



Welcome to BAFT-IFSA Educational Series
Sponsored by
The BAFT-IFSA Supplier Partner Committee
Today's Webinar
The Implications of New Liquidity Regulations

Presented by:

DOVETAIL

**** Will begin Shortly ****

Remember to turn your PC sound ON to hear this webinar

The Implication of New Liquidity Regulations

An Overview



Dovetail

Progressive renovation in payments.

Basel III

The new global standards to address both firm-specific and broader, systemic risks have been referred to as "Basel III". Basel III is comprised of the following building blocks, which were agreed and issued by the Committee and its governing body between July 2009 and September 2010:

- **higher *quality of capital***, with a focus on common equity, and higher *levels* of capital to ensure banks can better absorb the types of losses like those associated with this past crisis;
- **better coverage of risk**, especially for capital market activities;
- an **internationally harmonised leverage ratio** to constrain excessive risk taking and to serve as a backstop to the risk-based capital measure, with a view to migrating to a Pillar 1 treatment based on appropriate review and calibration;
- **capital buffers**, which should be built up in good times so that they can be drawn down in periods of stress;
- **minimum global liquidity standards** to improve banks' resilience to acute short term stress and to improve longer term funding; and
- **stronger standards for supervision, public disclosures and risk management.**

What is Liquidity?

“Liquidity, in the broadest sense of the term, is the capacity to obtain funding when it is needed.”

CEBS_2008_147, SECOND PART OF CEBS’S TECHNICAL ADVICE TO THE EUROPEAN COMMISSION ON LIQUIDITY RISK MANAGEMENT, Sept 2008

“Liquidity is the ability of a bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.”

BCBS, Principles for Sound Liquidity Risk Management and Supervision, Sept 2008

“Liquidity is a financial institution’s capacity to meet its cash and collateral obligations at a reasonable cost.”

OCC, FRB, FDIC, OTS, and NCUA (the agencies) in conjunction with the Conference of State Bank Supervisors (CSBS), Interagency Policy Statement on Funding and Liquidity Risk Management, Mar 2010

Basel III – Liquidity Rules

The Basel Committee has elaborated on two sets of new rules:

- **Pillar 1:**
embraces general **principles for sound liquidity risk management and supervision** giving guidance to both bank management and bank supervision to strengthen their sensitivity for central risk issues
- **Pillar 2:**
defines **two specific liquidity metrics** that function as a standard to help measure, monitor and control liquidity risk

Pillar 1

Basel Committee on Banking Supervision has established 13 principles for sound liquidity risk Management

- Liquidity Management Framework
 - Liquidity Risk Tolerance
 - Strategy, policies and practices
 - Require current information
- Apply Liquidity Costs
- A sound process for projecting Cash Flows
- Actively manage Intraday Liquidity positions
- Contingent Funding Plan

Pillar 2

Two Reporting Ratios

1. Liquidity Coverage Ratio (LCR)

identifies the amount of unencumbered, high quality liquid assets available to offset the net cash outflows identified for a 30-day time horizon under an acute liquidity stress scenario

$$\frac{\text{Stock of high quality liquid assets}}{\text{Net cash outflows over a 30-day time period}} \geq 100 \%$$

2. Net Stable Funding Ratio (NSFR)

Requires a minimum amount of funding that is expected to be stable over a one year time horizon, based on liquidity risk factors assigned to assets and off-balance sheet liquidity exposures.

$$\frac{\text{Available Amount of Stable Funding}}{\text{Required Amount of Stable Funding}} \geq 100 \%$$

Pillar 2

ASF Factors

- 100% Tier 1 and Tier 2 capital and liabilities with effective maturities of one year or more
- 85% “Stable” non-maturity retail deposits (75% if “less stable”) as defined in the LCR
- 50% Unsecured wholesale funding provided by non-financial corporate customers
- 0% All other liabilities and equity categories

RSF Factors

- 0% Cash, money market instruments, and securities with effective maturities of less than one year
- 5% Unencumbered marketable securities for which active repo-markets exist and which are assigned a 0% risk weight under the Basel II standardised approach
- 20% Unencumbered corporate bonds rated at least AA with a maturity of more than one year which are traded in liquid markets
- 50% Gold and unencumbered equity securities included in a large capital market index
- 85% Loans to retail clients having a residual maturity of less than one year
- 100% All other assets

