



Farin responds to the newly released “Interagency Policy Statement on Funding and Liquidity Risk Management.”

This week the NCUA, FDIC, Federal Reserve, OCC and OTS released the **“Interagency Policy Statement on Funding and Liquidity Risk Management.”** This is the final form to read (for now) of the “Proposed Interagency guidance on Liquidity and Funds Management” released for comments on July 6, 2009.

The differences between the proposed and final documents fall along the lines of clarification. The final document does not incorporate any earth shattering changes. One of my disappointments is that the final document does not even mention the Basel committee’s “Consultative Document – International framework for liquidity risk measurement, standards and monitoring”, released in December 2009. [CLICK HERE TO READ](#) The fact the Basel document is not mentioned is not surprising. I’m sure a draft of the final version of the Interagency document was being vetted between the agencies as the Basel document was released for comment. That the final Interagency document was released before the Basel April 16, 2010 comment deadline was is an indication of just how a high a priority the agencies placed on getting liquidity guidance out the door NOW!

Why am I disappointed the Basel material wasn’t incorporated in the final guidance document? Because the guidance document tells you what to do, but not how to do it. On the other hand, the Basel document lays out stress testing techniques, assumptions, and time frames, and introduces two new ratios for liquidity testing.

It is our feeling that what is called the “final” guidance document is not “final”. We are likely to see a revision or supplement incorporating the Basel material near the end of 2010 or beginning of 2011.

A while back we scheduled a free 90 minute Webinar to discuss the Proposed Interagency Guidance document titled, ***Developing an Effective Liquidity/Capital Strategy**. I had planned on discussing the Basel document as part of that presentation. I’m scrambling right now to update my materials to incorporate what is in the final Guidance document. I could spend 90 minutes on just the final guidance document telling you what to do instead. That would be a useful briefing but would fall short of providing you what you really need to get started.

Instead, I’m going to limit my allocation of time spent on the “what to dos” to about 1/3 of the presentation. I’ll devote 1/3 to the Basel document as it defines many of the “hows” that are likely to be incorporated into the final “final” document. Then I’ll spend the last 1/3 of the session making recommendations on the approach you might take right now.



Many of you know, I am the lead author of the next major release of the ABA Liquidity and Funds Management Toolbox. Dave Koch is a co-author. The approach I'm going to suggest in the last 1/3 of the session outlines the approach we will be taking in the Toolbox.

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