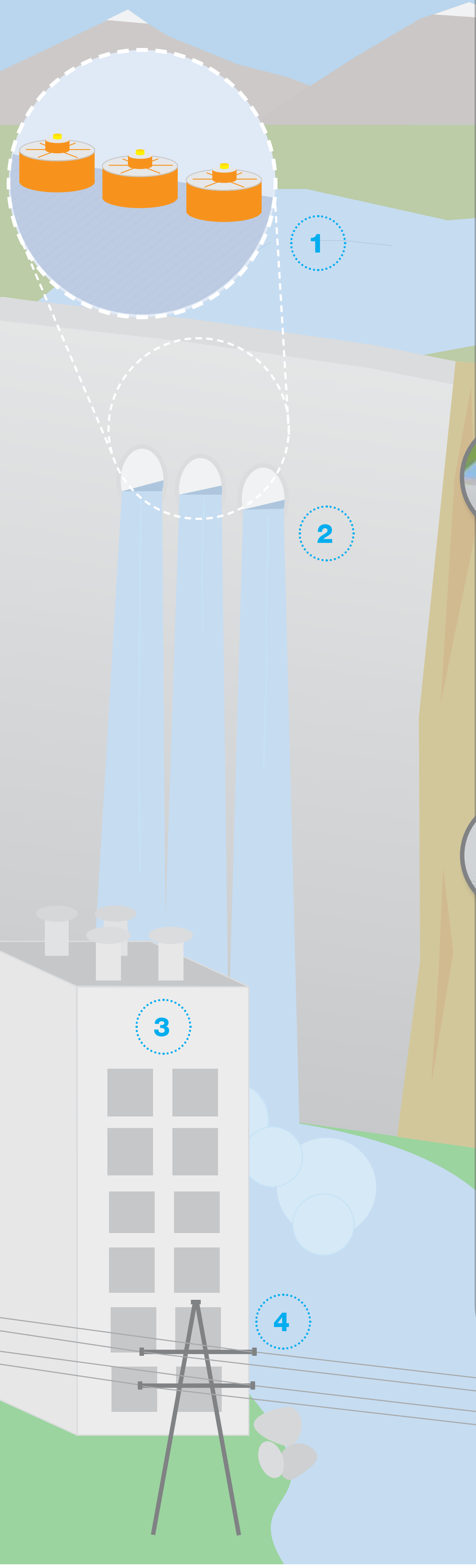
Effective Liquidity Risk Management 2013



Basel III will enforce changes in the calculation and future management of capital leverage ratios for investment banks. **Effective collateral management** means banks should explore best practices to ensure internal and external liquidity risks are well managed.

Optimisation

1

There are three principles for the effective management of collateral risk that are designed to help banks optimise the value of the collateral at their disposal at any point in time. Those principles include advice on how to better design credit support annex agreements with clients, the necessity of hiring and promoting experienced collateral management staff and how best to take a proactive approach to collateral substitution.

Rehypothecation

2

The rehypothecation of client collateral for use by banks is an essential element of the effective management of liquidity risks in a post-Basel III, high-grade collateral-constrained world. But rehypothecating different types of collateral comes with a variety of different risks, and banks engaged in the practice should seek to avoid those risks by ensuring the collateral available to them for rehypothecation is durable enough to cover those risks.

Transformation

3

Collateral transformation and liquidity swapping are essential processes for the effective management of client collateral in a post-Basel III environment. But there are a variety of issues and challenges related to the transformation of client collateral from one form of guarantee to another that can affect the bank's balance sheet, compliance with EU and US regulations and the bank's risk profile in its relationships with clearinghouses.

Technology

4

The effective management of both internal and external collateral liquidity risks for a bank demand a certain baseline of technology that allows for the gathering of information related to those risks in real-time. Banks should be prepared to invest heavily in the systems infrastructure necessary to provide a level of processing capability needed to provide this real-time functionality.

Liquidity risk overseers at banks can utilise a **series of detailed checklists** found in GreySpark's **Effective Liquidity Risk Management 2013** report to facilitate optimisation of their existing practices.

This report examines the challenges that Basel III-mandated risk mitigation measures pose to liquidity managers at investment banks – namely, CEOs, CFOs and their associated senior management committees. The report lays out a series of effective principles that liquidity risk managers can use to guide them through a fundamental shift in the regulation of the management of investor capital away from a long-standing principles-based approach to liquidity risk management and toward a more rules-based system. More info at: research.greyspark.com

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