

**Irish Financial Regulator
Requirements for Management of
Liquidity Risk
An Industry Perspective**



New Regulatory Reporting Requirements

Details the quantitative measurement methodology to be applied

Definition of Liquid assets – convert to cash within 4 days.

Time periods – 7 in total with specific limits on the 0-8day and 8-31 day periods and observation ratios for other periods.

Behavioural adjustment to cash flows (defined products) assumptions need to be fully documented and supported by historical data).

Setting of limits – formal limits only to time bands 1 (0-8day) – 100% QLA coverage and 2 (8-31day) – 90% QLA coverage. Monitoring ratios for other time bands.

Focus on materiality of cash flows -- benchmark of 1% of gap ratio in each time band. Must be applied consistently to inflows and outflows.

New Regulatory Reporting Requirements

- **Readily Marketable Assets/Liquid Assets**
 - Quickly (within 4 days and easily convertible to cash without incurring significant loss)
 - Concentration of Holdings; if holding a significant percentage of an issue use judgement in determining whether readily marketable
 - Depth of Market; must be active market to facilitate realisation within 4 days
 - Risk of forced sale loss; apply haircut to assets and deduct from total liquid assets
- **If asset fails to meet above overriding criteria then can't be included as readily marketable asset.**
- **Institutions ensure liquidity framework allows for continuous monitoring of market developments**
- **Encumbered assets not reported as liquid assets**
- **Discounting/Haircuts**
 - Regulator requires application of ECB haircuts (eligible tier 1 &2 assets). Applies to ECB and non-ECB eligible assets

New Regulatory Reporting Requirements

- **Stress Testing**

- Defined by institution
- Alco/Senior Management Overview
- To be completed quarterly for both a bank specific and industry-wide liquidity stress situation.
- Consideration to be given to both a moderate and severe entity-specific stress test
- Requires a related contingency plan

