

Professional Training Course

Liquidity: Regulation, Practice and Stress Testing

 @FBF_School

23 - 25 March 2020

Sala Europa - Villa Schifanoia, Via Boccaccio 121 - Florence

Instructors:

Christos Gortsos | National and Kapodistrian University of Athens

Charles-Enguerrand Coste | European Central Bank

Alina Preger | Prometeia

Jean-Jacques Van Helten | Robert Schuman Centre, EUI

Jeroen Van Bommel | European Central Bank

Christian Winkler | ESMA

Introduction

The purpose of this course is to analyse the framework governing the prudential regulation of liquidity of credit institutions in the European Union. The main focus is on prudential requirements imposed on credit institutions with regard to their liquidity in the context of international financial standards' development and within the European regulatory framework. The course will not only cover the current rules but also the new rules of the recently revised Capital Requirements Regulation (CRR II), applicable as of January 2021 and, in particular, the Net Stable Funding Ratio (NSFR). Liquidity risk management will be explained from a banker's perspective, including a model of three lines of defence and internal dry runs and stress tests.

Specific sessions will focus, from a supervisory perspective, on the Internal Liquidity Adequacy Assessment Process (ILAAP), the Liquidity Coverage Ratio (LCR) liquidity stress testing in general, and liquidity stress testing for investment funds in particular. All these technical aspects will be operationalised with a practical stance and illustrated with case studies.



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Programme

23 March

13.30 - 14.00	Introduction by the Florence School of Banking and Finance and <i>tour de table</i>
14.00 - 14.30	Road map of the course
14.30 - 16.00	Session 1. The overall framework - Prudential regulatory liquidity requirements under international financial standards and their impact on EU banking law (C.V. Gortsos) <ul style="list-style-type: none">• Sources of liquidity for credit institutions - liquidity vs. own funds• Types of liquidity risk: systemic vs. idiosyncratic• Central banking liquidity to deal with systemic liquidity risk - specific cases of central banking liquidity: lending of last resort and liquidity in resolution• Prudential regulatory liquidity requirements to deal with idiosyncratic liquidity risk• The recent (2007-2009) international financial crisis as a catalyst for regulatory intervention• The provisions on liquidity of the "Basel III" regulatory framework of the Basel Committee on Banking Supervision: Liquidity Coverage Ratio (LCR) - Net Stable Funding Ratio (NSFR)
16.00 - 16.30	<i>Coffee break</i>
16.30 - 18.00	Session 2. The current EU framework on prudential liquidity requirements for credit institutions (C.V. Gortsos) <ul style="list-style-type: none">• The impact of international standards on EU banking law: the provisions on liquidity of the Capital Requirements Regulation as in force (CRR I)• Compliance with liquidity requirements under the CRR I• The provisions of Commission Delegated Regulation (EU) No 2015/61• An overview of other delegated and implementing acts - EBA Q&As

After the course *Social Activities outside the EUI (TBD)*

24 March

09.00 - 09.30	<i>Welcome Coffee</i>
09.30 - 11.00	Session 3. The new EU framework on prudential liquidity requirements for credit institutions (C.V. Gortsos) <ul style="list-style-type: none">• An overview of the provisions of the new Capital Requirements Regulation (CRR II) on liquidity• In particular: the new rules on the Net Stable Funding Ratio (NSFR)
11.00 - 11.30	<i>Coffee Break</i>

11.30 - 13.00 **Session 4. Liquidity Risk Management: a Banker's Perspective (J.J. van Helten)**

- Three Lines of Defence ("LOD") model with focus on 2LOD as the provider of independent oversight, risk assessment & effective challenge across the Bank
- Performance by Treasury & Risk of discrete & complementary functions within the Overall Liquidity Adequacy Rule (OLAR) based around a Liquidity & Funding Risk Management Framework including Risk Appetite Statement, limit setting, funding & asset liquidity risk assessments, liquidity buffer
- Stress tests and dry runs to explore the resilience of the bank against liquidity shocks including Contingency Funding Plan and Recovery Plan and relevant warning indicators

13.00 - 14.00 *Lunch break*

14.00 - 14.15 *Group Picture*

14.15 - 15.45 **Session 5: case studies in groups (C.V. Gortsos)**

- Presentation of the case studies
- Work in groups

15.45 - 16.00 *Coffee break*

16.00 - 17.00 **Session 5 (*following*): plenary presentations and reporting**

17.00 - 17.30 **Closing the case studies, debrief and wrap up**

After the course *Social Activities outside the EUI (TBD)*

25 March

09.00 - 09.15 *Welcome coffee*

09.15 - 10.45 **Session 6. ILAAP in the context of Liquidity Risk Management (J. van Bommel)**

- Reading and understanding the ILAAP from the bank's perspective
- Reading and understanding the ILAAP from a supervisory perspective
- How to use regulatory reporting to understand, validate and challenge the ILAAP, looking at:
 - Asset Encumbrance + Liquidity Coverage Ratio
 - Additional Liquidity Monitoring Metrics
 - Funding plans
 - Case study - J. van Bommel and C. Coste

10.45 - 11.00 *Coffee Break*

11.00 - 12.30 **Session 7. The LCR Operational Requirements and why they matter (C.-E. Coste)**

- Why the operational requirements matter
- Operational Requirements & Treasury
- Liquidity Buffer and monetization of assets
- Case study

12.30 - 14.00 *Lunch*

14.00 - 15.30 **Session 8. Liquidity and stress testing (A. Preger)**

- Guidance for liquidity and stress testing, anchored in the supervisory framework
- Stress testing in practice: an internal liquidity stress test case
- Practical case and data of recent Supervisory stress testing exercise in the EU

15.30 - 15.45 *Coffee Break*

15.45 - 17.15 **Session 9. Liquidity stress testing for investment funds (C. Winkler)**

- Investment fund stress testing - which type of stress test exercise serves which regulatory / supervisory purpose
- Overview of the ESMA fund stress simulation framework as a tool to assess the resilience of the investment fund industry
- ESMA fund stress simulation – case study

17.15 - 17.45 **Session 10: Closing of the training - wrap up and your takeaways (C.V. Gortsos)**