



Liquidity Update

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MEETING Agenda

- 01 — OCC Supervisory Strategy and Key Risks
- 02 — Contingency Funding Plans
- 03 — Resources

OCC Communication on Supervisory Strategy and Key Risks

- › Release Bank Supervision Operating Plan annually
 - › [News Release 2023-109: OCC Releases Bank Supervision Operating Plan for Fiscal Year 2024](#)
- › [Semiannual Risk Perspective](#)
 - › Supervisory priorities, emerging risks, and horizontal risk assessments
 - › Last Available June 2024

Fiscal Year 2024 Bank Supervision Operating Plan

› Asset and Liability Management – Liquidity Topics

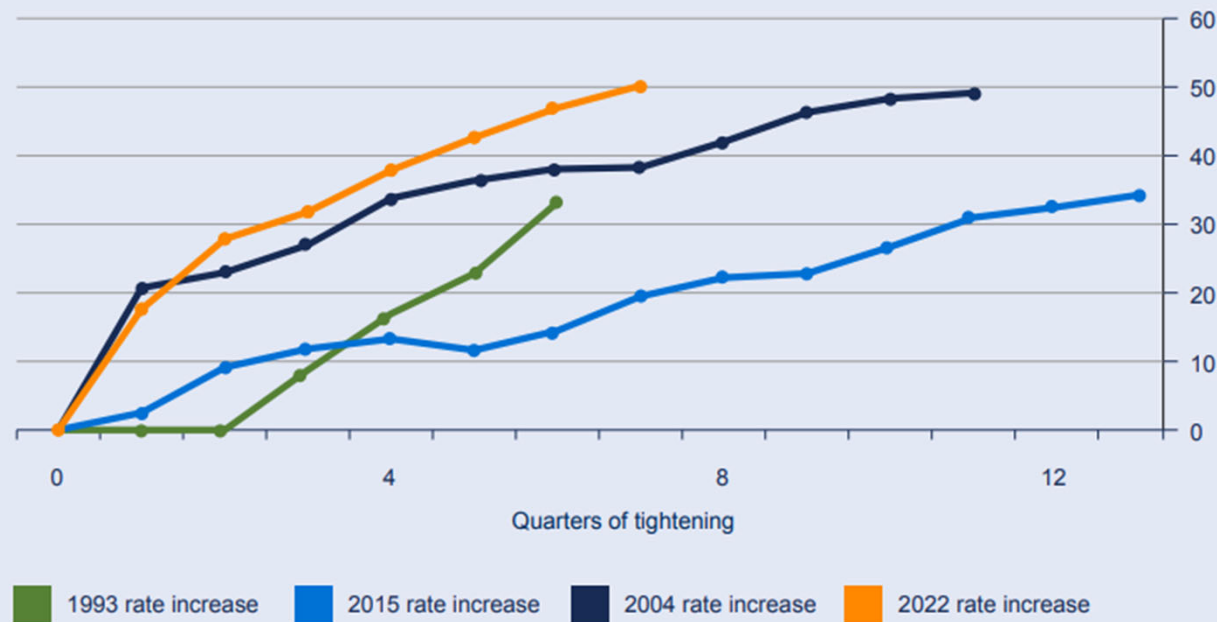
- › Determine whether banks' risk appetites and policy limits are consistent with projected risk to asset values, deposit stability, liquidity, capital, and earnings.
- › Reevaluation of the timing and amount of deposit outflow assumptions under both idiosyncratic and systemic liquidity stress scenario analyses may be warranted based on recent market disruptive events
- › Contingency funding plans should be reviewed to determine whether banks have adequate operational readiness to access contingent funding sources, effective monitoring of established borrowing lines, good collateral management practices, and the ability to access contingency liquidity sources in an efficient and timely manner.
- › Examiners should also assess whether contingent funding sources are sufficient to meet potential funding needs and periodically tested.

