Bank Capital And Liquidity Bank Of England

The paper analyzes the relationship between bank competition and stability, with a specific focus on the Middle East and North Africa. Price competition has a positive effect on bank liquidity, as it induces self-discipline incentives on banks for the choice of bank funding sources and for the holding of liquid assets. On the other hand, price competition may have a potentially negative impact on bank solvency and on the credit quality of the loan portfolio. More competitive banks may be less solvent if the potential increase in the equity base-due to capital adjustments-is not large enough to compensate for the reduction in bank profitability. Also, banks subject to stronger competitive pressures may have a higher rate of nonperforming loans, if the increase in the risk-taking incentives from the lender's side overcomes the decrease in the credit risk from the borrower's side. In both cases, country-specific policies for market entry conditions-and for bank regulation and supervision-may significantly affect the sign and the size of the relationship. The paper suggests policy reforms designed to improve market contestability and to increase the quality and independence of prudential supervision.

An in-depth look at how banks and financial institutions manage assets and liabilities Created for banking and finance professionals with a desire to expand their management skillset, this book focuses on how banks manage assets and liabilities, set up governance structures to minimize risks, and approach such critical areas as regulatory disclosures, interest rates, and risk hedging. It was written by the experts at the world-renowned Hong Kong Institute of Bankers, an organization dedicated to providing the international banking community with education and training. Explains bank regulations and the relationship with monetary authorities, statements, and disclosures Considers the governance structure of banks and how it can be used to manage assets and liabilities Offers strategies for managing assets and liabilities in such areas as loan and investment portfolios, deposits, and funds Explores capital and liquidity, including current standards under Basel II and Basel III, funding needs, and stress testing Presents guidance on managing interest rate risk, hedging, and securitization

The most up-to-date, comprehensive guide on liquidity risk management—from the professionals Written by a team of industry leaders from the Price Waterhouse Coopers Financial Services Regulatory Practice, Liquidity Risk Management is the first book of its kind to pull back the curtain on a global approach to liquidity risk management in the post-financial crisis. Now, as a number of regulatory initiatives emerge, this timely and informative book explores the real-world implications of risk management practices in today's market. Taking a clear and focused approach to the operational and financial obligations of liquidity risk management, the book builds upon a foundational knowledge of banking and capital markets and explores in-depth the key aspects of the subject, including governance, regulatory developments, analytical frameworks, reporting, strategic implications, and more. The book also addresses management practices that are particularly insightful to liquidity risk management practitioners and managers in numerous areas of banking organizations. Each chapter is authored by a Price Waterhouse Coopers partner or director who has significant, hands-on expertise Content addresses key areas of the subject, such as liquidity stress testing and information reporting Several chapters are devoted to Basel III and its implications for bank liquidity risk management and business strategy Includes a dedicated, current, and all-inclusive look at liquidity risk management Complemented with hands-on insight from the field's leading authorities on the subject, Liquidity Risk Management is essential reading for practitioners and managers within banking organizations looking for the most current information on liquidity risk management.

Banking market integration in the Asia Pacific has greatly accelerated in recent years, in an environment of many other rapid advances in banking and finance. This has increased competition between domestic and foreign banks, and made the measurement of bank efficiency, competition, and liquidity creation a critical issue for both policy makers and bank managers. This book investigates important policy-related issues in Asia Pacific banking. It analyses the link between competition and stability, examining the cases of fourteen Asia Pacific countries between 2003 and 2010, and goes on to discuss whether bank shareholder value is influenced by cost and profit efficiency changes over time. The authors explore the different ways in which banks in Asia-Pacific create liquidity, and whether this is linked to capital generation. This book provides valuable insight for researchers, policy makers and bank managers with an interest in financial rationalization, restructuring and consolidation.

