Integrated approach to report liquidity and funding options to SRB

Leveraging data and technology platform of ALM

Contents

Abbreviations:

ALM	Asset liability management
ASF	Available stable funding
BRRD	Bank recovery and resolution directive
EBA	European Banking Authority
Efb	Expectation for Banks
FI	Financial Institution
FOLTF	Failing or likely to fail
HQLA	High quality liquid assets
ILAAP	Internal liquidity adequacy assessment process
ITS	Implementation Technical Standard
LCR	Liquidity coverage ratio
NLP	Net liquidity position
NRA	National resolution authority
NSFR	Net stable funding ratio
RSF	Required stable funding
RTS	Regulatory Technical Standard
SRB	Single resolution board
SRMR	Single resolution mechanism regulation

Introduction

SRB has published a **new guidance *on liquidity and funding in resolution***. Banks are likely to face liquidity stress in resolution because of the reluctance of market participants to roll-over or provide funding to a bank in crisis.

In the SRB's Expectations for Banks ***(EfB)***[1] document, banks are expected to:

- Have established processes and developed methodologies to estimate the liquidity and funding needs for the implementation of the resolution strategy;
- be able to measure, report and forecast their liquidity position and relevant liquidity metrics during the resolution process; and
- be able to identify and mobilize collateral that could be used to obtain liquidity during and after resolution. It is expected that these collaterals would be unencumbered and without any legal & operational obstacles which can be easily mobilized under stressed conditions for funding.

This guidance focuses on the estimation of liquidity needs, and aims to enhancing banks' resolvability and preparedness for a potential resolution.

The ALM function of a bank today as part of their liquidity risk management framework conducts daily operational and strategy work that encompasses :

- Managing liquidity and funding risk management framework
- Devising funding strategy during the economic boom period and in slow down period
- Strategy regarding liquidity buffers and collateral management
- Cost benefit allocation mechanism
- Intraday liquidity risk management
- Liquidity stress testing and
- Liquidity contingency plan.

Additionally according to Basel III norms banks use the metrics LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) to measure the short-term and long-term resilience of bank's liquidity risk profile.

Taking an integrated approach by extending the LCR , NSFR and ILAAP reporting data and processes , banks can meet the reporting obligations on "liquidity and funding options" to SRB by using the same data and technology platform.

Intended audience: CTOs, CFOs , CIOs , Head of Treasury and ICT risk and treasury teams.

1. SRB's Expectations for Banks (EfB)1 : Publishing date 10/04/2020 . Refer to section 1.3 ,Point 3. https://www.srb.europa.eu/system/files/media/document/efb_main_doc_final_web_0_0.pdf

Single Resolution Board requirements on "liquidity and funding options assessment for banks"

SRB[2] presents the high level framework to determine when a bank is assessed to be failing or likely to fail (FOLTF). This is based on the net liquidity position of the bank in a short-term. A bank reaching the failing stage has two scenario's (i) slow moving and (ii) fast moving. In a slow moving scenario the bank is estimated to reach the failing stage in 12 months, so it can still take corrective measures to avoid this whereas in the fast moving scenario the bank is expected to reach the failing stage in less than 3 months, so it has limited or no options to take corrective steps to avoid the situation.

SRB has provided high level guidelines on calculating the liquidity risk profile of a bank , and based on the net liquidity position (NLP) of a bank it decides when it should take over the bank for implementing the recovery and resolution tools. The resolution tools are bail-in, asset separation , bridge

SRB determines the net liquidity position of the bank and whether the bank has minimum operating liquidity needs for 30 days and 7 days before implementing the resolution plan. Expanding the definitions of the key metrics used by SRB and their linkage to EBA's reporting requirements on liquidity risk by the banks is summarized below :

- **Liquidity Coverage Ratio (LCR) :** Regulatory measure to ensure that banks have an adequate level of high-quality liquid assets (HQLA) to meet their liquidity needs for a 30-day stress scenario. The LCR is intended to promote financial stability by ensuring that banks have enough liquidity to withstand short-term stress events, such as a run on the bank or a sudden loss of funding.

- **Net Stable Funding Ratio (NSFR) :** Regulatory measure to ensure that banks have a stable funding structure over a **one-year time horizon.** The NSFR is intended to promote financial stability by ensuring that banks have a stable funding structure, which can withstand stress events such as a sudden loss of market confidence or a severe recession. It aims to reduce the risk that a bank would become illiquid due to a mismatch between the maturity of its assets and liabilities.

- **Net liquidity position (NLP)**[2]**:** The net liquidity position of a bank is given by the sum of the value of its counterbalancing capacity and the difference between total net cash outflow and inflow resulting from commitments due at that point in time. The monitoring of the evolution of a bank NLP is a key element to determine liquidity crisis, when the NLP drops below a certain level and disables the bank from covering its future outflows.

