



The Financial  
Services Club

# Capital Markets Chamber



This house believes that penalties await those that don't  
make risk plans

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Established in 2004 with regular meetings in London, Edinburgh, Dublin and Vienna, the Financial Services Club provides a platform for practitioners, regulators and industry leaders to meet, network and discuss the future of our industry.

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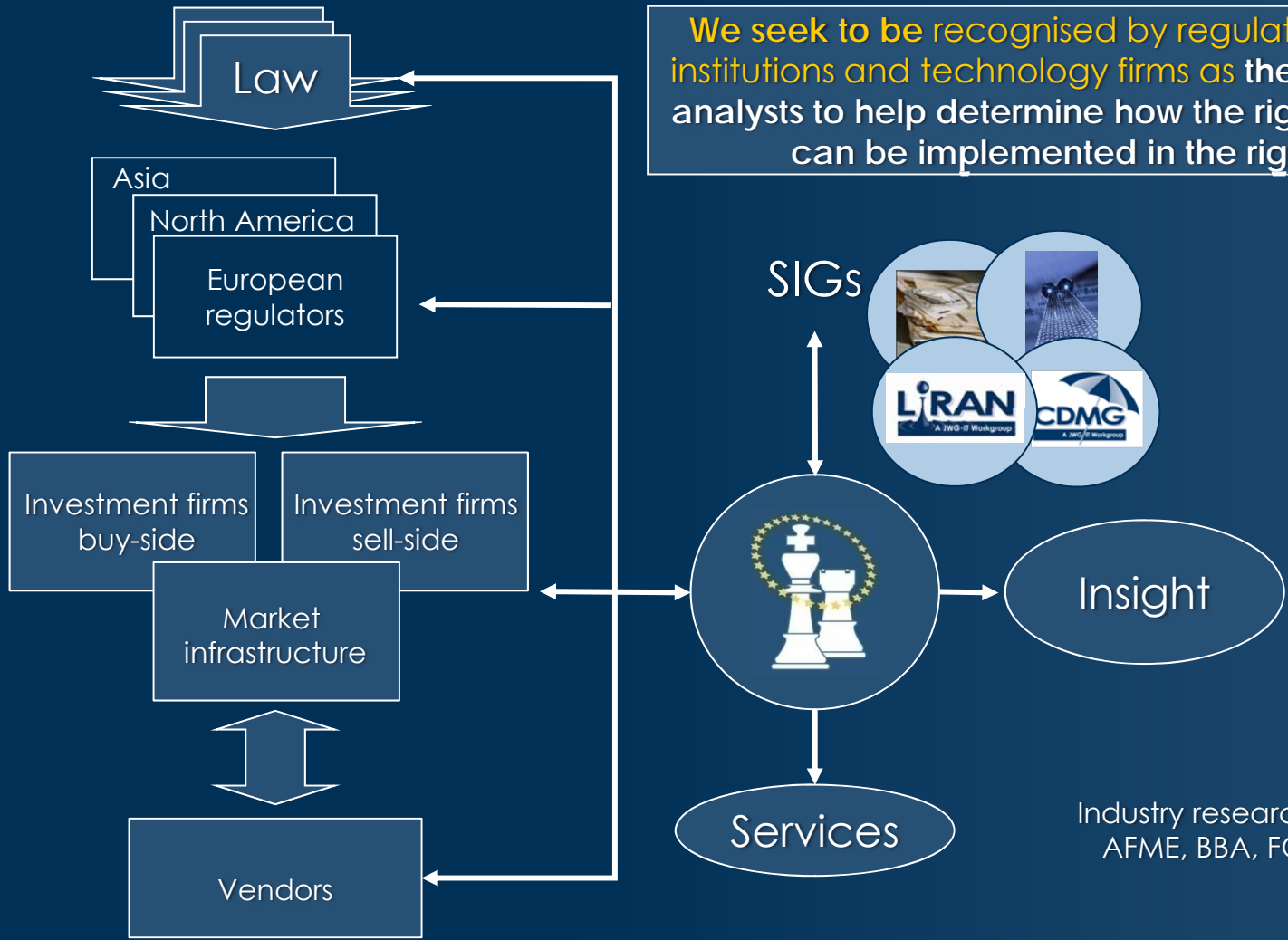
# This house believes that penalties await those that don't make risk plans

*A debate about the global risk management standards for  
capital, liquidity and enhanced practices*



