Association of Supervisors of Banks of The Americas

ASBA

Asociación de Supervisores Bancarios de las Américas

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FOREIGN EXCHANGE AND LIQUIDITY MANAGEMENT

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REGIONAL ASSESSMENT

- Financial dollarization is a distinguishing feature in some of the Americas' countries
  - Contributes to the vulnerability of the banking system to exchange rate fluctuations
- Dollarization is not usually considered under BIS recommendations
  - The Committee focuses on the treatment of foreign currency concerning exposures and positions, instead of currency held with legal tender value in the corresponding jurisdiction
- Characteristics of Committee member's economy, not necessarily reflects the reality of EMSE's economies

POTENTIAL UNINTENDED CONSEQUENCES

- Liquidity ratios (Basel III) may increase foreign currency risk for some banks in EMSEs
  - Banks will need to hold greater amounts of foreign currency liquid assets which do not match the currency of the associated liquidity risk
- LCR should be monitored and reported in each relevant currency
  - This means, require banks to hold larger amount of foreign currency HQLA
- Some calibrations of Basel III may not represent EMSEs characteristics
  - Highly dollarized economies may be affected by higher haircuts

REGULATORY AND SUPERVISORY GUIDANCE

- Currency mismatches in a bank's assets and liabilities structure should be an explicit decision and should consider established parameters defined by internal limits, according to current regulatory requirements
- Banks should be able to meet their liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency
- Supervisors should have periodic information on LCR by currency so that supervisors can monitor any potential currency mismatch issue that could arise
- Supervisors should use and monitor LCR by currency, regardless of the importance of foreign currency in the balance sheet.

REGULATORY AND SUPERVISORY GUIDANCE

- LCR by currency requirement imposes a higher burden on banks. Supervisors' decision in this area should consider different factors (e.g. degree of dollarization, level of financial internationalization, existing foreign exchange, currency convertibility and volatility)
- In jurisdictions where LCR by currency is required separately, an important issue to consider is the possibility of transferring a given currency surplus to cover the requirements in other currency
- In the case of currency inconvertibility, it would be technically incorrect to measure and require a consolidated LCR; thus, LCR should be measured and required by currency


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Thank you!