AFIN8003 - Workshop 8

Banking and Financial Intermediation

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> **!** Heads up — group activity in Workshop 8
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> Workshop 8 includes a **group mini-pitch** comparing one Aussie Big 4 bank with an international bank. The full brief is in the **In-class group activity** section below — please read it **now** so your group has time to prep. You'll only get **20 minutes** in class to finalise.

1 MCQ

1. The inability of an FI to meet the demands of liability holders or asset claimants is:
   - ☐ liquidity risk
   - ☐ credit risk
   - ☐ foreign exchange risk
   - ☐ capital risk
2. Deposits that provide a relatively stable, long-term source of funds are called:
   - ☐ core deposits
   - ☐ savings deposits
   - ☐ loanable funds
   - ☐ interbank funds
3. An FI that practices purchased liquidity management is unlikely to do which of the following to raise funds?
   - ☐ interbank borrowing
   - ☐ issue wholesale certificates of deposit
   - ☐ sell assets at fire-sale prices
   - ☐ sell notes or bonds
4. Which of the following is not a characteristic of stored liquidity management?
   - ☐ DIs tend to hold excess reserve assets to meet liquidity drains
   - ☐ The cost of using excess cash is the foregone return since cash is a non-earning asset
   - ☐ The balance sheet will contract when the liquidity adjustment mechanism is used
   - ☐ The balance sheet will expand when the liquidity adjustment mechanism is used
5. Abnormal deposit drains may occur for which of the following reasons?
   - ☐ Sudden changes in investor preferences regarding holding non-bank financial assets relative to deposits.
   - ☐ Concerns about a DI's solvency relative to other DIs
   - ☐ Failure of a related DI leading to increased concern about the solvency of other DIs
   - ☐ All of the listed options are correct.

6. Liquidity risk can arise from which of the following activities on the asset side of a bank's balance sheet?
   - ☐ Deposit withdrawals
   - ☐ Borrowing additional funds
   - ☐ Changes in the value of investment securities portfolios
   - ☐ Increasing equity capital
7. The term "fire-sale" in the context of liquidity risk refers to:
   - ☐ A strategy where banks reduce interest rates to attract more deposits.
   - ☐ A situation where banks must sell assets quickly at reduced prices to generate liquidity.
   - ☐ A method of restructuring bank loans.
   - ☐ The process of issuing long-term debt.
8. Which of the following is a key purpose of the Liquidity Coverage Ratio (LCR)?
   - ☐ To ensure banks maintain a stable funding profile over a one-year period.
   - ☐ To provide financial support to developing countries.
   - ☐ To ensure banks hold enough high-quality liquid assets to cover net cash outflows over a 30-day stress period.
   - ☐ To limit the reliance on short-term wholesale funding.
9. Which of the following is considered "stable funding" under the NSFR?
   - ☐ Short-term wholesale funding
   - ☐ Long-term retail deposits
   - ☐ High-risk, short-term loans
   - ☐ Overnight borrowing from other banks
10. In the context of NSFR, stable funding sources are expected to be reliable for what duration?
    - ☐ 30 days
    - ☐ 6 months
    - ☐ 1 year
    - ☐ 5 years
11. Which type of asset is most likely to require stable funding under the NSFR?
    - ☐ Cash reserves
    - ☐ Short-term government bonds
    - ☐ Long-term illiquid loans
    - ☐ Overnight loans
12. Which of the following could lead to a bank failing to meet its NSFR requirements?
    - ☐ A sudden influx of short-term deposits
    - ☐ Excessive reliance on short-term wholesale funding
    - ☐ Increase in long-term stable funding
    - ☐ Reducing the bank's loan portfolio

2 In-class group activity: Aussie vs. the world

> **!** Read this one week before the workshop
>
> This task is **released a week ahead of Workshop 8**. Use the time to organise your group, pick your two banks, and do the prep. **You will only get 20 minutes in class to finalise** before presenting.

2.1 What you'll do

In your **assignment group** (the same group you formed for the group assignment — if you haven't formed one yet, **this is your reminder**), you will:

1. Pick **one Australian Big 4 bank** (CBA, NAB, ANZ, or Westpac) **and**
2. Pick **one international bank** of your choice.
3. **Compare their liquidity profiles** and present a **5-minute mini-pitch** to the class.

