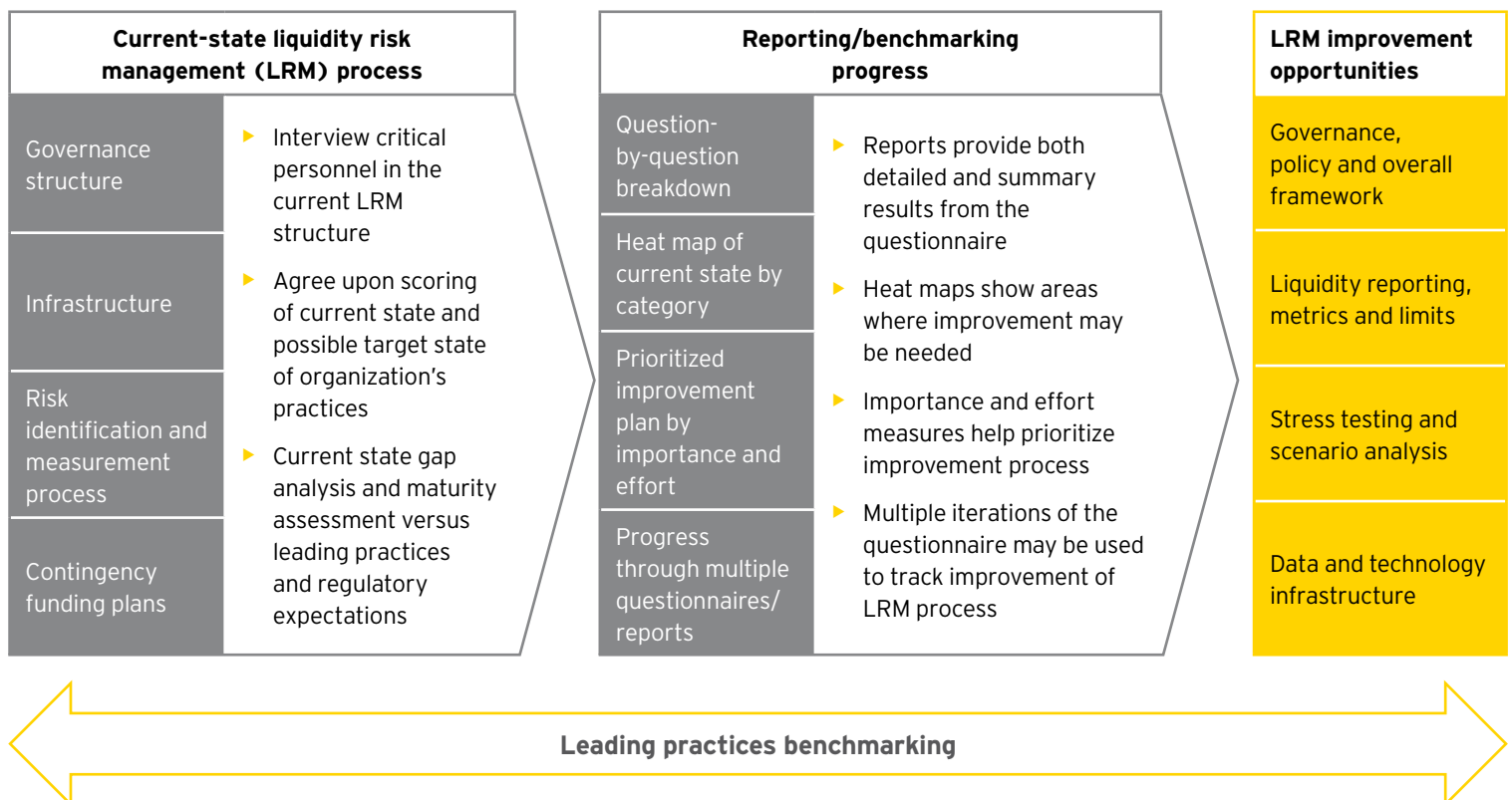
tools and reporting. In the US, both the Dodd-Frank Act and recent interagency guidance, which is consistent with Basel III, require that heightened prudential standards be applied to liquidity risk. Other global regulators, such as the UK FSA, have also established robust requirements.

To help banks move their funding and liquidity risk frameworks toward leading practices and gauge compliance with new regulatory requirements, Ernst & Young has developed a market-tested diagnostic tool that leverages our experience with the largest banks and aligns to the critical elements in the new regulatory guidance.

It provides rapid, current-state benchmarking and detailed mapping against the regulatory requirements to help you identify gaps and improvement opportunities in the following areas:

- ▶ Corporate governance
- ▶ Strategy/policy/procedure/risk tolerance
- ▶ Liquidity risk management/monitoring/reporting
- ▶ Intra-day liquidity
- ▶ Diversified funding
- ▶ Cushion of liquid assets
- ▶ Contingency funding planning
- ▶ Internal controls

## Ernst & Young's liquidity risk management framework assessment



**Key benefits of Ernst & Young's liquidity diagnostic tool include:**

- ▶ A consistent framework to help institutions respond to the growing complexity of liquidity risk management requirements, and to increasing management and regulatory scrutiny
- ▶ A structured approach to assess liquidity risk management capabilities against key regulatory guidance, as well as current leading practices, to facilitate the focused identification of key improvement areas
- ▶ A gap analysis against US *Interagency Guidance on Funding and Liquidity Risk Management*
- ▶ Prioritization of those improvement efforts deemed vital to increasing the accuracy and effectiveness of liquidity risk management within your organization
- ▶ Swift identification of key gaps within your organization's governance structure, infrastructure, risk identification and measurement processes (e.g., stress testing), and contingency funding plans
- ▶ A "snapshot" of your organization's liquidity risk management capabilities at a macro level
- ▶ A framework for current- and target-state analysis
- ▶ Development of focused improvement plans to address specific areas of weakness
- ▶ Reporting to help prioritize and present areas for improvement to senior management, the board and key stakeholders
- ▶ Ability to assess gaps related to other regulatory guidance

