Why some penguins hatch stones and further fun facts about the greatest animal of all times

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Abstract

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1 Motivation & Research Idea

2 Data & Empirical Strategy

2.1 Data

2.2 Empirical Strategy

Idea

1. (Most) illiquid assets are associated to a large RSF factor → Most costly for banks. This is for example the case for loans to FIs with a residual maturity of 12 months or more → This implies a "negative liquidity premium" on long-term interbank loans. We could use this for identification on the asset level.

3 Questions

4 Appendix

4.1 Net Stable Funding Ratio

1. BIS (2018)

    - Failure of banks to adequately manage their liquidity risk during the financial crisis led to the implementation of the LCR and NSFR.
    - LCR targets banks' short-term resilience
    - NSFR aims to promote resilience over a longer time horizon by creating incentives for banks to fund their activities with **more stable sources of funding** on an ongoing basis.
    - **Theory:**
        - Banks have incentives to limit excessive reliance of unstable (often illiquid) funding of core assets.
        - Too high reliance on cheap and abundant short-term wholesale funding in good times
        - Stable funding sources guarantee that banks do not experience a significant increase in distress probabilities when hit by a funding shock.
    - Technical expression:

$$NSFR = \frac{ASF}{RSF} \geq 100\% \tag{1}$$

        - **ASF:**
            * Total ASF is the portion of its capital and liabilities that will remain with the institution for more than one year.
            * Supervisors will assign one of 5 ASF factors to the carrying value of each funding element (100 %: Funding is expected to be fully available in one year; 0 %: Most unreliable funding). Further factors are: 95 % 90 % and 50 %
            * ASF is based on the sum of the ASF amounts in each category of liabilities.
        - **RSF:**
            * Total amount of stable funding that is required to be held given the bank's liquidity characteristics and residual maturities on its assets and the contingent liquidity risk arising from its off-balance sheet exposures
            * For each item the RFS amount is determined by assigning an factor to the carrying value of the exposure
            * RFS factor = 100 % Assets or exposures need to be entirely financed by stable funding because it is illiquid (e.g. loans to FIs with residual maturity of 12 months or more).

References