- To calculate **NLP**, the maturity ladder template **C66 (Annex I)**[3] is used for providing details on the outflows, inflows and counterbalancing capacity to SRB. C66 template is used by the banks to report LCR metrics to EBA.

- **Minimum Operating Liquidity Needs (MON)**[2]**:** The minimum amount of liquidity necessary for a bank to operate for a short period of time. MON also uses the maturity ladder template C66 (Annex I)3 to provide the details on inflows and outflows.

  It uses the same data of LCR but in case of MON the total net liquidity outflow is non stressed unlike in LCR where the outflows are stressed. So its value is expected to be positive and less than the LCR net liquidity outflow for 30 days.

  The range of MON $_{30\ days}$ is expected to be within : 0 <= MON $_{30\ Days}$ <= LCR

2. SRB2 - Estimating liquidity needs in resolution in banking union. Published date , March 2022. Section 2. For MON technical description refer to section 6 Annexes https://www.srb.europa.eu/system/files/media/document/20220328%20SRB%20staff%20working%20paper%20Estimating%20liquidity%20needs%20in%20resolution%20in%20the%20Banking%20Union%20FINAL_0.pdf
3. EBA Reference3 – Final ITS on Additional Liquidity Monitoring Metrics under Article 415(3)(b) of Regulation (EU) No 575/2013. Refer to Annex I (Maturity Ladder Template) and Annex II , instructions to fill the template. https://www.eba.europa.eu/regulation-and-policy/liquidity-risk/draft-implementing-technical-standards-on-additional-liquidity-monitoring-metrics

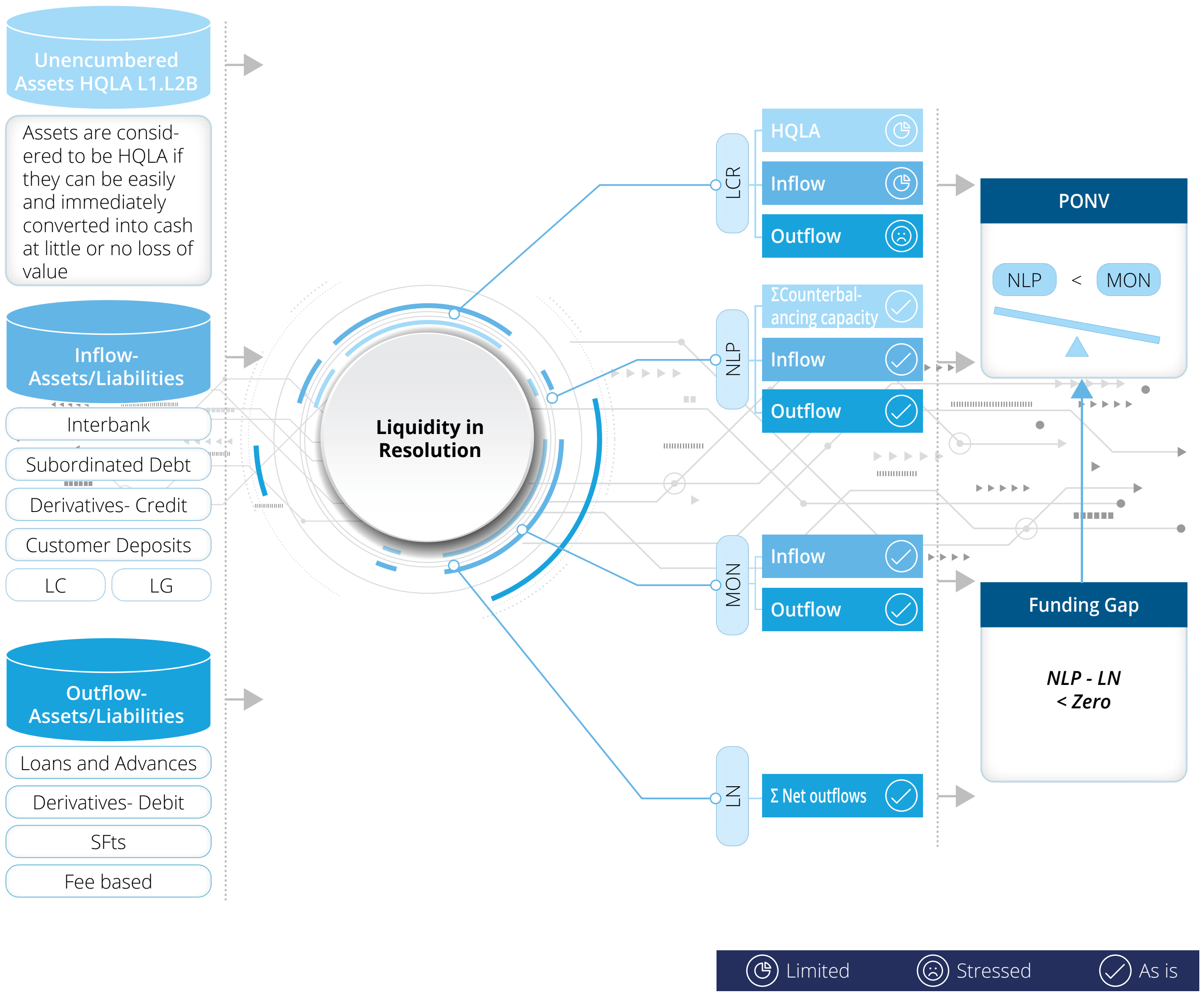
- **Liquidity needs in resolution (LN):** The liquidity needs of a bank in resolution is the minimum amount of cash or cash-equivalent assets that the bank needs to hold on the morning after resolution to operate its critical functions and core business lines during the stabilization phase. This minimum operating liquidity needs (MON) can be for 30 days, 3 months , 6 months or 1.