Semi-Annual Risk Perspective – Spring 2024

- Special Topic: Firmwide Resilience Efforts
 - Planning: Liquidity Risk Management and Capital Planning
- Shifts in deposit mix to CDs and increased usage of brokered deposits
- Increased wholesale funding usage
 - *Given uncharted depositor behavior and rate sensitivity... prudent risk management would include interest rate risk and liquidity stress-testing scenarios that assume higher than expected deposit competition, resulting in higher-than-expected deposit pricing regardless of rate movement direction.*
- Investment portfolio depreciation remains elevated, as banks continue to increase asset liquidity.

Increase in Deposit Rates

FIGURE 14: CUMULATIVE DEPOSIT BETA FOR THE FEDERAL BANKING SYSTEM



Source: Call Reports from OCC Integrated Banking Information System

Contingency Funding Plan Expectations

- Core expectations laid out in [OCC Bulletin 2010-13: Liquidity: Final Policy Statement: Interagency Policy Statement on Funding and Liquidity Risk Management](#)
 - Addendum released in July 2023 [OCC Bulletin 2023-25: Liquidity: Addendum to the Interagency Policy Statement on Funding and Liquidity Risk Management](#)
- Additional guidance in [Liquidity: Comptrollers Handbook](#), revised May 2023

Identify Stress Events

- Re-evaluate current scenarios, consider new scenarios to evaluate specific risk in institution
 - The institution's inability to fund asset growth.
 - The institution's inability to renew or replace maturing funding liabilities.
 - Customers unexpectedly exercising options to withdraw deposits or exercise off-balance-sheet commitments.
 - Changes in market value and price volatility of various asset types.
 - Changes in economic conditions, market perception, or dislocations in the financial markets.
 - Disturbances in payment and settlement systems due to operational or local disasters.
- Understand potential triggers that may cause liquidity concerns with counterparties: Credit ratings, capitalization status, financial condition (eg. negative GAAP equity)
- Link bank-specific risks to scenario design

Assess Levels of Severity and Timing / Assess Funding Sources and Needs

- Impacts scenario design and quantitative projections
- 2023 disruption = Unprecedented level and speed of outflows
 - 1. Identify liabilities with higher liquidity risk (e.g. higher inherent risk, concentrations)
 - 2. Apply appropriately stress outflow rates is one way to do this
- Timing of monetization of liquid assets need to be appropriate
 - Frequency of use/testing of contingent liquidity sources

Identify Potential Funding Sources

- Monetize assets
 - Market capacity to sell or repo collateral in both idiosyncratic and market-wide stress
- Discount Window
 - Operationalize
 - Establish and understand borrowing relationships
 - Understand processes for
 - Adding/Moving collateral
 - Actual borrowings – understand cut-off times, etc.
 - [5 Steps to Discount Window Borrowing](#)
- Federal Home Loan Bank
 - FHFA Report - [FHLBank System at 100](#)

Establish Liquidity Event Management Processes

- › Robust planning
- › Everyone knows their role
- › Tabletop exercises
- › Testing contingent funding sources for availability and to ensure operational proficiency

Establish a Monitoring Framework for Contingent Events

- Appropriate Early Warning Indicators
 - Examples
 - Social media indicators
 - Intraday monitoring for potential stress
- Reassess limits to ensure they capture and limit key risks
 - Funding concentrations
 - Liquidity gaps over multiple horizons
 - Desk limits, early warning indicators, and limits

Resources

- OCC.gov page on [Liquidity](#)
- 5/28/23 – [OCC Bulletin 2023-15: Liquidity: Updated Comptroller’s Handbook Booklet and Rescissions](#)
- 7/28/23: [OCC Bulletin 2023-25: Liquidity: Addendum to the Interagency Policy Statement on Funding and Liquidity Risk Management](#)
- 1/18/24: [Acting Comptroller Discusses Bank Liquidity Risk](#)
- 7/25/24: [News Release 2024-85: Agencies Remind Banks of Potential Risks Associated with Third-Party Deposit Arrangements and Request Additional Information on Bank-Fintech Arrangements](#)





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