



BTRM

The Certificate
of Bank Treasury
Risk Management

Client Webinar Series

Webinar I: Updating your liquidity risk management framework

28th May 2026

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Faculty BTRM

UBA  **UK**

Agenda

/// Webinar I: Updating your liquidity risk management framework

- /// Lessons learned from the 2023 bank failures
- /// “The 30-day LCR Illusion”: Addressing very short-term liquidity stress risk
- /// Insight from UK PRA guidance (CP5/26): modernising liquidity management
- /// HQLA and USD risk: reducing US Treasury-linked geo-political risk

/// Webinar II: Interest-rate risk in the banking book (IRRBB)

/// Webinar III: Artificial Intelligence (AI) and Bank Balance Sheet Management

Was this a new kind of bank collapse....?



....or did their failure all have something in common?

(...and in common with another series of bank failures, the “Savings & Loan” debacle in the early 1980s)

....Are there any genuinely new risks / lessons we can learn from them?

- /// *“Do you remember the case, Gregson?”*
- /// *“No, sir.”*
- /// *“Read it up - you really should. There is nothing new under the sun. It has all been done before.”*

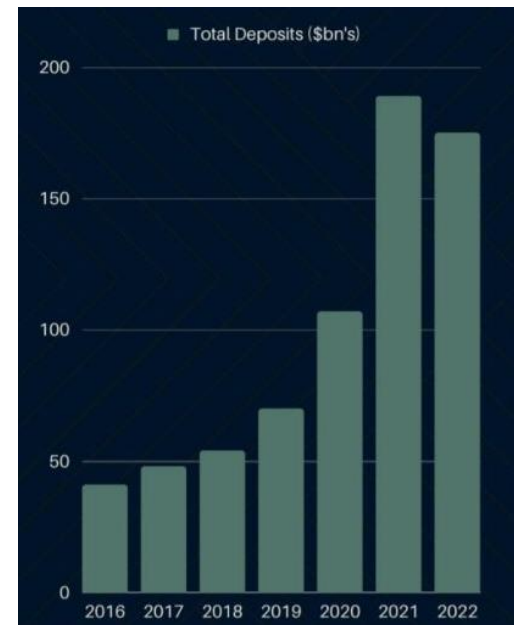
--- Sherlock Holmes, *A Study in Scarlet*,
1887 (Sir Arthur Conan Doyle)



The SVB story...

SVB Deposit Growth

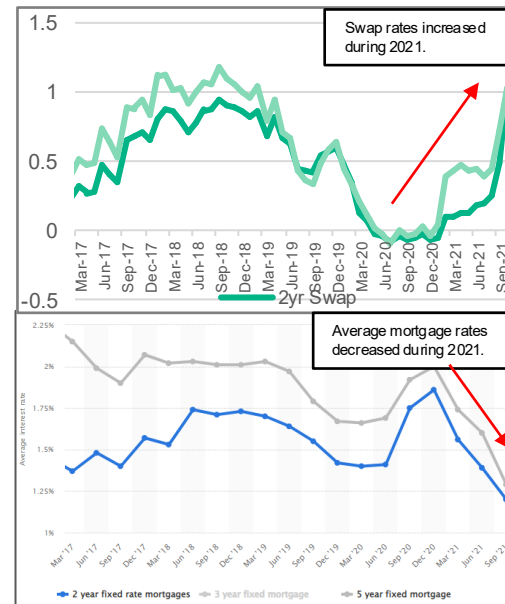
- During the period spanning from 31st Dec 2019 to 31st Dec 2020, SVB observed a significant growth in its total deposits, with an approximate increase of 60% within this year.
- As of the end of 2020, the total deposits of SVB amounted to \$102 billion, which reflects a notable rise from the balance of \$64 billion recorded in the previous 12-month period.
- The growth trend persisted steadily, leading up to the conclusion of the year 2021, where the total deposits of SVB amounted to \$189 billion.
- These funds had to be placed somewhere...as all surplus customer deposits must.
- The natural home is (EG.,) at the central bank, in T-bills, CDs, etc
- We note that non-interest bearing deposits accounted for over 70% of total deposits in 2021. Given that SVB paid \$60m in interest on \$189bn of total deposits (0.03%), we conclude the vast majority of its deposits were “NIBLs” - instant access / no maturity – a very high share of call deposit funding (and much from “NBFIs”)***



Data source: SVB financial statements

The marketplace in USA at the time: Swaps Rates vs Mortgage Rates

- /// In 2021, financial institutions sought investment opportunities to allocate their surplus cash into higher-yielding assets.
- /// The charts on the right depict the trend of swap rates versus mortgage rates throughout the year.
- /// Despite the increase of swap rates by approximately 1%, mortgage rates decreased by a similar percentage.
- /// The excess liquidity in the economy led many institutions to invest in secure and stable assets like mortgages, leading to a surplus supply of money over the demand for mortgages.
- /// This scenario prompted institutions to accept lower returns on mortgages to secure a rate.
- /// The year 2021 recorded the lowest mortgage rates ever observed, with several lenders offering mortgages at rates below 1%.



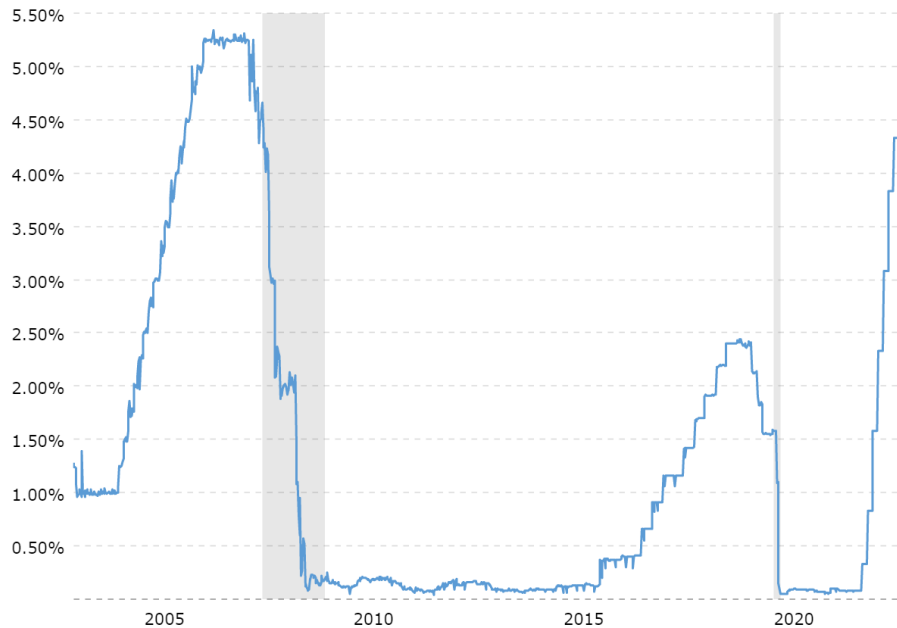
Source: Statista (2023)

SVB's Cash Management Strategy for Excess Funds

- /// Like many other banks, SVB found itself having an abundance of excess deposits.
- /// Unlike most other banks though, it adopted an approach that differed from that of most other institutions, both in the US and in Europe.
- /// Rather than investing in their customer assets that generate yield in line with their established business model, such as commercial loans (or simply park in CB reserve and T-bills / short-term sovereign bonds) they chose to explore alternative avenues for revenue generation, specifically by investing in bonds.
- /// SVB made the decision to invest in fixed-rate Agency MBS bonds, with the **average** fixed repricing date of 4.6 years for the bond portfolio. Many bonds were repricing up to a maturity of 10 years. This investment strategy resulted in a higher interest income of approximately 1.6% annually for SVB. This was in contrast to the prevailing low rates that were obtainable from keeping funds in a current account or central bank account, which hovered around 0% during the 2020/2021 period.
- /// At the end of 2022, the total assets held by SVB amounted to \$211 billion, with securities representing \$117 billion of this figure – **IE., over half its balance sheet in non-customer assets**
- /// It is worth highlighting that SVB operated primarily as a banking book rather than a trading book. As such, the notable proportion of assets held in securities, may be considered somewhat unusual for a “banking” institution.