2.2 Deliverable

A short slide deck (**5 slides**) covering:

Required content

1. **Your two banks in one slide** — country, regulator, size (total assets, total deposits), business mix.
2. **Headline numbers** — most recent reported **LCR** and **NSFR** for each bank, plus the previous quarter / year for trend context.
3. **HQLA & funding mix** — what's the composition of HQLA (Level 1 vs Level 2)? What share of funding is retail deposits vs wholesale?
4. **Same vs. different** — what reporting **similarities** and **differences** do you see between the two banks? *Examples to look for:* the table format, level of detail, frequency of reporting, currency of presentation, treatment of operational deposits, sensitivity disclosures.
5. **Why?** — your best explanation for the differences. Is it the **regulator** (APRA vs. FRB vs. ECB vs. PBOC vs. MAS …)? The **business model**? The **deposit base**? The **post-2023 reforms** in that jurisdiction?

2.3 How to get this done — use AI

AI is your research assistant — use it well

You are **encouraged** to use ChatGPT, Claude, Gemini, Copilot, or similar tools for this task. Some ideas:

- Ask the AI to **find and summarise** the most recent Pillar 3 / liquidity disclosure of your chosen banks.
- Have it **extract a table** comparing LCR, NSFR, HQLA composition across the two banks.
- Ask it to **explain** any unfamiliar line item (e.g. "what is an operational deposit?", "why does this bank report a CLF?").
- Ask it to **draft your first slide outline** — then *you* sharpen it.

Two rules:

- **Verify the numbers.** AI hallucinates. Always cross-check headline LCR / NSFR figures against the actual Pillar 3 PDF.
- **Cite your sources** on the last slide. A "References" slide listing the two reports + any AI tool used (e.g. "Initial draft assisted by ChatGPT 5; numbers verified against bank filings") is enough.

2.4 Where to find the data

Source	What you'll find
Bank's Investor Relations → "Regulatory disclosures" / "Pillar 3"	Headline LCR & NSFR table

Source	What you'll find
Annual Report (or 10-K for U.S. banks)	Balance-sheet composition, deposit and funding mix
Local regulator (APRA, FRB/OCC, PRA, ECB/EBA, HKMA, MAS, …)	The prudential standard the bank reports under
BIS / FSB statistical publications	Cross-country aggregates for sanity-checking

Starter links for the Aussie Big 4:

- NAB regulatory disclosures
- CBA results & disclosures
- ANZ regulatory disclosures
- Westpac Pillar 3

Reference materials:

- APRA — APS 330 Public Disclosure
- BIS — LCR framework (LCR40)

2.5 On the day

- **20 minutes** in workshop to finalise your slides and rehearse your pitch.
- **5 minutes** per group to present, **2 minutes** for Q&A.
- Bring your own **laptop**, *or* email your slides to me **before class** and I'll project from mine.
- If you have no slides at all on the day, you can still present — but slides will help you a lot in 5 minutes.

2.6 Tips — what makes a good comparison

There is no single right answer for this activity. The good pitches do these things well:

Things to look for when you compare

- **HQLA composition.** U.S. banks lean heavily on Treasuries and reserves at the Fed. Aussie Big 4 historically used the RBA's **Committed Liquidity Facility (CLF)** — that has been **phased out**, so flag it if your bank still references it. Chinese banks tend to carry very large central-bank reserve balances. European banks often include a wider mix (covered bonds, EU sovereign debt).
- **Reporting frequency and template.** APRA ADIs disclose quarterly under **APS 330**. U.S. G-SIBs disclose quarterly under the **LCR Public Disclosure Rule** and compute daily. Some EU banks disclose certain templates only semi-annually under **EBA ITS**. The Basel templates (BCBS **LIQ1, LIQ2**) are common, but each regulator adds local rows.
- **Currency presentation.** AUD vs USD vs EUR vs CNY — and whether the LCR is **domestic-currency only** or an **all-currency aggregate**. This matters for cross-bank comparison.
- **Behavioural assumptions.** APRA prescribes more conservative **retail run-off** in some cases than the Basel minimum. Some EU regulators allow national discretion on **operational deposit** factors. Hong Kong and Singapore have their own quirks.
- **Post-2023 changes.** SVB and Credit Suisse triggered reviews everywhere. Look for new line items, sensitivity disclosures, or commentary on **deposit stickiness** in your bank's recent reports.

Common pitfalls

- **"Higher LCR = safer."** Not quite — a very high LCR also means a lot of low-yielding HQLA dragging on profitability. Banks aim *above* 100%, not *as high as possible*.
- **"Comparing LCR levels across jurisdictions is apples-to-apples."** It usually isn't — definitions, run-off factors, and templates differ. Flag this in your "Same vs. different" slide instead of glossing over it.
- **"Pillar 3 LCR is a point-in-time number."** It's typically a **quarterly average** of daily values. This is *exactly* why SVB's intra-quarter run was invisible until too late — a good talking point.
- **AI hallucinations.** AI tools will confidently give you wrong LCR/NSFR numbers. Always verify against the actual Pillar 3 PDF before you put a number on a slide.