

Covid-19

How bank treasuries' crisis playbook should look like

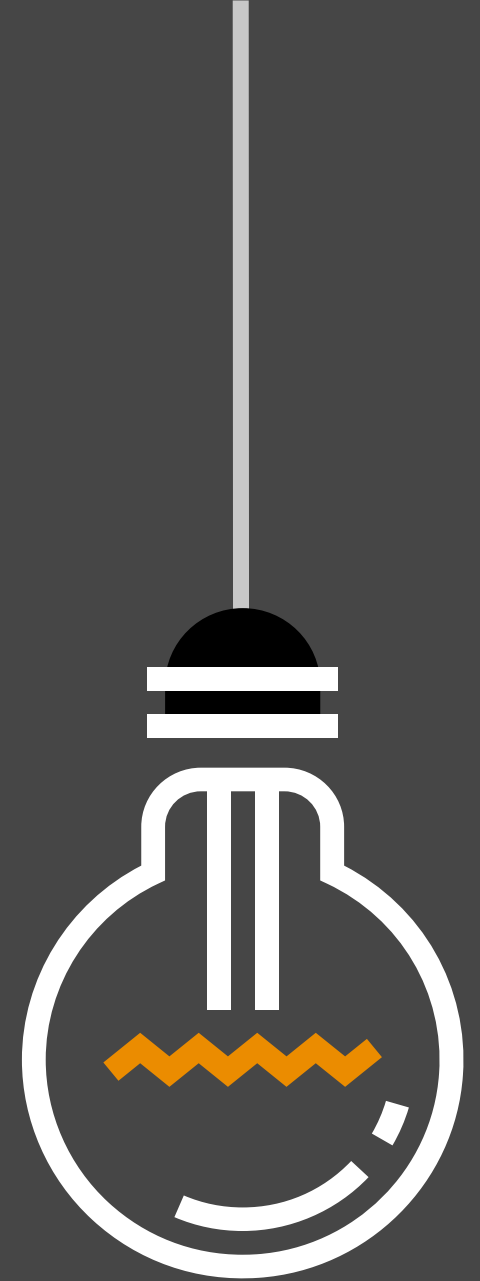
PwC – Financial Services



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We have **completely** underestimated the situation. First, it was such a China thing, then it was only on selected countries...and recently the virus “**crushed in**”!

Global Head of Treasury
European G-SIB



Whilst the long-term impact of Covid-19 cannot be assessed, short-term disruption on financial markets was significant

> 25%

Equity markets have suffered substantially since beginning across all territories.

