

# Financial regulators preview liquidity reform for banks

Initial perspectives on the public remarks prepared by Secretary of the Treasury and Federal Reserve Vice Chair for Supervision



On March 3, 2026, during a Committee on Capital Markets Regulation roundtable on “Liquidity and Lender of Last Resort,” Federal Reserve Board of Governors (FRB) Vice Chair of Supervision (VCS) Michelle W. Bowman<sup>1</sup> and Treasury Secretary Scott Bessent<sup>2</sup> delivered prepared remarks on the current liquidity framework, including the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Internal Liquidity Stress Testing (ILST), and resolution planning. Their remarks noted that the “self-insurance” objective underpinning the post-2008 liquidity regulations results in banks holding large high-quality liquid asset (HQLA) buffers at the expense of lending capacity and economic support. The speeches raised concerns about the usability of banks’ liquid asset buffers due to challenges with the Federal Reserve’s discount window (DW), including lack of collateral pre-positioning, perceived stigma, and regulatory limitations, which limit banks ability to rely on DW advances to demonstrate monetization. They further note that the framework may motivate pro-cyclical behavior as in periods of stress, banks “hoard” HQLA equal instead of providing credit or engaging in activities that would help stem the stress to avoid breaching the minimum LCR.

Bowman and Bessent both advocated reforms to make central bank backstops more usable—modernizing the DW and allowing limited recognition of prepositioned, fully collateralized borrowing capacity. The intent is to strengthen resilience, compliance and destigmatize DW while enabling more lending. Policymakers are advocating more efficient, resilient liquidity strategies that encourage usable HQLA buffers and support lending in future stress events.

## 5 insights you should know

**Misalignment between liquidity regulations and real-world stress resilience:** The speeches challenged whether LCR, NSFR, ILST and resolution planning are working together in practice, stating business-as-usual (BAU) liquidity compliance can translate to non-resilient liquidity in times of stress. Institutions may have an over reliance on contingency funding sources to fully meet stress outflows, as opposed to utilizing HQLA buffers.

**Liquidity buffers hoarding and its potential systemic consequences:** Banks treat liquidity buffers as hard minimums in practice, driving asset “liquidity hoarding,” which may accelerate systemwide stress rather than buffers being used to absorb shocks. Moreover, during BAU periods, banks’ desire to maintain LCRs well above 100% imposes unnecessary costs on banks and the broader economy.

**Operational preparedness as a critical component of liquidity resilience:** Operational readiness for a liquidity stress event is as important as HQLA levels in supporting resilience. Notably, banks that failed during March 2023 held HQLA but had not prepositioned collateral or inappropriately considered the impacts of unrealized losses on the borrowing capacity. To be prepared to access borrowing facilities, such as the DW, banks should preposition assets, consider the lendable value of pledged assets, and conduct periodic testing.

**Persistence of DW stigma:** DW borrowing stigma is partially attributable to the perceived requirement that banks liquidate HQLA before accessing the DW, making any borrowing a potential signal of distress to the market.

**Potential recognition of DW borrowing capacity in liquidity requirements:** Policymakers discussed the possibility of allowing banks to include DW borrowing capacity within the liquidity requirements like the LCR, albeit at capped levels. The speeches espoused a desire for banks to continue to hold sufficient liquidity buffers while being able to recognize liquidity from collateral pre--positioned at the DW.

## 5 considerations to evaluate

**1 Reevaluate liquidity stress protocols:** Banks should consider reevaluating BAU and stress protocols to better optimize liquidity, including pressure-testing whether buffers are truly usable in stress by validating monetization paths (sell/repo/facilities), market depth, time-to-cash assumptions, and operational frictions such as settlement windows and custodian constraints. During periods of market stress, banks might develop capabilities to compare actual outflows with modeled stressed outflows to allow for dynamic management of liquidity levels.

**2 Refresh ILST assumptions:** Contemplate a refresh of ILST assumptions and scenarios to ensure they appropriately reflect rapid market shocks and realistic management actions to right-size liquidity buffers and avoid reinforcing HQLA conservatism. Banks should enhance short-term projection capabilities for both ILST and cash flow forecasting to enable greater agility during periods of stress and make more informed decisions with respect to the utilization of collateral.

**3 Operationalize borrowing readiness:** Establish a routine DW testing program to help normalize access, using small, scheduled operational tests under clear governance (documentation, collateral movement, draw/repay, communications) and tracking cycle times to validate availability. Banks should look to evaluate the composition and quality of collateral that will be pre-positioned at the DW and be on the lookout for changes to DW operational requirements.

**4 Strengthen CFPs:** Conduct a detailed review of contingency funding plans (CFPs), specifically the order in which contingent funding actions are executed and inventory collateral eligible to be pledged by counterparty/facility, encumbrance/ operational constraints, and valuation and haircut applicability to increase truly monetizable capacity.

**5 Evaluate liquidity buffer optimization strategies:** Evaluate the benefits from utilizing balance sheet capacity currently trapped in the liquidity buffer to increase lending by (i) analyzing the cost of holding HQLA levels needed to self-fund severe stress outflows versus a mix of HQLA and facility borrowing lines, and (ii) identifying potential modifications to internal LCR and ILST coverage limits given potential changes outlined in the speeches.

## Endnotes

1. Federal Reserve Board of Governors (FRB), Speech by Vice Chair for Supervision Michelle Bowman, "[Liquidity Resiliency, Financial Stability, and the Role of the Federal Reserve](#)," March 3, 2026.
2. Department of the Treasury, Remarks prepared by Secretary Scott Bessent, Delivered by Under Secretary for Domestic Finance Jonathan McKernan, "[A Reset on Liquidity Regulation](#)," March 3, 2026.

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