**Heat mapping description**

- Target score – Current score <=1
- 1<Target score – Current score <=3
- Target score – Current score >3

General comments: Bank XYZ, as a top 15 global bank, has been charged by US regulators with measuring its liquidity risk management practices against peers and market leading practices. For this reason, each category's target score must reflect the most complete and robust current practices. All categories have a target of six, defined as "leading practice" within this diagnostic tool.

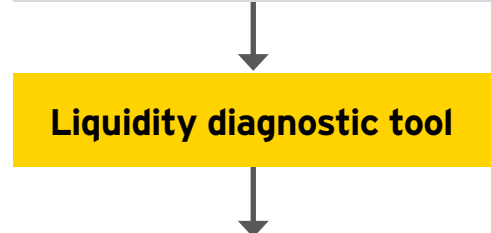
**Your customized assessment is a vital first step toward an actionable liquidity risk management plan**

Your Ernst & Young team can customize the liquidity questionnaire to the unique needs of your institution, and then complete the questionnaire based on discussions with key process and risk owners. Detailed sector and sub-sector classifications allow for benchmarking and competency ladders, and links to leading practice publications facilitate the discussion of current-state practices to provide guidance on targeted future-state practices.

**Reporting yields results**

Automated and customizable reporting summarizes the findings of the assessment exercise in an easy-to-understand format. Results are presented in a heat map summary, to graphically display the results of the assessment, and to identify specific areas of excellence or concern. Supporting findings and commentary are also provided. Reporting provides prioritization of those improvement efforts deemed vital to increasing the accuracy and effectiveness of liquidity risk management within your organization.

- ▶ Basel III: *International framework for liquidity risk measurement, standards and reporting*
- ▶ Other Basel Committee guidance
- ▶ US Department of the Treasury interagency guidance
- ▶ FSA PS 09/16 *Strengthening liquidity standards*
- ▶ Office of the Superintendent of Financial Institutions
- ▶ Senior Supervisors Group
- ▶ US Federal Reserve
- ▶ European Central Bank
- ▶ Institute of International Finance
- ▶ Counterparty Risk Management Policy Group
- ▶ Committee of European Banking Supervisors
- ▶ Ernst & Young leading practice experience



Bank XYZ		Draft Category assessment report					
Category	Current score	Target score	Heat mapping	Effort	Importance	Priority	Comments
Corporate governance	5	6	<div style="width: 83%; background-color: green;"></div>	Low	High	3	Gap: in the process of defining an aligned risk identification committee.
Strategy/policy/procedure/risk tolerance	4	6	<div style="width: 67%; background-color: yellow;"></div>	Medium	High	6	Gap: in the process of updating policies and procedures. Risk tolerances are not formally defined.
LR measurement/monitoring/reporting	3	6	<div style="width: 50%; background-color: yellow;"></div>	Medium	Medium	6	Gap: measurements, monitoring and reporting are based on historic data, and stress testing regime is elementary.
Intra-day liquidity	2	6	<div style="width: 33%; background-color: red;"></div>	High	Medium	8	Gap: MIS does not allow for the active management of intra-day liquidity.
Diversified funding	4	6	<div style="width: 67%; background-color: yellow;"></div>	Medium	Medium	4	Gap: short-term funding primarily through commercial paper and the Fed.
Cushion of liquid assets	3	6	<div style="width: 50%; background-color: yellow;"></div>	Low	Low	3	Gap: MIS does not currently allow for daily management of liquidity cushion.
Contingency funding plan	5	6	<div style="width: 83%; background-color: green;"></div>	Medium	High	3	Gap: plan has yet to be approved by the board of directors.
Internal controls	4	6	<div style="width: 67%; background-color: yellow;"></div>	High	Medium	4	Gap: there is a minor disconnect between the global ALCO and risk management at the senior management level.

# How we can help

Individually talented and collectively powerful, our professionals make the commitment and investments needed to forge long-term relationships that help you deliver on the high expectations of your stakeholders – markets, clients and employees.

For more information, or to schedule a liquidity risk management diagnostic assessment, please contact:

## North America

### **Peter Marshall**

Principal, Financial Services  
Ernst & Young LLP  
+1 212 773 1983  
peter.marshall04@ey.com

### **Mike Sheptin**

Principal, Financial Services  
Ernst & Young LLP  
+1 212 773 6032  
michael.sheptin@ey.com

### **Roy Choudhury**

Executive Director, Financial Services  
Ernst & Young LLP  
+1 212 773 9299  
roy.choudhury@ey.com

### **Jim Embersit**

Executive Director, Financial Services  
Ernst & Young LLP  
+1 202 327 6078  
jim.embersit@ey.com

## Europe

### **Patricia Jackson**

Partner, Financial Services  
Ernst & Young LLP  
+44 (0) 20 7951 7564  
pjackson@uk.ey.com

### **Geoff Huson**

Senior Manager, Financial Services  
Ernst & Young LLP  
+44 (0) 20 7951 9394  
ghuson@uk.ey.com

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