LiquidityMetrics

Setting the Standard for Liquidity Analytics

LiquidityMetrics is the first multi-asset class liquidity risk measurement framework that extends market impact models from trading floors to risk departments and from equities to all asset classes.

LiquidityMetrics is currently delivered through RiskMetrics RiskManager and enables users to benefit from a single liquidity platform and methodology to:

» Support liquidity risk management and regulatory risk reporting requirements

» Perform portfolio liquidity capacity-checks and assess the underlying time horizon required for liquidation

» Stress test the liquidity of the portfolio under alternative trading scenarios and market impact conditions

Benefits and Features

» **Standard language for market liquidity** that can be applied throughout an organisation to support investment management, risk control and risk management functions.

» **Supports regulatory risk reporting** requirements in UCITS, AIFMD, and FormPF directives while improving the quality of the liquidity risk management processes.

» **Global multi-asset class coverage** supported by a proprietary bond liquidity risk model, an equity market impact model, and the ability to process user-specific market impact data across asset classes.

» **Complete methodology** that jointly models the multiple facets of liquidity risk – time, cost, size – and is universally consistent across asset classes.

» **Intuitive Asset, position and portfolio level analytics** for multi-asset class, multi-currency strategies

» **Monetary based measures** that provide economic effects and actionable information in addition to enhanced liquidity scoring grades.

» **Interactive access** through the RiskMetrics RiskManager risk platform to define analysis settings, run reports on demand, and view results.

» **Automated workflow** with industrial scale throughput for batch processing.

Analytics – From Asset to Portfolio Level

» **Liquidation Horizon** – the time to liquidation of a portfolio given a transaction cost threshold.

» **Liquidation Amount** – the maximum size that can be liquidated given transaction cost and liquidation horizon constraints.

» **Liquidation Value** – the proceeds expected to be realized from an order.

» **Transaction Cost** – expected difference between realized price of an order and the prevailing price.
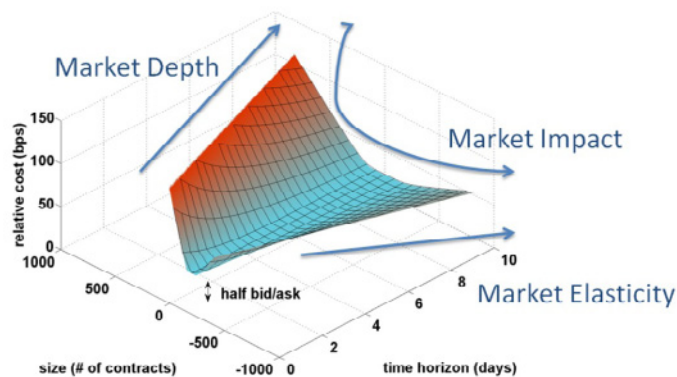
Methodology – Liquidity Surface

LiquidityMetrics methodology is based on constructing asset-specific liquidity surfaces to capture the time, cost, and size dimensions of market trades. Through the use of liquidity surfaces a complete description of asset liquidity is possible.

Anatomy of a Liquidity Surface

Four main features of an asset's liquidity can be directly observed from its Liquidity Surface.

» **Market impact** – the dependence of price impact on order size; larger orders usually demand larger transaction costs.

» **Market elasticity** – the speed, and to what extent, a market regenerates the liquidity removed by a trade and reverts back to its previous state. This determines how much transaction costs decrease with longer time horizons.

» **Market depth** – the maximum (buy and sell) size thresholds above which trades are expected to meet either no sufficient supply/demand or otherwise distressed, unpredictable prices.

» **Bid-Ask spread** – half bid/ask spread is the expected transaction cost for small orders traded on whatever time horizon.

LiquidityMetrics in Practice

LiquidityMetrics provides one liquidity analytics standard throughout the organization.

Investment Management

» Stress Testing via alternative liquidation scenarios

» Pre-trade, expected transaction cost analysis

» Liquidity based investment decisions

Risk Management and Control

» Firm-wide liquidity risk measurement

» Quantification of hidden costs in liquidation/redemption commitments

» Support regulatory risk reporting (UCITS, AIFMD, FormPF)

To learn more about LiquidityMetrics or to arrange a demo, go to
http://www.msci.com/products/risk_management_analytics/liquiditymetrics/

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