Intraday Business Requirement

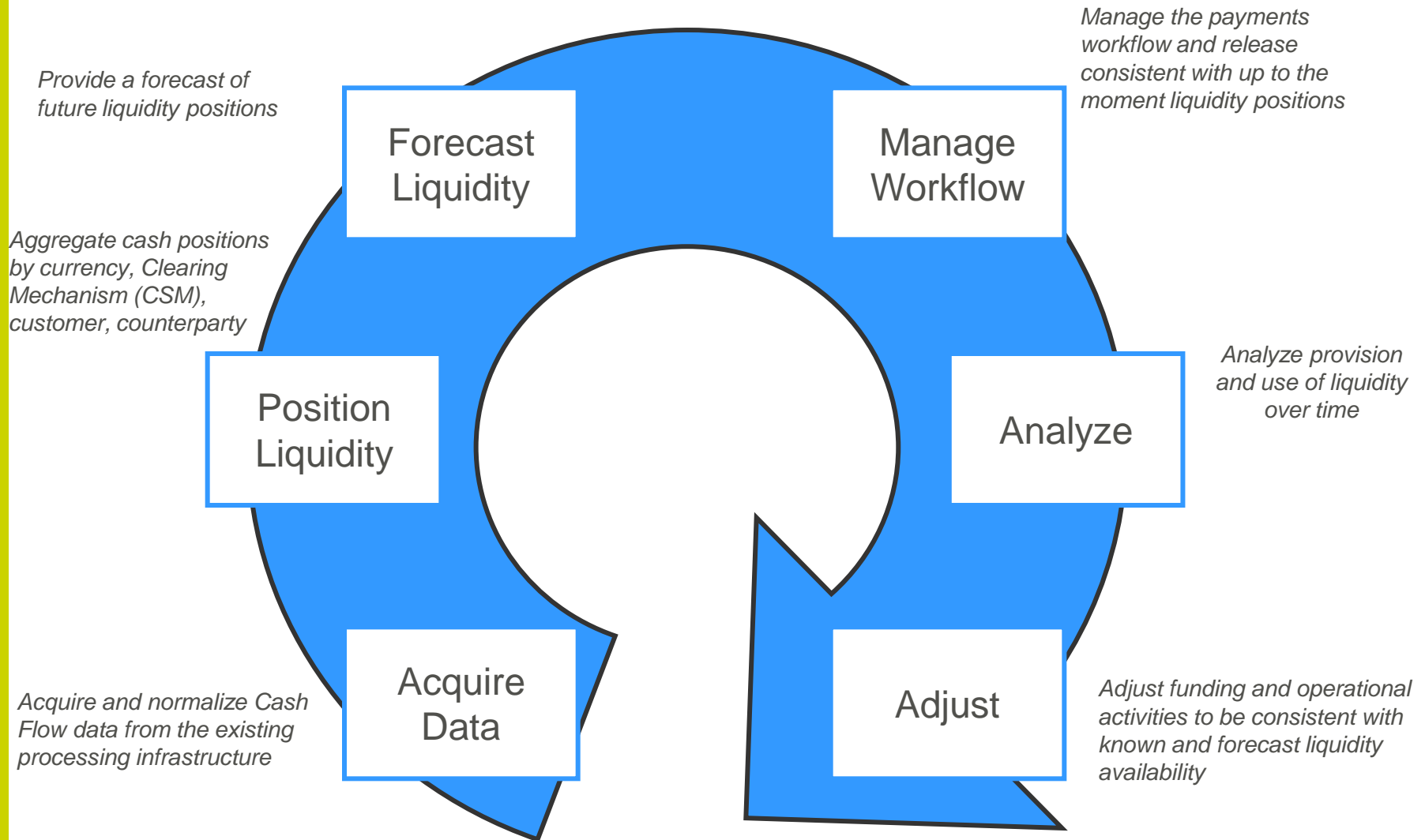
- For the bank
 - Regulatory requirement to demonstrate management of intraday liquidity
 - Premium on “sticky” deposits
 - Liquidity is no longer “free”
 - Treasury / operations need to improve visibility and control mechanisms affecting bank and client liquidity
- For the bank’s clients
 - Improve centralised visibility and management of cash
 - Provide multi-currency capabilities
 - Improve predictability of flows

