Current perspectives
on funds transfer pricing
Executive summary

Funds Transfer Pricing (FTP) evolved in the 1980s to help financial institutions effectively manage interest rate risk (IRR) and allocate income and expense within the firm. It gained further focus after the 2007–2008 financial crisis in supporting management of liquidity risk. For most firms today, FTP includes both IRR and liquidity risk cost benefit allocation. It affects the pricing of assets and liabilities based on the unique structure of the transaction. FTP enables firms to allocate and measure income, expense, and profitability of business lines, as well as allow the central Treasury to provide relevant IRR and liquidity risk-based incentives on behalf of the firm as a whole.

Since FTP relates to many levels of the organization and has impacts across business lines and legal entities, a principle-based approach is crucial to help ensure there is clarity in understanding and consistent operation of the process. As a result, firms often rely on a set of building blocks that enforce the principles in order to construct an effective governing policy and operating framework. Building blocks often include:

— **Principles and organizational structure** – The principles themselves are the starting point. Firms often develop these—varying the number based on their needs—to outline the fundamental elements of the process and help ensure transparency and clarity of communications and relationships between executive management, business lines, Treasury, and risk oversight. Since FTP involves setting incentives and attributing costs and benefits to business units, it is critical that the established principles are supported at all levels of the organization.

— **Cash flow model usage** – To assign relevant business unit allocations of income and expense, cash flow models for all on/off-balance-sheet positions are crucial. Cash flows are typically created using the same modeling approaches and assumptions that apply to interest rate and liquidity risk measurement. Usage of consistent cash flow models and assumptions for both risk measurement and FTP calculation can avoid inconsistent risk measurement outcomes and differing or conflicting risk management actions.

— **FTP curve setting** – Firms construct curves to assign costs and evaluate cash flows from interest rate and liquidity funding risk. Interest rate costs are often driven by markets directly while liquidity funding costs (e.g., potential funding spread changes) are often based on the firm’s business structure.

— **Liquidity reserves** – It is important for firms to assess and manage liquidity contingent risk or the inability of a firm to meet its payment obligations. This form of liquidity risk is assessed based on a firm’s liquidity stress tests and the results are allocated based on the stress test drivers, thereby incorporating the costs in the FTP measurement process.

— **Internal bank profit and loss** – These building blocks are used to assess business results for on/off-balance sheet transactions, providing the firm with the ability to allocate, analyze, and understand profit and loss contributions of businesses, products, or even transactions.

— **FTP application** – A successful FTP process requires a developed Information Technology (IT) infrastructure and data process to provide ongoing and ad hoc reports and analysis that is granular and sufficiently detailed to understand business line income and expense contributions. Infrastructure also includes FTP pretransaction and tear-up communication processes for business lines.

These FTP building blocks are detailed in this paper. When implemented and used effectively, they can serve as a path to establishing advanced FTP practices.
FTP was introduced to bank risk and financial management in the early 1980s to help firms better manage IRR on a transactional basis during a period of high inflation and volatile interest rates. A key theme of FTP is to enable front-line business units to lay off IRR in their loans and deposits to a central Treasury function. The Treasury in turn ensures the business lines lend and raise deposits at market-based interest rates. This centralization of risk in Treasury enables expert management of IRR in Treasury, leaving credit risk and operational risk to the business units.

During the 2007–2008 financial crisis, liquidity management became a critical risk issue, and FTP challenges were increasingly evident. In addition to assigning interest rate costs to transactions, liquidity costs needed to be considered. Together, IRR and liquidity cost assignments allow the central Treasury to provide relevant risk-based incentives for certain types of business on behalf of the firm as a whole. This prevents business units from subsidizing customers: lending below market for loans and paying above market for deposits.