The 2023 banks' failure is being blamed by some on the rise in interest rates...

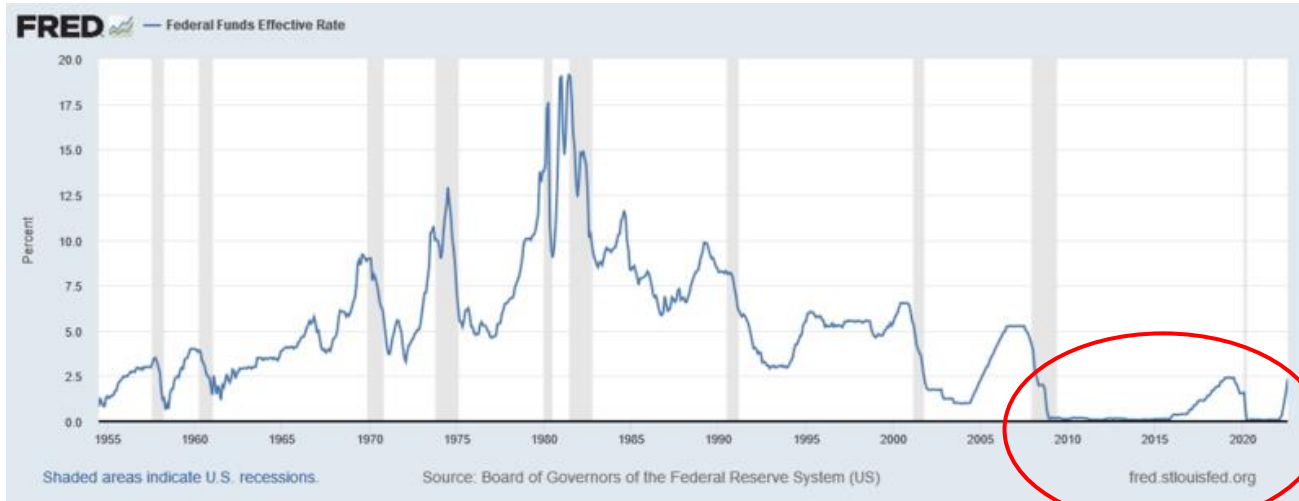
- /// This chart seems to be implying something scary and “unprecedented”....
- /// Fed Funds Rate: 20-year view:



Source: ICAEW 2023

But the rate rises weren't "unprecedented"...

/// Fed Funds rate: 40-, 50- and 60-year history



Source: Wikipedia.

SVB decision-making during 2021 and 2022

- /// Holding vast majority of bonds as “HTM” not FVOCI (only small share held as FVOCI)
 - /// FVOCI book was hedged with IRS
 - /// Under US accounting rules, unlike customer loans, securities held as HTM cannot be hedged
 - /// FVOCI hedges were unwound during 2022 (generating +ve P&L)
- /// EVE Delta limits were exceeded continuously during 2021 and 2022 except for two months when they were reduced after NMD behavioural tenor assumption extended (more than doubled to over ~10-year and then ~11.5 year!)
- /// The bank’s Board and its HoldCo Board were the same people
- /// The bank’s Board approved a dividend payment of several hundred million dollars in Q4 2022 to its HoldCo...

Comparisons...

From the BIS paper assessing 2023 bank failures

Table A.1: Deposit outflow of distressed banks

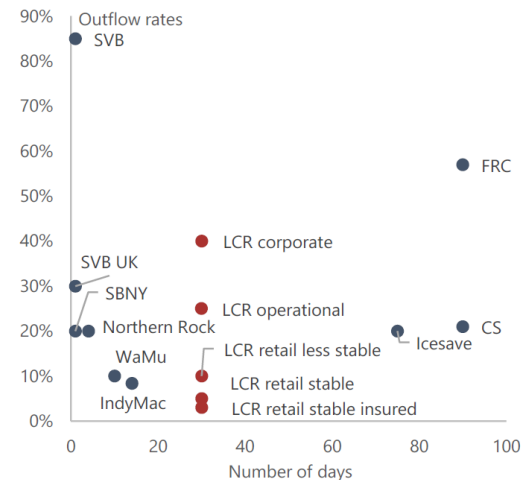
Bank	Deposit outflow	Number of days
SVB (2023) ^(a)	85%	2
FRC (2023) ^(a)	57%	90
SVB UK (2023)	30%	1
CS (2023)	21%	90
SBNY (2023)	20%	1
Icesave (2008)	20%	75
Northern Rock (2007)	20%	4
WaMu (2008)	10%	10
IndyMac (2008)	8%	14
LCR ^(b)	3% - 40%	30

Sources: FRB (2023), NAO (2009), Rose (2015), Zeissler et al (2019), published accounts and Secretariat calculations.

(a) FRC deposit outflows excludes \$30bn of deposits placed by banks during Q1 23. SVB outflows include expected outflows by management for 10 March.

(b) LCR outflow rates are the range for retail, SME, operational and corporate deposits.

Graph A.1: Distressed banks and LCR outflows^(a)



Sources: FRB (2023), NAO (2009), Rose (2015), Zeissler et al (2019), published accounts and Secretariat calculations.

(a) FRC deposit outflows excludes \$30bn of deposits placed by banks during Q1 23. SVB outflows include expected outflows by management for 10 March.

The original sin

- /// Every bank in the USA (not to mention in UK and EU) had to deal with and manage the rise in interest rates during 2022 and 2023
- /// The large majority of them didn't go bust!
- /// What the impact of rising rates did was lead to a loss of confidence in the bank amongst its deposit customers, which exposed a flawed funding model at Silicon Valley Bank (as it had done at Signature Bank and was shortly to at First Republic Bank)...

Concentrated funding structure

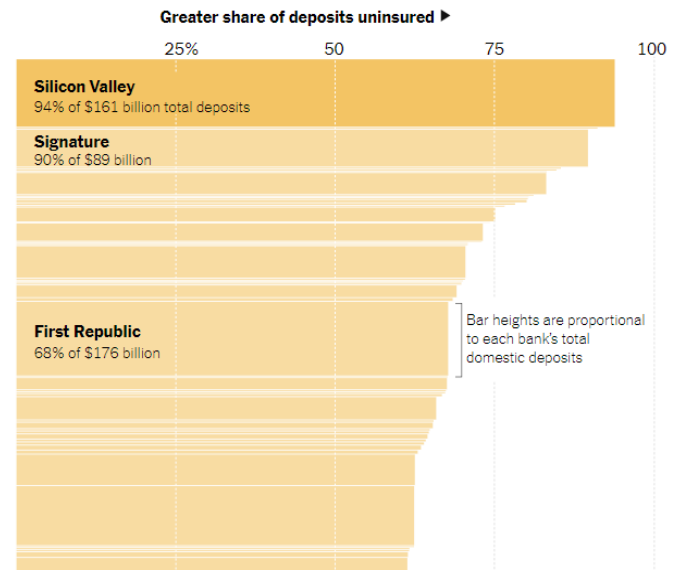
/// SVB deposit customers were concentrated excessively in what the UK FSA used to call “Type A” deposits and depositors

- /// Large corporates, often non-bank FI entities
- /// High proportion of “uninsured” deposits
- /// Very large balance deposits

/// These are not to be considered as “stable” funding

/// But let’s take a step back...

Top 50 banks by share of deposits that are not federally insured
Excludes banking giants considered systemically important



Sources: Federal Financial Institutions Examination Council; Financial Stability Board • Notes: Data is as of Dec. 31, 2022. Includes domestic deposits only. Excludes global systemically important banks, which are subject to more stringent regulations, including tougher capital requirements. • By Ella Koeze

Image source: ICAEW 2023

The logo for BTRM (The Certificate of Bank Treasury Risk Management) is positioned in the top right corner of the image. It consists of the letters 'BTRM' in a bold, white, sans-serif font, centered within a blue square. Below the square, the full name 'The Certificate of Bank Treasury Risk Management' is written in a smaller, white, sans-serif font.