- **Failing or likely to fail (FOLTF) decision:** The moment when the resolution process starts. The decision is assumed to be taken by the competent authority when the bank reaches its point of non-viability (PONV). The FOLTF decision is assumed to be taken on the grounds of liquidity issues, when the NLP falls below certain predefined thresholds.

Since the ALM team of bank uses C66 template to report LCR to EBA , so the same dataset can be used to report liquidity risk monitoring report to SRB. A high level overview of common dataset and the above mentioned ratio's as used by SRB to determine the liquidity position of a bank is shown below.

SRB in its guidelines expects that the banks will start implementing liquidity risk framework in 2023, which will help it to report about its liquidity risk resilience profile to SRB . In future the banks may be expected to have this information provided on real time, which will be difficult as it requires complete transformation on how the data and processes currently work in a bank.

Common Datasets



Assertion:

Since SRB has provided guidelines on using C66 template , which is provided by EBA to calculate Maturity Ladder for banks , so the data used to calculate NLP and MON for variables - total cash outflows, total cash inflows and counterbalancing capacity is similar to calculate LCR (denominator value). MON will use the 30 days of data in the ALM maturity ladder template to calculate the value, similar to LCR.

However MON_{30days} uses the non – stressed value of total cash outflow whereas LCR uses stressed value of the total cash outflow for calculating the denominator. LCR at the time of FOLTF takes into account the stressed inflows/outflows, since these inflows and outflows have already happened and they are no longer on the bank's balance sheet hence its value is lower than the steady state LCR.

The open question here is whether the ALM tool in banks are currently capable of generating all the data for LCR , since it holds the balance sheet or a different software tool is used to generate LCR . To what extent are the business processes and data flows are integrated and semi-automated to generate LCR in near real time, because at the time of resolution SRB will expect the data on liquidity and funding in near real time over weekend.

From a data architecture stand point data harmonization and data quality will be key focus areas as any deviation in the range of MON_{30days} due to data quality will result in wrong input being provided to SRB.

The banks will also have to ensure that stressed scenario's actually simulate the resolution period as once a bank enters into resolution , lot of market based events will impact its business processes, compliance checks and controls. Some example of this could be further haircut during fire sales, high deposit run-offs, liquidity crunch in the market hence asset sales may take time, limited access to financial markets etc. The bank's system during the process of resolution may have to do lot of lifting of data and hence automation will become key focus area for bank in future.

