



Rethinking liquidity

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Overview

Where are we at the moment?

Discussion paper 07/7

Feedback statement 07/7

Our current thinking

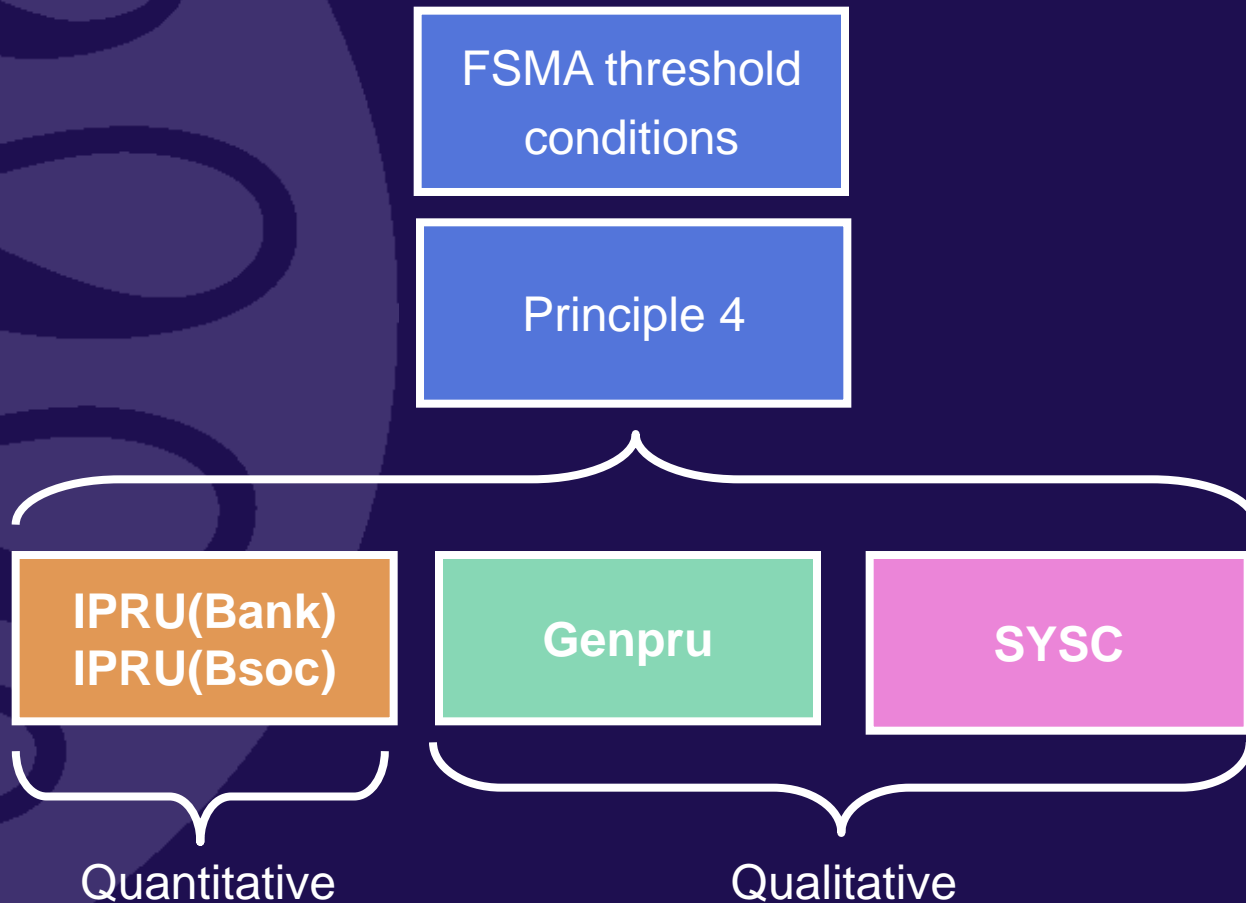
Recent History

- **Pre-1997 Bank of England and Building Societies Commission introduce liquidity regimes**
- **1997 FSA created**
- **2001 FSMA implemented**
- **2003 DP24 – a quantitative framework**
- **2007 Northern Rock**



Where are we at the moment?