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Sidebar: Pillar 2 liquidity and HQLA

The Pillar 2 Liquidity Framework

Intraday Liquidity Risk

- Mitigation of double duty risk associated with LAB held to support both intraday payment and securities settlement risk
- Use of “mean average maximum net debit measure, combined with a stress uplift”

Cash Flow Mismatch Risk (CFMR)

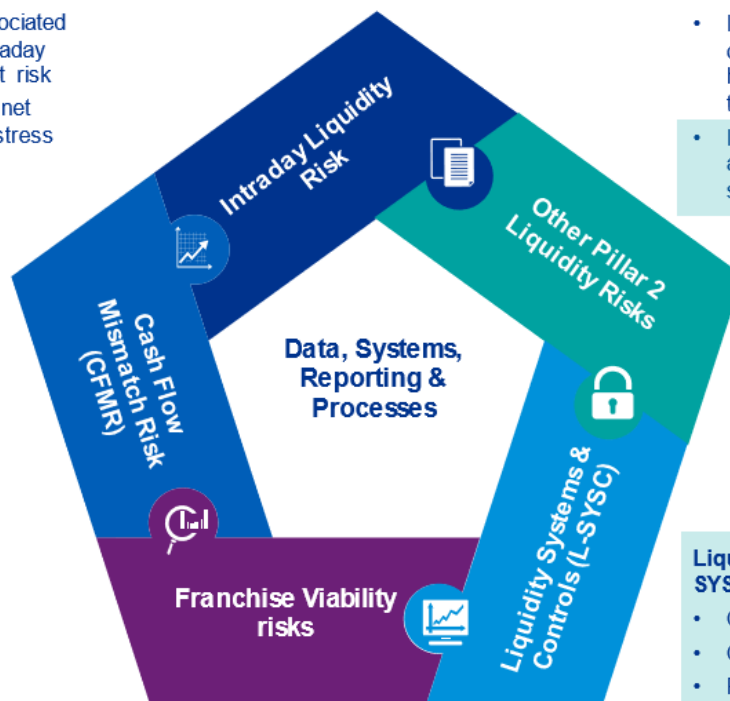
- New liquidity reporting template (PRA110) from 1 January 2019
- Granular LCR stress scenario
- Benchmark retail and wholesale stress scenarios with 90-day horizon
- Enhanced stress tools
- Assessment of non-cash HQLAs monetisation speed

Franchise Viability risks

- Recording of debt buybacks instances, early termination of non-margined derivatives requests
- Risk associated with prime brokerage clients as part of L-SREP

Other Pillar 2 Liquidity Risks

- Initial margin (IM) risk from on derivatives contracts include historical average of IM posted to counterparties with a stress
- Intragroup liquidity risk assessment subject to supervisory judgement



This chart has missed out funding concentration risk..

Liquidity Systems & Controls (L-SYSC)

- Quantitative risk assessment
- Qualitative risks assessment
- Remediation plan and liquidity add-on subject to supervisory judgement

Source: KPMG – April 2019

Pillar 2 Liquidity

- /// “Pillar2 Liquidity” aim is to ensure that firms retain sufficient available liquidity to cover risks that are not covered or only partially covered by the Liquidity Coverage Ratio (LCR), which is the “Pillar 1 Liquidity” requirement.
- /// In other words, analogous with capital, “Pillar 1” is LCR and “Pillar 2” is those liquidity risk types not covered by LCR
- /// The UK PRA divides these uncovered risks into two categories:
 - /// Risks not covered by the LCR that were not previously covered by the UK liquidity regime
 - /// Risks not covered by the LCR that were previously covered by UK rules
- /// In practice this means certain banks will have a liquidity add-on, commonly in the form of a higher HQLA requirement than that implied by LCR
- /// In essence the PRA in effect desires to reconstitute some of the requirements previously embodied: essentially daily cumulative cash flow metrics under stressed assumptions for a minimum 30 days and more commonly for a longer, usually 90-day, period.

Pillar 2 Liquidity...

/// Risks not covered by the LCR that were not previously covered:

/// **Franchise viability risks:**

/// Debt buyback – non-contractual request by debt holder to buy back issued debt resulting in cash outflow;

/// Non-margined derivatives – non-contractual request by non-margined derivative counterparty (who is “in-the-money”) to terminate derivative contract resulting in cash outflow;

/// Matched books – matched books may not behave contractually under stress (e.g. firm may decide to extend financing to franchise clients, for example via a reverse repo, for longer than their contractual terms while losing repo funding) and

/// **Intraday liquidity risk** – a firm fails to manage its intraday liquidity effectively, which leaves it unable to meet a payment / settlement obligation on time, thereby impairing its own liquidity position and that of other parties.

Pillar 2 Liquidity...

- /// ***Inadequate systems and controls*** – having a direct impact on liquidity risk.
- /// ***Risks relating to derivative outflows*** – where not included under the LCR standard.
- /// ***Risks relating to securities financing margin requirements*** – risk of cash outflows resulting from increased margin requirements caused by deteriorating collateral credit quality.
- /// ***Risks relating to intragroup flows*** – risk that liquidity may not move freely from non-EU entities within a group to EU entities within the same group.

Pillar 2 Liquidity...

- /// Risks not covered by the LCR that were previously covered by UK liquidity rules
 - /// **Funding risks**, including “cliff” risk – the risk that outflows beyond the 30 day LCR horizon systematically exceed inflows, leading to liquidity shortfalls outside of the LCR window; “cliff” risk refers to a subset of this risk where the risk is that outflows (usually deposit maturities) cluster or concentrate around single dates (e.g. month-ends, quarter ends) beyond the 30 day LCR window (usually due to firms “termining out” liabilities) leading to liquidity shortages that cannot be met with available liquidity resources.
 - /// **Cash flow mismatch risk** – the risk generated by using a “point-in-time” approach in the LCR against the maximum net cumulative outflow i.e. a firm may meet the LCR requirement at 30 days but fall below that requirement at some point within that 30 day period.
 - /// **Liquid asset management risk** – the risk generated by widening the definition of “liquid assets” to include assets that in reality cannot be monetised as quickly as those defined as liquid under regulation; essentially this is the risk that the firm will not or cannot actively manage the liquid assets it holds to ensure that at any given moment they can be turned promptly into cash.
 - /// **Funding concentration risks** – the risk of over-reliance on a single source or restricted sources of funding (where source can be very broadly defined as counterparty/customer name, industry, region, customer type, product or maturity etc.) leading to liquidity shortages if this funding is withdrawn or interrupted.



Pillar 2 Liquidity...

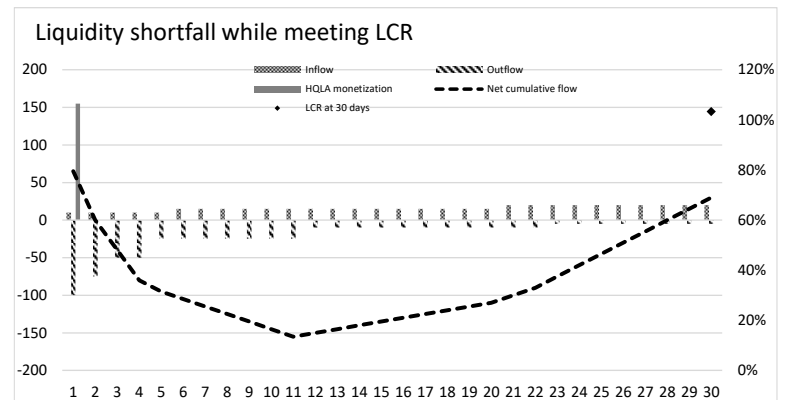
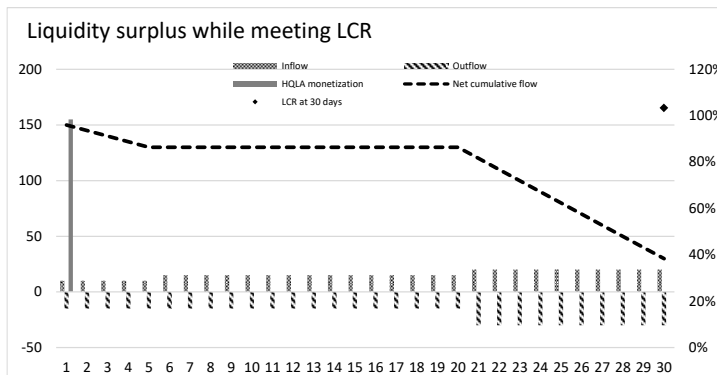
/// *Tools to mitigate risks*

- /// A bank must address the LCR risks primarily by holding more liquid assets or pushing cash outflows out of the 30 day window i.e. increasing liquidity insurance or minimising liquidity risks (or, obviously, a combination of the two). Of course from a b/s optimisation view increasing the liquid asset requirement may not always be the most proportionate or effective approach.
- /// The regulator may in future require firms to reduce the amount of liquidity risk they run (by setting limits on cash flow mismatch) and/or adding qualitative requirements (e.g. around management of liquid assets).

