Liquidity regulation

Simon Davis, RBS Treasury

The liquidity coverage ratio (LCR)

Liquidity Coverage Ratio

$$\frac{\text{High Quality Liquid Assets}}{\text{Net cash outflows over 30 days in stress}} \geq 100\%$$

- Does one size fit all?
- Is their more to liquidity risk?

One metric is insufficient

Basel ‘Additional monitoring tools’

- Contractual balance sheet profile
- Currency risk
- Concentration of funding
- Availability of unencumbered assets
- Market related tools

The net stable funding ratio (NSFR)

Net Stable Funding Ratio

$$\frac{\text{Items providing stable funding}}{\text{Items requiring stable funding}} \geq 100\%$$

- Structural balance sheet metric
- Revised proposals seek consistency and to reduce the 1 year cliff effect.

Disclosure

Increased transparency

- Liquidity coverage ratio and encumbrance disclosures
- Enhanced Disclosure Task Force
- Requirements from national supervisors

…but are there consequent risks that need managing?