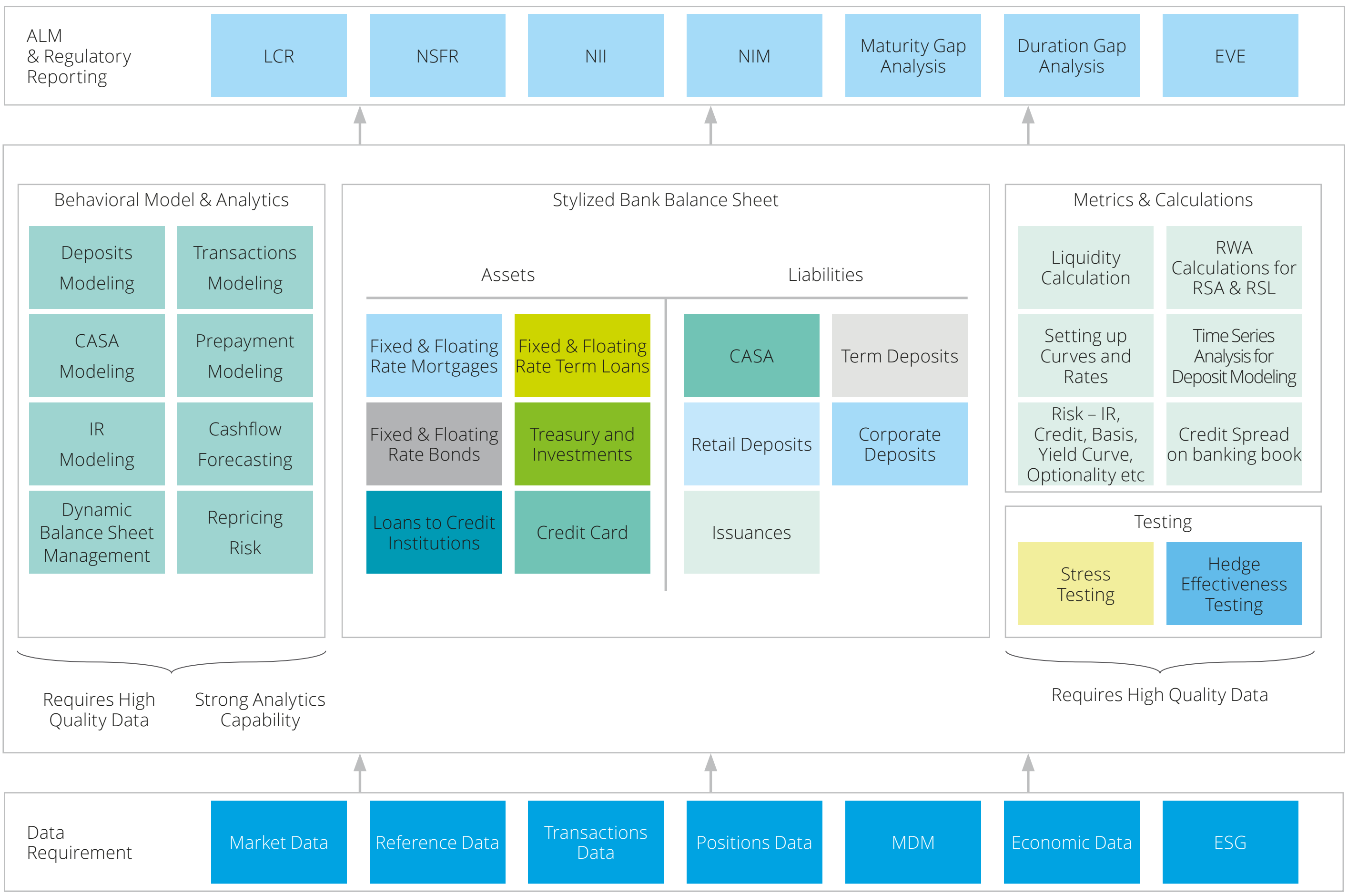
ALM Framework

ALM involves monitoring, analyzing and forecasting the bank's and FI's balance sheet, including its assets, liabilities, and net worth. It also includes management of interest rate risk, liquidity risk, and credit risk.

The ALM business functions typically include:

- **Interest rate risk management:** identifying, measuring, and managing the interest rate risk of the institution's assets, liabilities, and off-balance sheet positions.
- **Liquidity risk management:** identifying, measuring, and managing the risk that the institution may be unable to meet its obligations as they come due.
- **Capital management:** ensuring that the institution has sufficient capital to support its operations and comply with regulatory requirements.

Data requirement for ALM functions are typically collected from various systems and reports, such as accounting systems, loan origination systems, and trade systems, and consolidated for analysis and forecasting.



EBA - Bank Recovery and Resolution Directive (BRRD)

Following the implementation of BRRD **(Directive 2014/59/EU[4])** in January 2015, and in accordance with the EBA's role in contributing to effective recovery and resolution planning (Article 25 EU Regulation 1093/2010) , article 5(6) of the BRRD requires institutions to consider a range of scenario's of severe macroeconomic and financial stress relevant to an institution's specific conditions when developing their recovery plans.

At least one type of scenario's should be included for the following types of events:

The range of scenario's should include both slow-moving and fast-moving adverse events. The G-SII's and O-SII's pursuant to article 131 of **CRD[6]** should include at least more than three scenario's for each events below.

S.No	Events	Description of events for which scenario's should be constructed
1.	System-wide event[5]: a macroeconomic event(s) that risks having serious negative consequences for the entire financial system or the real economy.	1. The failure of significant counterparties affecting financial stability; 2. A decrease in liquidity available in the interbank lending market; 3. Increased country risk and generalized capital outflow from a significant country of operation of the institution or the group; 4. Adverse movements in the price of assets in one or several markets; 5. A macroeconomic downturn
2.	Idiosyncratic event[5]: an event or series of events that has serious negative consequences for a single institution, a single group or an institution within a group.	1. The failure of significant counterparties; 2. Damage to the institution's or group's reputation; 3. A severe outflow of liquidity; 4. Adverse movements in the prices of assets to which the institution or group is predominantly exposed; 5. Severe credit losses; 6. A severe operational risk loss.
3.	A combination of system-wide and idiosyncratic events[5] which occur simultaneously and interactively.	Combination of events 1 & 2 as listed above based on the impact priority.