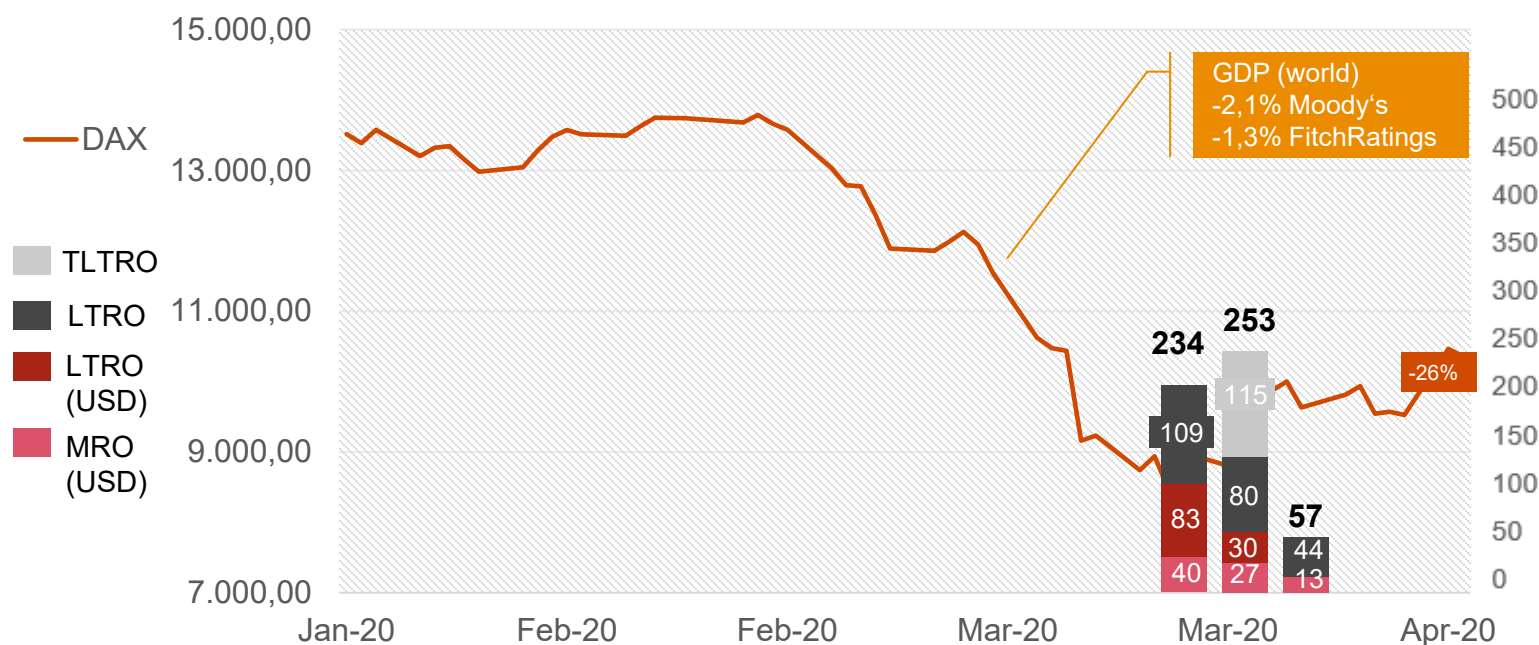
> 300_{bn}

Massive drawdown of ECB's facilities since the onset of the crisis indicates substantial stress across funding markets.

2,0_{pp}

Worldwide GDP consensus has been cut by all rating agencies since January 2020.

Financial Market Indicators in bn¹



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We are fully prepared to increase the size of our asset purchase programs and adjust their composition, by as much as necessary and for as long as needed.

European Central Bank



Temporary measures taken by central banks shall relieve pressure from banks and foster economic stabilization



Unlike the 2008 financial crisis, banks are not the source of the problem this time. But we need to ensure that they can be part of the solution.

Andrea Enria
Chair of the Supervisory Board, ECB Banking Supervision
2020

Liquidity



- Banks are allowed to raise liquidity by operating temporarily below LCR.
- The ECB has expanded its asset purchases within the PEPP up to € 750bn and lowered qualitative requirements.
- TLTRO III supplies bank with additional funding up to 50% of eligible loans (prior to crisis: 30%), the rate decreased by 25bp.

Capital



- Banks are allowed to operate temporarily below the capital buffers P2G and CCB. The ECB reduced the CCyB to 0%.
- Changes in the composition of the P2R allows banks to partially substitute CET1 capital with AT1 or T2.

Operational



- Additional leeway by simplified processes and by adjusted timetables (e.g. TRIM investigations and EU-wide stress test are postponed).
- Flexibility is granted regarding the current NPL framework, e.g. classification of debtors as defaulted due to “unlikeliness to pay” or regarding Covid-19 related public moratoriums.

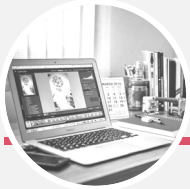
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We are currently in a firefighting mode. Whilst we were focusing on efficiency and costs weeks ago, we now assess the Covid-19 universe and how we can prioritize our efforts to keep the economy functioning – whilst protecting our bank.

Head of Intraday Liquidity Management
European Corporate & Investment Bank

The widespread of the Covid-19 impact on treasury asks for a well-thought and prioritized ‘crisis-plan’

Situation



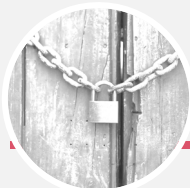
Financial Markets

- Increased market volatility across all asset classes
- Macro-economic outlook deteriorated for all economies
- Increasing funding spreads especially on the short end
- Dry-up of certain funding sources



Clients

- Increased funding demand from clients
- Loyalty expectations from clients
- Cash dispersion due to customer’s liquidity constraints
- Potential near time defaults



Regulators & Central Banks

- Offer of new or amended funding sources
- Amended temporary prudential regulation
- Commitment to protect the economy



Political Environment

- Commitment to support banks and economy during the crisis
- Rules of social distancing and operational shut down of premises
- Expectations to banks to support economy

