

Addendum to the Interagency Policy Statement on Funding and Liquidity Risk Management: Importance of Contingency Funding Plans

Depository institutions should maintain actionable contingency funding plans that consider a range of possible stress scenarios.¹ The events of the first half of 2023 have further underscored the importance of liquidity risk management and contingency funding planning. As seen in these events, the level and speed of deposit outflows at a few firms was unprecedented and contributed to acute liquidity and funding strain at those institutions. These events are a reminder to depository institutions that depositor behavior and broader market conditions may evolve over time, and sometimes without warning.

Depository institutions should assess the stability of their funding and maintain a broad range of funding sources that can be accessed in adverse circumstances. In addition, depository institutions should be aware of the operational steps required to obtain funding from contingency funding sources, including potential counterparties, contact details, and availability of collateral. As part of operational readiness, depository institutions should regularly test any contingency borrowing lines to ensure the institution's staff are well versed in how to access them and that they function as envisioned. In particular, depository institutions should engage in planning that recognizes the operational challenges involved in moving and posting collateral to access critical funding in a timely fashion. Such planning may require initial or renewed contact with entities such as the Federal Reserve System and the Federal Home Loan Bank System.

Depository institutions' contingency funding plans should recognize that during times of stress, contingency lines may become unavailable. For example, repo lines may become unavailable to a bank or credit union borrower either due to concerns of the repo lender about the creditworthiness of the bank or credit union or due to the repo lender needing to conserve liquidity more generally. Depository institution contingency funding plans should take this dynamic into account and include a range of contingency funding sources.

Depository institutions should review and revise contingency funding plans periodically and more frequently as market conditions and strategic initiatives change in order to address evolving liquidity risks. For example, an institution that increases the share of its liabilities comprised of less stable funding should consider whether it needs to increase its capacity to borrow from contingency funding sources.

The agencies view having access to a range of reliable contingency funding sources as a key component of safety and soundness.²

¹ See Interagency Policy Statement on Funding and Liquidity Risk Management, Federal Reserve SR 10-6 (March 17, 2010), FDIC FIL-13-2010 (April 10, 2010), and OCC Bulletin 2010-13 (March 22, 2010). These individual agency issuances released the 2010 Interagency Policy Statement on Funding and Liquidity Risk Management, which can be accessed here: <https://www.govinfo.gov/content/pkg/FR-2010-03-22/pdf/2010-6137.pdf>.

² Depository institutions should be aware that establishing contingency funding arrangements may take time. For example, the Interagency Policy Statement on Funding and Liquidity Risk Management noted that it is important to consider time constraints associated with initially establishing lines with the appropriate Federal Reserve Bank and/or the appropriate Federal Home Loan Bank. See *id.*

Contingency Funding and the Federal Reserve Discount Window

In an environment where liquidity stress manifests quickly, the discount window is an important tool that depository institutions can utilize in managing liquidity risk, and the agencies encourage depository institutions to incorporate the discount window as part of their contingency funding arrangements.

If the discount window is a part of a depository institution's contingency funding plans, the depository institution should establish and maintain operational readiness to borrow from the discount window. Operational readiness includes establishing borrowing arrangements and ensuring collateral is available for borrowing in an amount appropriate for a depository institution's potential contingency funding needs. Depository institutions should ensure they are familiar with the pledging process for different collateral types and be aware that pre-pledging collateral can be useful if liquidity needs arise quickly. Depository institutions that include the discount window as part of their contingency funding plan should also consider conducting small value transactions at regular intervals to ensure familiarity with discount window operations.

Information regarding the discount window is available at FRBdiscountwindow.org.

Credit Union Contingency Funding and the Central Liquidity Facility

Federal and state-chartered credit unions can access the Central Liquidity Facility as a contingent federal liquidity source. The Central Liquidity Facility exists to provide federally sourced backup liquidity where a credit union's liquidity and market funding sources prove inadequate.

Section 741.12 of NCUA's regulations outlines requirements for federally insured credit unions to have liquidity and contingency funding plans. The scope of these plans varies by credit union size. Credit unions with assets greater than \$250 million must, among other things, establish and document access to at least one contingent federal liquidity source. Credit unions subject to this requirement may demonstrate access to a contingent federal liquidity source by maintaining membership in the Central Liquidity Facility or establishing borrowing access at the Federal Reserve discount window. Credit unions between \$50 million and \$250 million in total assets must, among other things, include in required policies, identification of contingent liquidity sources. Credit unions under \$50 million must maintain a basic written policy that provides a framework for managing liquidity and includes a list of contingent liquidity sources that can be employed under adverse circumstances.

Information regarding the Central Liquidity Facility is available at NCUA.gov/support-services/central-liquidity-facility.