Pillar 2 Liquidity...

/// Evaluation of cash flow mismatch risk

/// The UK regulator assesses the possibility of how a firm may meet its LCR requirement at the end of the 30 day period but have fallen significantly below that standard at some point within that period. The two graphs below summarise the issue – both firms have the same LCR (103%) and HQLA but the right-hand graph shows a net cumulative liquidity shortfall throughout most of the LCR period.



Pillar 2 liquidity and UK PRA PS13/19

The PRA focus is on Overall Liquidity Adequacy Requirement (“OLAR”) which in itself is, IMHO, a function of the Board RAS....utilising the worst-case ILAAP scenario to determine how much HQLA the bank should have and what this amount implies for how many days the bank is survivable as a going concern in a stress environment

The paper states a 90-day “monitoring” horizon by the regulator without an explicit legal requirement to be survivable for 90 days minimum (ie LCR 30-day is still the legal requirement)

SO: perhaps adopt a “Stressed Liquidity Ratio” (SLR) as an internal metric for RAS, this being a 90-day horizon as opposed to 30-day LCR. The calculation is identical, but simply over a 90-day period (or the time horizon of the bank’s choice that aligns with the RAS)

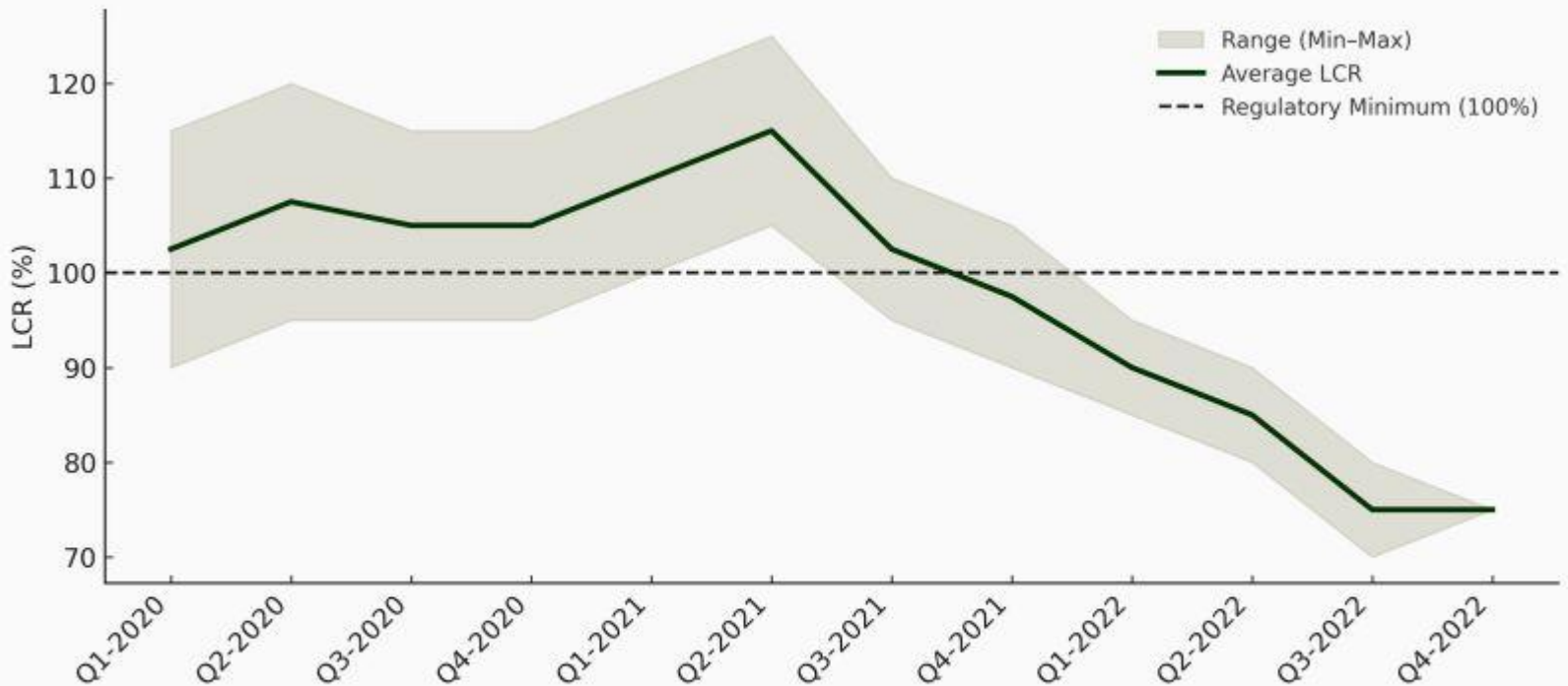
$$SLR(\%) = \frac{HQLA}{\sum(90\text{day liquidity outflows} - 90\text{day liquidity inflows)}}$$

SVB failure and “Pillar 2” liquidity

- /// In the UK we have the concept of “Pillar 2 liquidity” guidance from the PRA (in 2016)
- /// Amongst other things, it addresses:
 - /// Those risk types addressed by the FSA ILAA regime not covered by Liquidity Coverage Ratio (LCR)
 - /// Those risk types not covered by LCR and not previously covered by ILAA
- /// These include:
 - /// Funding maturity mismatch beyond a 30-day tenor (up to 90 days minimum)
 - /// >>>> **Concentration of funding** <<<<<
- /// There is no “Pillar 2” or equivalence for non-systemic banks in the USA
- /// SVB had a high concentration of funding:
 - /// Concentration by depositor type (one commentator described them as “Crypto and VC @-----”)
 - /// Concentration by contractual maturity
 - /// Concentration by product type
- /// SVB was not obliged to report NSFR and LCR
- /// In any case, we have read that SVB’s LCR at the time it attempted a Rights Issue was ~77%...below the 100% Basel III minimum in any case!
- /// Once the bank run started, the bank was doomed
- /// ***But the funding structure itself was always more vulnerable to a bank run following loss of confidence than a bank that followed “Pillar 2” discipline***
- /// ***This caused failure...the loss of confidence that leads to a bank run was not mitigated in any way***

SVB and “Pillar 2” liquidity

Silicon Valley Bank - Liquidity Coverage Ratio (Q1-2020 to Q4-2022)



*Data sources: SVB 10-Q/10-K filings, Yale SOM (2023), FDIC, investor deck.

*Visual created by Charles Forthright

SVB failure and “Pillar 2” liquidity....

/// *Note this from*

/// <https://www.farrer.co.uk/news-and-insights/silicon-valley-bank-role-of-uk-regulators/>

/// *The US regulators acted swiftly: by 10 March they had made the decision to shut down SVB in the US, and fears were mounting about the fate of the UK subsidiary (SVB UK). SVB UK became its own legal entity last summer, which for these purposes was helpful as it fell within the wider UK regulatory regime.*

/// *Even though SVB UK's balance sheet was ringfenced, customers started to withdraw their cash, and shortly after 2pm on Friday, SVB UK was forced to request £1.8bn of emergency funding under the Bank of England's (BoE) discount window facility (**which was not in fact provided**).*

/// *On Friday evening the BoE announced that “absent any meaningful further information” it planned to apply to the court to place SVB UK into a Bank Insolvency Procedure (BIP).*

/// *In fact the bank was sold to HSBC for £1 on the following Monday....*

/// ***SO - where should we place Central Bank support in order of access in the ILAAP management actions...?!***

BUT NOW: Survival Days and an “LCR” for post-2023...

