

Liquidity Stress Test Policy

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# Overall Policy Statement

The purpose of the Corporate Treasury Liquidity Stress Test Policy is to provide a policy for governing the production of Liquidity Stress Tests (LST). Throughout the Policy, the terms “BNY Mellon” and “the Company” incorporates by reference all subsidiaries.

BNY Mellon defines *liquidity* as the ability of the Company and its subsidiaries to access funding or convert assets to cash quickly and efficiently, especially during periods of market stress. Liquidity risks can arise from funding mismatches, market constraints from inability to convert assets to cash, inability to raise cash in the markets, deposit run-off, or contingent liquidity events. Changes in economic conditions or exposure to credit, market, operational, legal, and reputational risks also can affect the Company liquidity risk profile. These liquidity risks are considered in the liquidity stress test framework*.*

This policy is designed to supplement the Company Liquidity Policy and should be viewed in conjunction with the broader policies and mandates of the Company Liquidity Policy.

# Liquidity Stress Test Procedures

## Methodology

As a means of evaluating the Company’s liquidity position under adverse funding conditions, the ALM Group within Corporate Treasury prepares various Liquidity Stress Tests. These Liquidity Stress Tests are designed to evaluate BNY Mellon’s liabilities, with a focus on tenor, deposit stickiness, and funding maturities relative to cash inflows and liquid assets. The Company’s overall approach to the LST process is to evaluate the extent that sufficient assets or other funding sources are in place to satisfy the liabilities assumed to come due, given the stresses considered in the scenario being analyzed. In the Liquidity Stress Tests the Company undertakes, the survival horizon is one year. The LST practices, metrics, and limits are further detailed throughout this policy.

The primary goals of the stress test include the assessment of BNY Mellon’s current liquidity position, and the identification of significant vulnerabilities, which can be addressed proactively. More specifically, the strategic goals of the Liquidity Stress Test include:

* Ensuring solvency of BNY Mellon during a period of liquidity stress
* Protecting the BNY Mellon franchise as an ongoing business
* Assessing any potential vulnerabilities

The Liquidity Stress Tests include a forecast of the projected net liquidity of the firm after accounting for adverse events such as a withdrawal of deposits, leading to inaccessibility to the capital markets. Specifically, the ALM Group determines the deficit or excess of assets over liabilities and capital, given assumptions regarding the behavior of liabilities in the scenario analyzed. This calculation also includes certain off-balance sheet funding needs. This is compared to the contingent liquidity available from securities and loans to determine the net liquidity position of the Company. The net liquidity position is computed at various time periods over the year analyzed in the Liquidity Stress Tests.

Stress tests should ensure that current exposures are consistent with Company risk tolerance and limits.

## Scope

Liquidity Stress Tests are completed at the Bank of New York Mellon Corporation (the “Company”) level. All balances will be presented in US Dollars, unless otherwise noted in the Liquidity Stress Test.

Additional analyses will be performed periodically by ALM or subsidiary personnel to evaluate liquidity in significant legal entities. Liquidity Stress Tests will also be performed periodically by major currencies to analyze potential liquidity exposures should the foreign exchange markets cease to operate.

## Frequency

ALM will conduct Company Liquidity Stress Testing monthly and report results as discussed in the Governance section of this policy.

Additional scenarios other than the Base Case, Supplemental, and Reverse Stress Tests are performed on a less frequent basis, as noted below.

## Scenarios

In order analyze various stress scenarios and the resulting liquidity impact; the following stress tests are performed:

* 1. Base Case - Projects the Company’s net liquidity following severe market and idiosyncratic stress, resulting in consequences such as a withdrawal of deposits, leading to inaccessibility to the capital markets.
  2. Supplemental Stress Tests – These scenarios replicate the actual experiences and deposit run-off of financial institutions which have experienced considerable stress.
  3. Reverse Stress Test – An analysis of the amount of deposit migration which would exhaust all contingent liquidity.
  4. Enterprise-wide Stress Test – Approximately each quarter ALM produces a Liquidity Stress Test based on an enterprise-wide stress scenario developed by Risk Management and informed by each business. These tests analyze potential market-wide events or situations arising within the Company.
  5. Intraday Liquidity Stress Test - ALM will also conduct intraday stress tests at least annually to evaluate the liquidity risks from operational failures within the Company’s operating business, with results reported to ALCO or a sub-committee thereof.

