

Global Regulatory Reform

# New regime, rules and requirements – welcome to the new liquidity

Basel III: implementing  
liquidity requirements



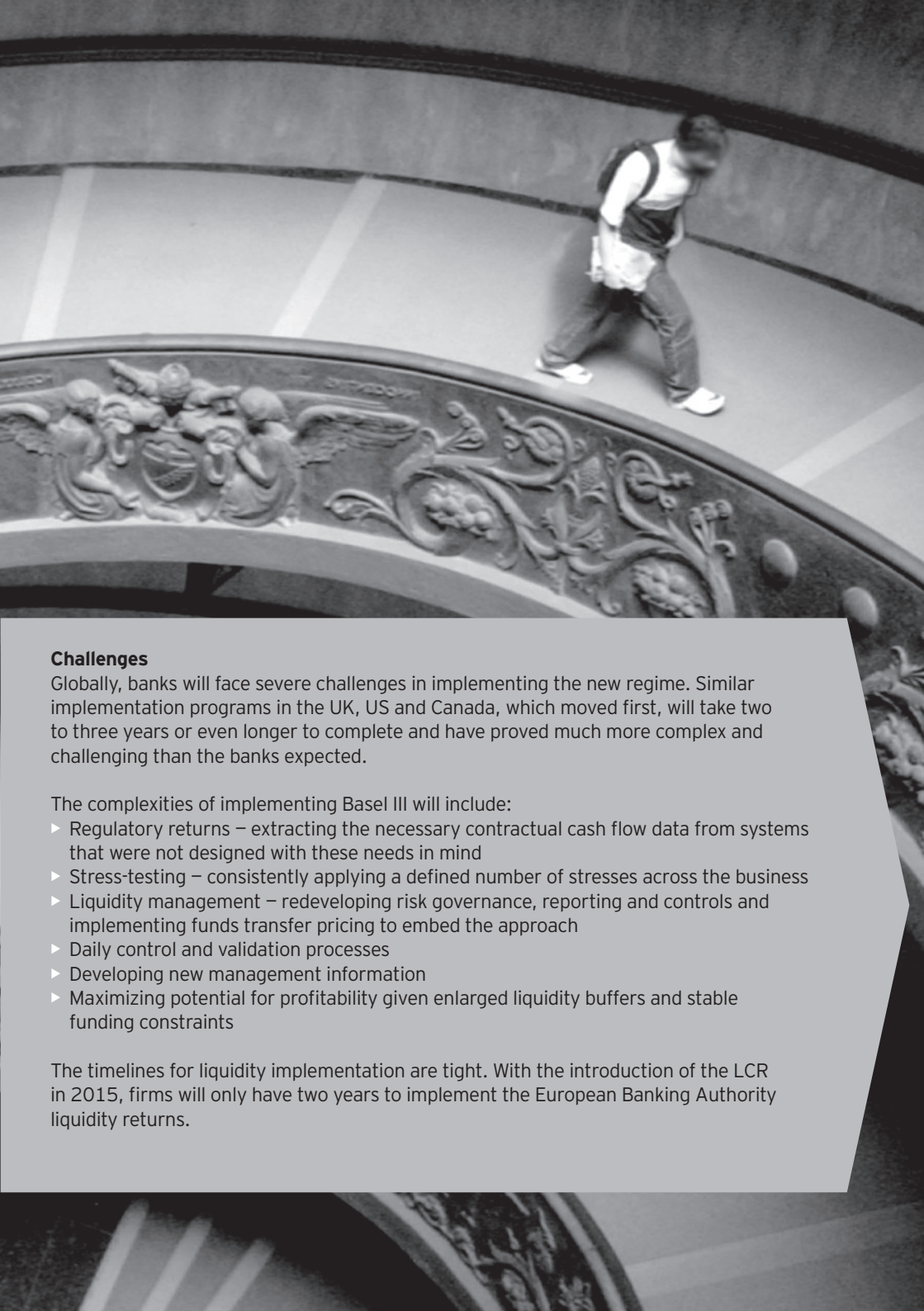
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Quality In Everything We Do

# Overview

New liquidity requirements form a key part of the 2010 Basel III framework and are intended to strengthen the resilience of global banking institutions.