- /// SVB case study has highlighted the existence of “social media risk” when it comes to Liquidity Risk Management
 - /// Silicon Valley Bank suffered a \$35bln outflow in under 48 hours
 - /// Negative social media commentary spread like wildfire and hastened the elimination of confidence in the bank
- /// LCR (“Pillar 1 liquidity”) does not capture this risk speedily enough
- /// Author’s solution (there is no regulation on this – yet!):
 - /// **A 7-day LCR metric** alongside the regulator 30-day one where the numerator is composed of cash only
 - /// Set your assumed % outflow in first 48 hours
 - /// Set your assumed outflow for days 3-7 (higher outflow earlier)
 - /// The first 48 hours is crucial (especially if it’s over a weekend)
 - /// The ratio keeps the >100% standard LCR requirement but with the HQLA cover being held entirely in cash instant access
 - /// Hence, “Liquid Cash Ratio”....a minimum liquidity standard



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Moorad's recommendation:
An extra, new, "LCR"

Recap: The Liquidity Coverage Ratio (LCR)

The Basel III LCR metric is a universal international liquidity risk standard and is calculated as follows:

Stock of high quality liquid assets (HQLA)

$$\frac{\text{Stock of high quality liquid assets (HQLA)}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100\%$$

LCR is designed to ensure that a financial institution has sufficient unencumbered, high quality liquid resources to survive a severe liquidity stress scenario lasting for one month.

The UK PRA refers to LCR as “Pillar 1 liquidity”.

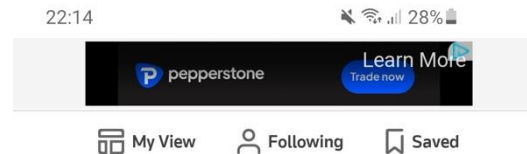
So what about “Pillar 2 liquidity” risk?

AND, what about the immediate short-term (under 7 days) period?

Pillar 2 liquidity risk: concentration risk... ...and “social media risk” impacting reputation

- /// Concentration in funding is perhaps the most significant “Pillar 2” liquidity risk
 - /// Concentration by product type (EG., instant access deposits)
 - /// Concentration by customer type (EG., large corporates or non-bank financial institutions)
 - /// Concentration across tenor points (EG., overnight contractual tenor; no or very little contractual term funding over 30/60/90 days)
- /// Banks that exhibit funding concentration – not uncommon when they are “challenger banks”, “neo-banks” and/or banks with a narrow customer franchise – would benefit more from a “3-day or 7-day Liquid Cash Ratio” (LCR) measure
- /// The 3-day or 7-day LCR is a response to “social media risk”
- /// It isn’t a panacea, and it isn’t an alternative to sound overall asset-liability management discipline
- /// It isn’t a metric that is meant to address all ALM risks!
- /// At the same time, this risk must be addressed by rapid and open language responses to negative social media comment....
- ///see next slide

Managing Social Media Risk



and respond to it, one of the executives said.

"NIP IT IN THE BUD"

Banks are also contacting customers who complain on social media to address their issues quickly.

"We want to nip it in the bud," the second executive said.

What played out at SVB could easily happen elsewhere, said Greg Hertrich, head of U.S. depository strategies at Nomura.

"Any bank that doesn't pay attention to their social media presence, and the effect it might have on deposit behavior is doing themselves, their stakeholders and most importantly, their depositors, a pretty significant disservice," Hertrich said.

Source: Risk.net May 2023



Social media and reputational risk

/// Good-practice illustration from a digital challenger bank:

- /// *Social media has amplified the speed with which news spreads, including “fake news”. Our bank is a brand that attracts much online attention, and has been consistently targeted by journalists and influencers in an attempt to increase their engagement. Several events in markets recently have triggered fake narratives about their impact on our bank. EG., the weekend after SVB's failure triggered the only two days of net same-day outflows we have ever seen.*
- /// *Reputational Risk is one of the main concerns for our liquidity today, as it is one of the most plausible triggers for a stressed event liquidity run. Observation since SVB shows that the overall sentiment of online comments is volatile, with peaks of negative comments occurring from time to time.*
- /// *Also, comments from influential persons with extensive social media reach can drive swift changes in customer behaviour, especially if it's a source with credibility in the financial sector.*

Today, an LCR for post-2023...

- /// SVB case study has highlighted the existence of “social media risk” when it comes to Liquidity Risk Management
 - /// **Silicon Valley Bank suffered a \$35bln outflow in under 48 hours!**
 - /// Negative social media commentary “spread like wildfire” and hastened the elimination of confidence in the bank
- /// LCR (“Pillar 1 liquidity”) does not capture this risk speedily enough
- /// Author’s solution (there is no regulation on this – this is a personal opinion – but in the UK there is now a consultation):
 - /// **A 3- or 7-day LCR metric** alongside the regulator 30-day one where the numerator is composed of cash only
 - /// Set your assumed % outflow in first 72 hours
 - /// Set your assumed outflow for days 3-7 (higher outflow earlier)
 - /// The first 48 hours is crucial (especially if it’s over a weekend)
 - /// The ratio keeps the >100% standard LCR requirement but with the HQLA cover being held entirely in cash instant access (essentially cash at central bank but also nostro at SIFI banks) instantly liquid securities
 - /// Hence, “Liquid Cash Ratio”...a minimum liquidity standard
 - /// Any resemblance to the Basel LCR acronym is purely coincidental 😊

An example stress scenario

/// Customers withdraw 36% in 7 days..

/// Day 1: 18%

/// Day 2: 9%

/// Days 3-7: 1.8%

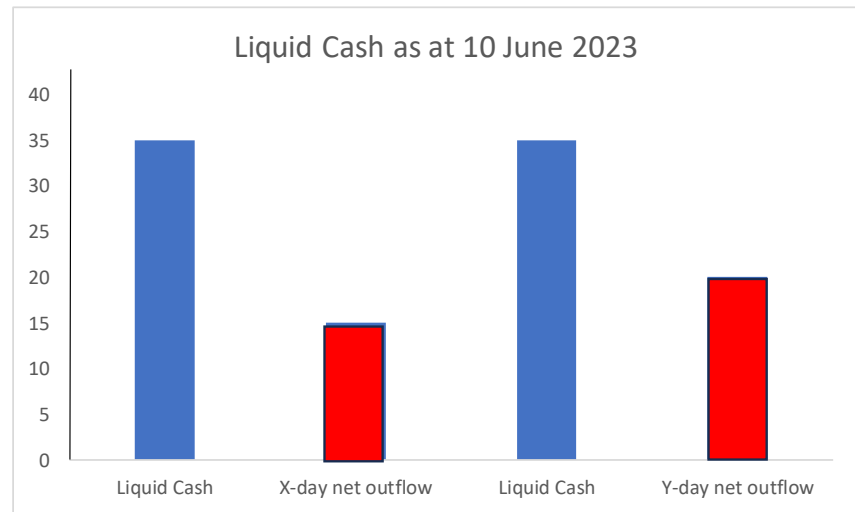
/// 2-day LCR:

/// 27% outflow assumption

A picture is worth a “thousand” metrics...

/// Our LCR adjusts the numerators to include cash deposits in G-SIFI or SIFI banks...

/// A “Liquid Cash Ratio”..!



↑
The assumptions
behind this outflow
number are key...

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ALCO Governance Framework

Lessons learned?