4. EBA BRRD Directive 2014/59/EU - https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0059
5. EBA Guidelines on the range of scenario's to be used in recovery plans EBA/GL/2014/06 , page 9, point 12, 13 and 14 https://www.eba.europa.eu/sites/default/documents/files/documents/10180/760136/05cc62a3-661c-4eee-ad07-d051f3eeda07/EBA-GL-2014-06%20Guidelines%20on%20Recovery%20Plan%20Scenarios.pdf?retry=1
6. CRD - Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p.338)

The banks should setup the framework of recovery plan indicators and it should be assessed by the competent authority in accordance with the guidelines as per Article 9(1) of Directive 2014/59/EU.

The mandatory categories (EBA/ GL/2021/11)[7] under the minimum list of recovery plan indicators are given below. However for banks not all the ratio's for each indicators are mandatory to publish.

Overview of range of scenarios and recovery plan indicators

EBA guidelines prescribe that the range of scenario's shall include both the slow moving and fast-moving adverse events. This is same as asked by SRB.

Range of Scenario's

Systemic Event (Impact on Capital)

- Failure of significant counterparties affecting financial stability;
- Decrease in liquidity available in the interbank lending market;
- Increased country risk and generalized capital outflow from a significant country of operation of the institution or the group
- Adverse movements in the prices of assets in one or several markets
- Macroeconomic downturn

Idiosyncratic Event (Impact on Liquidity)

- Failure of significant counterparties
- Damage to the banks or group's reputation
- Severe outflow of liquidity
- adverse movements in the prices of assets to which the institution or group is predominantly exposed
- severe credit losses
- Severe operational risk loss

Combination of Both (Impact on Capital & Liquidity)

- The scenario's chosen as a combination of both will either have the scenario's occuring in parallel or following one after another subsequently.

Capital Indicator's

A. Common Equity Tier 1 ratio
B. Total Capital ratio
C. Leverage ratio
D. MREL and TLAC (where relevant)

Liquidity Indicator's

A. Liquidity Coverage Ratio
B. Net Stable Funding Ratio
C. Available central-bank eligible unencumbered assets
D. Liquidity position

Profitability Indicator's

A. (Return on assets) or (return on equity)
B. Significant operational losses

Asset Quality Indicator's

A. Growth rate of gross non-performing loans
B. Coverage ratio [provisions / (total non-performing loans)]TLAC (where relevant)

Market Indicator's

A. Rating under negative review or rating downgrade
B. CDS spread
C. Stock price variation

Macroeconomic Indicator's

A. Macroeconomic Indicator's
B. GDP variations
C. CDS of sovereigns

7. EBA/GL/2021/11:
https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Guidelines/2021/EBA-GL-2021-11%20Guidelines%20on%20recovery%20plan%20indicators%20/1023794/Final%20Report%20on%20Guidelines%20on%20recovery%20plan%20indicators.pdf
Refer to page 5, point number 5 ; page 23-Annex II

The ***liquidity indicators*** should be integrated with the strategies, policies, processes and systems developed by each institution pursuant to Article 86 of **Directive 2013/36/EU**[8] and its existing risk management framework

The minimum list of recovery plan indicators established in EBA-GL-2015-02 was reviewed and following changes were done in **EBA/GL/2021/11**[7]:

Indicators added to the minimum list

1. *MREL and TLAC:* Since the issuance of the guidelines in 2015, binding MREL intermediate and final targets have been set for all the institutions and G-SII's must comply with the TLAC target.

2. *Available central-bank unencumbered assets:* This indicator assesses the institutions ability to withstand the funding stress using eligible and available collateral to access central bank's facilities.

3. *Liquidity position:* This includes assessing the availability of institutions other liquidity sources beyond HQLA (other tradable assets, committed lines and others) that do not have central bank eligibility but are available for conversion to liquidity during liquidity and funding stress scenario's.

Indicators removed from the minimum list

1. *Cost of wholesale funding:* This indicator was removed as in certain cases I was not applicable to the institutions that did not had access to wholesale funding or had a diversified funding profile. However it is added to the non-exhaustive list of additional indicators as in certain cases it can be relevant to show the stress in the funding profile of the institutions.

Quantitative Impact Assessment of Scenario's (EBA/CP/2022/15[9]): The financial institutions are expected to do cumulative quantitative impact assessment of all the specific scenario's considered under the events mentioned above , and show how the recovery capacity accumulates over a period of 12 months for the impact on the capital positions (including leverage) and 6 months for the impact on the liquidity position.

The starting point for this quantitative assessment would be the breach of the relevant capital or leverage or liquidity regulatory requirements. The consideration for selection of scenario's should be severe enough that within a reasonable timeframe they would lead institutions to the near default point, in case if no recovery options are implemented.