Present framework



Present situation

Quantitative requirements:

Sterling stock

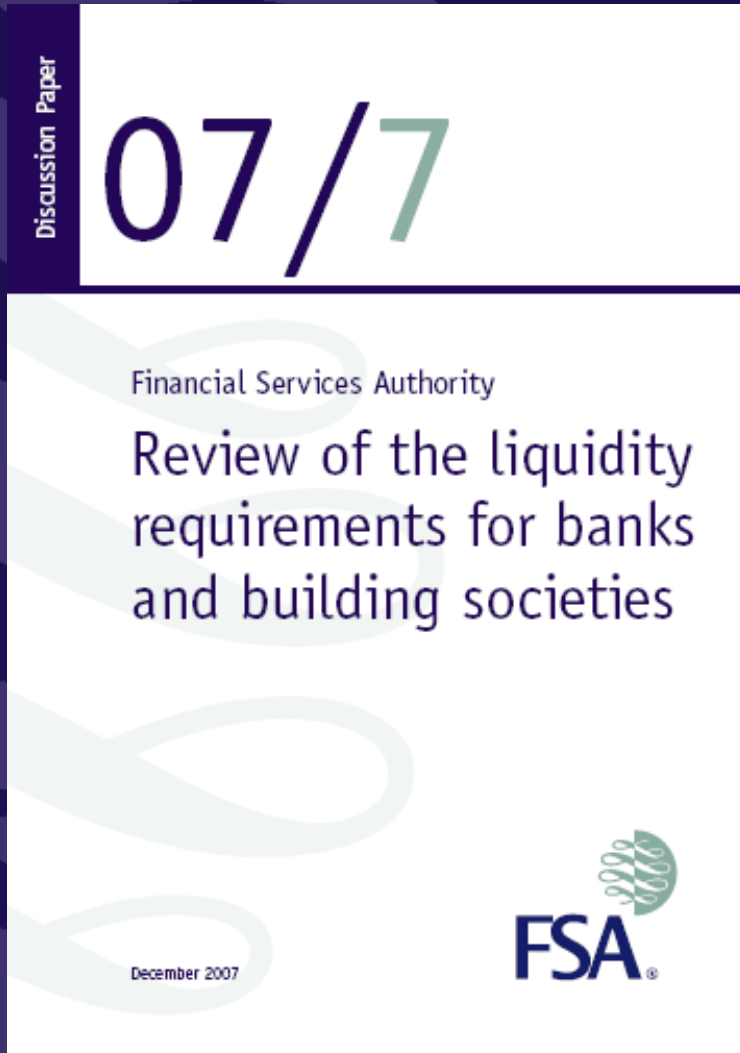
Mismatch

Building Societies



Our discussion paper

Proposals



- **Lessons learned**
- **Review of current regime**
- **Proposals for a new framework**

