



Large Regional and Global Banks...

Have all the dominoes fallen? What can institutions do now to avoid being the next domino in line?

Five financial institutions have shuttered in just five months – four in quick succession in March alone – something that has not happened in almost a century. Several remain under pressure and market scrutiny. And while the industry and media have a lot of opinions about recent events, financial institutions must be pragmatic and quickly solidify their understanding of the root causes and prepare both short- and long-term action plans to address them.

Every day, more than 200 clients use Adenza's treasury and trading solutions; an additional 150+ use its regulatory solutions for liquidity and capital. In this article we summarize the recent events and share key takeaways for our client community.

The Run-Up To The Fall

Over the past few weeks, a lot of ink has been spilled as to why SVB failed. Following is a distillation of the of events leading up to it:

- ▶ Concentrated risk in a homogeneous set of depositors and borrowers who propelled the bank's growth in deposits and long-dated fixed-income securities.
- ▶ Accumulation of unhedged interest-rate and liquidity-flight risks in the balance sheet, coupled with a loose US-regulatory framework that lacked any incentives for banks to adjust their risk level – accumulated other comprehensive income (AOCI) capital deductions.
- ▶ A downgraded-economic context that caused depositors to withdraw cash to sustain their activities and the Federal Reserve to raise interest rates multiple times in 18 months. This resulted in a first loss on bond portfolios that would, in isolation, have been manageable from a capital standpoint.
- ▶ Rumors of imminent bankruptcy once the financial situation was communicated. This caused the stock to be attacked, initiating massive withdrawals, and ultimately resulting in the bank selling its long-term, low-yield bonds that should've been held to maturity.
- ▶ A failed bailout. The lender of last resort refused the proposed solutions to cover the subsequent loss that exceeded bank's capital.

Every day, more than 200 clients use Adenza's treasury and trading solutions; an additional 150+ use its regulatory solutions for liquidity and capital.

A Moment Of Clarity – 7 Key Takeaways

Hindsight is always 20-20. As financial institutions absorb the implications of these events, here are seven highly relevant areas of focus from the Adenza lens:

- 1 Regulatory remediation:** Matters Requiring Attention (MRA/MRIA) were left outstanding for extended periods of time. A heightened focus to proactively remediate this, in steady and measurable phases, is critical.
- 2 Interest Rate Risk in the Banking Book (IRRBB):** The economic value of equity (EVE) calculation is a simple but powerful measure to capture duration risk in the banking book.
- 3 Liquidity stress testing:** Modeling idiosyncratic scenarios on the same, complete, and reconciled data used for FR 2052a reporting.
- 4 Deposit analytics:** Better understanding of customer mobility with a heightened focus on accounts by ownership right and capacity (ORC) exceeding the FDIC's insurance limits.
- 5 Treasury consolidation of trading and banking books:** Ability to simulate interest-rate (IR) curve movements and recompute IR gaps and other IRRBB metrics with full drilldown.
- 6 Balance-sheet stress testing:** Shocking IR and FX rates, credit default swap (CDS) spreads in combination with behavioral models.
- 7 Market and counterparty credit risk advanced analytics:** Enterprise-wide stress scenarios, value at risk (VaR), potential future exposure (PFE), limits, and the impact of valuations adjustments (XVA) due to rising CDS spreads.

What's Next

As financial institutions think about ways to put the takeaways into action, one of those might be to find a solution that provides a range of features that help them understand, simulate, and actively manage risks, including a holistic view of banking and trading books, collateral, risk, etc., risk-metrics updates throughout the day, simulation tools, and a top-down approach to treasury analytics.



As financial institutions think about how to put the takeaways into action, one of those might be to find a solution that provides a range of features that help them understand, simulate, and actively manage risks.

Contact Adenza to start a conversation about how we can help you with your capital markets and regulatory needs.

The information contained in this publication is intended solely to provide general guidance on matters of interest for the personal use of the reader, who accepts full responsibility for its use. The application and impact of laws can vary widely based on the specific facts involved. Given the changing nature of laws, rules, and regulations there may be delays, omissions or inaccuracies in information contained in this publication. Accordingly, the information in this publication is provided with the understanding that the author(s) and publisher(s) are not herein engaged in rendering professional advice or services. As such, it should not be used as a substitute for consultation with a competent adviser. Before making any decision or taking any action, the reader should always consult a professional adviser relating to the subject matter of the relevant publication.

While every attempt has been made to ensure that the information contained in this publication has been obtained from reliable sources, Adenza is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information in this publication is provided "as is," with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, merchantability, and fitness for a particular purpose. Nothing herein shall to any extent substitute for the independent investigations and the sound technical and business judgment of the reader. In no event will Adenza, or its partners, employees, or agents, be liable to the reader or anyone else for any decision made or action taken in reliance on the information in this publication or for any consequential, special, or similar damages, even if advised of the possibility of such damages.

Copyright © 2023, Adenza, Inc. All rights are reserved. The copyright in the content of this publication (other than any third-party comments and quotations) are owned by Adenza, Inc. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of Adenza, Inc.

All product names, logos, brands, trademarks and registered trademarks are property of their respective owners. All company, product and service names used in this publication that are not property of Adenza, Inc. are for identification purposes only. Use of such trademarks, registered trademarks, company names and/or product and/or service names does not imply endorsement.

For more information, contact
communications@adenza.com
www.adenza.com