## Assumptions

Significant assumptions used in the Liquidity Stress Tests include the following, unless the specific scenario requires alternative treatment:

* Discount window remains “open”
* BNY Mellon is unable to borrow in the capital markets
* BNY Mellon can borrow with a high haircut on a secured basis
* BNY Mellon can convert assets and liabilities across legal vehicles
* BNY Mellon can conduct foreign exchange transactions across currencies

ALM makes various assumptions regarding various balance sheet items, which are based on historical experience and professional judgment. These assumptions and their rationale are documented in the Liquidity Stress Test documentation produced by ALM.

## Data Sources

The data used in the analysis is sourced primarily from balance sheet tracking reports created by Treasury Controllers and the ALM database (ALMIS). Other data is obtained from various sources, as documented in the Liquidity Stress Test materials.

# Governance

ALCO is the senior management committee responsible for the oversight of liquidity risk at the Company. Senior management is responsible to ensure that adequate liquidity is maintained and appropriate analysis is performed. Corporate Treasury has primary responsibility for the analysis of the liquidity position of the Company, which includes Liquidity Stress Testing.

## Ownership

The Asset/Liability Management Group (ALM) in Corporate Treasury has responsibility for conducting Liquidity Stress Testing at The Bank of New York Mellon Corporation (“BNY Mellon”).

Calculations and assumptions used in the test are also verified by the Asset/Liability Management group as well as the Treasury Risk Committee.

## Reporting

Corporate Treasury presents results and significant assumptions to ALCO and the Treasury Risk Committee.

## Independent Review

Risk Management is responsible for reviewing the Liquidity Stress Test framework and results to ensure appropriate oversight. This review includes the liquidity limits measured by the test.

## Documentation

Corporate Treasury documents all calculations and assumptions and reviews relevant documentation at the Treasury Risk Committee. All data and assumptions used in the Liquidity Stress Tests are maintained in the LST files, as well as the documentation produced in association with the testing.

## Limits

The following are the liquidity risk limits for the Company stress test:

* In the base Liquidity Stress Test, Contingency Liquidity / Remaining Liabilities must exceed a minimum of a 20% buffer for the first 1-15 days and a 10% buffer through the remainder of the survival horizon of one year.
* In the supplemental market stresses, which are a 10% deposit run-off in one day and an 18% deposit run-off in 10 days, the Contingency Liquidity / Remaining Liabilities must exceed a minimum of 13%.

If results show the Company is beyond its risk tolerance, management should take action to limit exposures, build a liquidity cushion, and adjust the liquidity profile to fit the Company risk tolerance.

ALCO must approve any Liquidity Stress Test limit exceptions.

# IV. Review

ALM and the Treasury Risk Committee will review and approve this policy and the limits contained herein per the Company’s policy for policy approval, no less frequently than annually.

Any excesses to liquidity limits stated herein must be reported to and approved by ALCO.

*This policy was last approved by the Treasury Risk Committee on 11/14/2012.*

**Addendum**

Since the 11/14/2012 approval, two changes have been made

* 1. All changes to the liquidity stress testing framework must be approved by the Treasury Risk Committee prior to implementation (see the Treasury Risk Committee minutes dated 12/11/2012).
  2. The Company added an additional limit in the Company stress test: In the base case liquidity stress test, the amount of less liquid assets net of encumbrance and applicable haircuts/net contingent liquidity must be less than 5% (see Board of Directors presentation August 2013/ALCO July 2013).

These changes will be embedded in the liquidity stress testing policy at the next review.

At the October 8th, 2013 Treasury Risk Committee meeting, the Committee granted a six month extension for the next approval of the liquidity policy to factor in changes in systems and independent review. The next approval is slated for the April 2014 Treasury Risk Committee meeting.