Lessons learned

Stress testing

Liquidity insurance

Managing funding strategy and CFPs

Cross-border & regulatory constraints

Problems with current regime

Sterling stock

Sterling only
Omits off balance sheet calls
Only covers 5 days

Mismatch

Marketable assets
Behavioural adjustments

Building Societies

Stock includes inter-society holdings
Covers 8 days

Our qualitative proposals

Amplify Existing
Qualitative Standards

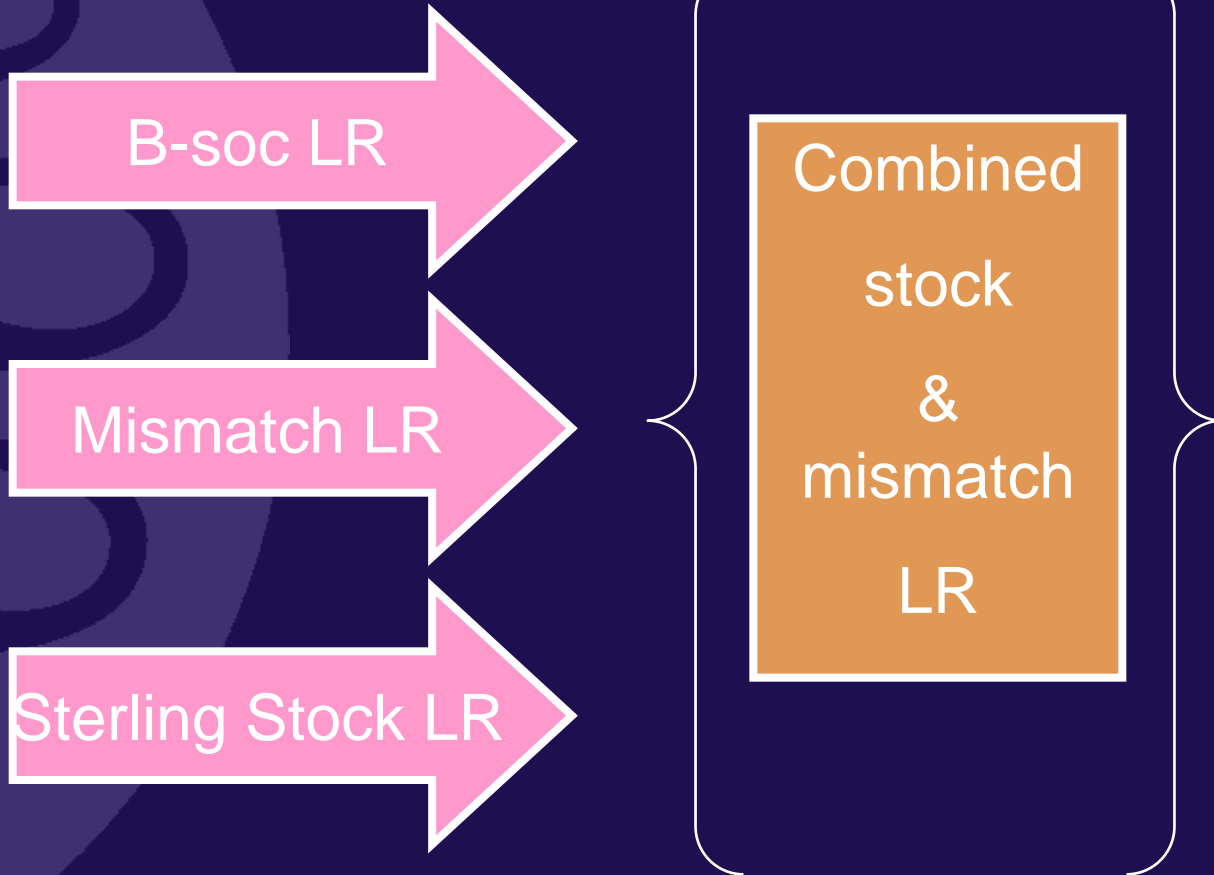
Genpru

SYSC



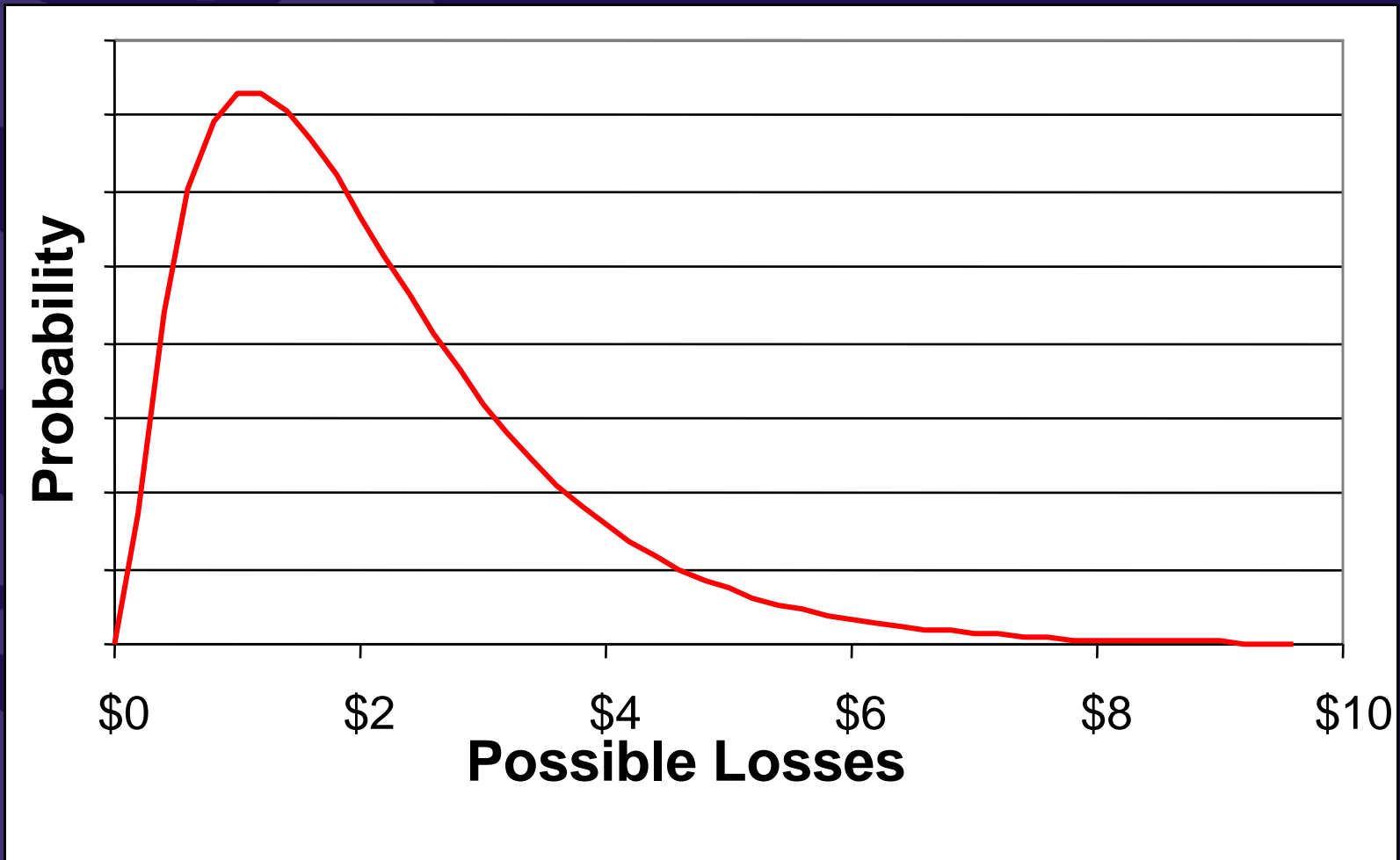
Revised sound practices guide