"A great write-up on the art of banking. Essential reading for anyone working in finance." Dan Cunningham, Senior Euro Cash & OBS Dealer, KBC Bank NV, London "Focused and succinct review of the key issues in bank risk management." Graeme Wolvaardt, Head of Market Risk Control, Europe Arab Bank plc, London The importance of banks to the world's economic system cannot be overstated. The foundation of consistently successful banking practice remains efficient asset-liability management and liquidity risk management. This book introduces the key concepts of banking, concentrating on the application of robust risk management principles from a practitioner viewpoint, and how to incorporate these principles into bank strategy. Detailed coverage includes: Bank strategy and capital Understanding the yield curve Principles of asset-liability management Effective liquidity risk management The role of the bank ALM committee Written in the author's trademark accessible style, this book is a succinct and focused analysis of the core principles of good banking practice.

Whether and to what extent tougher bank regulation weighs on economic growth is an open empirical question. Using data from 28 manufacturing industries in 50 countries, we explore the extent to which cross-country differences in bank liquidity and capital levels were related to differences in sectoral activity around the period of the global financial crisis. We find that industries which are more dependent on external finance, in countries where banks had higher liquidity and capital ratios, performed relatively better during the crisis, with regard to investment rates and the creation of new enterprises. This relationship, however, exists only for bank-based systems and emerging market economies. In the pre-crisis period, we find only a marginal link to bank capital. These findings survive a battery of robustness checks and provide some solid support for the tighter prudential measures introduced under Basel III.

The effect of bank capital on lending is a critical determinant of the linkage between financial conditions and real activity, and has received especial attention in the recent financial crisis. The authors use panel-regression techniques to study the lending of large bank holding companies (BHCs) and find small effects of capital on lending. They

then consider the effect of capital ratios on lending using a variant of Lown and Morgan's VAR model, and again find modest effects of bank capital ratio changes on lending. The authors¿ estimated models are then used to understand recent developments in bank lending and, in particular, to consider the role of TARP-related capital injections in affecting these developments. Illus. A print on demand pub.
Bank Liquidity Creation and Financial Crises delivers a consistent, logical presentation of bank liquidity creation and addresses questions of research and policy interest that can be easily understood by readers with no advanced or specialized industry knowledge. Authors Allen Berger and Christa Bouwman examine ways to measure bank liquidity creation, how much liquidity banks create in different countries, the effects of monetary policy (including interest rate policy, lender of last resort, and quantitative easing), the effects of capital, the effects of regulatory interventions, the effects of bailouts, and much more. They also analyze bank liquidity creation in the US over the past three decades during both normal times and financial crises. Narrowing the gap between the "academic world" (focused on theories) and the "practitioner world" (dedicated to solving real-world problems), this book is a helpful new tool for evaluating a bank’s performance over time and comparing it to its peer group. Explains that bank liquidity creation is a more comprehensive measure of a bank’s output than traditional measures and can also be used to measure bank liquidity Describes how high levels of bank liquidity creation may cause or predict future financial crises Addresses questions of research and policy interest related to bank liquidity creation around the world and provides links to websites with data and other materials to address these questions Includes such hot-button topics as the effects of monetary policy (including interest rate policy, lender of last resort, and quantitative easing), the effects of capital, the effects of regulatory interventions, and the effects of bailouts
Using data on commercial banks in the United States and Europe, this paper analyses the impact of the new Basel III capital and liquidity regulation on bank-lending following the 2008 financial crisis. We find that U.S. banks reinforce their risk absorption capacities when expanding their credit activities. Capital ratios have significant, negative impacts on bank-retail-and-other-lending-growth for large European banks in the context of deleveraging and the “credit crunch” in Europe over the post-2008 financial crisis period. Additionally, liquidity indicators have positive but perverse effects on bank-lending-growth, which supports the need to consider heterogeneous banks’ characteristics and behaviors when implementing new regulatory policies.
We examine the role of bank balance sheet strength in the transmission of financial sector shocks to the real economy. Using data from the syndicated loan market, we exploit variation in banks’ reliance on wholesale funding and their structural liquidity positions in 2007Q2 to estimate the impact of exposure to market freezes during 2007–08 on the supply of bank credit. We find that banks with strong balance sheets were better able to maintain lending during the crisis.

