



## Funding and Liquidity Risk Management Interagency Guidance

**Summary:** The federal banking agencies and the National Credit Union Administration (collectively, the agencies) recently issued guidance to provide sound practices for managing funding and liquidity risk and strengthening liquidity risk management practices. The policy statement emphasizes the importance of cash flow projections, diversified funding sources, stress testing, a cushion of liquid assets and a formal, well-developed contingency funding plan as primary tools for measuring and managing liquidity risk. The agencies expect each financial institution to manage funding and liquidity risk using processes and systems that are commensurate with the institution's complexity, risk profile and scope of operations.

### Highlights:

- Recent turmoil in the financial markets emphasizes the importance of effective liquidity risk management for the safety and soundness of financial institutions.
- The attached guidance clarifies the process that financial institutions should follow to appropriately identify, measure, monitor and control funding and liquidity risk, including effective corporate governance; provides an overview of appropriate strategies, policies and procedures, which include risk limits for managing and mitigating risks; and discusses the management of intra-day liquidity and collateral.
- A depository institution should actively monitor and control liquidity risk exposures and funding needs within and across legal entities. Also, depository institutions should take into account operational limitations to the transferability of liquidity.
- Institutions are expected to have in place appropriate measurement, monitoring and reporting systems commensurate with the risk profile and business activities of the institution. These systems should include provisions for stress testing an institution's liquidity position under various adverse scenarios.
- The guidance emphasizes the importance of certain tools for sound liquidity and funding risk monitoring and management, including cash-flow projections, diversified funding sources, a cushion of liquid unencumbered assets and a well-developed, documented and Board-reviewed contingency funding plan.
- Financial institutions should implement effective liquidity and funding management internal controls and review procedures to monitor compliance with supervisory directives, internal policies and management reporting.

The guidance is intended to supplement existing guidance (see [FIL-84-2008](#), "Liquidity Risk Management") issued by the FDIC in 2008, which still remains in effect.