Our quantitative proposals

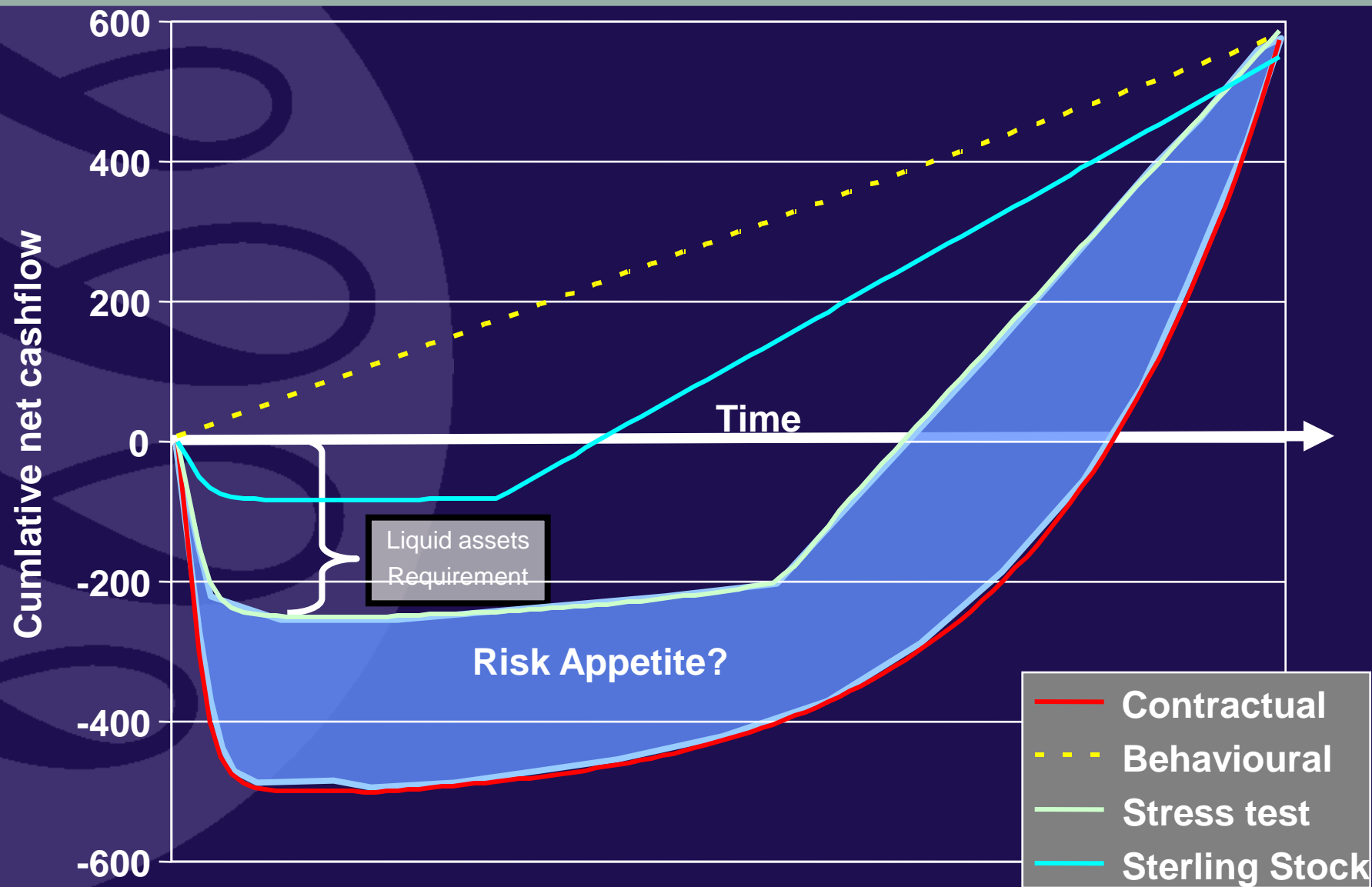


Risk appetite

- Risk appetite for capital



Graphically





What were the responses to the discussion paper?

Feedback statement 27th May

Respondents

- **36 written respondents plus informal respondents**
- **Respondents believe there are lessons for**
 - Banks
 - Regulators
 - Central Banks

Headlines



Broad agreement with our objectives and approach

Central bank's actions and liquidity risk management

Stress-testing and CFPs under review

What are liquid assets?

The role of quantitative requirements

Official sector to maintain clearer view of market liquidity

Also of particular interest

Off-balance sheet exposures

Cross Border Liquidity

Large exposures

Internal models

Moving forward



Market failure analysis

Implementing the sound practices guide

Data-based requirements

Global liquidity concessions

Intra-day

Reporting

...and finally...

Is it feasible to reconsider the liquidity framework for UK banks in the current environment without having perverse impacts on the UK economy?



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