In particular, banks that were ex-ante more dependent on market funding and had lower structural liquidity reduced the supply of credit more than other banks. However, higher and better-quality capital mitigated this effect. Our results suggest that strong bank balance sheets are key for the recovery of credit following crises, and provide support for regulatory proposals under the Basel III framework.

This paper analyzes the evolution of bank funding structures in the run up to the global financial crisis and studies the implications for financial stability, exploiting a bank-level dataset that covers about 11,000 banks in the U.S. and Europe during 2001?09. The results show that banks with weaker structural liquidity and higher leverage in the pre-crisis period were more likely to fail afterward. The likelihood of bank failure also increases with bank risk-taking. In the cross-section, the smaller domestically-oriented banks were relatively more vulnerable to liquidity risk, while the large cross-border banks were more susceptible to solvency risk due to excessive leverage. The results support the proposed Basel III regulations on structural liquidity and leverage, but suggest that emphasis should be placed on the latter, particularly for the systemically-important institutions. Macroeconomic and monetary conditions are also shown to be related with the likelihood of bank failure, providing a case for the introduction of a macro-prudential approach to banking regulation.

"The authors examine the relation between capital and liquidity creation. This issue is interesting because of the potential impact on liquidity creation from tighter capital requirements such as those in Basel III. They perform Granger-causality tests in a dynamic generalized method of moments (GMM) panel estimator framework on an exhaustive data set of Czech banks, which mainly includes small banks from 2000 to 2010. We observe a strong expansion in liquidity creation until the financial crisis that was mainly driven by large banks. They show that capital negatively Granger-causes liquidity creation in this industry, where majority of banks are small. But we also observe that liquidity creation Granger-causes a reduction in capital. These findings support the view that Basel III can reduce liquidity creation, but also that greater liquidity creation can reduce banks' solvency. Thus, the authors show that this reverse causality generates a trade-off between the benefits of financial stability induced by stronger capital requirements and the benefits of increased liquidity creation."--Abstract.

Defining the value of an entire company can be challenging, especially for large, highly competitive business markets. While the main goal for many companies is to increase their market value, understanding the advanced techniques and determining the best course of action to maximize profits can puzzle both academic and business professionals alike. Valuation Challenges and Solutions in Contemporary Businesses provides emerging research exploring theoretical and practical aspects of income-based, market-based, and asset-based valuation approaches and applications within the financial sciences. Featuring coverage on a broad range of topics such as growth rate, diverse business, and market value, this book is ideally designed for financial officers, business professionals, company managers, CEOs, corporate professionals, academicians, researchers, and students seeking current research on the challenging aspects of firm valuation and an assortment of possible solution-driven concepts.

The ultimate guide for bank management: how to survive and thrive throughout the business cycle An essential guide for bankers and students of finance everywhere, The Principles of Banking reiterates that the primary requirement of banking—sound capital and liquidity risk management—had been forgotten in the years prior to the financial crash. Serving as a policy guide for market practitioners and regulators at all levels, the book explains the keys to success that bankers need to follow during good times in order to be prepared for the bad, providing in-depth guidance and technical analysis of exactly what constitutes good banking practice. Accessible to professionals and students alike, The Principles of Banking covers issues of practical importance to bank practitioners, including asset-liability management, liquidity risk, internal transfer pricing, capital management, stress testing, and more. With an emphasis on viewing business cycles as patterns of stable and stressful market behavior, and rich with worked examples illustrating the key principles of bank asset-liability management, the book is an essential policy guide for today and tomorrow. It also offers readers access to an accompanying website holding policy templates and teaching aids. Illustrates how unsound banking practices that were evident in previous bank crashes were repeated during the creation of the 2007-2008 financial market crisis Provides a template that can be used to create a sound liquidity and asset-liability management framework at any bank An essential resource for the international banking community as it seeks to re-establish its credibility, as well as for students of finance Explains the original principles of banking, including sound lending policy and liquidity management, and why these need to be restated in order to avoid another bank crisis at the time of the next economic recession Covers topics of particular importance to students and academia, many of which are marginally—if ever—addressed in current text books on finance Offers readers access to a companion website featuring invaluable learning and teaching aids Written by a banking practitioner with extensive professional and teaching experience in the field, The Principles of Banking explains exactly how to get back to basics in risk management in the banking community, essential if we are to maintain a sustainable banking industry. “engaging and interesting and, more importantly, easily understood, allowing a clear picture to emerge of how the principle or concept under discussion is to be applied in the real world.” - Graeme Wolvaardt, Head of Market & Liquidity Risk Control, Europe Arab Bank Plc

