

Liquidity and the lessons of 2023

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The liquidity of banks, their capacity to meet their obligations when depositors withdraw their funds, is regulated by the Liquidity Ordinance. The ordinance implements the two liquidity standards of the Basel Committee. The liquidity coverage ratio requires banks to hold enough high-quality liquid assets to cover their net cash outflows during a stress period of thirty days, while the net stable funding ratio requires them to finance their long-term assets with stable sources of funding.¹

The collapse of Credit Suisse showed that these standards did not prevent a bank from losing its liquidity within days. Credit Suisse met the liquidity coverage ratio until shortly before its collapse, but the outflows of deposits in October 2022 and March 2023 exceeded the assumptions of the standard. Digital banking allowed clients to withdraw their deposits faster than ever, while social media spread rumours that accelerated the run. The Swiss National Bank provided liquidity assistance against collateral, but Credit Suisse lacked sufficient collateral of the kind that the National Bank could accept.

The lessons of 2023 led to proposals to strengthen the liquidity regime. The Federal Council proposed to anchor in law a public liquidity backstop, under which the National Bank could provide liquidity to systemically important banks in a crisis with a federal guarantee, and to require banks to prepare more assets that can serve as collateral for central bank liquidity. The Basel Committee examined the lessons of the banking turmoil of 2023, including the failure of Silicon Valley Bank in the United States and the collapse of Credit Suisse, and considered adjustments to the international liquidity standards.²

1 Notes

1. Ordinance on the Liquidity of Banks and Securities Firms of 30 November 2012 (Liquidity Ordinance, LiqO, SR 952.06), implementing the liquidity coverage ratio and, since July 2021, the net stable funding ratio. To be verified. ↩
2. On the proposal for a public liquidity backstop (PLB) anchored in the Banking Act and the work of the Basel Committee on the lessons of the 2023 banking turmoil (report of October 2023), see the publications of the Federal Department of Finance and the BIS. To be verified. ↩

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