

# Issuer Insolvency

Liquidity Stress/Cash Flow Reporting

**March 2014**

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# Agenda

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General Problem

Liquidity requests in German Jurisdiction

Discussion of a Polish Version

Summary

## Liquidity Risk in Cover Pools

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- Timely Payment in Case of Insolvency
- Sufficient „in-Cash Flows“ to cover Interest and Redemptions
- Going concern or Bankruptcy Costs should be considered
- Sufficient (less liquid) OC does not address Liquidity Risks

→ **Prevention of Cover Pool Illiquidity in case of Bank´s Insolvency is a crucial task**

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## Mixed Approach in Germany

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- Minimum of 2% liquid Cover requested
- Minimum of 80% Mortgage Cover requested
- Extra liquid Cover allowed without Limits
- 180 Day Cash Flow Forecast on a daily basis:
  - Liquidity Gap arises if on any day the consolidated „in Cash Flows“ plus available Liquid Cover fall below consolidated due interest and redemption Covered Bond Cash Flows
  - Identified Liquidity Gap has to be closed by additional liquid cover immediately

## Discussion of German Approach

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- No extension of Maturity Date
- No additional liquid cover for „going concern“ costs
- Huge OC is not considered
- Issuance Strategy may be influenced:
  - Maturity Diversification > 180 days
  - Smaller Issuances
  - Callable Issuances

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## Key Features of Polish Draft Amendment

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- Legal (minimum) OC
- $\frac{\text{Liquid Assets (Market Value)}}{\text{Outstanding Issuances (Nominal Value)}} \geq 10\%$
- Liquid Assets  $\leq 15\%$  of registered mortgage receivables
- Excessive Indebtness and Liquidity Tests
- Extension of Maturity Dates
- Switch to Pass Through Structure if Liquidity Test fails



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## Key Points Stress Management

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- Different Stress Approaches in Covered Bond Community
- Efficient Benchmarking/Calculation of actual Exposures
- Effective Forecasting of Stress Measures
- Automatic Reporting/Monitoring Input to avoid Stress

# TXS – Contacts

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