

Prometeia: supporting European leading institutions in the analysis, production and quality assurance of SSM Liquidity Exercise

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In 2016 the European Central Bank released a **standard template for supervisory crisis management** to be filled by financial institutions under Single Supervisory Mechanism (SSM), containing the minimum set of information to be provided to the Single Resolution Board (SRB) in case of a severe liquidity crisis.

Last April, the ECB announced its decision to perform this exercise on a yearly basis with a two-fold objective: to improve the self-awareness of the supervised institutions on liquidity crisis management, and to regiment the banks to complete the submission in a timely and accurate manner during a contingency situation.

Prometeia, the global leader in Risk Management consulting and software solutions, **has supported nine of the 14 Italian SSM banks in the production and quality assurance of the template**, leveraging the advanced capabilities of its enterprise software solution, ERMAS.

The template is focused on the most relevant liquidity data in crisis situations and includes both regulatory and managerial information, which must be submitted on a daily basis to the regulatory body:

- › Liquidity Coverage Ratio;
- › Concentration of funding under different analysis dimensions;
- › Net liquidity position under business-as-usual and internal stressed scenario;
- › Funding distribution over the last seven days.

In evidence of the strategic relevance of the exercise, the ECB has required that all template cells should be subject to a validation process by Internal Audit to ensure both the full compliance with the submission instructions (formal approach) and the meaningfulness of the information provided (substance approach).

The ability of each individual institution to respond fully and appropriately to this exercise depends on the status of the internal risk management architecture; nonetheless the **main challenges** for the institutions have proved to be the following:

- › **Product data:** Integration of the daily liquidity bank data with the less volatile, commercial products (e.g. retail deposits);
- › **Processing engine:** Adoption of software solutions capable of managing high-frequency reporting, with a high degree of sophistication and with effective consolidation features;

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- › **Auditability:** Production of reports with a high degree of granularity (single deal level), allowing the validation by the Internal Audit Department (e.g. reconciliation with general ledger);
- › **Consistency of the metrics:** Use of an integrated solution able to complement regulatory metrics (LCR) with managerial analysis (e.g. internal stress testing)

“Thanks to the Integrated Liquidity Module of the ERMAS suite, all figures and breakdowns required in the exercise are ready available, including the completeness and granularity of input data, the analytical capabilities and the high performing computing process and output drill down” says **Andrea Partesotti, Head of Enterprise Risk Management Area and Director at Prometeia.**

ERMAS, the new generation of value-centric risk solutions, is used by over 200 clients in more than 20 different countries to support their critical decisions and to comply with local and international regulatory requirements.

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With over 40 years of experience in economic research, quantitative analysis and model development, Prometeia is a global provider of consulting services and software solutions focused on Risk, Performance & Wealth Management. With over 700 industry experts, we serve more than 200 financial institutions in 20 different countries, through a consolidated network of foreign branches and subsidiaries located in Europe, Africa and the Middle East