# JWG: an independent think-tank

We seek to be recognised by regulators, financial institutions and technology firms as the independent analysts to help determine how the right regulations can be implemented in the right way

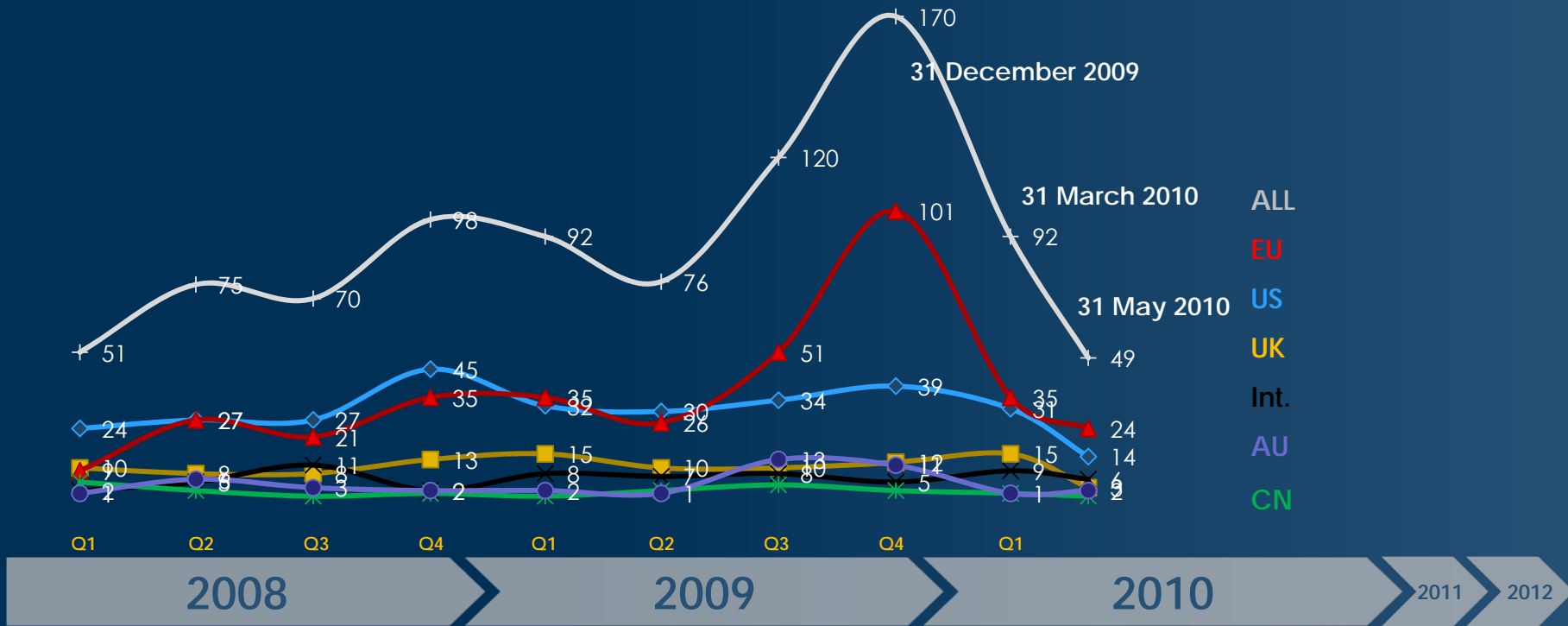


Industry research partners:  
AFME, BBA, FOA, CiFER

Making sense of financial service regulation since 2005



# Regulatory reform tsunami



Total 2008-2009  
= 78,700 pages

Average pages per month	
January - June 2008	1,808
July - December 2008	2,378
January - June 2009	2,417
July - December 2009	2,682