Liquidity Management is now a core consideration for banks and other financial institutions following the collapse of numerous well-known banks in 2007-8. This timely new edition will provide practical guidance on liquidity risk and its management – now mandatory under new regulation.

This paper applies network analysis to assess the extent of systemic vulnerabilities in the ECCU banking system. It includes two sets of illustrative stress tests. First, solvency and liquidity shocks to each individual bank and the impact on other banks in the network through their biltareal net asset exposures. Second, country and region-wide tail shocks to GDP affecting capital and liquidity of all banks in the shocked jurisdictions, followed by the rippling effects through the regional network. The results identify systemic institutions that merit hightened attention by the regulator, as determined by the degree of connectivity with the rest of the system, and the extent to which they are vulnerable to the failure of other banks.

Bank Liquidity Creation and Financial CrisesAcademic Press

Banks can create liquidity because their deposits are fragile and prone to runs. Increased uncertainty can make deposits excessively fragile in which case there is a role for outside bank capital. Greater bank capital reduces liquidity creation by the bank but enables the bank to survive more often and avoid distress. A more subtle effect is that banks with different amounts of capital extract different amounts of repayment from borrowers. The optimal bank capital structure trades off the effects of bank capital on liquidity creation, the expected costs of bank distress, and the ease of forcing borrower repayment. The model can account for phenomena such as the decline in average bank capital in the United States over the last two centuries. It points to overlooked side-effects of policies such as regulatory capital requirements and deposit insurance

The Great Financial Crisis of 2007–2010 exposed the existence of significant imperfections in the financial regulatory framework that encouraged excessive risk-taking and increased system vulnerabilities. The resulting high cost of the crisis in terms of lost aggregate income and wealth, and increased unemployment has reinforced the need to improve financial stability within and across countries via changes in traditional microprudential regulation, as well as the introduction of new macroprudential regulations. Amongst the questions raised are: What are the challenges to prudential regulation? How has the regulatory environment changed in recent years? How do the reforms interplay with market discipline, risk-taking incentives and risk management arrangements?Does the new regulatory framework allow for the introduction of financial innovation, and the associated benefits, without increasing disruptive financial risk? Contents: PrefaceAcknowledgmentsAbout the EditorsAbout the ContributorsSpecial Addresses: Challenges for Future Monetary Policy Frameworks: A European Perspective (Vítor Constâncio)Income Inequality: The Battlefield Casualty of Post-Crisis Financial Policy (Karen Shaw Petrou)A Practical Case for Rules-Based Macroprudential Policy (Adam S Posen)Financial Regulation: The Evolving Macro- and Microprudential Landscape: Evolving Micro- and Macroprudential Regulations in the United States: A Primer (Diana Hancock)The Regulatory Response to the Sovereign-Bank Nexus (Luc Laeven)Japan's Regulatory Responses to Banking Crisis (Masami Imai)The Costs and Benefits of Bank Capital Requirements (Gianni De Nicolò)Capital Regulation: Capital Regulation: How Much Capital is Needed? (Mark Carey)CoCos: A Promising Idea Poorly Executed (Richard J Herring)Capital Regulation: Lessons from a Macroeconomic Model (Caterina Mendicino, Kalin Nikolov and Dominik Supera)Liquidity Regulation: How Should Bank Liquidity be Regulated? (Franklin Allen and Douglas Gale)How Do We Figure Out Optimal Liquidity Regulation? (Douglas W

