# SIFMA Conference

Treasury and Liquidity Panel

Moderator: Michael Bolan,

Panelist: William Wollman, Paul Shoukry, & Steve Kastenholz

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# Treasury and Liquidity Agenda

The broker-dealer treasury and liquidity landscape has significantly evolved over the past decade with regulations designed to address key issues. On the horizon are additional considerations that will have an impact on liquidity with the decommissioning of LIBOR.

**The Agenda for today's discussion**

<u>FINRA Regulatory Notice 15-33</u>

- Recap the progress of FINRA Notice 15-33
  - Origins of liquidity guidance FN10-57
  - FINRA's survey results
- Liquidity Stress Test considerations
  - Key issues influenced by entity size, complexity and other regulatory factors
  - Key drivers to consider – scenarios and assumptions
- Liquidity Buffer composition
  - Securities that qualify and the cost of holding the appropriate buffer
  - Determination of liquid and readily marketable
- Other liquidity Considerations
  - FINRA's proposed Supplemental Liquidity Schedule (FINRA Rule 4521)
    - Current status
    - Things to think about
  - Intra-day liquidity
    - Understanding your capabilities
    - Reporting and monitoring

<u>LIBOR Decommissioning</u>

- Key considerations
  - Areas impacted – Product, Processes, Systems, Reports, Legal, Accounting & Models
  - Cincinnati Fed issues SOFR for interest rate
  - Benchmarking to Futures, IOS and SWAPs
  - Many institutions are contracting beyond 2021
  - Impact of Zombie Libor
- Where we are today
  - UK banks received a "Dear CEO Letter" on Sep 19, 2018
  - SOFR is receiving the most focus from the ARRC and the FED
  - Broker-dealer subsidiaries of large banks are well into the execution of their plans
  - Mid-sized banks and broker-dealers are just starting to scope out impact analysis
  - Independent and smaller broker-dealer plan to be fast followers
- Observations and Considerations
  - Leader may be able to offer new products, increase customer base and take advantage of anomalies in the market place
  - Fast followers need to be prepared in advance

# FINRA Guidance on Liquidity Risk Management (10-57 & 15-33)

FINRA released a regulatory notice on Liquidity Risk to provide guidance on Liquidity Risk Management Practices (10-57) and guidance on the results of their stress test review with their interpretation and guidance from the results (15-33).

| | |
|---|---|
| **Overview** | ▪ FINRA's Guidance on Liquidity Risk Management highlights the need for broker-dealers to review their respective liquidity conditions under possible stress events, and to develop and implement the appropriate governance frameworks and corresponding processes<br>▪ The expressed purpose of the regulatory notices were to better understand firms' liquidity risk-management practices currently in the market, and to raise awareness of the need for sound liquidity stress planning |
| **Firms survey / study** | ▪ FINRA conducted an assessment and survey with a set of mid-sized and large broker dealers to gauge their readiness from a liquidity risk management and operational perspective in response to a broad range of adverse circumstances, including extraordinary credit events<br>▪ Includes a survey of 43 firms to gauge their readiness in managing liquidity needs and risks in a stressed environment using stress tests. Based on the survey, FINRA identified general deficiencies with the preparedness of a number of the firms during periods of stress events |
| **Regulatory Guidance** | Based on the survey, FINRA recommended that organizations:<br>▪ Conduct a self assessment of their businesses and incorporate firm wide liquidity stress testing into their risk and business planning<br>▪ Continuously monitor and evaluate liquidity needs in both idiosyncratic and market-wide stress scenarios as FINRA intends to review firm liquidity risk planning and stress tests<br>▪ Have sufficient resources to measure risk applicable to its business, and implement sufficient escalation and reporting mechanisms to the firm's senior management<br>▪ Develop a contingency funding plan to address the liquidity risks identified by the firm, and implement mitigating processes<br>▪ Conduct necessary operational tests and other reviews to evaluate the effectiveness of the contingency funding plans |

# LIBOR Transition Lifecycle

See below an example high-level LIBOR transition lifecycle broken down into three phases.

2018 — 2019 — 2020 — 2021

## Identify & Inventory Exposure **Impact Analysis**

**Design Transition Program**
- Build out transition program structure
- Establish roadmaps / plans and business case

**Perform Initial Analysis**
- Conduct top down analysis
- Supplement with benchmarking
- Prioritize portfolios / business units
- Customize a LIBOR inventory and planning tool

**Identify / Validate LIBOR-linked exposures**
- Conduct discussions with businesses, Front Office & Product Controllers
- Establish sources and extract preliminary data
- Capture into inventory and planning tool

**Determine Impacted Processes**
- Conduct discussions with functions and groups / process owners
- Identify & validate LIBOR-linked processes
- Determine transition considerations

## Plan & Implement the Transition of Benchmark Rates

### Products
- Product re-design and P&L analysis
- Sales and trading

### Process
- Change management of key processes such as Risk, Treasury, Credit, ect.

### Systems & Data Feeds
- BRDs / system design and architecture adjustments
- UAT for changed feeds / systems application

### Legal
- Impacts to counterparties / data licenses; re-negotiate
- Client and stakeholder communications; re-paper agreements

### Asset & Liabilities
- Financial instrument re-valuation
- Refining risk appetite, limits and metrics

### Regulatory
- Impact on regulatory forecasting, models & reporting

### Accounting
- Changes to AIS, Financial Statements, Tax & SOS404

### Reporting
- Customer, investor, & other external stakeholders
- Internal business-level

## Decommission LIBOR

**Physical removal of LIBOR from**
- Systems
- Data feeds
- Processes
- Policies and procedures
- Client documentation
- Training material
- etc.

**Post-decommissioning risk factor**
- Zombie LIBOR
- Capital markets anomalies
- Impacts of none US benchmarks IBOR, SONIA, etc.

**Transition implementation documentation archival**

## Parallel Analysis and Transition Monitoring

- Ongoing monitoring of LIBOR selection / transition
- Post go-live “parallel runs”, including LIBOR markets / model analysis, and continued reporting / stakeholder communications, etc.