



2007 AFGAP & ALMA International Conference
German Framework on Liquidity Management

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Agenda

German Regulatory Environment

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|----|--|---|
| 1. | The new German Liquidity Regulation | 3 |
| 2. | The new Liquidity regulation
A Comparison to Grundsatz II | 4 |
| 3. | Conclusions | 5 |

The new German „Liquiditätsverordnung“ – Liquidity Regulation

- For the assessment of sufficient liquidity the institute may, with the consent of the regulator (BaFin), elect for the long-term use of an internal liquidity risk measurement- and steering procedure under the following conditions:
- The internal procedure guarantees a continuous determination and monitoring of liquidity risk.
 - The internal procedure determines the liquidity situation in more depth and more adequately as compared to a liquidity measurement in accordance with the general rules of the Liquidity Regulation.
 - The internal procedure should especially provide information about (i) expected short term net-outflows, (ii) the possibility to borrow unsecured funds and (iii) the implications of stress-scenarios.
 - The regulator has confirmed suitability of the internal risk measurement- and steering procedure.

- Based on the internal liquidity risk measurement- and steering procedure, the institute shall set up, and check on a regular basis, appropriate liquidity risk limits which must be determined on a quantitative basis and must also consider stress-scenarios.
- To achieve this, the institute shall identify key characteristics of its liquidity risk measurement- and steering procedure which are suitable for an aggregated presentation of the institute`s risk of insufficient liquidity.
- The institute shall document which levels of these key characteristics are equivalent to the institute`s being subject to an appreciable, middle and high risk of insufficient liquidity.
- It shall also document which measures will be taken when reaching one or more of the described levels.

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- **Set-up process of Audit Guidelines by the BaFin is still ongoing**
 - **Detailed requirements are not yet determined**

The new Liquidity Regulation

A comparison to Grundsatz II

Criteria	Grundsatz II	Institute`s Internal Liquidity Model
Liquidity benchmark figure	Ratio between disposable payment facilities vs payment obligations for given maturity buckets	<ol style="list-style-type: none"> 1. Determination of future net cash flows 2. Assumptions in liquidity modelling
Sufficient Liquidity	The ratio until one month maturity needs to be bigger than 1, the ratios of the three other maturity buckets are calculated for informative purposes only	Agreed limits need to be challenged by a traffic light approach incl. a catalogue of agreed measurements
Product Coverage	No consideration of derivatives portfolio	incl. derivatives portfolio
Stress Tests	-	Market and behavioural stress
Granularity	Group level only	Portfolio, product and ccy for complete maturity
Reporting	Reporting to BaFin/BuBA	Reporting of limit breaches to BaFin/BuBA

Conclusions:

German Liquidity Regulation:

- Principle based versus rule based
- Enables coherent liquidity management approach: Internal approach and external requirements are dealt within the same framework
- New German Liquidity Regulation is overall in line with IIF requirements
- New German Liquidity Regulation can be taken as model for the European legislation