

Component profile

Verasis Risk

Liquidity Risk: Manage, Measure, Stress and Report

The Financial Services Authority's (FSA) regulatory liquidity regime for all UK banks, building societies and investment firms has been overhauled. The new regulations require institutions to define and perform stress and shock testing across a wide range of business assumptions and risk drivers.

The breadth and frequency of the stress testing requirements of this new regulatory liquidity regime represents a significant challenge for many financial institutions and imposes onerous reporting requirements both internally and externally. Each firm must have in place sound, effective and complete processes, strategies and systems that enable it to identify, measure, monitor and control liquidity risk.

'We believe that it is crucial that a firm establishes a robust liquidity risk management framework that is well integrated into the firm-wide risk management process in order to ensure that it can continue to meet its liabilities as they fall due, both in normal and stressed times.'
(FSA Consultation Paper 08/22)

The Problems

The new regulatory regime gives rise to a number of problems, issues and requirements:

- The framework must have the capacity 'to provide its governing body, senior managers and other appropriate personnel with timely and forward looking information on the firm's liquidity position' (FSA Consultation Paper 08/22)
- Financial institutions need to have the ability to define, emulate and compute the impact of stress scenarios on the liquidity of the institution and its ability to survive those scenarios (without assistance)
- The FSA identifies 10 liquidity risk drivers that may 'crystallise' as a result of stresses. Institutions are to analyse how each of these risk drivers is affected and the level of outflows that will occur as a result of the stresses.

Right: Excerpt of a diagram from the FSA Consultation Paper 08/22 and illustrates the various components of the new liquidity regime



The Benefits of Verasis Risk

Verasis Risk represents a new generation of software systems and was developed by Veratec Limited, a software company operating in the banking, finance and corporate sectors.

Some of the benefits of Verasis Risk are:

- Verasis Risk is a proven and implemented risk management system
- Delivers its solutions on time and within budget
- Full scenario definition capability allowing stress and shock tests to all business assumptions
- Seamless integration and interface with multiple trade, market data and exchange systems
- 'Best Practice' standards enabling rapid implementation and removing the need to alter existing systems
- Utilises the latest software standards available providing both longevity and contingency
- A dedicated and proven support methodology
- An efficient low risk, low cost implementation allowing a firm to focus on what it does best
- Bespoke 'Client Solutions' and 'Solution Relationship'
- Multi-discipline approach to risk and regulatory management thus allowing institutions to consolidate several risk and regulatory requirements into a single integrated application

- Institutions are required to regularly analyse the impact of liquidity stress scenarios on:
 - Cash flows
 - Liquidity
 - Profitability
 - Solvency
- Institutions are required to consider both short term and protracted stress scenarios
- The system must interact and capture data from:
 - All trading, asset & liability and balance sheet systems within the institution
 - All market data and exchanges sourced by the financial institution
- The systems must be able to perform intra-day analysis across standard and stress scenarios.
- Onerous new periodic reporting requirements with daily submission in times of market stress
- Early warning indicators identifying increased liquidity risk or vulnerabilities

The Solution

Verasis Risk meets all FSA stress and shock scenario requirements:

- Product /franchise markets, pricing and timing
- Market pricing and volatility behaviour (interest rates, FX rates, volatility)
- Customer/counterparty stability

Verasis Risk provides users with the ability to analyse the impact of stress scenarios across the full business life-cycle by both modelling forward cash flows and implying 'forward forward' market data scenarios.

Verasis Risk models all trades, positions, accounts and balance sheet items into constituent cash flows.

All cash flows retain the 'source profile' and this combined with the flexible Verasis Risk reporting application and full drill down capability provides the ability to analyse the impact of stress tests across all risk drivers.

The Verasis Reporting module allows clients to meet all their internal and external reporting requirements.

Verasis Risk is a multi-discipline risk and regulatory system incorporating VaR (Historical & Monte Carlo), Mark to Market, Market Data Sensitivity, Credit Risk, Gapping, ALM, Hedge Effectiveness, Basis Risk, Sovereign Risk and LIQUIDITY components.

Verasis Risk provides the ability to perform full impact analysis of stress scenarios on Cash Flows, Liquidity, Profitability and Solvency.

Verasis Risk provides multi-level, multi-format and multi-media distribution of all reports/data ensuring a single vision across all management levels, delivered in the appropriate format and detail for the target audience.

Verasis Risk seamlessly interfaces and interacts with existing trading and market data systems providing a consolidated and independent 'single source' of data.

Verasis Risk incorporates distributed processing and supports high volumes of complex calculations, making it scalable and providing 'intra-day' capability.

Verasis Risk allows senior management to meet and satisfy the requirements imposed under the new FSA regulations.

Liquidity Risk Schematic