SVB Governance structure

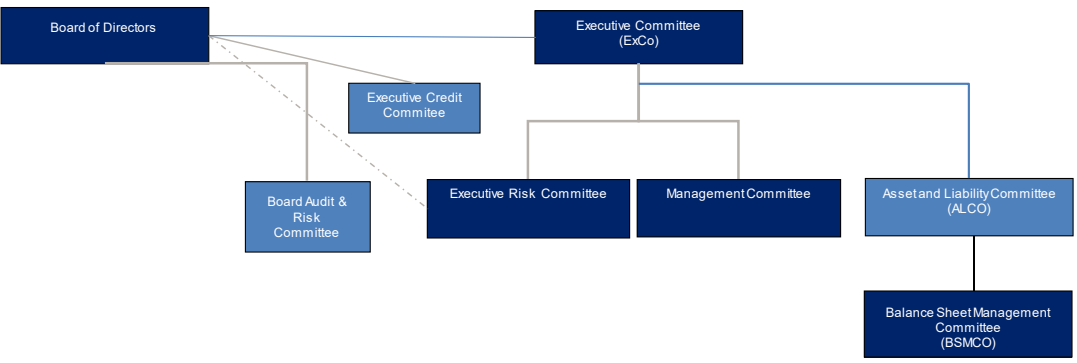
- /// SVB's asset-liability committee (ALCO) reported into the "Finance Committee"
- /// The Finance Committee reported into the Board, or, depending on your media source, the Board Risk Sub-Committee
- /// As we have observed with bank failures in 2007-09, this (orthodox and very common) operating model **places genuine understanding of the balance sheet – and its risk sensitivity to changes in market factors – too far away from the Board**
- /// Every failed bank in 2007-08 and 2023 exhibited this similar balance sheet management governance framework (which is one that most regulatory authorities expect to see)...
- /// ...the orthodox governance framework for managing the balance sheet **doesn't really have a very good track record!**
- /// See the reference from 2017 that highlights this....



ALCO reporting to a committee that is one or two further steps to the Board was the operating model exhibited by every failed bank in 2007, 2008, 2009 and 2023....

ALCO governance framework - traditional

/// The traditional Board ALCO governance framework operating model has been shown to be ineffective when considering failed banks!



ALCO and distance from the Board

The screenshot shows a LinkedIn post by Moorad Choudhry, an Independent Non-Executive Director at Recognise Bank Limited. The post discusses the importance of the Asset-Liability Committee (ALCO) as the steward and guardian of a bank's balance sheet, particularly in a firm's desire to be adaptable and resilient when market factors change. He notes that the ALCO needs to be near enough to the Board to ensure that balance sheet risk management is understood and addressed at the Board level. He mentions that he modified his views since first publishing about the ALCO governance framework in 2001, and in 2012 he was suggesting that the ALCO needs to report to the Board directly. This article, from the Autumn 2020 issue of "Journal of Risk Management in Financial Institutions, Vol. 13 No. 4", summarises things succinctly (in his hope). He notes that the SVB's ALCO reported to its "Finance Committee", which (depending on one's source) reported either to its Board Risk Sub-Committee or its Board. In his opinion, this is not close enough to the Board to ensure long-term covered balance sheet robustness, particularly in advance of a stress event. This topic is covered in Chapter 9 of "The Principles of Banking, 2nd Edition".

A bank's ALCO and effective risk management • 8 pages

The Asset-Liability Committee (ALCO): Ensuring effective balance sheet risk management during a market-wide stress event

Received or revised from 10th September, 2020

Moorad Choudhry
Professor Moorad Choudhry, Independent Non-Executive Director, Recognise Bank, England
Moorad Choudhry is an independent non-executive director on the board of Recognise Bank, and Honorary Professor at University of East London. He is a author of "The Principles of Banking, 2nd Edition".

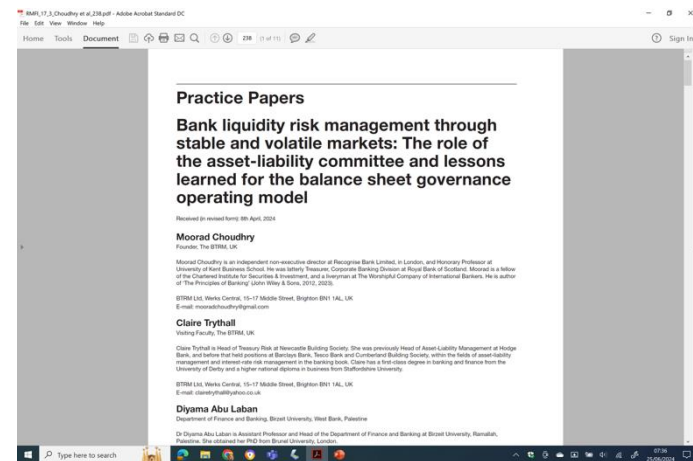
Article (2017) from European Financial Review: <http://www.europeanfinancialreview.com/?p=17469>

And bringing us right up to date...

A case study of the ALCO and balance sheet governance framework model in place at failed banks in 2007-09 and 2023

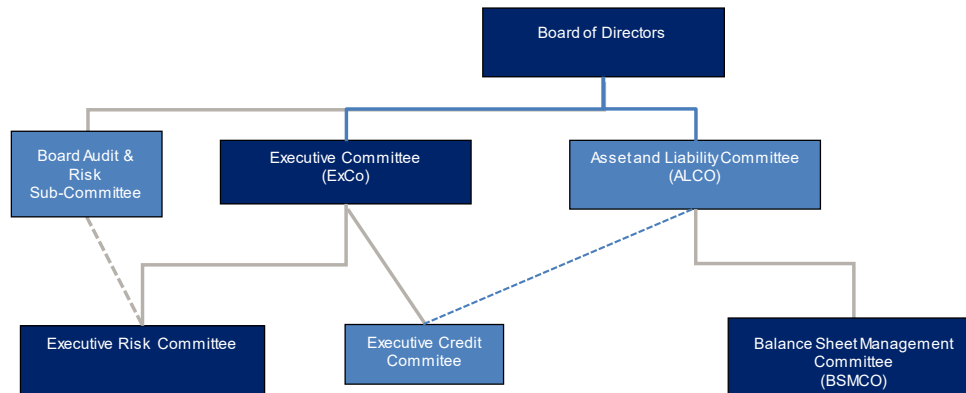
JoRMFI, 17, 3 (Summer 2024)

https://btrm.org/wp-content/uploads/2024/09/RMFI_17_3_Choudhry_238_exec.pdf



So we need this ALCO framework:

- /// The recommended Board, BRC, Exco and ALCO operating model: reflects paramount importance of the ALCO in the overall ERM and prudential regulation compliance process



“The Principles of Banking, 2nd edition (2022) Figure 9.7

Liquidity risk management: conclusions

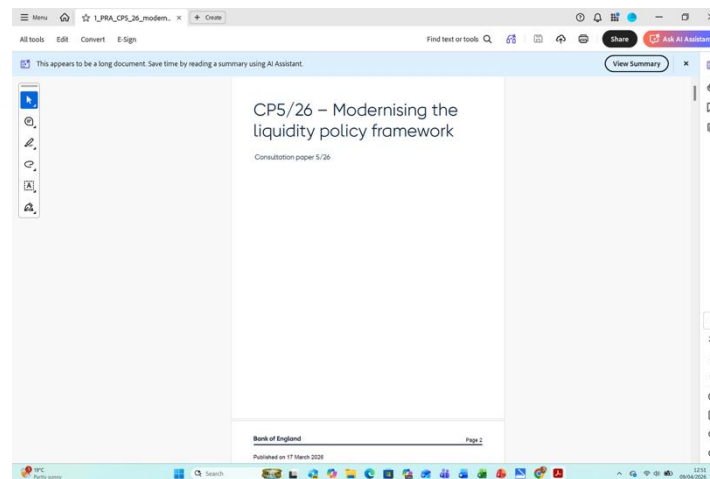
- /// Liquidity risk is a “risk register” item that is as old as banking itself
- /// In fact it’s a very definition of banking
- /// The discipline required to manage it remains unchanged
- /// The “new” factor impacting liquidity risk today is the much increased speed of transmission, in an age of
 - /// Instant access to customer deposits (in some countries 24/7) via mobile digital devices
 - /// Speed of transmission of “bad news” or “fake news” via social media
- /// The current suite of liquidity risk metrics (and there are a large number of them) does not really address this issue for certain types of banks
- /// The author suggests a short-term Liquid Cash Ratio in response
- /// (...and now, with PRA CP 5/26, so does the Bank of England 😊)

BTRM

The Certificate
of Bank Treasury
Risk Management

Modernising banks' liquidity frameworks

UK PRA 5/26 (March 2026)



PRA CP 5/26

Modernising the Liquidity Policy Framework

- /// This one is worth getting familiar with, irrespective of one's own jurisdiction...
- /// I thought I would – for the first time ever – use AI!
- /// Using Google's NotebookLM and using this prompt:

Summarise the requirements from this document as an action list for banks to follow

- /// It came up with this....

