

Liquidity Stress Testing Solutions

Liquidity risk management has been a growing focus for several years with regulators being a big driver and investors demanding more due diligence from fund managers. In January 2017, the FSB issued 14 policy recommendations to address structural vulnerabilities in the asset management industry; eight of which pertain to enhancing liquidity risk measurement, management, and disclosures. In the years following the FSB recommendations, regulators around the globe responded with new rules and guidelines, transforming liquidity risk management into a core operational requirement. As a result, the Canadian Securities Administrators (CSA) published updated liquidity risk management guidance for funds across Canada. The ESMA liquidity stress testing guidelines for UCITS (Undertakings for the Collective Investment of Transferable Securities), and Alternative Investment Funds (AIFs) went into effect across the EU on September 2020 and have set the high water mark by going above and beyond the FSB recommendations. In the US in November 2022, the SEC amended a proposal to rule 22e-4 that will update the liquidity bucketing definitions and add a stress testing component to the liquidity risk management requirements.

THE REQUIREMENTS

- Fund managers need to perform periodic Liquidity Stress Testing (LST) to comply with regulatory guidelines
- Companies must report on liquidity risk
- Accessing key liquidity risk metrics across asset classes

THE SOLUTION

FactSet has partnered with ICE Data Services so users can easily access Liquidity Indicators within our platform. Clients can receive a range of key liquidity risk metrics across asset classes, including projected trade volume capacity, days to liquidate, and market price impact, using model-based and heuristics-driven methods. With the liquidity risk metrics integrated into FactSet's versatile suite products, clients can analyze and report on fund liquidity risk. If you are a current client of FactSet's solutions, implementation of the liquidity classification process is seamless.

FactSet offers:

- Comprehensive asset coverage: global bonds, equities, currencies, commodities, returns-based assets, and their derivatives
- Estimated liquidation costs at a position level (position aware)
 - Security- and portfolio-level "Days to Liquidate" projections
 - Security- and portfolio-level "Market Price Impact" projections
 - Historical and custom stress scenarios consistent with ESMA (and other global regulators) LST guidelines
 - Assess daily changes in liquidity based on changing market conditions
- Liquidity analytics across asset classes and global coverage
- Customizable scenario parameters to create firm-specific views, scenario analysis, and stress tests

Integrating the data in your current analytics workflow reduces time spent on uploading and formatting data so you can focus on analyzing and reporting on liquid risk.

THE REGULATION

EU Effective date: September 30, 2020

In-scope firms:

- UCITS funds
- AIFs (including leveraged close ended)
- ETFs
- MMFs established in the EU (when the MMFR regulation does not already cover the requirements)

REGULATORY SERVICES

Activating a compliance strategy is difficult. We're here to help, with the flexible, consultative approach you've come to expect from FactSet. Talk to regulatory specialists about your challenges, and we'll help you figure out the most effective solution—without disrupting your investment process.

We bring together industry expertise, reliably connected data, portfolio analytics, client reporting, and strategic partnerships to help you address multiple regulations and standards, including: ESG, Solvency II, N-PORT, MIFID II, liquidity stress testing, and more.

Contact us at:

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