



# Covid 19 Impact



# Covid 19 Impact



# ! Coronavirus Credit Downgrades Are Here

A stylized world map in shades of teal and blue, centered on the Atlantic Ocean. The text 'Panic Selling' is overlaid in white, with a large exclamation point to its left.

# ! Panic Selling



!

# Market Circuit Breakers Triggered

A stylized world map in shades of teal and dark blue, centered on the Atlantic Ocean. The text is overlaid on the map.

**! More downgrades to come**



What happens after the dust settles?



## Covid 19 Impact





Is your company  
ready?

IMP

## Potential Ramifications:

- 1 Reputational Risk
- 2 Client Reimbursement
- 3 Violations and Fines
- 4 Best Execution
- 5 Opportunity Loss

# ications:

1

## Reputational Risk

2

# Client Reimbursement

Violations and Fines

# 3

## Violations and Fines

4

# Best Execution

5

# Opportunity Loss



## Potential Ramifications:

1

Reputational Risk

2

Client Reimbursement

3

Violations and Fines

4

Best Execution

5

Opportunity Loss

## 3 Critical Considerations



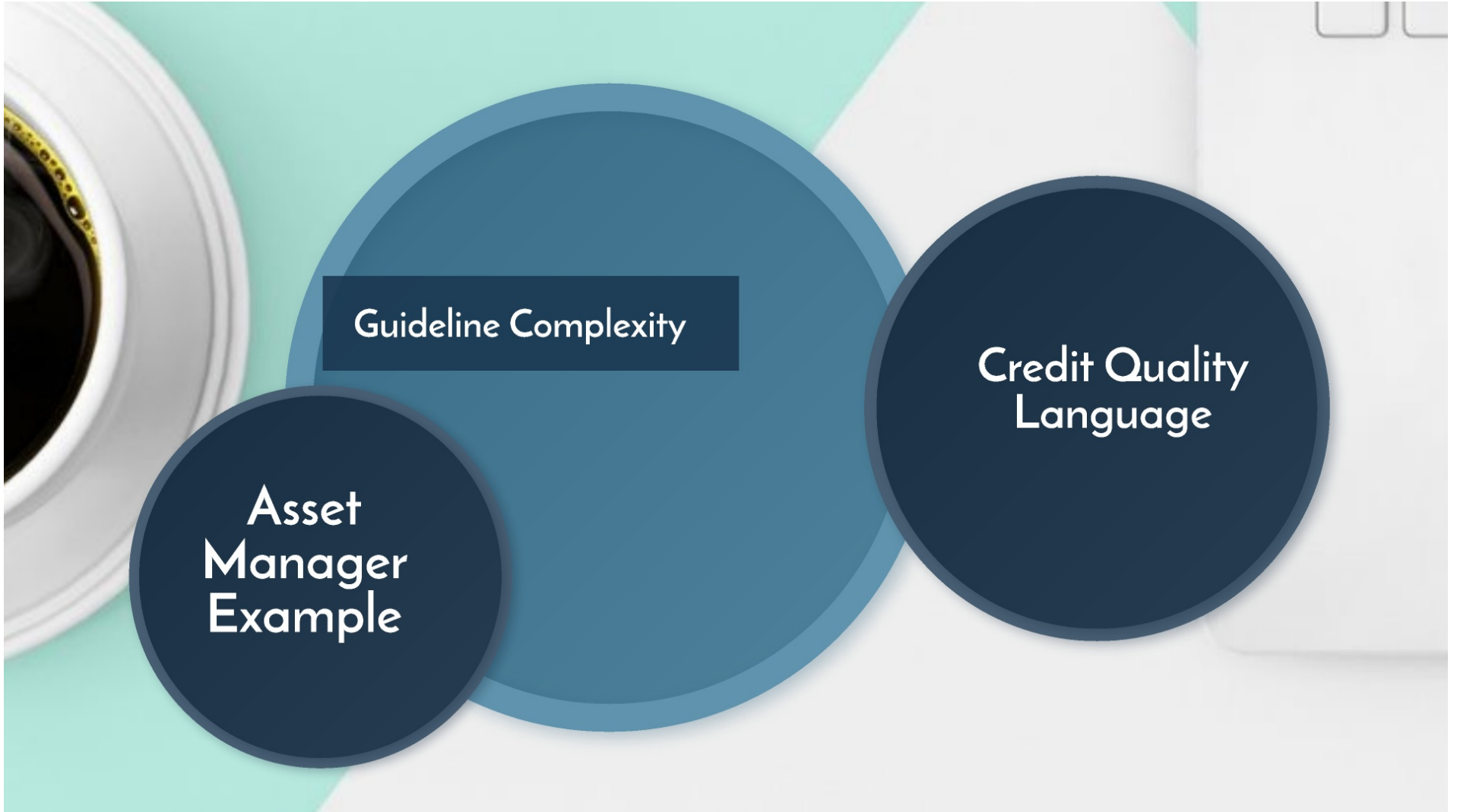
Guideline  
Language



Rule Logic



Corrective Action  
by organization





Multiple Data Points

Secondary Review

In-house Expertise

# Multiple Data Points

# Secondary Review

# Secondary Review

# In-house Expertise





Multiple Data Points

Secondary Review

In-house Expertise

## Asset Manager's Client ABC's IMA

The fund shall hold  
only investment grade  
securities, as rated by a  
NRSRO.

## Asset Manager's Client ABC's rule:

Asset Class = Debt &  
Security Rating  $\geq$  BBB-  
as rated by Moody's Long,  
S&P Long, or Asset Manager  
Internal Credit Analysis

If unrated, then use Asset  
Manager Internal Credit  
Rating

# What went wrong?

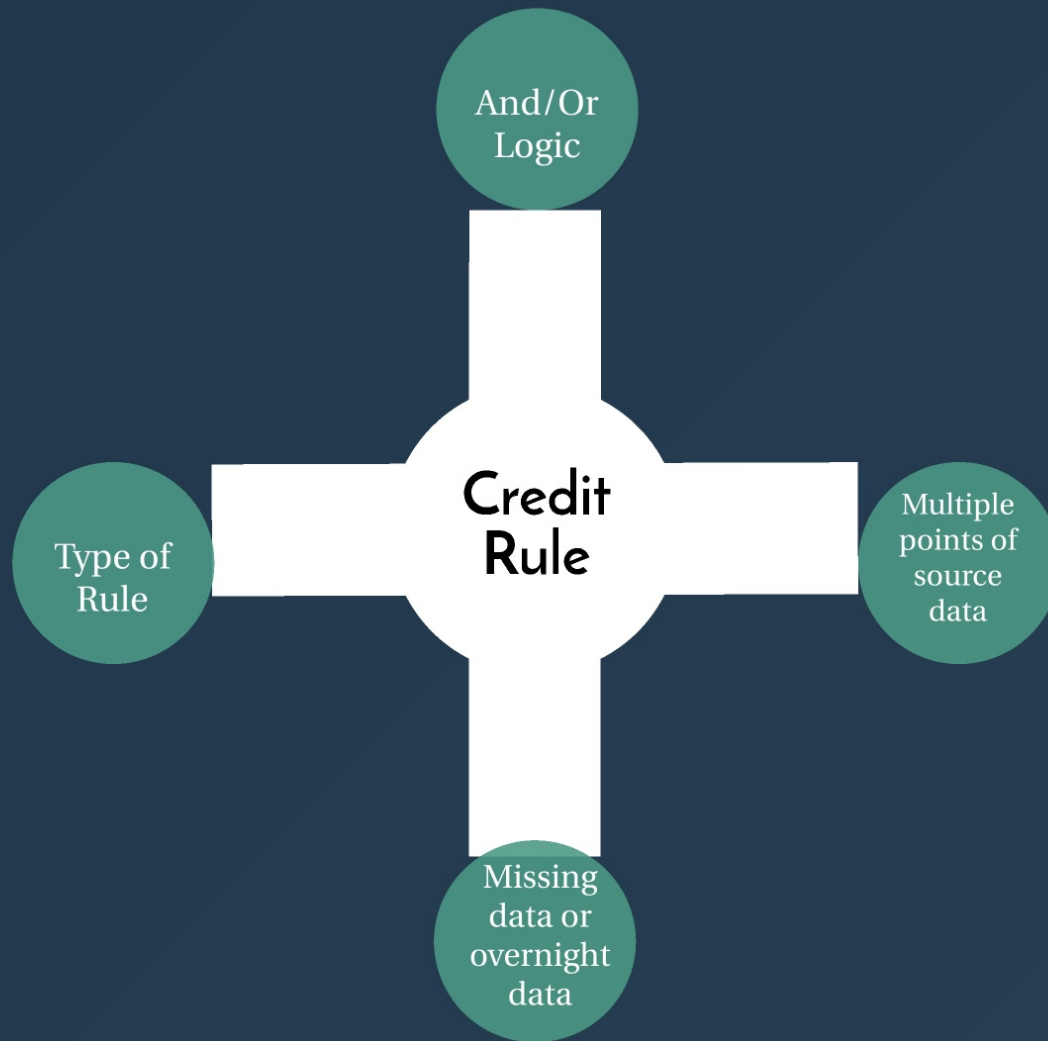
*"or ABC Credit Analysis  
If unrated, then use ABC  
Credit"*