Reaction

1 Mobilize



„A smooth sea never made a skillful sailor.“

2 Stabilize



“There are some things one can learn in a storm.“

3 Strategize



“The good seaman weathers the storm he cannot avoid, and avoids the storm he cannot weather.“

Due to impacts of the Covid-19 on financial markets and stakeholders the 'crisis-plan' must address certain topics



Financial Markets

- Increased market volatility across all asset classes
- Macro-economic outlook deteriorated for all economies
- Increasing funding spreads especially on the short end
- Dry-up of certain funding sources



Topics

- Market volatility
- Liquid Assets
- Stress Testing
- Daily 'scenario shift'
- Liquidity Risk Inventory



Clients

- Increased funding demand from clients
- Loyalty expectations from clients
- Cash dispersion due to customer's liquidity constraints
- Potential near time defaults



Topics

- (Intraday) Liquidity position
- Counterbalancing capacity
- Liquidity & Funding Communication
- 2nd order effects



Regulators & Central Banks

- Offer of new or amended funding sources
- Amended temporary prudential regulation
- Commitment to protect the economy



Topics

- Short term funding
- Asset quality



Political Environment

- Commitment to support banks and economy during the crisis
- Rules of social distancing and operational shut down of premises
- Expectations to banks to support economy









Topics



- Employee safeguarding

Other topics that emerge from Covid-19 crisis are of longer term and will have a strategic impact on the Treasury function:
Performance measures - Profitability - Digitalization - Treasury Governance








During mobilization Treasuries need to identify emerged risks and define short term countermeasures

1 Mobilize 	 Topics	 Potential Activities
Risk Identification & Mitigation <p style="text-align: center;"><u>Goal:</u></p> <p style="text-align: center;">Identification of risk drivers to ensure liquidity and availability of funding</p>	Employee safeguarding	 <ul style="list-style-type: none"> • Ensure operational capabilities are not inferred as well as 'employees are safeguarded' • Form an agile cross-department crisis management committee (business/treasury/risk) to align assumptions and develop scenario consensus • Define short term playbook for crisis governance
	Short term funding	 <ul style="list-style-type: none"> • Prioritize intraday liquidity flows to ensure stabilization of short term liquidity & funding market • Assess potential ('eligibility') of new ECB funding program as well as operational capabilities (e.g. data) • Identify short term access to funding sources and assess HQLA availability and 'time and value to cash'
	(Intraday) Liquidity position	 <ul style="list-style-type: none"> • Assess reliability of short term counterbalancing capacity given new developments and scenarios • Move to intraday liquidity position reporting • Set-up 'news-and-gossip' team to monitor Covid-19 statements and assess impact on assumptions taken
	Market volatility	
	Liquid assets	
	Daily 'scenario-shift'	

Taking a step back and assess crisis' liquidity insights against the current liquidity & funding framework is key

2 Stabilize 	 Topics	 Potential Activities
<p>Refine the Liquidity & Funding Framework</p> <p><u>Goal:</u></p> <p>Incorporate risks into liquidity & funding framework</p>	<p>Liquidity Risk Inventory</p>	 <ul style="list-style-type: none"> Assess liquidity risk inventory and identify 'emerged' liquidity risks not yet captured (e.g. market liquidity risk, intraday liquidity risk) Review and assess your risk appetite (liquidity & funding) aligned to a new balance sheet structure, which might include new counterparties, asset classes and an amended funding mix, representing new client loan demand and funding opportunities Assess existing liquidity early warning indicators for feasibility and determine new EWI's (e.g. CDS spreads/ iTraxx)
	<p>2nd order effects (e.g. defaults)</p>	 <ul style="list-style-type: none"> Enhance analysis of liquidity forecasting capabilities; e.g. your cashflow statement shall identify liquidity gaps intraday up to long term. Also develop cashflow statements under a normal scenario, stress scenarios (including new Covid-19 assumptions) Update assumptions, especially for the replication portfolio (credit usage, prepayments, defaults, deposit in-/ outflow)
	<p>Counterbalancing capacity</p>	 <ul style="list-style-type: none"> Include today's Covid-19 lessons learned into scenario development of your Liquidity Stress Test (e.g. ad-hoc liquidity needs and drawdowns of loan commitments, rating downgrades, increased funding spreads, macroeconomic forecasts)
	<p>Stress Testing</p>	 <ul style="list-style-type: none"> Develop communication plan to internal stakeholders, regulators, public as well as shareholders (address: who, when, how, what as well as the frequency of communication)
	<p>Liquidity & Funding Communication</p>	

