

# Dutch Central Bank Liquidity Requirements

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# DNB Liquidity Requirements

## Supervisory framework:

- The DNB sets both **quantitative** and **qualitative** liquidity requirements

## Aim:

- To ensure that institutions are in a position to cope with an acute short-term liquidity crisis.

## Supervisory review:

- **Qualitative requirements:** The DNB performs regular reviews on the liquidity risk management practice of banks. In these reviews the liquidity risk management practises of banks are held against the 'sound principles' described by the Basel Committee
- **Quantitative requirements:** Banks have to report on a monthly basis to the DNB. These reports are certified and externally audited.

# DNB Liquidity Reporting requirements (1)

## Time horizon and reporting frequency:

- The monthly liquidity report focuses on the period up until **one month**, with a separate test on the **weekly position**.

## Scope:

- Liquidity testing is basically carried out at **consolidated bank** level. Both **domestic** and **foreign** operations of an institution are included in the test. The test therefore covers all direct domestic and foreign establishments (whether independent or dependent), including participating interests. The wording 'basically' has been used because participating interests of subsidiaries can be exempted from the reporting if some conditions are fulfilled.

# DNB Liquidity Reporting Requirements (2)

## Methodology:

- **Scenario-analysis** based on a mix between a **market event** and a **bank-specific event**.
- The **actual** liquidity position must exceed the **required** liquidity position (also during the period between reporting dates)
- The actual liquidity is made up of those assets that are available for meeting immediate liquidity needs within the indicated horizon either through **repo** or **sale** or through **natural relief**.
- The required liquidity is made up of the liabilities that may result in cash outflows within the test horizons. These cash outflows either result from **maturing liabilities** or through **withdrawal of on-demand funds**.

# DNB Liquidity Reporting Requirements (3)

## Liquidity risk test:

- To determine the liquidity figures, **all on- and off balance sheet positions** are split by type of **product** and **counterparty**.
- All positions with a known maturity date are included in the **maturity calendar** based on their contractual maturity date. Positions with an unknown maturity date and marketable assets are included as items with a **direct liquidity value**.
- Standby facilities, undrawn irrevocable credit facilities, guarantees and other contingent liabilities are also included.
- The positions in the week and the month categories are **weighted** under a scenario that is a mix between a **market event** and an **ING-specific event**. The risk weightings are determined by the scenarios and different behaviours are assumed for different classes of creditor.
- The total available liquidity values are corrected for liquidity surpluses in **inconvertible currencies** and in **locations with restrictions on capital transfer**.

# DNB Liquidity Reporting Requirements (4)

- Simplified example ING Bank Liquidity Risk Reporting:

Balance sheet			
Government bonds	100	Equity	100
Mortgages	100	Issued debt	100
Demand deposits	100	Savings	100
	<u>300</u>		<u>300</u>

Liquidity Risk Report	Balance	Week liquidity	Month liquidity	<1W	<1M	>1M
<b>ECB eligible assets</b>	105	100	100			
Amount receivable	100	10	15	10	15	85
Demand deposits (credit institutions)	50	25	50			
Demand deposits (non-professional)	50	0	0			
<b>Equity</b>	-100	0	0			
Issued debt securities	-100	-8	-10	-8	-10	-90
Savings	-100	-2.5	-10			
Irrevocable credit facility given	(-100)	-2.5	-10			
<b>Total</b>	5*	122	135			

\* Difference caused by market value of Government bonds