Regulatory and supervisory expectations underscore the importance of considering liquidity risk in FTP. In Europe, FTP practices and liquidity allocation in particular are usually more advanced and can be instructional for U.S. banks, serving as a guidepost to enhanced practices. The Committee of European Banking Supervisors published guidelines on liquidity costs in October 2010 (Guidelines on Liquidity Cost Benefit Allocation) to help institutions link their strategic direction with liquidity resource allocation. Regulators in Europe have implemented their rules accordingly. The three major U.S. banking regulators issued their supervisory guidance on FTP in 2016 (Interagency Guidance on Funds Transfer Pricing*). The U.S. Interagency Guidance identifies four principles for FTP:

- Allocation of FTP costs and benefits based on funding risk and contingency liquidity risk
- Consistent and transparent framework for identifying and allocating costs and benefits, based on the firm’s structure
- Robust governance structure, including reporting, oversight, and central management
- Alignment of business incentives with risk management and strategic objectives.

FTP is charged to the business lines and is included as part of customer pricing. The customer rate, in a loan for example, includes various cost components to arrive at the all-in rate. FTP (from a regulatory perspective) focuses on the costs associated with IRR, liquidity funding risk, and liquidity contingent risk. The following example illustrates this for a loan, as it differentiates those components that are typically part of FTP from those that comprise the remaining costs for the all-in rate to the customer:

To manage the transactional assignment of transfer prices (in particular for the IRR and/or liquidity funding risk components), firms often use one of the following approaches: single pool, multiple pool, or marginal transfer pricing:

- Single pool: One uniform FTP for all transactions. This results in an equal allocation of the costs and benefits to all transactions periodically on an ex-post basis. This is usually a simple, low-cost implementation, but can result in margin volatility. For less complex firms with limited lines of business and a homogenous pool (i.e., a stable risk profile, stable rate environment, and business profile), this type of approach may be acceptable.

- Multiple pool: Specific pools are created depending on specific definitions, such as maturity, products, business line (bank vs. nonbank). This approach costs little to implement and results in a more specific allocation of costs than under the single pool approach, but can still result in margin volatility. For less complex firms with limited lines of business and homogenous funding pools, this type of approach may be acceptable.
Marginal transfer pricing: Specific transactional pricing of assets and liabilities, based on the unique structure of the transaction. This cost is assigned on an ex-ante basis on the trade date for the life of the trade. Marginal cost pricing provides for risk to be allocated between Treasury and the business unit, while providing stable margins for the business unit. It is the keystone to FTP leading practice; however, the intensive infrastructure required results in high implementation costs.

This paper focuses on the building blocks and challenges of an FTP approach based on marginal transfer pricing, though most of the aspects can be easily transferred to other FTP approaches as well. Marginal transfer pricing can be done either on a calculated basis (i.e., charges are calculated in a data base and charged out to the businesses) or treated as trades between business units to transfer interest rate and liquidity risks to the centralized Treasury function. The following provides a simple example of risk transfer to visualize the mechanics of this approach.
Example demonstrates how Treasury purchases funds from one customer through a deposit-raising business unit, makes adjustments for interest rate and funding risk, and then sells funds to another customer through a lending business unit. Assume in this example that there is no charge for Contingent Liquidity Risk.

The firm makes a loan to a customer at 8.0% for 1 year and simultaneously accepts a customer deposit for 3 months at 0.5%.

Treasury could hedge the interest rate risk of the loan using an interest rate swap at a rate of 1.1% and fund the loan at a rate of 0.6%.

Therefore the FTP rate (divided into the two components) for the loan is 1.7% (1.1% for interest rate risk and 0.6% for funding risk).

The lending business consequently separates the FTP component (1.7%) from the external rate (8.0%), resulting in a gross margin of 6.3%.

This procedure is repeated for the deposit taking business to derive the FTP rate, resulting in an FTP rate of 0.8% (0.3% for IRR, 0.5% for funding risk).

Overall, the centralized Treasury function stands in the middle as an “honest broker” and takes actions to hedge or accept the mismatch risk between the loan and the deposit. In this case Treasury has a 1 year versus 3 month interest rate risk mismatch (1.1% vs. 0.3% or 0.8% spread) and liquidity mismatch (0.6% vs. 0.5% or 0.1% spread).