The outcome of this calculation is the recovery capacity for the specific scenario, which is quantified in terms of the relevant recovery plan indicators (listed above) in Annex II ("Minimum list of recovery plan indicators") of EBA Guidelines on recovery plan indicators under Article 9 **EBA/GL/2014/06**[5] referring to CET1 Ratio, Total Capital Ratio, Leverage Ratio, NSFR and LCR ('relevant RP indicators').

8. Directive 2013/36/EU : https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013L0036&from=EN
9. EBA/CP/2022/15 : Section 3, point 4, 5 and 6 (sub-bullet 3) https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Consultations/2023/Consultation%20on%20draft%20Guidelines%20on%20the%20overall%20recovery%20capacity%20in%20recovery%20planning/1045490/CP%20Draft%20GLs%20on%20overall%20recovery%20capacity%20in%20recovery%20planning.pdf

Assertion:

The EBA BRRD guidelines very clearly articulates broadly the three events and the description of range of scenario's within these events that the banks have to consider while preparing the scenario's for stress testing. The stress results should provide values for the range of indicators provided by EBA and also provide quantitative impact assessment on the recovery capacity based on specific scenario's considered for stress test.

The open question here is to determine how the banks are ensuring that they are covering all the scenario's for these three events and ensuring a integrated approach to do the stress testing to produce the indicators , or the banks are doing the stress testing for each of the indicators highlighted by the EBA independently? Have the banks covered the market scenario's in geographies where they have large exposure and also the impact of local regulations which may undergo changes with change in macroeconomic scenarios like recession or climate control & change regulations etc.

Although the bank's liquidity risk stress models share some similarities with the banks entering into a resolution , however there are key differences in modelling the scenario's. First is that the emphasis is placed on the liquidity gaps after the bank has failed and entered into resolution, rather than on whether the bank will fail under the applied stress , and second is the underlying causes of bank's failure is not modeled directly.

From a data architecture standpoint bank's will need to prepare data to cover the scenario's in stress testing to produce report on various indicators. Since this requires having updated transactions and booked contracts in accounting systems to produce latest reports, so it is imperative that the master data for counterparty, reference data for instruments (if newly traded) , transactions data and risk calculations for RWA are up-to-date for stress testing. Since the stressed report will be shared either half yearly or yearly in a normal BAU scenario to SRB but near real time at the time of resolution, so the data has to be synchronized in all the systems to produce the report. This may require evaluating the existing business processes, batch process and data architecture as a whole to facilitate the process of generating report smoothly.

Common reporting requirements between Liquidity Risk Reporting and SRB's Liquidity and Funding reporting requirements

	Regulatory Requirements	ALM	SRB	Description
1.	Short term liquidity resilience assessment using LCR.	Yes	Yes	The Asset Liability Management (ALM) process heavily relies on the Liquidity Coverage Ratio (LCR) to ensure short-term liquidity resilience, while the liquidity in resolution assessment evaluates the Maintenance (MON) over a specific short-time horizon by comparing it to the LCR coverage. The methodology to calculate MON is similar to LCR and it also uses the same template C66 to capture the details for net cash outflow & inflow and counterbalancing capacity.
2.	KLE (Key Liquidity Entity) details of entities within a banking group providing funding to other.	Yes	Yes	ALM and liquidity resolution require a comprehensive understanding of an organization's financial position, including the funding relationships between different entities within a group. This is particularly important when it comes to reporting the funding provided by subsidiaries to other entities within the group. This is because, in a Single Point of Entry (SPE) strategy, the failure of one subsidiary can have a cascading effect on the entire group, while in a Multiple Point of Entry (MPE) strategy, the funding relationships between different entities can impact the ability of the group to manage a crisis. Therefore, reporting on the funding provided by subsidiaries to other entities within the group is crucial for understanding the potential vulnerabilities in the organization's overall financial position and for developing effective strategies for managing liquidity risk."
3.	Stress testing for collaterals which can be easily converted to liquidity at the time of need.	Yes	Yes	ALM and LIR (Liquidity in Resolution) are closely related, as they both focus on ensuring that financial institutions have adequate resources to meet their obligations in times of stress. One important aspect of this is stress testing for collaterals, which are assets that can be easily converted to liquidity when needed. This is because, during a crisis, the ability to quickly convert assets into cash is critical for maintaining the solvency of the institution and preventing a systemic failure. Therefore, stress testing for collaterals is a key element in the ALM and liquidity resolution process, as it helps to identify potential vulnerabilities and ensure that adequate resources are available to meet the institution's obligations."
4.	Common data requirements for liquidity reporting-LCR & NSFR and NLP & MON	Yes	Yes	Both ALM & LIR (Liquidity in Resolution) require data on a bank's assets and liabilities, including information on the maturity, cashflows and liquidity of those assets and liabilities. This information is used to calculate the bank's ability to meet its short-term obligations in the event of a stress scenario.
5.	Stress Testing	Yes	Yes	Institutions should take into account that liquidity or funding risks arise when an institution is not able to meet current and future cash flows. The banks should do the stress testing in different maturity buckets to test the cashflow projections under stressed scenarios.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Regulatory References