Notebook LM summary

- /// The Prudential Regulation Authority (PRA) issued this consultation paper to propose a modernized (*sic*) liquidity policy framework that addresses the rapid nature of modern bank runs.
- /// Drawing lessons from the 2023 banking turmoil, the document outlines five key proposals designed to enhance the operational readiness of financial firms to monetise assets during sudden, severe outflows.
- /// A central theme is the transition to a demand-driven, repo-led reserves system, which clarifies the role of central bank facilities as legitimate tools for managing liquidity risk.
- /// The PRA intends to replace narrow assessments of marketable assets with a broader monetisation risk evaluation that considers internal frictions and accounting impacts.
- /// These updates will be applied proportionately to various business models, ensuring that even smaller deposit takers can maintain safety and soundness without facing excessive regulatory burdens. Ultimately, the framework aims to bolster financial stability and public confidence by requiring firms to better manage the composition and speed of their liquidity resources.

NotebookLM summary...

- /// **This summary provides an action list for banks based on the requirements and proposals outlined in the PRA's consultation paper on modernising the liquidity policy framework.**
- /// **I. Immediate Consultation & Implementation Actions**
- /// Respond to Consultation: Firms should review the proposals and provide feedback to the PRA by Wednesday 17 June 2026
- /// Prepare for Phased Implementation: Note that Proposal 4 (collateral monitoring) and Proposal 3 (central bank facilities) are intended for immediate effect once rules are finalised, while other requirements will have a 12-month transition period.
- /// Prepare to Cease Specific Reporting: Be ready to stop completing the "monetisation actions" section of the PRA110 reporting template once the final rules are published
- /// **II. Enhance Internal Stress Testing and Risk Assessment**
- /// Assess Liquidity Composition: Update the Overall Liquidity Adequacy Rule (OLAR) assessment to explicitly evaluate the composition of liquidity resources (cash vs. non-cash) rather than just the total amount
- /// Design "Initial Day" Stress Scenarios: Develop a new stress scenario focused on sudden and severe liquidity outflows that peak within the first week of a stress event *Sound familiar...? ☺*
- /// Transition to "Monetisation Risk": Broaden internal stress testing by replacing the narrow focus on "marketable asset risk" with a comprehensive assessment of "monetisation risk"
- /// Identify Monetisation Frictions: Formally assess potential delays to monetising assets, including:
 - /// Internal governance and escalation processes
 - /// Private market depth and counterparty availability
 - /// Accounting treatments, such as how unrealised losses on liquid assets might impact capital ratios and the willingness to sell

NotebookLM summary...

/// III. Operationalise Central Bank Facility Access

/// Demonstrate Operational Readiness: Ensure the firm is prepared to use regularly available central bank facilities (such as the Sterling Monetary Framework) by:

- /// Formally signing up for access
- /// Pre-positioning eligible collateral
- /// Conducting test transactions or live use of the facilities
- /// Review Foreign Facility Access: If relying on foreign central bank facilities, confirm certainty of access, eligibility criteria, and pricing

/// Integrate Facilities into Stress Testing: Include drawings from regular central bank facilities in OLAR and internal stress testing, though emergency liquidity assistance must still be excluded

/// *[This is not new, actually...this guidance is several years old from earlier publications]*

/// IV. Modernise Collateral and Asset Management

/// End Level 1 Asset Exemptions: Begin annual monetisation testing (via sale or repo) for Level 1 Assets, including sovereign bonds, which were previously exempt from this LCR operational requirement

/// Monitor Drawing Capacity: Actively monitor and report the firm's central bank drawing capacity (value after haircuts) within the ILAAP document

/// Measure "Additional" Resilience:

/// Calculate the amount of liquidity available if the firm were to draw in full against all pre-positioned collateral beyond its most severe stress requirements

/// Estimate the amount of non-pre-positioned assets that are eligible as central bank collateral and identify frictions to their timely mobilisation

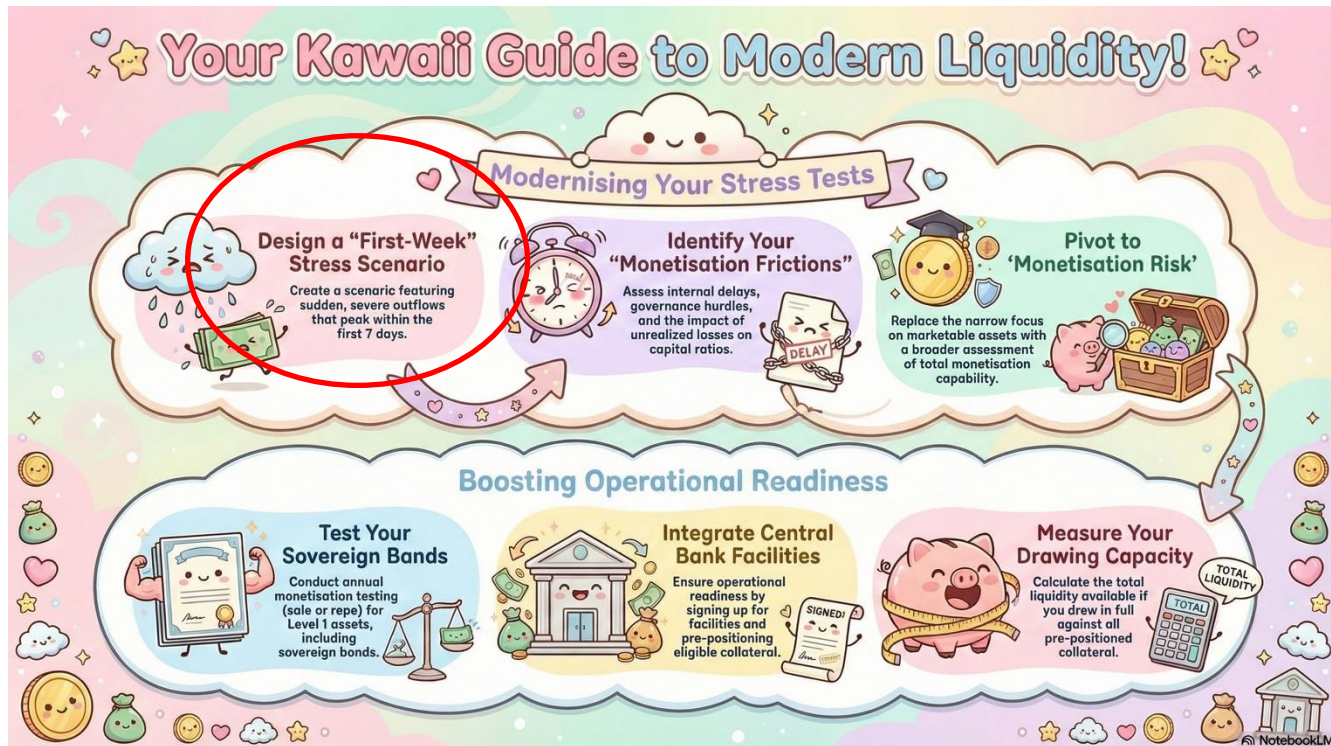
NotebookLM summary...

/// V. Strengthen Governance and Frameworks

- /// Escalate Collateral Oversight: Ensure the assessment of pre-positioned collateral is reported to and approved by the firm's management body
- /// Align Contingency and Funding Plans:
- /// Update Liquidity Contingency Plans (LCPs) to reflect the specific risks and frictions identified in the new stress testing
- /// Integrate funding plans into the firm's strategic plan, ensuring they identify relevant markets and switching horizons
- /// Review ALM Committees: Ensure senior Asset and Liability Management committees are following good practice for robust liquidity risk management
- /// **The last one is very welcome and follows on from PRA LSS 1/13 (April 2013) on the role and importance of the ALCO**

BTW - the Kawaii option in Notebook LM is much better....