Diamond and Anil K Kashyap) The Interplay Between Liquidity Regulation, Monetary Policy Implementation and Financial Stability(Todd Keister)Liquidity and Capital: Substitutes or Complements? (Marie Hoerova)Market Infrastructures, Central Clearing and Collateral Management: An Incentive Theory of Counterparty Risk, Margins, and CCP Design (Florian Heider)Monitoring CCP Exposure, In Real Time If Needed (Albert J Menkveld)Regulation and Financial Innovation: Innovation & Regulation: Some Preliminary Observations (Michael S Barr)Financial Innovation and Regulation (Thorsten Beck)Thoughts About Financial Innovation (Josh Lerner and Peter Tufano)How Technological Innovation Will Reshape Financial Regulation (Carmelo Salleo)Bail-in Versus Bail-Outs: Incentives and Financial Stability: Bail-in-Able Debt and Fragility (Russell Cooper)Government Guarantees to Financial Institutions: Banks' Incentives and Fiscal Sustainability (Agnese Leonello)The Unconvertible CoCo Bonds (Paul Glasserman and Enrico Perotti)Where to From Here?: The Macroprudential Toolkit (Richard Berner)The Great Financial Crisis and Its Aftermath: A

This study outlines a methodology for mapping the increases in capital and liquidity requirements proposed under Basel III to bank lending spreads. The higher cost associated with a one percentage point increase in the capital ratio can be recovered by increasing lending spreads by 15 basis points for a representative bank. This calculation assumes the return on equity (ROE) and the cost of debt are unchanged, with no change in other sources of income and no reduction in operating expenses. If ROE and the cost of debt are assumed to decline, the impact on lending spreads is reduced. To recover the additional cost of meeting the December 2009 proposal for the Net Stable Funding Ratio (NSFR), a representative bank would need to increase lending spreads by 24 basis points. Taking into account the fall in risk-weighted assets from holding more government bonds reduces this cost to 12 basis points or less.

The appropriate level of bank capital and, more generally, a bank’s capacity to absorb losses, has been at the core of the post-crisis policy debate. This paper contributes to the debate by focusing on how much capital would have been needed to avoid imposing losses on bank creditors or resorting to public recapitalizations of banks in past banking crises. The paper also looks at the welfare costs of tighter capital regulation by reviewing the evidence on its potential impact on bank credit and lending rates. Its findings broadly support the range of loss absorbency suggested by the Financial Stability Board (FSB) and the Basel Committee for systemically important banks.

The paper examines the slowdown of lending by large U.S. banks over the period 2007Q3 - 2009Q2, focusing on: (i) whether capital or liquidity was the binding constraint; (ii) factors influencing banks’ decision to hold capital; and (iii) their pricing behavior. Using quarterly data for the largest U.S. banks, the paper finds that capital, rather than liquidity, constrained lending. Banks took actions to increase capital by slowing lending and raising profit margins, not fully passing through the Federal Reserve’s interest rate cuts. Banks optimally choose capital based on the expected future demand for loans and the marginal cost of capital.

Liquidity involves the degree to which an asset can be bought or sold in the market without affecting its price. The 2007 to 2009 financial crisis was characterized by a decrease in liquidity and necessitated the introduction of

Basel III capital and liquidity regulation in 2010. Inside, you'll learn how such regulations are applied on a broad crosssection of countries in order to understand and demonstrate the implications of Basel III. This book summarizes the defining features of the Basel I, II, and III Accords and their perceived shortcomings, as well as the role of the Basel Committee on Banking Supervision (BCBS) in promulgating international banking regulation. Basel III quantifies liquidity risk by using the measures liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). This book discusses approximation techniques that may be used to estimate these liquidity measures. Inside, the authors highlight the connections between liquidity creation and bank capital and provide you with the details of an investigation of the risks liquidity creation generates for banks. In addition, we consider the impact of the implementation of Basel III liquidity regulation on macroeconomic variables such as GDP, investment, inflation, consumption, income, savings, and employment.