To be strategically prepared, a sustainable target operating model shall be developed

3 Strategize 	 Topics	 Potential Activities
<p>Transform insights into a strategic vision</p> <p><u>Goal:</u></p> <p>Define strategic 'return-to-normal' plan and long-term operating model</p>	Profitability	 <ul style="list-style-type: none"> Analyze your product profitability and consider regulatory requirements, spread mark-ups, forward looking information, management specification for the liquidity buffer and the risk appetite Review your (envisaged) post Covid-19 balance sheet structure and assess impact on capital and liquidity ratios Adjust investment and funding plans, consider different ways of long term funding sources, such as securitizations Review liquidity contingency plan for feasibility and include lessons learned during the crisis
	Performance measures	 <ul style="list-style-type: none"> Integrate new insights into the Funds Transfer Pricing Framework (product profitability, additional capital, operational or funding costs, new management targets, etc.) Integrate early warning indicators identified into your Risk Framework and calibrate RAG thresholds
	Asset Quality	 <ul style="list-style-type: none"> Enhance your liquidity D&A playbook – now is the right time Ensure access to real time data and implement adequate IT-systems to process relevant data, use insights from crisis team to identify data requirements and to develop digitalized processes to model performance measures and enhance reporting
	Digitalization	 <ul style="list-style-type: none"> Assess lessons learned against your governance structure and reporting lines; the governance structure may be inefficient, too complex or well-defined responsibilities may not be in place Update your policies
	Treasury Governance	

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In times of turbulences,
it is good to have a
partner helping you to
navigate the steering
wheel!



PwC can help you to cope with the crisis and strategically support you along the journey – ...being by your side!



1 Mobilize

Offerings

Provide insights into Covid-19 crisis measures from peers and **develop short term funding plan** and **define feasible liquidity sources** such as new / amended open market operations, securitizations and additional programs.

Provide operational crisis support to **enhance liquidity-analytics** (e.g. aggregating and analyzing data, updating parameters, performing calculations).

Support definition of **funding sources & data requirements** and how to access open market operations and setting up operational capabilities.

2 Stabilize

Offerings

Support developing a **liquidity & funding communication plan** to relevant stakeholders, identifying and collecting data and information, defining channels and the frequency of communication.

Support calibration of **liquidity & funding risk appetite & forecasting measures** considering the feasibility of liquidity measures, considering new liquidity sources, product profitability, and emerging balance sheet structure.

Support **liquidity framework** update regarding risk models & parameters, risk driver & scenario and stress analysis, limit framework, early warning indicators and liquidity reporting.

3 Strategize

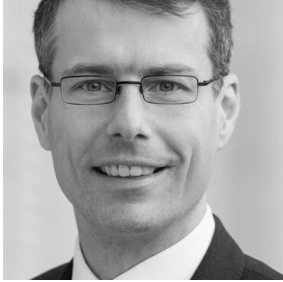
Offerings

Development of **strategic liquidity & funding governance**, including development of structure, defining amended role models and responsibilities as well as reporting lines.

Develop strategic **balance sheet structure**, structuring and optimizing treasury and hedging portfolio, evaluating and accessing long term funding, e.g. securitization.

Development of **Funds Transfer Pricing** reflecting new asset liquidity, core balance estimation, capital commitment as well as envisaged balance sheet structure.

Your contacts for Covid-19 related Liquidity & Funding matters



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Local presence, global reach



 Primary hubs of PwC's global treasury team

Deep expertise advising clients and executing successful transformations on:

- Treasury target operating models, including designing effective committees, organizational structures, capabilities and technology architecture
- Liquidity management frameworks, including intraday liquidity management, cash forecasting, collateral management, liquidity stress testing, and risk governance frameworks
- Asset liability management frameworks, including improving interest rate risk models, risk calibration methodologies, and hedging strategies
- Performance management frameworks, including funds transfer pricing and capital attribution
- Treasury data, analytics, and reporting systems implementation, covering both vendor and in-house requirements, development, testing and program management

Thank you.

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