



FEDERAL RESERVE BANK *of* KANSAS CITY

April 9, 2010

Interagency Policy Statement on Funding and Liquidity Risk Management

Attention: Chief Executive Officer of Each Tenth District Bank Holding Company and each Tenth District State Member Bank

Subject: Funding and Liquidity Risk Management

In Brief: The financial regulators have approved the attached policy statement.

Highlights: Attached is an interagency policy statement approved by the Board of Governors of the Federal Reserve System and the other supervisors of U.S. depository institutions. This policy statement provides guidance on sound practices for managing the funding and liquidity risks of depository institutions. The practices set forth in this guidance are entirely consistent with established Federal Reserve guidance contained in the Commercial Bank Examination Manual and the Trading and Capital-Markets Activities Manual. The interagency guidance is also consistent with the principles of sound liquidity risk management issued in September 2008 by the Basel Committee on Banking Supervision titled Principles for Sound Liquidity Risk Management and Supervision. Therefore, this interagency guidance represents the formal codification of international supervisory guidance and provides a unified set of supervisory expectations among the U.S. supervisors.

The guidance articulates the process that depository institutions should follow in appropriately identifying, measuring, monitoring, and controlling their funding and liquidity risks. In particular, the guidance re-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 funding and liquidity risks. The Federal Reserve expects all supervised financial institutions to manage their liquidity risk using processes and systems that are commensurate with their complexity, risk profile, and scope of operations.

The interagency guidance targets funding and liquidity risk management at insured depository institutions, including state member banks. The basic principles presented in this policy statement also apply to bank holding companies, which should manage and control aggregate risk exposures on a consolidated basis, while recognizing legal distinctions and possible obstacles to cash movements among subsidiaries.

Attachments: [SR Letter 10-06](#)
[Policy Statement on Funding and Liquidity Risk Management](#)