Liquidity Management Requirements

- “Institutions should have **appropriate IT systems and processes** that are commensurate with the complexity and materiality of their activities and the techniques they use to measure liquidity risks and related factors.”
- “Institutions should have cash and collateral management systems that adequately reflect the procedures and processes of different payment and settlement systems in order to ensure **effective monitoring of their intraday needs**, at the legal entity level as well as at the regional or group level, depending on the liquidity risk management in place.”
- “Regardless of whether an institution uses net or gross payment and settlement systems, it should **actively manage its intraday liquidity positions** to meet payment and settlement obligations on a timely basis under both normal and stressed conditions.”
- “Institutions should verify that their internal methodology **captures all material foreseeable cash inflows and outflows**, including those stemming from off-balance sheet commitments and liabilities.”
- “Institutions should have in place an adequate internal mechanism – supported where appropriate by a **transfer pricing mechanism** – which provides appropriate incentives regarding the contribution to liquidity risk of the different business activities.”

CEBS_2008_147, **SECOND PART OF CEBS’S TECHNICAL ADVICE TO THE EUROPEAN COMMISSION ON LIQUIDITY RISK MANAGEMENT**, Sept 2008

Liquidity Management Cycle



Multiple Views

Clients & Market

- Visibility of overall cash position in real-time
- Multi-currency view
- Forecast cash positions
- Status of key transactions

Treasury & Operations

- Available liquidity
- Consumers / providers of liquidity
- Intraday forecasting
- Short term (weeks) forecasting
- Status of key transactions
- Unexpected cash movements
- Drill down investigation of cash flows

Reporting & MIS

- Habitual consumers / providers of liquidity
- Behavioural patterns of clients and market
- Timely reporting (regulatory and MIS)

One data set
Multiple views across
wide range of users

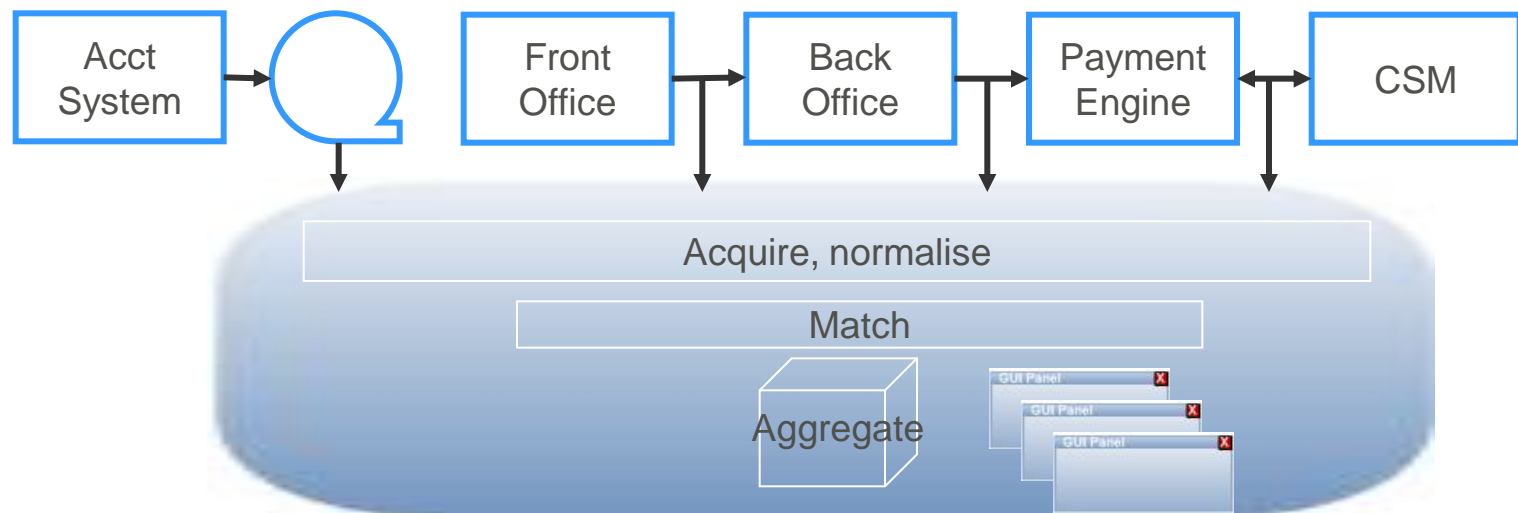
Real-time, bank-wide
Flexible inquiry /
reporting

