THE NEW BASEL III REGULATIONS ON LIQUIDITY AND ITS POSSIBLE EFFECTS

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***Abstract**: The global financial crisis determined a series of proposals to reform the regulatory framework that govern the banking sector in order to strengthen its resilience in poor circumstances. For this purpose, the provisions of Basel III regulatory package is reflected on the issues and risks that have caused the financial crisis, including those related to liquidity. The aim of this article is to present the new Basel III on liquidity rules, their implementation need to ensure financial stability and their possible effects. The objectives of Basel III in terms of liquidity are formulated to determine the increase in liquid assets and the reduction of the short-term funding. However, all measures taken through the new regulations can reduce the risks, but can not exclude the emergence of vulnerabilities affecting the banking system in the future. We believe that the new regulations have caused a series of reforms to the banking system, but the compliance degree of their implementation and the effects of new laws differs depending on the degree of development of each country, the main implications are differentiated by monetary transmission channels.*

INTRODUCTION

Market instability triggered the middle of 2007 highlighted the importance of liquidity in the proper functioning of financial markets and the banking sector. Although before the period of instability, asset markets are characterized by high availability at low cost, change in economic conditions showed how quickly liquidity can be deplete and long period in which such failures can persist. It was moments of tension experimented by banks, so it required the intervention of central banks to support both the money market and the specific institutions.

The causes were many, among them is the absence of banks with large exposures to liquidity to rules tailored to reflect the liquidity risk taking in each product or line of business, which has lagged bank targets its tolerance to risk.

From an analysis conducted on the evolution of liquidity in the banking system was concluded on the importance of establishing a tolerance level of liquidity risk; maintain an adequate level of liquidity that includes the creation of a buffer of liquid assets; the need to associate to each activities of business- costs, benefits and liquidity risk; identifying and dimensioning of full range of liquidity risks, including contingent risks; the need to build a robust and operational plan of financing; the management of intraday liquidity risk and collaterals; the use of stress tests and public dissemination of information to promote market discipline. Another lesson was to highlight the importance

to be given to supervisors and their important role in the management of liquidity risk and the development of measures to be taken in this regard.

The difficulties with which banks have experienced in relation with liquidity was due to lagoons from basic principles of liquidity risk management. In response, Basel Comite has published new rules on liquidity that form the Basel III, and introduced two additional minimum standards for liquidity intended for financing . These two standards aimed at two distinct objectives but complementary: first to promote short-term resilience of a bank's liquidity risk by ensuring sufficiency of high quality liquid assets to overcome the tension of a period of a month - for this purpose elaborating the liquidity coverage ratio(LSF). The second objective aims to long periods of time, creating ways for banks to use stable sources of funding their continue work - net stable funding ratio (NSFR, 1 year).

The Basel Committee aims an immediate and rigorous implementation of new liquidity principles to both of banks and national supervisors and whose implementation takes into account the size, nature and complexity of the bank's business.

Further, the article is structured as follows: in the the second part is rendered the literature; the third part reveals new Basel III liquidity rules and objectives that are pursued through the implementation of those, emphasizing the need for implementation of these changes, the levels of liquidity to arrive; the fourth part involves rendering the possible effects of the implementation of new measurement and the expectations of monetary authorities on this issue. The paper ends with conclusions.

LITERATURE REVIEW

The term of liquidity refers to the ability of a bank to finance the increase in the volume of activity, but also its power to fulfill their payment obligations at maturity without irreparable losses (BIS, 2008).Liquidity is the ability of assets to be transformed quickly and with minimal expenses in liquid currency (cash or available in the current account). It is actually a problem of management of liabilities and bank assets that have different degrees of liquidity.An inadequate liquidity level may cause, in an unexpected situation of cash reduction, the need to attract additional resources of fund with high costs, reducing bank profitability and leading, ultimately, insolvency. On the other hand, excessive liquidity leads to lower return on assets and consequently to poor financial performance.

Maintaining an adequate liquidity depends on how the market perceives the financial situation of the bank. If the image of the bank deteriorates as a result of losses in the loan portfolio, there will be a high demand for liquidity. In these circumstances, the bank may raise funds in the market only at very high costs, thus worsening even more the situation of revenue. As a result, an deterioration of bank image may have serious consequences for liquidity position.

The main reasons that cause liquidity risk are: real economic situation, the influence of the media, financial indiscipline, economic dependence on financial market, maturity mismatch between deposits and loans.Credit institutions use specific techniques that eliminate or reduce liquidity risk. These techniques consist in the resources and bank

investments. Banking rules require that banks ensure a minimum level of liquidity, calculated based on the liquidity indicator, as a ratio between the effective liquidity and liquidity required in each maturity band.

The infrastructure of liquidity system refers to a set of institutional and operational measures taken by central banks and other financial and monetary institutions and which generates effects on market liquidity, efficiency, effectiveness in managing the liquidity of financial firms (Dziobek, Hobbs, and Marston, 2000) . Liquidity may be different in normal and stressful situations and can be defined as a facility (cost) with which it sells an security instrument in the market or its conversion into legal tender (Handbook, 2005).

According to Blundell-Wignall and Atkinson liquidity proposals made by the Basel Committee, have some enigmatic features. They believe that if banks are solvent and have an adequate level of capital, the management of liquidity and funding should be allowed, in principle, at their discretion. Moreover, they believe that the starting point for liquidity is defining the role of central banks in ensuring the stability and the functioning of the payment system. Some critics of these authors bring to the liquidity system refers to that LCR indicator has an prevalent inclination towards government securities, the new proposals require more liquid assets and liquidity management should be conducted together with the supervisory authorities (Blundell-Wignall, Atkinson, 2010).