	Regulatory Requirements	Liquidity Risk Management Functions	References
1.	Short term liquidity resilience assessment using LCR.	LCR and HQLA guidelines for credit institutions	**EBA Reference** (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R0061&from=EN **SRB Reference 1** SRB guidance on liquidity and funding in resolution . Publication date : 2021, April 30 https://www.srb.europa.eu/system/files/media/document/2021_04_30_public_guidance_on_liquidity_and_funding_in_resolution_final.pdf **SRB Reference 2** Estimating liquidity needs in resolution in the banking union. Section 2 https://www.srb.europa.eu/system/files/media/document/20220328%20SRB%20staff%20working%20paper%20Estimating%20liquidity%20needs%20in%20resolution%20in%20the%20Banking%20Union%20FINAL_0.pdf
		Definition of HQLA and quantitative analysis of liquidity	**ECB Reference** ECB Paper - Availability of high-quality liquid assets and monetary policy operations: An analysis for the euro area. Publishing date : 2019, February. Refer to section 1, Table 1 for HQLA definition (Assets – Level 1, Level 2A & 2B) https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op218~801632b377.en.pdf Quantitative analysis of liquidity across asset classes7 : EBA Report on definitions of extremely HQLA and operational requirements for liquid assets under Article 509(3) and (5) CRR . Section 4.1.1 https://www.eba.europa.eu/sites/default/documents/files/documents/10180/16145/cebf6837-2d13-43a7-8528-55647f1b20bb/EBA%20BS%202013%20413%20Report%20on%20definition%20of%20HQLA.pdf?retry=1

	Regulatory Requirements	Liquidity Risk Management Functions	References
		LCR Disclosures	**EBA Reference** As at 05.02.2019, notification date. The National Bank of Belgium (NBB) has transposed the Guidelines on LCR disclosures to complement the disclosure of liquidity risk management under Art. 435 of Regulation (EU) 575/2013 (EBA/GL/2017/01) into Belgian law by circular NBB_2018_06 on 28 February 2018 https://www.nbb.be/en/articles/circulaire-nbb201806-orientationsrelatives-la-publication-du-ratiode-couverture-des The guidelines have been implemented in their entirety, the NBB is thus fully compliant.
		Implementing Technical Standards amending ITS on additional liquidity monitoring metrics	**EBA Reference** Consultation on amending ITS on additional ***monitoring metrics for liquidity*** (EBA-CP-2016-22): The European Banking Authority (EBA) consultation proposal to review its Implementing Technical Standards (ITS) on additional monitoring metrics for liquidity, which mainly consists of reintroducing a ***maturity ladder*** in line with the reporting requirements laid down in the Commission's Delegated Act on the Liquidity Coverage Ratio (LCR). https://www.eba.europa.eu/regulation-and-policy/liquidity-risk/implementing-technical-standards-its-amending-its-on-additional-liquidity-monitoring-metrics#pane-new-7bdd87fb-e02f-492a-99d6-129449e3cf9d
2.	KLE (Key Liquidity Entity) details of entities within a banking group providing funding to other.	Bank's funding plan strategy	**EBA Reference** Consultation Paper on draft guidelines on harmonized definitions and templates for funding plans of credit institutions under ESRB Recommendation 2012/02 A.4 https://www.eba.europa.eu/sites/default/documents/files/documents/10180/533694/91133641-e1e5-402b-a324-2cbb7de8761c/EBA-CP-2013-47%20%28on%20GL%20on%20Funding%20Plan%20Templates%29.pdf