The Oxford Handbook of Banking provides an overview and analysis of state-of-the-art research in banking written by leading researchers in the field. It strikes a balance between abstract theory, empirical analysis, and practitioner and policy-related material.

We present evidence of a risk-taking channel of monetary policy for the U.S. banking system. We use confidential data on the internal ratings of U.S. banks on loans to businesses over the period 1997 to 2011 from the Federal Reserve's survey of terms of business lending. We find that ex-ante risk taking by banks (as measured by the risk rating of the bank's loan portfolio) is negatively associated with increases in short-term policy interest rates. This relationship is less pronounced for banks with relatively low capital or during periods when banks' capital erodes, such as episodes of financial and economic distress. These results contribute to the ongoing debate on the role of monetary policy in financial stability and suggest that monetary policy has a bearing on the riskiness of banks and financial stability more generally.

This paper studies the impact of bank regulation and taxation in a dynamic model with banks exposed to credit and liquidity risk. We find an inverted U-shaped relationship between capital requirements and bank lending, efficiency, and welfare, with their benefits turning into costs beyond a certain requirement threshold. By contrast, liquidity requirements reduce lending, efficiency and welfare significantly. The costs of high capital and liquidity requirements represent a lower bound on the benefits of these regulations in abating systemic risks. On taxation, corporate income taxes generate higher government revenues and entail lower efficiency and welfare costs than taxes on non-deposit liabilities.

The National Bank of Georgia (NBG) has a broad mandate to safeguard financial stability in Georgia and has applied several measures that can be considered macroprudential. For instance, the NBG adjusted risk weights for foreign-currency (FX) loans to unhedged borrowers in a countercyclical manner in recent years. Going forward, it plans to introduce the Basel III countercyclical capital

buffer regime for the banking system in 2015, which will require that it sets or releases the buffer on a regular basis, based on assessments of cyclical risks. Policymakers should consider establishing a full-fledged macroprudential policy framework in line with international best practices. The current framework is too broad to support the effective and transparent use of macroprudential policy going forward. An improved system would involve a revised legal framework to cement the use of a broad range of macroprudential instruments, the establishment of a Financial Stability Committee at the NBG level, and strong accountability and communication practices, including by the publication of regular reports on financial stability. The list of available macroprudential instruments should go beyond risk buffers and allow the NBG to set measures that directly influence the banks' activities, e.g., through the application of loan-to-value (LTV) or payment-to-income (PTI) caps. The introduction of macroprudential measures for FX-induced credit and liquidity risks have led to a strengthening of banks' risk buffers. On the asset side, additional risk weights are applied to FX loans to unhedged borrowers, while on the liability side, reserve requirements are higher for FX deposits and other borrowings. Furthermore, banks have to hold more liquidity for nonresident deposits (of which 92 percent are in foreign currency as of end-2013), if those deposits exceed 10 percent of total deposits. Combined with the general liquidity regulation, these measures have increased banks' capital and liquidity buffers, as shown in the results of the FSAP solvency and liquidity stress tests. The planned introduction of buffer requirements to mitigate cyclical and structural risks is a welcome step. The countercyclical capital buffer and the capital surcharge for systemically important banks are planned to be implemented over the next few years. The capital surcharge for systemically important banks, which would currently apply at least to the three largest banks by total assets, is particularly important in the Georgian context due to the high market concentration in the banking sector.
The paper analyzes the relationship between bank competition and stability, with a specific focus on the Middle East and North Africa. Price competition has a positive effect on bank liquidity, as it induces self-discipline incentives on banks for the choice of bank funding sources and for the holding of liquid assets. On the other hand, price competition may have a potentially negative impact on bank solvency and on the credit quality of the loan portfolio. More competitive banks may be less solvent if the potential increase in the equity base—due to capital adjustments—is not large enough to compensate for the reduction in bank profitability. Also, banks subject to stronger competitive pressures may have a higher rate of nonperforming loans, if the increase in the risk-taking incentives from the lender's side overcomes the decrease in the credit risk from the borrower's side. In both cases, country-specific policies for market entry conditions—and for bank regulation and supervision—may significantly affect the sign and the size of the relationship. The paper suggests policy reforms designed to improve market contestability and to increase the quality and independence of