IRR can be actively hedged, but liquidity mismatches are more challenging to actively hedge. Gains or losses on this mismatch may result structurally in a residual P&L. Potential allocation of the mismatch residual will be covered in a later section.
Two transactions with equal notional amount. No option for early termination and/or prolongation:
- 3-month corporate deposit @ client rate: 0.5%
- 1-year corporate loan @ client rate: 8%

Other conditions:
- 3-month FTP rate: 0.8%
- 1-year FTP rate: 1.7% (risk-free rate: 1.1%, funding spread: 0.6%)

Client rate: 8.0%

<table>
<thead>
<tr>
<th>Gross Loan Margin</th>
<th>FTP rate: 1.7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.3%</td>
<td></td>
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</tbody>
</table>

**Interest Rate (Repricing) Risk**

- IRR swap: 1.1%
- Result from interest rate risk mismatch: 0.8%

**Funding Risk**

- MM deal: 0.6%
- Result from funding risk mismatch: 0.1%

**Contingent Liquidity Risk**

- 0.0%

Client rate: 0.5%

<table>
<thead>
<tr>
<th>Gross Deposit Margin</th>
<th>FTP rate: 0.8%</th>
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</thead>
<tbody>
<tr>
<td>0.3%</td>
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</table>

**IRR Swap** – Internal interest rate swap for transferring interest rate (repricing) risk

**MM Deal** – Internal money market deal for transferring liquidity risk
Leading practice firms often construct FTP based on various elements, which include six “building blocks.” These elements are important in the construction of an FTP framework and governing policy:

- **Principles and organizational structure** – ensures transparency between executive management, risk oversight, the business lines, and Treasury. Since FTP involves setting incentives and attributing costs and benefits to business units, it is critical that these principles are clear, well understood, and communicated effectively.

- **Cash flow model usage** – modeling for all on/off-balance-sheet positions

- **FTP curve setting** – construction of curves to evaluate cash flows

- **Liquidity reserves** – ability to assess risk components and incorporate their costs in the FTP process

- **Internal bank P&L** – ability to decompose and allocate the firm’s profit and loss

- **IT infrastructure** – deal with the IT infrastructure as well as data and processes.

Recently, KPMG surveyed several systemically important large banking organizations and foreign banking organizations in the United States to gauge their range of practices related to these building blocks in comparison to non-U.S. markets. The following provides insight on the range of practices for these firms and indicates that U.S. firms have significant work ahead:

**Percentage of firms with observed market practice by building block**

- **Principles/structure**
- **Cash flow model usage**
- **FTP curve setting**
- **Liquidity reserves**
- **Internal bank P&L**
- **IT infrastructure**
**Principles and organizational structure**

FTP governance should support the firm’s business model and typically follows the form of governance used for managing interest rate and liquidity risk. This includes oversight by a senior management committee aligned with the Enterprise Risk Management committee and ALCO. It also includes development of a written framework and policy based on FTP principles and in line with regulatory expectations. These principles are detailed below:

1. **Management Support**
   - Senior leader sponsorship
   - Business line buy-in

2. **Banking group view**
   - Includes groupwide and legal entity system
   - Comprehensive transaction coverage

3. **Central treasury**
   - Transfer risk to central management
   - Credit risk retained in business unit

4. **Consistency between liquidity and IRR**
   - Consistent cost allocation for liquidity and IRR measurement

5. **Risk management consistency**
   - Transfer price reflects term and product structure
   - Consistent with (transactional) risk modeling

6. **Product pricing**
   - Spreads fixed until maturity
   - Transactional margin stability

7. **Marginal funding cost**
   - Reflects relevant market pricing
   - Comprehensive cost add-ons, e.g., for contingencies

8. **Currency risk management**
   - Reflects dollar and nondollar funding costs and benefits

9. **Transparent cost and benefit**
   - Effective and transparent allocation of costs and benefits

10. **Residual risk**
    - Allocation of residual profit/loss to business unit

Such principles form the basis of an FTP policy, which typically includes aspects such as scope and background, a statement of structure and principles, a description of roles and responsibilities, an overview of the liquidity reserve cost allocation approach, the mismatch residual approach, as well as responsibility for reporting, limits, and decision-making.

