

## Comment piece: Asset & Liability Management for smaller firms

local knowledge global solutions

This document describes the FRSGlobal ALM solution for smaller firms

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### What is Asset Liability Management?

Asset Liability Management (ALM) is the management of the **combination of risks** occurring from assets and liabilities (*with a particular focus on interest rate risk*).

ALM uses traditional risk management techniques to quantify:

- the **gaps** between asset and liability allocations
- the ability of the firm to earn an adequate return.

ALM is a process for managing the balance sheet against other risks that affect the earnings and portfolio valuations of the bank: shifts in customer behaviour and future balance sheet growth, the impact of business strategies (pricing, hedging, growth and planning) and counterparties.

### Introduction

With volatile global markets, a proliferation of new financial products and changing regulatory environments around the globe, ALM has become a critical function for banks and financial institutions of all shapes and sizes.

It is becoming increasingly important for firms of **all sizes** to assess and mitigate the adverse value and income impact of changes in the market risk factors (namely interest and foreign exchange rates) that arise from the maturity and risk transformation process, in order to earn an adequate return.

Smaller firms have in the past found solutions for meeting ALM requirements to be over complicated for their requirements, difficult to integrate with incumbent systems, resource-dependent and cost prohibitive. For these reasons they have resorted to using alternative methods such as spreadsheets or independent consultants, neither of which is ideal as they rely heavily on manual intervention and can be very silo'd.

***FRSGlobal offers an ALM solution that can be used by ANY size firm***

### FRSGlobal's ALM solution for smaller firms

#### Asset Liability Management (ALM)



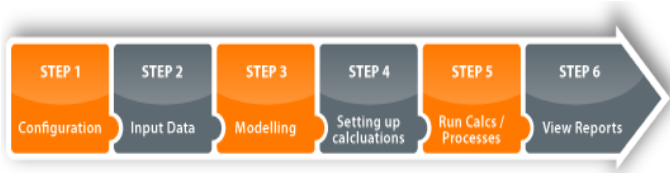
FRSGlobal has heritage in and in-depth knowledge of the market which it has used to develop a highly flexible solution that meets the needs of **ALL** firms; from those with highly complex derivatives to those with a more vanilla approach.

FRSGlobal offers a functionally rich ALM solution for smaller firms that require immediate return on investment by taking a 'compact' approach with risk management features that absorb complexity. With the solution firms can:

- Quantify the value impact of interest rate changes over the total balance sheet based on regulatory requirements
- Conduct stress testing / value impact of any risk factor change over the total balance sheet
- Benefit from robust processes with auditability & traceability, reverse processing from results to initial input using modelling (strategies & scenarios)
- Meet processing times / frequency of analysis and reduce manual work
- View Balance Sheet value impacts from interest rate moves in terms of sensitivity, liquidity and margin
- Utilise a simple financial analysis framework
- Make use of a flexible reporting tool and standard export to standard formats (Excel, PDF, HTML, XML)

ALM need not be difficult to achieve

## FRSGlobal 6-step process for ALM



**The ALM process does not have to be difficult.**

FRSGlobal operates a simple 6-step process to achieve effective ALM. The power of the in-built functionality within the system delivers the tangible benefits to the firm. The six steps are:

1. Configure (the system – a one off)
2. Input data (connect to source systems)
3. Model (risk management)
4. Set up calculations (input variables)
5. Run calculations (press the button)
6. View results (see the results)

The 'compact' approach provides easy interfacing of input data to reduce the amount of effort required for step 2 and preconfigured model libraries to ease steps 1,3,4,5 & 6

***FRSGlobal provides a clean and reconciled data environment for the CFO to manage the balance sheet***

For further information about our complete ALM solution please visit our [website](http://www.frsglobal.com)

### CoR<sup>2</sup>E

FRSGlobal's Centre of Risk & Regulatory Excellence (CoR<sup>2</sup>E) is comprised of a team of global experts, many of whom have run risk and regulatory departments in the past.

For more information on the FRSGlobal risk and regulatory solution(s) please refer to the website: [www.frsglobal.com](http://www.frsglobal.com)

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Risk & Regulatory Compliance

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