48% growth  
in 2 years

Note: official comment from EU, UK, US, CN, AU, international only



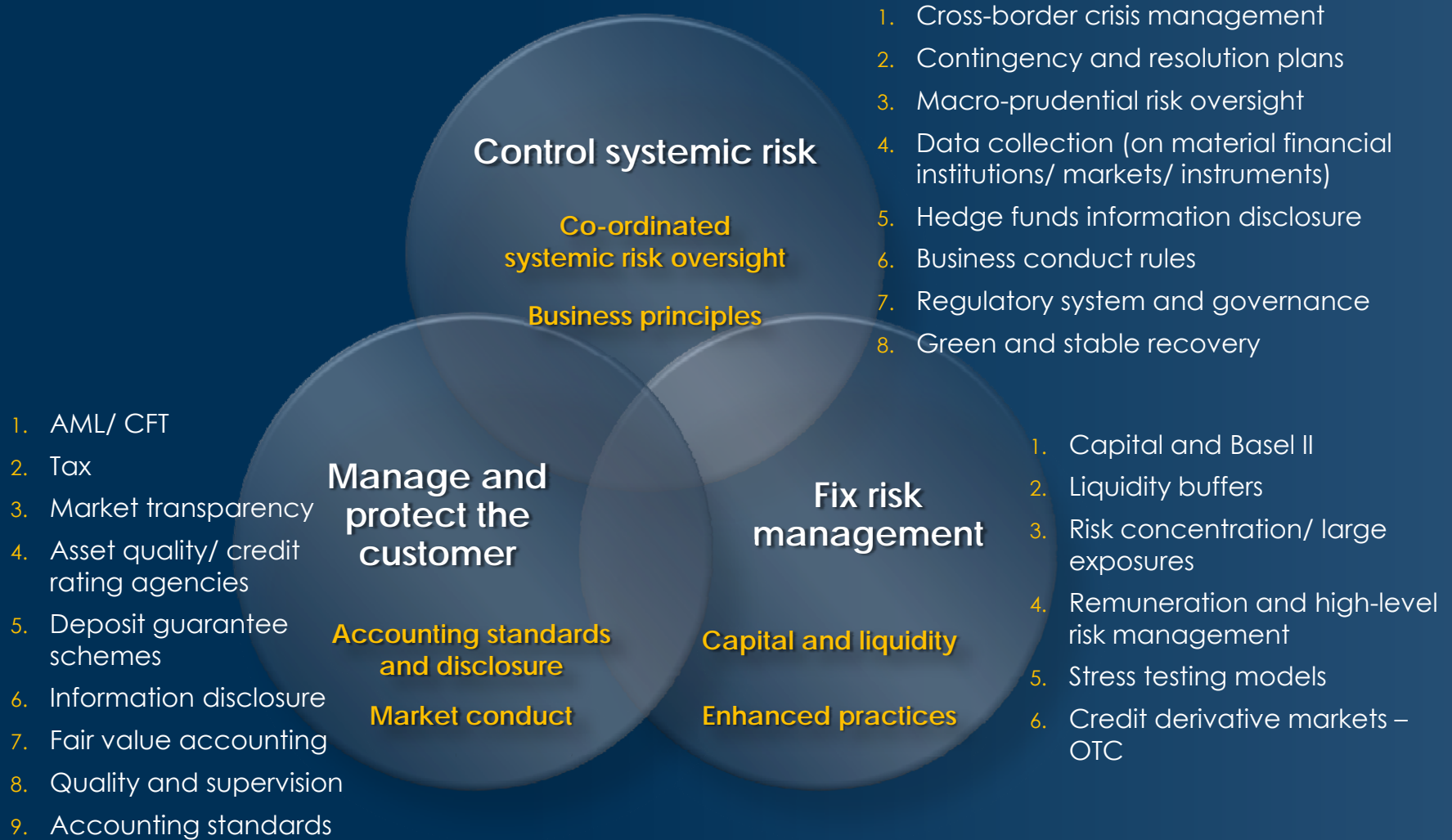
# UK carbon impact

- ▶ 78,000 pages
- ▶ Assume 30,000 firms ...
  - ...print 3 copies each
  - ... recycle 25% of the paper
- ▶ Total amount printed
  - ~7 billion pages
  - ~200 trees per day
  - Landfill = 19,176 m<sup>2</sup>
  - Oil = 21,213 barrels

Source: [www.mycarbonpawprint.com](http://www.mycarbonpawprint.com) JWG analysis



# G20 aims





# Consistent global standards

## Common framework

### GLOBAL

- ▶ BCBS: International framework for liquidity risk measurement, standards and monitoring (December 2009)
- ▶ BCBS: Principles for Sound Liquidity Risk Management and Supervision (September 2008)

### EU

- ▶ CEBS CP28: Guidelines on liquidity buffers (July 2009)
- ▶ CEBS CP19: technical advice on liquidity risk management (June 2008)

### UK

- ▶ FSA PS09/16 Strengthening liquidity standards (October 2009)
- ▶ FSA CP09/14 Transitional measures (June 2009)
- ▶ FSA CP09/13 Liquidity reporting (April 2009)
- ▶ FSA CP08/22 strengthening liquidity standards (December 2008)

