

<b>Client</b>	The client is a specialist investment and wholesale bank operating in Luxembourg
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<b>Project Name</b>	Implementation of the new internal capital adequacy and liquidity risk regulatory regime (CSSF Circulars 07/301 and 09/403)
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<b>Project Start Date</b>	October 2009	<b>Project End Date</b>	February 2010
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<b>Industry</b>	<input checked="" type="checkbox"/> Commercial banking	<input type="checkbox"/> Insurance
	<input type="checkbox"/> Fund Custody & Investment Services	<input checked="" type="checkbox"/> Investment banking
	<input type="checkbox"/> Private banking	<input type="checkbox"/> Asset and wealth management
	<input type="checkbox"/> Retail banking	<input type="checkbox"/> Corporate

<b>Category of Service</b>	<input type="checkbox"/> Performance measurement and monitoring	<input checked="" type="checkbox"/> Regulatory compliance and reporting
	<input type="checkbox"/> Portfolio risk management	<input checked="" type="checkbox"/> Business process improvement
	<input checked="" type="checkbox"/> Specialised risks	<input checked="" type="checkbox"/> Training and people change
	<input type="checkbox"/> Data Quality	<input type="checkbox"/> System selection and implementation

<b>The Challenge</b>	<p>A specialist investment and wholesale bank operating in Luxembourg was required to implement CSSF Circular 07/301, <i>Internal Capital Adequacy Assessment Process (ICAAP)</i> and Circular 09/403, <i>Sound liquidity risk management</i>.</p> <p>The ICAAP requirements mandated that the Bank assess all risks to which it is or could be exposed; maintains sufficient capital to face these risks; and develops and better use risk management techniques in monitoring and managing these risks. The ICAAP also allows a bank to fully realise the benefits of sound risk management techniques.</p> <p>The initial challenge was to provide the client with a diagnostic and gap analysis necessary to prepare the ICAAP methodology in line with CSSF Circular 07/301. In particular, the project had to identify proportional solutions consistent with the size of the Bank and the complexity of its activities.</p> <p>In addition, the implementation project involved the development and embedding of enhanced liquidity and liquidity risk management processes as well as the documentation of such processes due for submission to the <i>Commission de Surveillance du Secteur Financier</i> ("CSSF").</p>
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<b>Approach and Solution</b>	<p>avantage consultants, including Credit and Liquidity Risk Professionals undertook the project and delivered the following:</p> <ul style="list-style-type: none"> <li>• <b>CSSF Circulars 07/301 (ICAAP) and 09/403 (Liquidity) – Gap Analysis and Recommendations:</b> The report provided an evaluation of the Bank's</li> </ul>
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	<p>current liquidity risk management capabilities and recommendations on the measures the Bank should consider implementing to comply with the Circulars.</p> <ul style="list-style-type: none"> <li>• <b>Input into the development and implementation of the internal capital adequacy assessment process:</b> This phase led to the drafting of a report prepared by senior management for the Board of Directors and, eventually, the CSSF.</li> <li>• <b>Excel-based tool for liquidity risk management and stress testing:</b> avantage developed a tool based on the existing data and reports available within the Bank. It provides a workbook which supports the Bank in managing and monitoring liquidity risk as well as conducting relevant stress tests. The workbook is a carefully balanced compromise between robustness/sophistication and pragmatism drawing exclusively on readily available data within the Bank in order to avoid unnecessary IT expenditures.</li> <li>• <b>The key elements of a liquidity risk management framework designed to meet the requirements of the Circular, including:</b> <ul style="list-style-type: none"> <li>○ Input into the articulation of the Bank’s liquidity risk strategy;</li> <li>○ Procedures to manage liquidity crisis;</li> <li>○ Stress testing; and</li> <li>○ Monitoring of intraday liquidity.</li> </ul> </li> </ul>
<p><b>Results and Benefits</b></p>	<p>The Bank was presented with specific findings in the following categories: comprehensive assessment of risks to which the client is exposed; risk mitigation; capital allocation; scenario testing and; risk management framework and governance.</p> <p>Combining the expertise and experience of avantage consultants in investment banking and commercial banking, credit risk, liquidity risk, and data quality, avantage provided the client with pragmatic solutions tailored to the size and complexity of its activities.</p>
<p><b>Software used</b></p>	<p>IRPM<sup>®</sup>, Matlab, Excel</p>