The four components that must be addressed are:

- ▶ **The liquidity coverage ratio (LCR)**, which will require banks to hold a designated liquid assets buffer against a 30-day cash outflow
- ▶ **A net stable funding ratio (NSFR)**, which will require banks to cover 100% of illiquid assets with stable funding (65% for mortgages)
- ▶ **New regulatory reporting requirements**
- ▶ **New liquidity risk management standards**



## Challenges

Globally, banks will face severe challenges in implementing the new regime. Similar implementation programs in the UK, US and Canada, which moved first, will take two to three years or even longer to complete and have proved much more complex and challenging than the banks expected.

The complexities of implementing Basel III will include:

- ▶ Regulatory returns – extracting the necessary contractual cash flow data from systems that were not designed with these needs in mind
- ▶ Stress-testing – consistently applying a defined number of stresses across the business
- ▶ Liquidity management – redeveloping risk governance, reporting and controls and implementing funds transfer pricing to embed the approach
- ▶ Daily control and validation processes
- ▶ Developing new management information
- ▶ Maximizing potential for profitability given enlarged liquidity buffers and stable funding constraints

The timelines for liquidity implementation are tight. With the introduction of the LCR in 2015, firms will only have two years to implement the European Banking Authority liquidity returns.

## What needs to happen

It is important that firms start programs quickly to assess the challenges they will face in meeting the new requirements. Daily frequency and increased granularity have become the new benchmark for liquidity risk management. This will represent new challenges, and firms will have to quickly identify data and systems needs and how best to address them.

### Supervisory expectations for liquidity management information standards

Accuracy	▶ Reports are up-to-date, correctly aggregated, validated and fully reconciled to books and records and other appropriate control sources within agreed materiality thresholds. Minimized manual reconciliation and processes.
Data quality	▶ Established data quality strategy and MI, allowing information flow through to top of house, with drill down capability into specific issues
Integrity	▶ Reports based on data that is reliable and with a high degree of alignment to sources. Minimized manual interventions.
Completeness	▶ Reports should contain sufficient data to cover the enterprise-level position (all entities, regions, business lines, products).
Timeliness	▶ Reports generated at regular frequencies, with a formal (not ad hoc) schedule. Reports should be timely to the risks being run and demonstrate short generation timelines.
Adaptability	▶ Capacity to produce reports on demand and with the flexibility to provide information, allowing users to assess emerging risk and facilitating timely decision making.

The market-leading Ernst & Young team has extensive experience setting up and delivering effective liquidity programs covering the following areas:

Liquidity analytics and reporting engagements	Governance	IT architecture and data	Systems and controls	Stress-testing	MI and control limits	Regulatory reporting	Reporting assurance	Daily control
	▲	▲	▲	▲	▲	▲	▲	▲

## Approach

Ernst & Young has developed a range of tools and accelerators to support more efficient delivery of a wide range of liquidity projects. The approach we take includes:

- ▶ Designing liquidity programs
- ▶ Designing end-to-end daily validation and control processes for liquidity MI
- ▶ Supporting design of appropriate stress-testing
- ▶ Designing and implementing funds transfer pricing
- ▶ Establishing processes to deliver regulatory reporting
- ▶ Reviewing management controls and supporting enhancement
- ▶ Supporting the design of the IT infrastructure and vendor selection
- ▶ Reviewing regulatory reporting

# How Ernst & Young can help

Working with our EMEIA team of more than 750 risk professionals gives you access to:

- ▶ Large teams that can be mobilized on short notice
- ▶ Significant insight into varied markets and geographies
- ▶ Teams with a deep understanding of liquidity, treasury instruments and systems, regulation and data

We have assisted many of the largest financial institutions with liquidity projects and delivered successful engagements across the UK, North America and Europe.

## Contacts

For more information on how we can help, please contact one of our team.

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