Liquidity Assessment (LQA) provides accurate, consistent and repeatable calculations.

LIQUIDITY MEASURES LACK UNIFORMITY
Liquidity assessment is an essential business process for buy-side and sell-side firms. This is why regulators have increased focus on how liquidity risk is measured and managed. Yet there is no standard definition of liquidity or accepted best practices for calculating it consistently across multiple asset classes. In addition, most assessment methods rely heavily on bid/ask spread, overlooking other important variables, such as the size of holdings.

The lack of consistency in liquidity calculation creates persistent issues for portfolio managers, traders, risk managers, compliance officers and others that need to assess liquidity across numerous classes. These issues are compounded by the limited data available about more illiquid instruments.

LQA HELPS ENSURE CONSISTENCY
Bloomberg’s Liquidity Assessment (LQA) tool helps firms measure liquidity in a consistent, repeatable way. With access to accurate and unbiased calculations for liquid and illiquid fixed income assets, firms gain the ability to develop more reliable measures of liquidation costs, which are used widely in regulatory reporting, risk assessment and pre- and post-trade analysis.

Specifically, LQA helps banks, broker dealers, hedge funds and other firms understand the probability of selling a specific volume of securities at a specific price, along with the expected cost of liquidation, expected maximum volume and expected days to liquidate given a maximum market impact. Finally, the tool delivers a liquidity score designed to indicate security-level liquidity with respect to market impact.

DATA-DRIVEN METHODOLOGY
At its core, the LQA tool transcends the inherent limitations of the bid/ask approach. It accomplishes this by combining rich Bloomberg financial data with a machine learning engine and a market impact model that account for all the relevant factors that can influence liquidity.

Using a larger set of input variables helps the LQA tool provide more accurate estimates and maintain this accuracy for a wider array of market conditions. For example, the tool calculates the probability of liquidation based on differently sized holdings, using volume-based market impact analysis to help firms identify potentially hard-to-sell securities.

Because the tool does not rely solely on trading data, it can deliver more accurate estimates of relatively illiquid assets. It employs cluster analysis to identify comparable assets and provides a dynamic list of these securities. This approach is particularly helpful for addressing illiquid positions with very little historical data.
ENTERPRISE ADVANTAGES
The LQA tool delivers value to everyone across the firm.

**Portfolio managers** gain consistent information about price, volume and timing for a specific security or across multiple asset classes in a portfolio.

**Risk managers** can measure liquidity and systemic risk in a single solution with cross-asset liquidity measurements of expected execution price, expected time to liquidation and expected trading volume given the market impact. They can also use the liquidity score as a key risk indicator (KRI).

**Independent price verification teams** can more accurately calculate prudent values for illiquid bonds with limited historical trading activity in order to address Prudent Valuation regulatory requirements in the EU.

**Traders and compliance** can better predict and measure relevant execution prices, which supports compliance requirements for pre- and post-trade analysis and also helps reduce transaction costs.

BLOOMBERG FOR ENTERPRISE
To succeed today, financial institutions must respond to challenges that are not addressed by traditional approaches. They require world-class solutions that integrate people, processes, information and technology for the front office, middle office and operations. Bloomberg partners with these institutions to protect and capitalize on data, manage risk, deliver transparency and control costs. Through enterprise-level expertise and three decades of deep industry experience, Bloomberg creates real value through the use of innovative technology that turns data into a strategic asset.

TAKE THE NEXT STEP
Learn more about how we can help your firm determine a bank’s liquidity level. Visit bloomberg.com/enterprise or reach us at eprise@bloomberg.net.