Supervising banks liquidity

Finance

Supervising Banks' Liquidity Is a Pain for Regulators

In September 2008, the financial crisis brought about the downfall of Lehman Brothers. Due to this unfortunate downfall, other banks, such as Germany's Hypo Real Estate and Britain's Northern Rock, were guaranteed through central bank and government intervention would be able to withhold enough money to continue operation of their banks after their money dries up and their customers come looking to take out their money. In Switzerland, a meeting was undergone consisting of others that would due well to figure out how to avery an identical situation. While bank chiefs and regulators formed new rules on how much capital banks are forced to hold in reverse, nothing was set down in regard to whether or not banks would be able to survive a liquidity crisis if outside sources of financing were to disappear. The committee in charge of outlining and preparing these regulations has decided that banks should easily have enough money on hand to last them for thirty days if their outside sources dried up, allowing them to finish business and become more prepared for what should happen after the money has run out entirely. The banking industry is none too thrilled about the new liquidity rules, which would have a questionable effect on how much it would cost them to raise money. Unfortunately, this does not cover some of the more major issues, such as the amount and depth of information banks are allowed to share with their investors and the public about how they go about raising money.

However, regardless of the feelings felt by the banks, the rules that have been laid out by the committee are not going anywhere, nor are they to be altered unless something comes up that suggests they should be.

As a sort of compromise for those that are against the new rules, the central

bankers and regulators will be spending the time prior to the rules taking effect, which is in 2015, determining and evaluating the effect of the new rules. Other rules, such as those that will make sure that banks have reliable sources of long-term financing, will not be implemented until 2018. These additional rules would prevent what almost took place with Hypo Real Estate when it was unable to refinance long-term obligations and needed an emergency bail-out from the government.

By giving banks the financial help they need to survive thirty days after a financial crisis, bank regulators are able to prevent banks from borrowing short and lending long, which is known as maturity transformation and is often a major part of a bank’s downfall when money becomes an issue. In this, banks would also be allowed to include corporate bonds and government bonds, though this is something that industry representatives are unhappy about.

The committee still has a lot to discuss and figure out, particularly in regard to how much information should be released to the public about the banks’ liquidity positions. While there are some that believe banks should be required to disclose just enough information for the investors to determine whether or not an institution is taking too much risk, but there are others that believe this type of information could be misinterpreted or abused.

Ewing, J. (2010, Sept 17). Supervising banks’ liquidity is a pain for regulators. New York Times. Retrieved from http://www. nytimes. com/2010/09/18/business/global/18bank. html? _r= 1&emc= eta1