First cut...



Mustn't lose focus...its PRA CP 5/26!

Keeping Banks Safe & Happy: Modernising Liquidity Rules (CP5/26)

Why We Need an Update

The "Digital Speed" Challenge




Digital banking and social media allow deposit outflows to happen much faster than older regulations originally anticipated.

Lessons from 2023



Recent bank failures showed that some firms weren't operationally ready to turn their securities into cash during a crisis.

A New Focus on "Monetisation Risk"




Shifting focus from just "having" assets to how quickly and easily those assets can be turned into actual cash.

The 3 Big Proposals



Firms must now design stress scenarios focusing on severe, sudden outflows peaking within the very first week.



Clarifying that using central bank facilities (like repo operations) is a normal part of business-as-usual liquidity management.

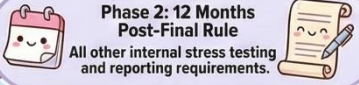


Sovereign bonds (Level 1 Assets) will no longer be exempt from annual "monetisation testing" to ensure they can be sold fast.

Implementation Phase



Phase 1: Immediate
Collateral management and central bank facility readiness.



Phase 2: 12 Months Post-Final Rule
All other internal stress testing and reporting requirements.

NotebookLM

Sidebar: PRA CP 5/26

- /// This requirement from the CP was amongst the items in the Notebook LM summary:
 - /// *Design "Initial Day" Stress Scenarios: Develop a new stress scenario focused on sudden and severe liquidity outflows that peak within the first week of a stress event*
- /// That's a result! BTRM advocated this in June 2023, suggesting a 3-, 5- and 7-day "LCR" (our "LCR" was actually a "Liquid Cash Ratio" as we include G-SIFI bank deposits in the numerator 😊)
- /// BTRM liked the recommendation so much we made it into a YouTube video:
- /// <https://www.youtube.com/watch?v=CbyiFhtBOYA>



The logo for BTRM (The Certificate of Bank Treasury Risk Management) is located in the top right corner of the slide. It consists of the letters 'BTRM' in a bold, white, sans-serif font, centered within a blue square. Below the square, the full name of the organization is written in a smaller, white, sans-serif font.

BTRM

The Certificate
of Bank Treasury
Risk Management

HQLA and USD risk

Reducing US Treasury-linked geo-political risk

USD HQLA holdings

- /// There are bank balance sheets in virtually every country in the world that have interests in USD
- /// This drives a cash management requirement to hold USD-denominated assets
- /// From 1945 until 2025, there was a stable geo-political environment even allowing for breakdown of “Bretton Woods” fixed FX rate regime in 1971.....
- ///as summarised overleaf >

What Does It Mean for Banks That Trust in USD is Tarnished?

- Money is both a **store of value** and a **medium of exchange**.
- Trust in USD as a **store of value** has been a constant since 1945
- **What have we observed since 2025?**
 - A US Treasury Secretary floating the idea of foreign holders of US Treasury securities being made to accept a restructuring of the debt (e.g., thru an extension of the maturity date)
 - Decline in USD share of central bank reserves/increase in gold holdings
 - US trade policy/tariffs consistent with weak dollar policy
 - US inflation > target for 5 years
 - High current US economic policy uncertainty
 - A state of near-continuous geo-political stress and uncertainty, culminating in current war with Iran, closure of Straits of Hormuz, rise in oil price, return of inflationary pressure
- USD's role as a **medium of exchange** is also reducing ...
 - Rise in global use of Yuan (RMB)
 - Foreign corporate issuers of yuan-denominated "Panda" bonds (mainland China) rising (*The Economist* 25/4/2026)
 - Rise in issue of "Dim Sum" bonds (Hong Kong)
 - Indonesia sovereign issued RMB 9bln in Feb-2026
 - Portugal sovereign (a eurozone government) issued RMB 2bln in Apr-2026
- Rising geopolitical or domestic frictions will weaken "risk-free" status of holding US Treasury bonds

Alternative cash management approaches

- /// At present there is no “like-for-like” replacement of USD interests and USD-denominated assets
- /// That does not mean there is no way to reduce exposure to US government policy
- /// Banks outside the USA may consider:
 - /// USD-denominated assets that mirror US Treasury securities for (i) credit risk (ii) secondary market liquidity and (iii) short-dated tenor
 - /// A “hedge” against the US dollar
 - /// *The Yuan does not have to eclipse or even rival the dollar to provide a hedge against it. (The Economist 25/4/2026)*
 - /// Eurozone sovereign assets and EU-domicile bank deposits
- /// What alternative approaches should banks outside the USA consider?

Alternatives to US government exposure for HQLA purposes

- /// Asset tenor profile > 1 year
 - /// Multinational development banks
 - /// US based: World Bank, IADB, etc
 - /// Non-US based: AIIB, EIB, EBRD, IDB, AfDB, ADB, etc
 - /// SIFI bank Covered Bonds senior tranches
 - /// These securities are AAA-rated, as liquid as UST and often floating rate (even better!)
- /// Asset tenor profile < 1 year. More challenging is the genuine equivalent alternative to the US 90-day T-bill
 - /// See alternatives overleaf >>>

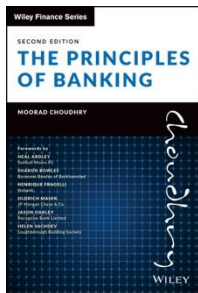
Alternatives to the US T-bill

- /// **Supranational or Sovereign Agency Bonds (USD):** Short-dated bonds issued by MDBs which are AAA and as liquid as UST, but very short-dated paper may be less available.
- /// **AAA-Rated CLOs (Collateralised Loan Obligations):** For example, the Janus Henderson AAA CLO ETF (JAAA) offers a short-duration, high-quality alternative that is sometimes preferred for yield without taking significant principal risk, with AAA-rated tranches having a reasonable history of safety. Held as an ETF – what do we think of that?
- /// **High-Grade Commercial Paper (CP):** Short-term, unsecured notes issued by large corporations with the highest credit ratings (A1+/P1). These mature in 270 days or less. A1+/P1 is the short-term equivalent of AAA/Aaa. Are we happy with corporate credit risk even if it is AAA?
- /// **Treasury-Backed Money Market Funds (MMFs):** **NOT** an alternative as these funds hold short-term US Treasury and government agency debt, which we are looking to reduce / diversify away from!
- /// **Certificates of Deposit (CDs):** Short-term USD-denominated CDs from highly-rated G-SIFI and SIFI banks may be considered a safe, non-government alternative (need to take into consideration these are not HQLA-eligible: but any surplus liabilities we need to place don't need to be in HQLA provided we are above our minimum LCR appetite)
- /// **For ALCO to decide: what trade-off w.r.t. to tenor, liquidity, credit risk and non-HQLA eligibility are we prepared to take? IMHO, in the current geo-political environment the trade-off is well worth considering...**
- /// (BTW I had some input from AI for this slide, which I edited for assurance ☺)

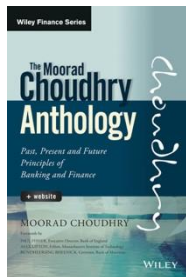
Summary

- /// The primary lesson learned from 2023 is that traditional principles of bank ALM remain as important as they always have been
 - /// Liquidity risk management and Pillar 2 liquidity risk
 - /// Interest rate risk management
- /// PRA CP5/26 is a good way to think about how to adopt these lessons into a bank's ALM policy
- /// The role of the bank's ALCO is affirmed as important as ever – the most important executive committee in any bank
- /// Current geo-political tensions and the unpredictability of US government policy for the foreseeable future makes it imperative for non-US based banks to reduce exposure to, and diversify away from, US government exposure

Further reading on ALM and liquidity risk



The Principles of Banking, 2nd Edition, Singapore:
John Wiley & Sons Ltd 2022, chapters 11-15



*Moorad Choudhry Anthology: Past, Present and Future
Principles of Banking and Finance*, Singapore: John
Wiley & Sons Ltd 2018, chapters 8, 10-14

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