Overview of MSCI Liquidity Report

Jorge Gonzalez:

Hi, on this presentation I want to guide you through our liquidity standard report, designed to help you comply with the new ESMA liquidity stress-testing regulation, coming up into compliance on September 2020. We know regulations can be challenging and that's why we have designed a solution that will help you cover specific re-commendations from the regulation. I would like to walk you through our report and focus on what we consider are the six most important guidelines with support to this report.

The first one of them is a liquidity bucketing. Liquidity bucketing classification is based on the days to liquidate. We use Highly Liquid, Liquid, Less Liquid and Illiquid buckets to support the alerting mechanism as required by the regulation. We offer this default classification based on the regulation recommendations, but these parameters for each one of them are fully customizable by you.

We also provide you with the ability to do reverse stress-testing. We do this as a solution to the regulation recommendation to assess potential sources of liquidity risk, to which the fund is exposed, by introducing two different liquidation strategies, near-proportional and waterfall liquidation, each one of them with six different liquidation costs and seven different time liquidity horizons. You can identify the conditions that lead you to a specific liquidity size outcome.

Following the guideline's request to employ different liquidity stress-testing scenarios, we introduced the historical stress-test our research team has created, based on some of the best data sources in the industry for the different asset types. We have designed four stress tests based on the different faces of the great financial crisis, using the build-up, peak, recovery and worst-week faces in our historical stress test. The results are also shown using the same liquidation strategies as mentioned before, near-proportional and waterfall liquidation.

The regulation also indicates the use of more than historical stress tests, as future stress tests may differ from previous ones. To comply with this aspect of the regulation, we are introducing five different hypothetical stress tests, which you are able to customize to reflect different shocks in the following parameters: bid/ask spread, market depth reduction, relaxation type, market volatility and typical order. For each one of them, we offer the ability to define what is the amount that you want to have shoved on each one, as well as if you would like to combine the different shocks into more than one stress test. Let's say that you would like to stress bid/ask spread and market depth in this same stress test. You are able to do so through our analysis attributes and the different targeting mechanisms that we have in place.

We also provide you with the ability to focus on both asset and liability liquidity stress testing, by using the redemption coverage ratio measure. We chose this measure to indicate the ability of a fund's as-sets to meet the funding obligations arising from the liability side of the balance sheet, such as the redemption shock. You are able to indicate the parameters for this analysis as a transaction cost limit in that trading horizon, as well as identify the liability stress test that you would like to have included in this analysis. You will see the results also on both trading scenarios, near-proportional and waterfall trading scenario, and you will be able to see how your portfolio would react to different redemption shocks.

Finally, you have the ability to allocate liquidity analysis across funds having similar strategies for exposure. We provide look-through data for funds from deeper and ETF transparency from market, and you can also provide data for the target funds yourself. In the dashboard report you're able to see that 25 Less Liquid positions, as well as the 25 Most Liquid positions, and some of the details on each one of them. There is a diagnostic self-report accompanying this dashboard report, which also contains all of the position level information included in your portfolios. This has come to be very useful for our clients, as they can look at the two categories that are usually the ones that gather the most attention and focus in the Least Liquid positions and the Most Liquid positions of your portfolio.

About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process. To learn more, please visit **www.msci.com**.