### US

- ▶ Federal Banking Agencies Interagency policy on funding and liquidity risk management (March 2010)

### AU

- ▶ APRA proposes enhanced liquidity requirements for ADI (September 2009)

### CN

- ▶ CBRC Guideline on liquidity risk management of commercial banks (October 2009)

## Requirements

- ▶ **Systems and controls** to identify, measure and monitor liquidity risk (*FSA*)
- ▶ **Liquidity stress testing** to establish risk tolerance level
- ▶ Liquid assets buffer in place (*BCBS, CEBS, FSA, US*)
- ▶ Individual **liquidity assessment** and **contingency funding** plan in place
- ▶ **Supervisory review** individual assessment
- ▶ Granular and frequent **liquidity reporting**
- ▶ **Monitoring tools**: common metrics (*BCBS*)

## BCBS quality measures

Liquidity coverage ratio (LCR)

Net stable funding ratio (NSFR)



# What needs to change?



Source: JWG analysis of BCBS strengthening the resilience of the banking sector, December 2009; FSA Dear CEO letter: "FSA requirements on your firms liquidity risk management," January 2010; FSA PS09/20; FSA PS09/15, FSA DP09/2



# Detailed issues against the KYE capabilities for liquidity

- ▶ **Inconsistent definitions**, e.g., cash flows, ratios; leading to uncertainty of supervisory expectations
- ▶ **Ineffectiveness of liquidity contingency plans** to deal with stress
- ▶ **Product complexity** causing ineffective business engagement with supervisors

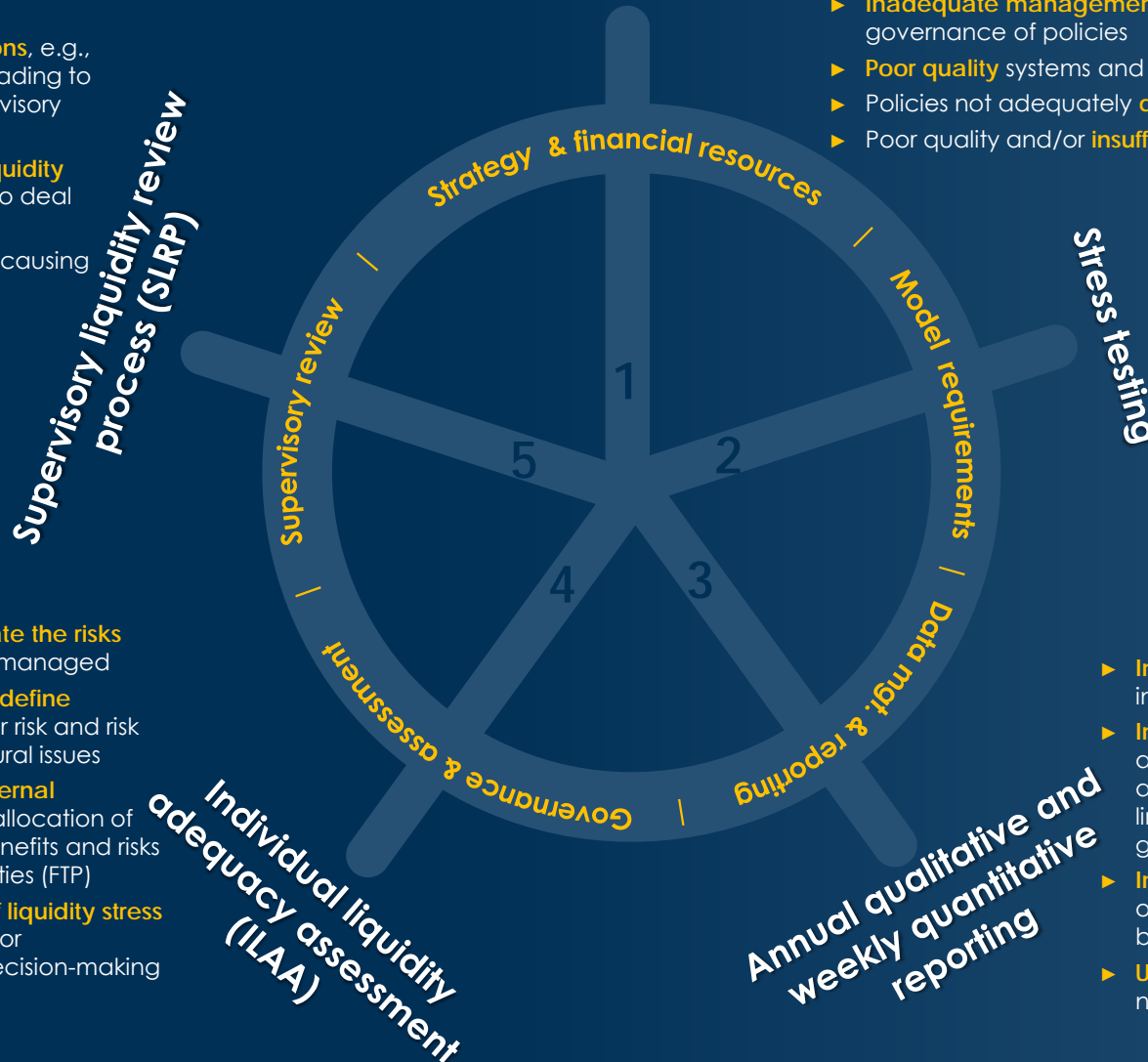
- ▶ Failure to **articulate the risks** that need to be managed
- ▶ Failure to clearly **define responsibilities** for risk and risk related behavioural issues
- ▶ **Inappropriate internal governance** for allocation of liquidity costs, benefits and risks to business activities (FTP)
- ▶ **Ineffective use of liquidity stress test results** in senior management decision-making processes