*"or ABC Credit Analysis  
If unrated, then use ABC  
Credit"*

Rule Complexity

Why are Credit  
Quality rules so  
tricky?

Asset  
Manager  
Example



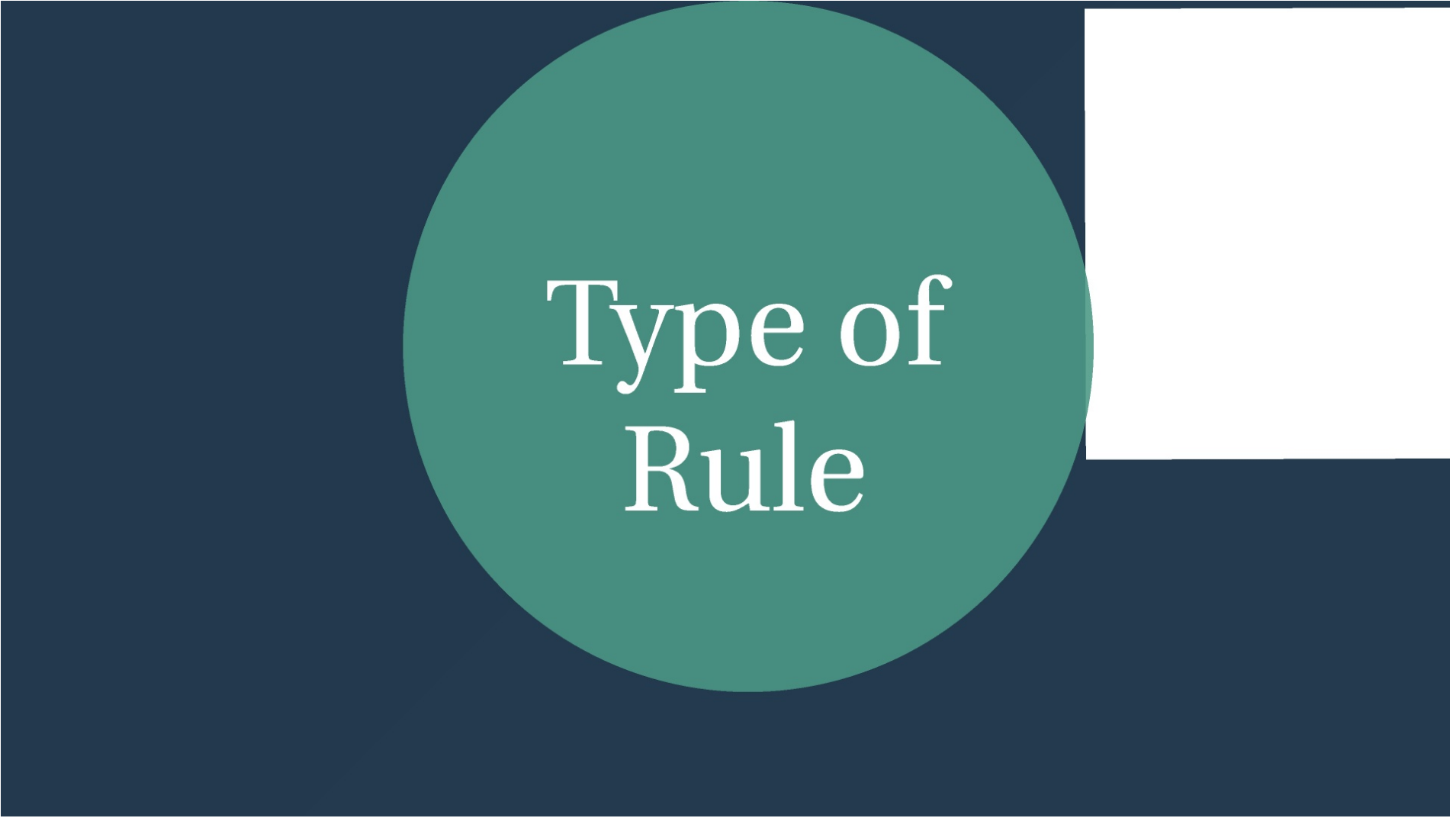


# Credit Rule



# And/Or Logic





# Type of Rule



# Type of Rule



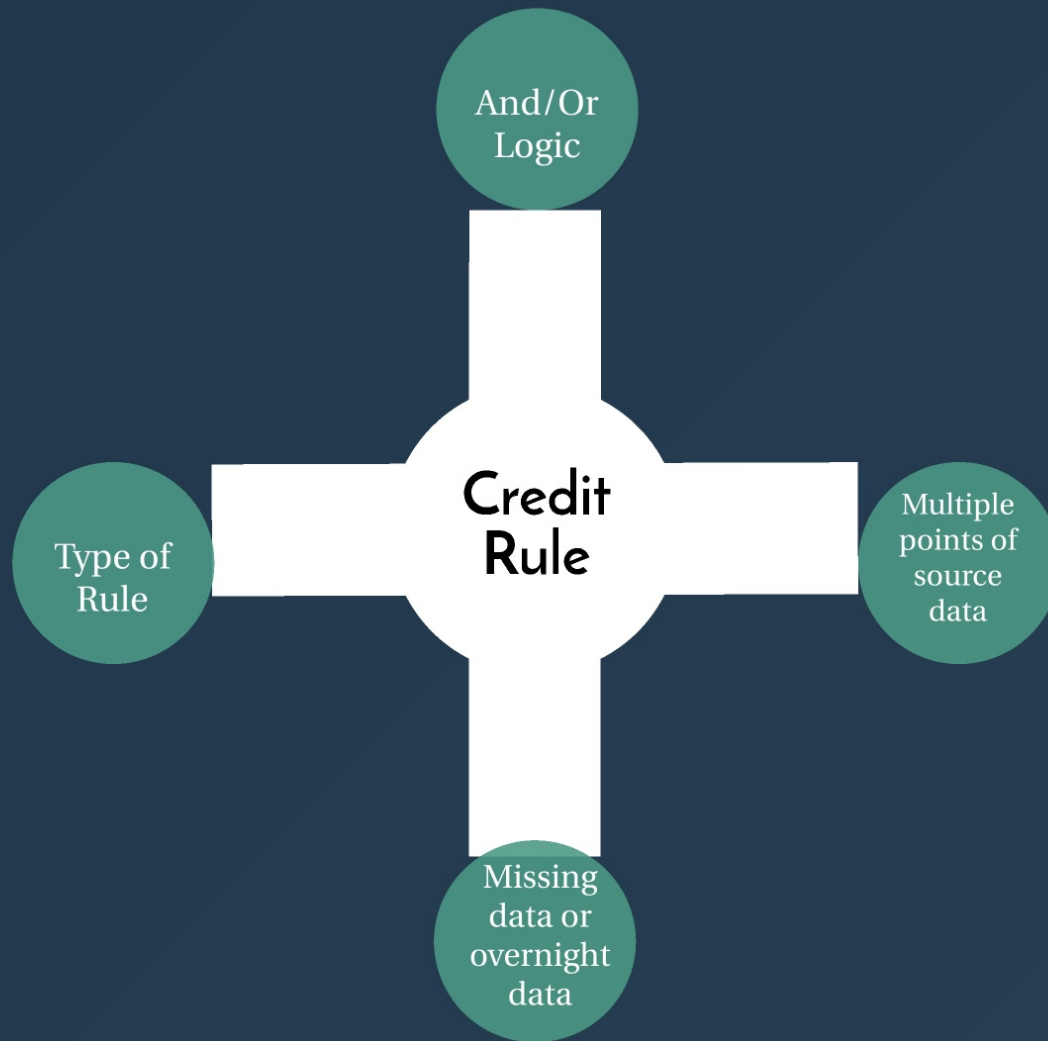
Multiple  
points of  
source  
data



Multiple  
points of  
source  
data



Missing  
data or  
overnight  
data



**Asset Manager  
Example:**

**Asset  
Manager's  
Client  
XYZ**

**Asset Manager's  
Client XYZ  
Requirement:**

All short-term  
investments shall be  
AAA and no more than  
10% of the fund shall  
be in commercial  
paper

**Asset Manager's  
Client XYZ Rule**

No more than  
10% AAA  
Commercial  
Paper



# Downgrade Alert Types:

Divest immediately

Client notification required

Client notification & action



Divest immediately

Client notification required