Alignment of, and agreement on, roles and responsibilities is critical to successful governance, particularly in terms of the Oversight Committee, Centralized Treasury, Second Line of Defense, and Business Units. Setting incentives, setting rates, authorizing adjustments to rates for particular customers, allocation of direct and indirect liquidity costs, and risk measurement modeling should receive special attention.

Additionally, the governance process should help ensure the FTP approach is applied consistently across the various legal entities.

<table>
<thead>
<tr>
<th>Synopsis: Principles and Organizational Structure</th>
<th>Leading practice</th>
<th>Potential weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Various principles need to be defined as basis for overarching approach</td>
<td>— Establish identical principles for all entities; methods should be analogous and comparable; processes can differ but should be based on aligned principles and methods</td>
<td>Firms may need to enhance and document their principle-based approach so that it is:</td>
</tr>
<tr>
<td>— Establish identical principles for all entities; methods should be analogous and comparable; processes can differ but should be based on aligned principles and methods</td>
<td>— Based on consistent criteria across its entities</td>
<td>— Formalized and transparent</td>
</tr>
</tbody>
</table>

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FTP cash flow models

Cash flows are the basis of analysis for both risk measurement (interest rate and liquidity) and FTP. FTP cash flows should be derived for all on and off-balance-sheet products, both deterministic and option-embedded. For example, any products (e.g., nonmaturity demand deposits, time deposits, loans) where the customer holds the contractual or informal ability to terminate early should be valued and managed as if it includes an option; cash flows should be estimated based on the potential for customer exercise and withdrawal.

To provide consistency and comparability, it is important to use the same cash flow models and assumptions for both risk measurement and FTP calculation. Use of identical cash flows enables firms to avoid inconsistent outcomes that can point to differing or conflicting risk management actions.

The following graphic illustrates this.

<table>
<thead>
<tr>
<th>Leading practice</th>
<th>Potential weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Cash flows derived from a single source interest rate and liquidity risk measurement model</td>
<td>— Many firms derive cash flows from differing models and have yet to fully integrate calculation and risk measurement methodologies to provide consistent risk views</td>
</tr>
<tr>
<td>— Embedded options and close-out costs for all relevant transaction types considered within FTP</td>
<td>— Can lead to inconsistent valuation, pricing, and risk management decisions</td>
</tr>
<tr>
<td>— Use of a champion/challenger approach to reassess and enhance models and assumptions</td>
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</table>

Synopsis: FTP cash flow models
FTP curve setting

The FTP curve typically consists of the IRR component (e.g., the “base rate”) and the liquidity funding risk component (“funding spread”). Often, the IRR curve is easy to obtain from observed market yield curves (e.g., construction of swap curves, respective optionality add-ons, currency components, etc.), as these products are used by banks to hedge the risks—and liquid markets exist to hedge externally.

Deriving the liquidity funding spread curve is more challenging since a complete observable market that provides pricing for term funding is not really available (for contingency cost, refer to the next section on Liquidity Reserves) and is unique for each bank. It is important for a bank to leverage the investment, hedging, and funding opportunities in their own balance sheet and define a process to derive associated liquidity funding spreads. As a result the FTP curve—in particular the liquidity funding component—can serve as a powerful instrument for liquidity optimization as well as setting incentives across business lines. The following example illustrates typical approaches in deriving the liquidity funding component of an FTP curve for three different type of banks with different business models:

### Funding Restricted

Liquidity funding spread driven by capital funding and customer deposits

- Asset access > Liability access
- Customer loans
- Capital market investments
- Capital market funding
- Customer deposits
- Spreads (in bps)