## Liquid asset buffer

- ▶ **No integrated risk management** system
- ▶ **Inadequate management** oversight and governance of policies
- ▶ **Poor quality** systems and controls
- ▶ Policies not adequately **documented**
- ▶ Poor quality and/or **insufficient liquid asset buffer**

- ▶ Failure to identify and measure **full range of liquidity risks** and major on and off-balance sheet risks
- ▶ **Stress testing** framework not robust
- ▶ Inadequate understanding of **liquidity risk tolerance/appetite** throughout the firm

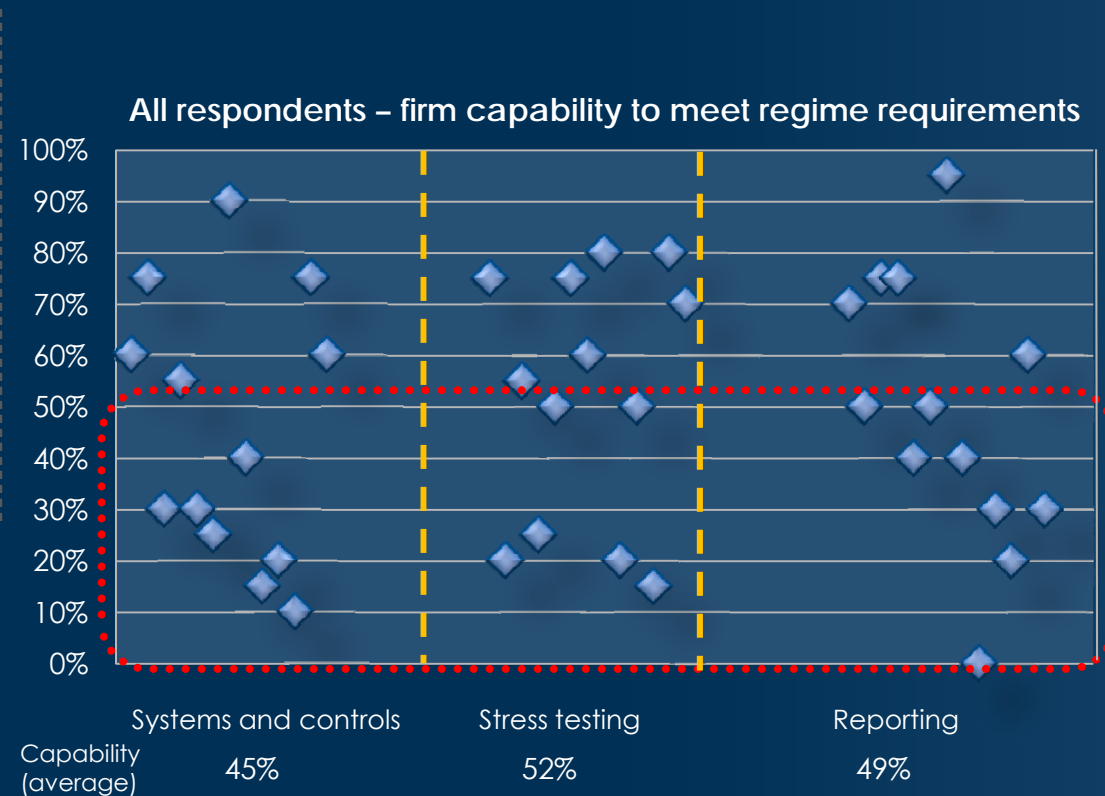
- ▶ **Infrastructure not robust** and/or inflexible
- ▶ **Insufficient data consistency**, accuracy, ability to aggregate across risk types and business lines i.e., insufficient level of granular data
- ▶ **Inability to report liquidity data** on an intra-day (real-time) basis
- ▶ **Unclear reporting lines**, that are not well-defined