prudential supervision.
"Liquidity risk is a topic growing immensely in importance in risk management. It has been much neglected by financial institutions and regulators in recent years and receives, in the course of the sub-prime crisis, sudden and great attention. This book is well-structured and provides a comprehensive and systematic approach to the topic. It will help risk controllers to systematically set up a liquidity risk framework in their bank." —Peter NEU, European Risk Team Leader, The Boston Consulting Group, and co author of Liquidity Risk Measurement and Management "Mr Duttweiler's book is a welcome addition to the literature on liquidity risk measurement and management. In addition to his contributions to liquidity risk theory and liquidity pricing, the author provides a good overview of all of the critical elements." —Leonard Matz, International Solution Manager, Liquidity Risk and co-author of Liquidity Risk Measurement and Management Liquidity Risk Management has gained importance over recent years and particularly in the last year, as major bank failures have led to a re-evaluation of the significance of liquidity in stressed market conditions. Liquidity risk is closely related to market risk and solvency, suggesting its significance in times of volatile and 'bear' markets, where a single bank's failure can have dramatic effects on market liquidity. The term liquidity is not well-define, and a comprehensive understanding of its common elements is often missing within a banking organisation. In too many cases, liquidity risk management has not been developed with a coherent framework and generally accepted terms and methods, creating weaknesses in its structure and vulnerability to market risk. In this title, Duttweiler advances the study of quantitative liquidity risk management with the concept of the 'Liquidity Balance Sheet', which allocates portfolios into a specific structure, and consequently is able to account for potentially negative surprises so that the necessary buffers can be quantified. The book begins with an overview of liquidity as part of financial policy and highlights the importance of liquidity as part of a general business concept and as protector and supporter of a business as a going concern. The author examines the role o liquidity in helping managers to achieve high-level liquidity aims to support operating units to achieve business goals. He looks at quantitative methods of assessing a banks liquidity levels, including LaR and VaR, to establish an integrated concept in which liquidity is incorporated into the framework of financial policies. He also presents methods, tools, scenarios and concepts to create a policy framework for liquidity and to support contingency planning.

Focusing primarily on the banking system in the United States, this book offers an innovative framework that integrates a depository bank’s liquidity and its capital adequacy into a unified notion of funding that helps to explain how the 2007–2008 crisis unfolded, why central banks succeeded in resolving the crisis, and how the conceptual legacy of the crisis and its resolution led to lasting changes in bank funding regulation, including new objective requirements for bank liquidity. To provide a comparative context, the book also examines the funding models of non-bank intermediaries like dealer banks and insurers.

This book reflects on the innovations that central banks have introduced since the 2008 collapse of Lehman Brothers to improve their modes of intervention, regulation and resolution of financial markets and financial institutions. Authors from both academia and policy circles explore these innovations through four approaches: ‘Bank Capital

Regulation’ examines the Basel III agreement; ‘Bank Resolution’ focuses on effective regimes for regulating and resolving ailing banks; ‘Central Banking with Collateral-Based Finance’ develops thought on the challenges that market-based finance pose for the conduct of central banking; and ‘Where Next for Central Banking’ examines the trajectory of central banking and its new, central role in sustaining capitalism.