### Equilibrium

Liquidity funding spread driven by customer loans and deposits

- Asset access = Liability access
- Customer loans
- Capital market investments
- Capital market funding
- Customer deposits
- Spreads (in bps)

### Investment Restricted

Liquidity funding spread driven by capital assets and capital market investments

- Asset access < Liability access
- Customer loans
- Capital market investments
- Capital market funding
- Customer deposits
- Spreads (in bps)

### Synopsis: Liquidity funding cost (FTP curve setting)

- Market-based interest rates and an internal-based liquidity component approach to derive the spreads tailored to the bank’s business model
- Setting an FTP curve based on principles aligned across all entities
- FTP spreads differ between entities and reflect unique, explainable restrictions

### Leading practice

- Market-based interest rates and an internal-based liquidity component approach to derive the spreads tailored to the bank’s business model
- Setting an FTP curve based on principles aligned across all entities
- FTP spreads differ between entities and reflect unique, explainable restrictions

### Potential weaknesses

- Use of nonmarginal market approach may result in business unit margin volatility and challenges in assessing business unit profitability
- Failure to base liquidity cost on structure may result in inefficient liquidity pricing and ineffective incentives
Liquidity reserves
In addition to defining the liquidity funding spread, firms need to define the contingency cost. This is often achieved by identifying the major risk drivers for various stress scenarios and using them to allocate the cost of the liquidity buffer or reserve (i.e., the relevant amount to be held in HQLA/HLA) to meet the firm's liquidity reserve target. Currently, most firms often assess a single stress scenario or binding constraint in this process (such as LCR). However, it is important to consider all relevant stress scenarios that require holding liquidity reserves to minimize significant changes or volatility in the contingency cost over time. To implement a multi-stress approach, firms would assess their reserve needs based on multiple stresses (i.e., defining an envelope curve of buffer requirements) and assess various risk drivers, such as deposit or credit facility outflows. These risk drivers are then used to develop an allocation key to allocate the buffer costs to the business units based on these drivers. Essentially, liquidity reserves required are based on a given scenario and risk driver and the sum of the worst case requirements for the given drivers based on all the scenarios are applied as the cost for the contingency risk. The following example illustrates the mechanics of such an approach.
**Synopsis: Liquidity Reserves**

<table>
<thead>
<tr>
<th>Leading practice</th>
<th>Potential weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>— Assess reserve needs based on multiple stresses using various risk drivers</td>
<td>— Use of a single stress based on the current binding constraint may lead to</td>
</tr>
<tr>
<td>that are used to develop an allocation key to allocate costs to business units</td>
<td>volatility in the allocation to business units as constraints change over time</td>
</tr>
<tr>
<td>— Tie duration of reserves funding period to survival horizon of the stresses.</td>
<td>— Informal connection of the funding period to survival horizon may lead to</td>
</tr>
<tr>
<td>Dedicated investment rules and earnings policies exist for the investment</td>
<td>funding challenges during a stress</td>
</tr>
<tr>
<td>in liquidity reserve assets</td>
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</table>

The contingency cost is usually assigned periodically as a charge to the business unit on an ex-post allocation basis; however, some firms use an ex-ante allocation of the reserve cost and assign it on a transactional level at inception. The ex-ante approach can be resource intensive since it needs to have a forward-looking perspective.

### Simple weighting scheme – Reserve requirement by scenarios (for each tenor)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Risk Driver 1</th>
<th>Risk Driver 2</th>
<th>Σ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario A</td>
<td>55</td>
<td>15</td>
<td>70</td>
</tr>
<tr>
<td>Scenario B</td>
<td>50</td>
<td>30</td>
<td>80</td>
</tr>
<tr>
<td>MAX (combined)</td>
<td>55</td>
<td>30</td>
<td>80</td>
</tr>
</tbody>
</table>

### Definition of an “envelope” curve for liquidity reserve requirements

![Enveloppe Curve Diagram](image-url)

- **Scenario A**
- **Scenario B**
- **Envelope**

Allocation weights (55/85) and (30/85)