# The known unknowns

## Half firms surveyed will not be ready for PS09/16



- ▶ **Timing not clear:** simply stated “Q4 2009” implementation date
- ▶ **Ambiguities:** unclear data items
- ▶ **Incorrect assumptions:** waiver option removed
- ▶ **Changes in requirements:** increase in prescription
- ▶ **Short timescale:** requirements finalised less than 2 months before implementation date

Source: JWG 1:1 risk management survey August-September 2009. 13 respondents asked to indicate the capability of their system as a percentage

49% ready with 35 days to go for SYSC and stress testing

- **What, of all the changes, are the most difficult and the most important?**
- **How will the market use the information about banks for better investment decisions?**
- **What have all the changes meant in practice?**
- **Do we know what ‘good risk plans’ look like?**
- **Does the industry have the resources to manage the risks?**

**This house believes the MiFID review to be the tip of the trading iceberg.**

*A debate about the priority changes to the trading environment*

- **Debate**

- How significant are the MiFID changes under discussion – will they change the market?
- Will MiFID set the global trading standards? Does this imply more fragmentation?
- Which of the global initiatives will impact what it takes to ‘do the trade right’ the most?
- Are we standard enough? What standards are likely to change?
- Are the priorities for the trading infrastructure in 2011 smaller, more or faster?

- **Panel**

- Dr. Robert Barnes, CEO, UBS MTF
- Jonathan Herbst, Partner, Financial Services Group, Asset Management - Banking - Markets – Regulation, Norton Rose LLP
- Nick Miller, Government Relations, EMEA, Morgan Stanley
- Chris Simms, Head of Investment Operations, Gartmore



# Research on the new checklist

Q2. Risk management process enhancement: To what extent do you agree that your firm is capable

Set risk strategy and maintain operating model	Governing and documenting policies and procedures effectively
	Clearly understanding its short-term goals and targets
	Integrating its risk management framework across major risk types
	Ensuring the suitability of its long-term vision
Set risk appetite and tolerance policies	Identifying and defining the key risk sources
	Setting accurate thresholds and triggers for assessing model performance
	Using suitable ratios/metrics to provide appropriate safeguards against risk
	Providing meaningful stress test results using a robust framework
	Ensuring its investment strategy provides a balance between risk and return
Analyse, monitor and report risk	Aggregating data cross risk types and business lines
	Tracking/ tracing data across legal entities and jurisdictions
	Confirming the reliability of data through validation processes
	Establishing clear and coherent reporting lines
	Analysing the aggregated data to assess all material risks faced by firms
Govern, test and manage risk	Clearly defining responsibilities of risk and risk-related issues
	Reviewing products to provide a clear understanding of inherent risks
	Adequately using stress test results in the firm's decision-making process
	Conducting a review of its risk assessment on an ongoing basis
	Identifying and adequately managing exceptions
Establish risk culture, plans and incentives	Providing sufficient level of training
	Dealing with stress through effective contingency plans
	Providing sufficient information flow through effective communication links across risk silos
	Ensuring remuneration practices are consistent with effective risk management



# LiRAN risk prioritisation survey

- ▶ 8 questions covering
  - Strategy and financial resource management
  - Model requirements
  - Data management and reporting
  - Individual assessment and governance
  - Supervisory review engagement
- ▶ 20 interviews conducted to date
- ▶ Participants to get feedback – book your slot with [amrita@jwg-it.eu](mailto:amrita@jwg-it.eu) today!



# Thank you

## JWG Group Ltd



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