REFERENCE LIST
October 2020

AFIR-ERM
Finance, Investment & ERM

Article of the month:

Aligning Sustainability and Risk Management

Alison Taylor (rmmagazine.com)

In September 2019, the Business Roundtable, a nonprofit association made up of CEOs from major American companies, issued a statement that the primary focus of business is no longer to drive shareholder value, but to work in the interests of all stakeholders, including employees and communities. This marks the latest development in a broad trend of rethinking the purpose of business and can be seen as the coming of age for the corporate sustainability movement. Sustainability—often called corporate social responsibility or CSR—is a movement that considers how businesses can act in the interests of society and the environment, rather than regarding its impacts as "negative externalities." While the movement's early focus was philanthropic, sustainability frameworks today aim to hit the sweet spot between business priorities and societal needs. Read More.

Financial Risk

Dutch banks seek quantum edge for stress tests

Luke Clancy (Risk.net)

ABN, ING and Rabobank working together; US quantum developer seeks patent for CCAR. Researchers on both sides of the Atlantic – including a trio of Dutch banks – believe quantum computing can help banks produce quicker, more accurate results in regulatory stress tests. In the Netherlands, ABN Amro, ING and Rabobank are jointly exploring quantum technology, with stress testing one of the possible use cases. US-based quantum developer Zapata Computing, meanwhile, is seeking a patent that applies the technology to the Federal Reserve's twin-track domestic testing regime. Read more.

Basis Trades and Treasury Market Illiquidity

Daniel Barth, Jay Kahn (OFR)

The Treasury basis trade exploits the price difference between Treasury bonds and futures. The trade is exposed to financing and liquidity risks that can affect market liquidity. This brief summarizes evidence on the size and extent of basis trading by hedge funds, and on whether these trades contributed to Treasury market illiquidity in March 2020. Timely intervention by the Federal Reserve in the Treasury and repurchase agreement markets may have limited the extent of spillovers that could affect financial stability. Read more.

Tackling Liquidity and Solvency Issues in Schrodinger's Economy

Phil Mackenzie (Chartis)

The main actions taken by central banks to weather the COVID-19 crisis have been aimed at liquidity. However, with all their liquidity mitigations tools, central banks are less equipped to address solvency issues. Many entities facing hardship have been loaned money they cannot necessarily pay back. As a result, it is difficult to know if parts of the economy are just switched off and waiting for cash flows to return or if they are truly dead. Financial institutions will need to have different methodologies in modeling industries and loan books to account for the large amounts of new, unpayable debt being issued across the economy. Read More.

ERM

The Link Between ERM and Organizational Financial Performance

Jolene Morse (rmmagazine.com)

Global economic uncertainty is placing organizations under increasing pressure to improve their risk management practices while simultaneously achieving consistently higher financial returns. Consequently, organizations in many industries are adopting an enterprise risk management (ERM) framework as a way to assist them in achieving this. An ERM framework can be defined as a well-rounded approach to understanding, quantifying and managing the risks of an organization and it should form an integral part of the organization's strategic direction. A key objective of a modern ERM program is to reduce the sensitivity of earnings and share price fluctuations to external variables, or for privately-owned organizations, to ensure that their returns are stable. Therefore, the conceptual benefits of ERM include improved strategic and operational decision-making, reducing the organizations risk premium, and a reduction in earnings volatility. Read More.

Banking

BofA becomes first US bank to adopt SA-CCR

Costas Mourselas, Samuel Wilkes (Risk.net)

Move cut leverage exposure by $66bn, but other banks wary of trade-offs. Bank of America has switched to a new leverage regime 18 months before US banks are required to move, dramatically cutting its total exposure – but finding itself alone among its domestic rivals. BofA is expected to use the move to the standardised approach to counterparty credit risk (SA-CCR) as a springboard for its equity prime brokerage business, which consumes less capital under the new rules. Options market-makers have also welcomed the switch, believing they will be more attractive. Read more.

Trending topics

Long-term Low Interest Rates to Lead Schemes Down Riskier Path, Say Strategists

Gail Moss (IPE)

Pension funds will be forced to invest "further and further" down the risk spectrum against a backdrop of very low interest rates for the foreseeable future, warned a panelist at a webinar this week discussing the findings of the 2020 Natixis Global Retirement Index (GRI). Esty Dwek, head of global market strategy for Natixis Investment Managers, said the US Federal Reserve had stated its interest rate [the current target rate is 0-0.25%] would be held until 2023, which could potentially be extended to 2028, according to research. According to the GRI, 173 rate cuts were made around the world between January and June 2020. And while in 2016, only the UK was working with a five-year average of negative interest rates, by 2020, 16 countries – all European, except for Japan – had an average of negative rates. Read more.

'Largest ever' asset manager ESG evaluation launched

Susanna Rust (IPE)

More than 1,700 asset managers globally have been sent a request for information about environmental, social and governance (ESG) issues facing investors and their ESG-centric investing strategies, according to the UK industry bodies behind the move. TISAtech, a new digital platform launched by The Investing and Saving Alliance (TISA), sent the request for information to the asset managers. The Pensions and Lifetime Savings Association (PLSA) is collaborating with TISAtech on the initiative as part of its 'Investing for Good' programme. The deadline for response is 22 October. IPE was told that 25 asset managers registered to respond within the first hour of the request for information being posted via investRFP.com. The latter said a primary objective of the request was to support UK pension schemes' active management of their exposure to climate change (risk), in line with Taskforce on Climate-related Financial Disclosures recommendations. Read more.

The LIBOR-SOFR Spread Adjustment: Current Approaches and Implications for Financial Institutions

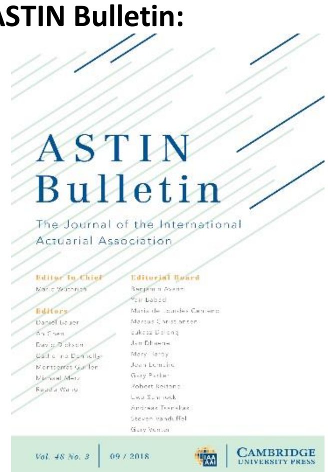
Jared Forman (dhg.com)

The London Interbank Offered Rate (LIBOR) has historically been utilized as a benchmark for short-term lending for banks in contracts including floating rate notes, business and consumer loans, securitizations and derivatives. In 2017, the Alternative Reference Rates Committee (ARRC) recommended the Secured Overnight Financing Rate (SOFR) as its replacement for LIBOR, and LIBOR is scheduled to be phased out by the end of 2021. With estimates of contracts referencing LIBOR ranging from $200 Trillion to $350 Trillion worldwide, it is essential for financial institutions to have a plan in place to address the LIBOR-SOFR transition. Read more.

Resources (click upon image to access)

The Actuary Magazine:

ASTIN Bulletin:



Irish SoA Database:

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