Total volume of required reserve
**Internal bank P&L**

FTP is an effective tool in assessing business unit performance and it sets the basis for granular business line or product-level risk measurement. FTP not only serves as a tool for setting business line incentives, but also can be used for fine-tuning the risk profile of products or portfolios. FTP components (interest rate, funding cost, contingent liquidity cost, and related mismatch residuals) need to be transparent so that both the business lines and Treasury function can assess the impact of FTP decisions on the overall margin and risk profile. This transparency also enables senior management to hold various stakeholders (business units, Treasury, oversight committees like ALCO) accountable for the respective P&L components. P&L and risk attribution needs to be consistent and transparent across business lines and divisions so they can be comparable from a management perspective.

Leading firms provide not only post-transaction analysis and reporting, but also pre-analysis tools to business units so that they can assess the impact of the various FTP components on their margins prior to entering into any transactions.

Any discussion of FTP P&L analysis would be incomplete without consideration of the allocation of the mismatch residual. A key function of financial institutions is to engage in maturity transformation (borrow short and lend long, or vice-versa). A mismatch can occur in all of the FTP components, IRR, funding spreads, and contingency costs and can produce a profit or loss in the centralized Treasury profit center—and in all instances it is important to have the transparency around the relevant components. The diagram below illustrates the typical FTP components that should be considered:

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**Differentiation of FTP Components**

- **Liquidity risk**
  - Liquidity mismatch result
  - Liquidity reserve cost
- **IRR**
  - IRR mismatch result
  - Residual risk, e.g., model risk, close-out cost, etc.
- **External cost of capital market funding**
- **Residual risk, e.g., model risk, close-out costs, etc.**
In deciding whether to allocate the mismatch result (liquidity and interest rate) from Treasury, the firm should assess reporting of internal political and economic implications. For example, reporting volatile P&L movements in Treasury might not be acceptable to internal and external stakeholders, while large losses or negative changes might not be acceptable to Treasury and large positive movements may undermine business unit support for the FTP process. Additionally, firms should consider whether the allocation of the residual from the centralized Treasury back to the business distorts the business unit’s performance measurement since the business unit does not manage/control interest rate, liquidity, or contingency risk gains or losses.

### Synopsis: Internal Bank P&L

<table>
<thead>
<tr>
<th>Leading practice</th>
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</tr>
</thead>
<tbody>
<tr>
<td>FTP components are assigned transparently to the risk originators with explainable FTP results</td>
<td>Insufficient granular, historical, and prospective reporting to perform business attribution analysis</td>
</tr>
<tr>
<td>Pre-analysis business line tools support decision-making. Prospective analysis enables forecasting of market and business changes on positions</td>
<td>Ineffective FTP pre-analysis tools can result in pricing differences that can be arbitraged by business units</td>
</tr>
<tr>
<td>The purest form of FTP involves retention of the residual in Treasury: there is no standard practice for allocation of Treasury P&amp;L. If residual is allocated, it can be done as a footnote to performance results so that business line performance is assessed without the allocated residual P&amp;L</td>
<td>Residual allocation can distort true performance measurement and effectively decentralize risk</td>
</tr>
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</table>
IT infrastructure

The FTP methodology is only as good as the underlying data, processes, and infrastructure. Therefore, it is crucial for banks to create an infrastructure that supports granular FTP calculation (largely based on transactional information), effective analysis and reporting capabilities (standard as well as ad-hoc), and data collection and storage. FTP infrastructure is often related to risk measurement, planning, and forecasting, booking and accounting processes, and systems within the bank. Given a firm’s broad integration needs to ensure transparency and acceptance across the bank, FTP infrastructure initiatives are often very complex, touching system infrastructure across the bank. As a result, these often lead to multi-year projects. Integration is illustrated below:

<table>
<thead>
<tr>
<th>Synopsis: IT infrastructure</th>
<th>Leading practice</th>
<th>Potential weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>— Infrastructure supports the FTP methodology and ensures relevant transparency</td>
<td>— Spreadsheet-based processes that are manual and could lead to data credibility issues</td>
</tr>
<tr>
<td></td>
<td>— Data across risk management systems should be aligned to ensure that risk measurement and FTP are aligned based on methodology, data, and reporting</td>
<td>— High-level reports that are based on manual spreadsheets. Infrastructure is often in need of enhancement</td>
</tr>
<tr>
<td></td>
<td>— Proper FTP needs strong reporting capabilities, including analysis functions on various dimensions, supported by drill down into report details</td>
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</table>
FTP and balance sheet optimization – FTP is an integral part of balance sheet optimization. First, FTP—especially the FTP curve setting process—is important in managing the liquidity position and its associated metrics. FTP must be sufficiently embedded in the firm’s planning and forecasting processes to accomplish this. By including anticipated FTP charges in the process and considering the changes to business behavior on the basis of the charges, the planning and forecasting process can be used (iteratively) to provide information to the balance sheet optimization process to forecast and assess interest rate and liquidity implications. Results of the optimization in relation to liquidity can be considered in the setting of FTP incentives. The illustration below provides a visual of this approach.

However, FTP is only one aspect of balance sheet optimization. It is necessary to consider other restrictions, influences, and implications of FTP onto an overarching balance sheet optimization process and vice-versa. In particular, conflicts and need of alignment exist for RWA, capital, and leverage ratio management.

Recovery and resolution planning and FTP – It is also important to consider FTP processes and implications for legal entities and critical functions in recovery and resolution planning. The FTP process needs to be consistent with the constraints in place for legal entities and the associated liquidity buffers held for recovery and resolution scenarios. More specifically, liquidity reserves typically cover requirements for LCR and (going concern) liquidity stress scenarios. However, firms should not only hold these liquidity reserves, but also consistently charge business units for those liquidity reserves held to meet recover/resolution needs (e.g., Resolution Liquidity Adequacy and Positioning or RLAP). In case further boundaries exist for liquidity transfer and trapped liquidity based on these exercises, banks need to carefully consider them as well.
Current perspectives on funds transfer pricing
Jeff Dykstra is a managing director in KPMG LLP’s Risk Advisory group and is the U.S. lead for the Liquidity practice, which includes FTP. Jeff has over 15 years of experience managing and providing advisory services in liquidity risk, IRR, and market risk management. Jeff has delivered professional advisory services to several global systemically important banks (GSIBs), large banking organizations (LBOs), systemically important insurers, foreign banking organizations, government-sponsored entities, and utilities. His experience ranges from implementations to validations of liquidity governance, measurement, and reporting frameworks.

Arvind Sarin is a partner in KPMG AG WPG (the German member firm of KPMG International) with consulting and audit experience in the treasury and market risk area. He has a strong background in liquidity risk management and IRR management, including FTP, both from implementing regulatory as well as business requirements for national and international clients. Arvind and his colleagues have developed KPMG AG WPG’s competence center for FTP and liquidity risk. He has led multiple FTP projects for domestic and international banks. Arvind has a doctorate in economics from Westfälische Wilhems-Universität Münster, Germany.

Marshal Auron is a director in KPMG LLP’s Risk Advisory group. Marshal works closely with GSIBs and LBOs on capital and liquidity issues. Marshal has over 25 years of experience in banking in areas such as funding and derivatives management, asset/liability management, risk management, and post-financial-crisis banking supervision and leverages this knowledge as a consultant. Marshal has had lengthy experience in IRR, liquidity funding and contingency risk, and FTP and leads KPMG’s U.S. FTP efforts.

Albrecht Budke is a manager in KPMG AG WPG with broad consulting experience in risk management. He has a profound background in liquidity risk management as well as IRR management. He has worked on different projects at large German and international banks in different fields such as implementation of liquidity and interest risk management and FTP as well as model validation. Albrecht has a doctoral degree in mathematics from the University of Cologne, Germany.
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