	Regulatory Requirements	Liquidity Risk Management Functions	References
3.	NSFR Disclosures	NSFR Guidelines and definition of ASF and RSF.	**EBA Reference 1** This annex covers instructions for the net stable funding ratio (NSFR) templates, which contains information about required and available stable funding items, for the purpose of reporting the NSFR as specified in Title IV of Part Six of Regulation (EU) 575/2013 (CRR). EBA Short Report (europa.eu) **EBA Reference 2** Definition of ASF8 and RSF9 : Capital Requirements Regulation (CRR): REGULATION (EU) No 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012. Refer to PART SIX : Liquidity / Title III – Article 427 & 428. https://www.eba.europa.eu/regulation-and-policy/single-rulebook/interactive-single-rulebook/504
4.	Stress Testing	Liquidity Stress Test	**EBA Reference** The report provides guidelines on the liquidity stress test scenario's to be used and conditions to be met. Section 4.7.6 https://www.eba.europa.eu/sites/default/documents/files/documents/10180/2282644/2b604bc8-fd08-4b17-ac4a-cdd5e662b802/Guidelines%20on%20institutions%20stress%20testing%20%28EBA-GL-2018-04%29.pdf?retry=1
		EBA BRRD (Bank Recovery and Resolution Directive)	**EBA Reference : EBA/GL/2021/11** This report provides guidelines on recovery plan indicators. The stress test results should provide the values for these indicators. https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Guidelines/2021/EBA-GL-2021-11%20Guidelines%20on%20recovery%20plan%20indicators%20/1023794/Final%20Report%20on%20Guidelines%20on%20recovery%20plan%20indicators.pdf **EBA Reference : EBA/GL/2014/06** This report provides the guidelines on the range of scenario's to be used for recovery plan. The range of scenario's for the events defined by EBA should be part of the stress testing. https://www.eba.europa.eu/sites/default/documents/files/documents/10180/760136/05cc62a3-661c-4eee-ad07-d051f3eeda07/EBA-GL-2014-06%20Guidelines%20on%20Recovery%20Plan%20Scenarios.pdf?retry=1 **EBA Reference : EBA/CP/2022/15** This consultative report provides the draft guidelines on the overall recovery capacity (ORC) in recovery planning. https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Consultations/2023/Consultation%20on%20draft%20Guidelines%20on%20the%20overall%20recovery%20capacity%20in%20recovery%20planning/1045490/CP%20Draft%20GLs%20on%20overall%20recovery%20capacity%20in%20recovery%20planning.pdf

Open Questions on Liquidity Considerations for Reporting to SRB

Intragroup entity revenue flow for liquidity consideration: A hypothetical scenario where bank and its insurance arm is under the same holding group. Bank originates the home loan mortgage but it is booked in the insurance balance sheet. Through reverse repo the origination fees and monthly payments are routed back to the bank and it is another case of liquidity provision. Will SRB consider this for liquidity availability as part of regular reporting in C66 template?

Simulating stress events on fee based income: Banks earn fee based income which can be through its commercial banking activities like autoleasing ; bancassurance activities like selling funds of other banks or insurance products. So even if the bank in consideration goes under distress, the fee based income will continue to provide revenue stream to the bank. In an average bank fee based income is approximately between 20% - 30% of their revenue. Should the banks also include fee based income in stress scenario's and whether SRB will consider the fee based income to be reported as part of liquidity?

Simulating Non Financial Risk for stress scenario: Non financial risk is one of the key stress scenario specially for idiosyncratic events. Cybersecurity is one such non financial risk threat which can strongly impact the operational capability of a bank. This can result in reputation risk and lead to deposit withdrawals. Similarly another such risk is where a bank has outsourced its business processes and operations to third party's nearshore or offshore centers and even with high level of security and background check of the employees , a fraud incident such as siphoning of money from the account or money scams can happen.

Conclusion

Banks can take an integrated approach to leverage the existing data and technology infrastructure for reporting short term and long term liquidity & funding needs to EBA. Since the reporting requirements by SRB on bank's liquidity monitoring and risk assessment have similar requirements as specified by EBA's guidelines on *bank recovery plan indicators* under article 9 of directive 2014/59/EU, guidelines on recovery plan indicators (EBA/GL/2021/11) and on *range of scenario's to be used in recovery plans* (EBA/GL/2014/06), hence banks may have to realign few of the existing business processes and solicit additional data requirements to meet the SRB's requirements.

Since SRB has mentioned to take the same data as banks report in the template C66 for calculating the ALM maturity ladder for reporting Net Liquidity Position (NLP) and Minimum Liquidity Operating Needs for 30 days (MON_{30days}) , hence it can be concluded that the source system, and the data used to report for LCR will be similar to NLP and MON. All the three metrics LCR, NLP and MON calculate the total cash outflow & inflow data for 30 days.

The key point for discussion is that currently the banks are generating the LCR monthly and possibly reporting quarterly , and in future they will provide the NLP and MON_{30days} data on a periodic basis to SRB under BAU condition. But when the bank is under resolution the same data will be required by SRB on a weekend in near real time basis. And in future SRB's expectation may evolve for the bank's to have the entire ALM process including liquidity risk assessment and monitoring to be fully automated or atleast semi-automated. From a data architecture point of view this will require transformation with integrated approach of looking at the business process, data and system workflows with a unified view.

The challenge from data management and data quality perspective will also be to estimate the liquidity provided by multiple entities within a group in comparison to a single entity. This is indicated by the SPE (single point of entry) and MPE (multiple point of entry) reporting requirements under KLE (key liquidity entity) by SRB. In this case not only the LCR from multiple entities has to be collated but also the available liquidity transferability by the multiple entities to the entity under resolution has to be computed. From a business process and data architecture perspective this is a complex task.

The technology framework for liquidity risk management will remain the same , hence bank belonging to G-SIIs can leverage the current data and business processes and fill-in the identified gaps in the data to report to SRB on liquidity and funding assessment in a general BAU condition. However it is recommended that for future banks should look forward for their data architecture transformation to automate or semi-automate the processes.

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