Acquire and Normalize Data

Acquire balances from existing accounting systems

Acquire bank-wide cash flow events (and predictions)

Normalise and match to give real-time view of cash flow



Open, non-invasive integration and mapping tools accelerates data capture project
High performance, flexible aggregation engine ensures real-time information

Position Liquidity

Cash Positions in real time by:

- Currency
- Cash Settlement Mechanism (CSM)
 - RTGS Systems
 - Net Settlement Systems
 - ACH
 - Nostros
 - Ancillary Settlement Systems
- Parties
 - Customers
 - Internal Department
 - Settlement Counterparties

Forecast Future Liquidity Positions

Cash Positions

- Historical Positions
 - Liquidity Ladders by date
- Current Day Positions
 - Liquidity Ladders by time
- Future Day Positions
 - Liquidity Ladders by date

Future positions adjusted by Anticipated Movements based on:

- Party Positions
- Market behaviour

Manage Payments Workflow

Event based application maintains positions by workflow state:

- Anticipated
- Expected
- In Process
- Actual

[Link to Scheduling and Release function](#)

Analyse Data

- Balances and Cash Flows date and time stamped
- Data supports analysis to cover
 - Users and providers of liquidity
 - Customers
 - Internal Units
 - Clearing Counterparties
- Activity Trend Analysis
- Source data for use in liquidity pricing

Adjust Procedures

To assist in adjusting to changes in the liquidity environment a modern process provides:

- Thresholds on long and short positions to generate alerts to users
- Knowledge of users and providers of liquidity to help adjust release limits as required
- Detailed information to support management definition of liquidity risk profiles and appetites at group and line of business levels
- The capability to identify party behaviour patterns
- Trend analysis to identify changes in market and party behaviour over time

Questions

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Dovetail provides enterprise-class solutions that support the cost effective processing of banking payments. Founded in 1999 with offices in London and New Jersey, Dovetail has delivered innovative solutions to some of the world's leading banks. The Dovetail Payments System automates the processing of a wide range of payments, from bulk ACH clearing to global RTGS settlement, supporting both straight through processing and manual entry and repair. It is universal, covering wholesale and retail, high value and low value, urgent and non-urgent, single and bulk payments; in multi-currency, multi-company, and multi-entity operations. The secure, Web-based front end allows local and remote payment entry and repair, liquidity management, and comprehensive exception management. The system fully supports ISO 20022 messaging ensuring no truncation of data. It is component based and built on modern open standards and technology to give the greatest flexibility in choice of hardware and technology platform.



About BAFT-IFSA

BAFT-IFSA is the premier global financial services association formed by the merger of the Bankers' Association for Finance and Trade (BAFT) and the International Financial Services Association (IFSA). It provides advocacy, education and community-building opportunities for financial services institutions around the globe as well as suppliers to the financial services industry. BAFT-IFSA is the leading forum for analysis, discussion and action among international financial professionals on a wide range of topics affecting transaction banking, including trade finance, payments, compliance and asset servicing. For additional information log on to our website www.BAFT-IFSA.com or contact the BAFT-IFSA at Info@BAFT-IFSA.com

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BAFT-IFSA Educational Series Sponsored by Supplier Partner Committee

The goal of the Supplier Partner Committee is to broaden the industry point of view regarding issues confronting the financial community. The Supplier Partner Committee will add its knowledge and expertise to offer solutions in partnership with the financial community.



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The Next BAFT-IFSA Educational Series Webinar will be held on January 20th, 2011

FSC: Aligning to Corporate Supply Chains Part II

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