Client notification & action

# Asset Manager Example

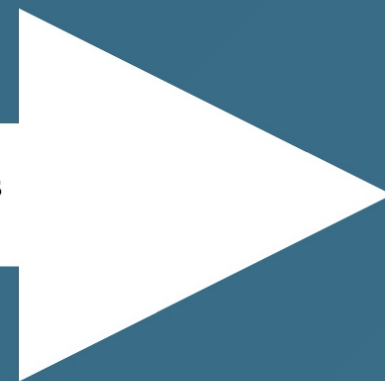
Do not sell due to downgrades

PM holds

Ramifications

EMAIL NOT SENT TO COMPLIANCE

Danger Zone



## How Can IMP Mitigate Risk?





www.impcosults.com/  
ask-us

# Asset Manager Examples...

Client 123

Client 456

## Asset Manager's Client 123's IMA

“The fund shall mitigate risk by investing in primarily investment-grade securities. No unrated securities may be held by the fund except for issuers of demonstrable highest quality and in cases where the maturity rate of those securities qualifies them as overnight or short-term and in no case beyond 90 days maturity.”

### Incorrect Rule Translation:

min 80% in  $\geq$  BBB

No unrated

if unrated maturity  
date  $\leq$  90 days

### What is the rule missing?

For unrated securities, the rule should look to the ultimate issuer and use that entity's rating AND the effective maturity date should be set as a maximum of 90 days.

## Asset Manager's Client 456's IMA

“Collateralized securities must be rated in one of the three highest long-term ratings by an NRSRO and such collateral must be of the highest quality and greater than or equal to 102% of the security held.”

### Rule translation:

This is just a look through test, right?

Not exactly- we would need to look through to the underlying holdings, unless you have an MBS that is guaranteed by Fannie Mae, Freddie, etc. CDO's would likely be disallowed, based on the way the credit quality of the tranches can be suspect.

For ABS, you'd need to look through to the guarantors of the underlying assets.

The 102% is alluding to Repurchase Agreements (repos). The collateral (that the firm takes in) would need to be AAA (so probably UST's) and it would need to be worth at least 102% of the cash that was lent out.



