LiquidityMetrics

SETTING THE STANDARD FOR LIQUIDITY ANALYTICS

LiquidityMetrics is a multi-asset class liquidity risk measurement framework that extends market impact models from trading floors to risk departments.

LiquidityMetrics is currently delivered through MSCI 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 for ESMA AIFMD, UCITS including liquidity stress test requirements, SEC 22e-4 and Form PF directives while improving the quality of the liquidity risk management processes.
- **Global multi-asset class coverage** supported by IHS Markit quote and trade data for Fixed Income, Virtu’s Cost Curves for Equities and data-driven calibrations for Derivatives.
- **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.
- Liquidity bucketing – ready-to-use regulatory (SEC Liquidity Rule 22e-4 and AIFMD) and custom scoring rules.
- Regulatory bucket threshold - the maximum position size for a security and a given liquidity bucket (e.g. ‘Highly Liquid’).

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.

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
- Supports regulatory risk reporting (ESMA AIFMD, UCITS including liquidity stress test requirements, SEC 22e-4 and Form PF)

About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 45 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.

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