More opinions to the new rules on liquidity render that into crisis circumstances the regulation of capital requirements cannot prevent a liquidity crisis and how fast can deplete the liquidity sources, generating a spillover effect and enhancing the role of banks as lenders of last resort to avoid the total collapse of the financial system. Introducing for the first time a explicit liquidity standards is the major contribution made by the Basel III (Howell, 2011). LCR indicator is one of the main reforms made by the Basel Committee to strengthen international regulation on capital and liquidity and with the objective of promoting a more resilient banking sector. This coefficient has emerged to raise short-term resilience of the liquidity risk of banks and the capacity of banking sector to increase capacity to absorb financial or economic situations of tensions and reduce the risk of contagion from the financial sector to the real economy (BIS, 2013) .

According to reports the Financial Stability Board (2012) some of new reforms respondents identified potential negative effects that would result from implementation of the Basel III liquidity. Among the concerns we raise the lack of high-quality liquid assets as a result of the characteristics of European financial markets, countries with lower credit rating which might experience a limited amount of corporate bonds and, in some cases, it has been ascertain that it is not reflect the exact structures of financial markets into liquidity standard. On the other hand, Oliveira Santos and Elliott (2012) believe that the liquidity requirements set out by the Basel III can avoid potential problems that may affect the activity of the banking systems and financial markets, ensuring their strength in case of "freezing "of liquidity. They admit a cost of implementing new rules that depend on the size of the liquidity deficit assumed by institutions and the estimates made on actions to be taken to meet LCR (Liquidity Coverage Ratio) and those that meet the requirements NSFR (Net Stable Funding Ratio).

Other researchers such as Walter (2011) believes that the success of Basel III should not be measured by its zero costs, but by the implementation of the new requirements at an acceptable cost. He also argues that, contrary to what many say, the new standards should help promote diversification fund of liquid assets held by banks. Tobias and Hyun (2008) believes that global liquidity can be understood as a growth rate of balance sheet.

The new standards bring an additional in liquidity management at the micro level, but combined with the improvement of supervisory rules can strengthen the stability of the banking and financial sector alike. If the rules are too restrictive, some banks may call for a relaxation of the rules which may lead to an increase in systemic risk. However, macro vision and the ability of central banks of intervention in the management of liquidity can reduce systemic risk and provide necessary liquidity for market operations (Global Financial Stability Report, 2011).

The Basel III Agreement on liquidity addresses several key elements of the treatment of liquidity risk, taking into account the systemic risk: appropriate regulation of liquidity risk costs, arrangements for the support of banks to prevent and alleviate situations of severe financial stress and improve international coordination for crisis management (Suarez, 2010). Binseil and Lamoot (2011) showed in their study interactions between the new regulatory framework for liquidity risk and operational framework of monetary policy of central banks. They describe how central banks play an important role in providing liquidity to other banks, both in normal times and in crisis and underlines the fact that the new rules may not be fully aligned with the operational framework of individual central banks.

THE BASEL III AGREEMENT - IMPROVING LIQUIDITY REQUIREMENTS

International standards on liquidity and one uniform quantization of the coefficients for calculating assets and cash flows (with a margin at the discretion of national supervisors), but require a minimum number of operational standards as a recognition that poor management of operational risk could impact liquidity to the situation in which certain assets may not be used for calculations of liquidity standards, reducing liquidity risk and liquidity management. Although the new rules will generate a risk mitigation banks will must constitute the capital for residual risks (Bordeuț, 2012).

In order to highlight the evolution of financial markets and to go through the lessons learned during the recent crisis, the Basel Committee has defined a number of key issues regarding liquidity, namely: the importance of setting liquidity risk tolerance, maintaining an adequate level of liquidity, the need to assign costs, benefits and liquidity risk, identify and quantify the full range of liquidity risks, the use of stress tests, the need for a rigorous plan funding and publication of information to promote market discipline.

All these issues, along with the rules related on capital rules constitute the new Basel III Agreement in order to improve the banking sector's ability to absorb any financial or economic disturbances and reduce the risk of contagion from the financial sector to the real economy. The crisis has highlighted the importance of liquidity in the proper functioning of financial markets and the banking sector, and therefore, the Basel

Committee has established "The principles for a proper management and supervision of liquidity risk" and introduced minimum standards on liquidity for funding . These standards aim to achieve two distinct but complementary objectives : the first, promote short-term resilience of the liquidity risk of a bank, guarantee sufficiency of high quality liquid assets to overcome a situation of significant tensions episode for a period of one month - LCR. The second objective is to promote a longer-term resilience creating instruments that banks use for the stabile financing of their continue activities - NSFR.

For that banks to be more resistant to potential liquidity disruptions, supervisory authorities around the world will have to apply these rules consistently, becoming internationally harmonized, but with elements that matches specific conditions in each country.

The Group of Governors and Heads of Supervision in January 2013 redefined the indicator LCR as an essential element of the Basel III Agreement on reform and restored a number of changes to the original formulation in 2010. This indicator is established to ensure an adequate level of funds in banks free of commitments (HQLA), consisting of assets that can be converted without loss immediately effective and can meet the needs of liquidity in a period of stress scenario of liquidity 30 days. This period allows managers and supervisors to take appropriate corrective measures, and the possibility that the central bank to intervene.

The LCR indicator is based on traditional methodologies of a "coverage factor" of liquidity used internally by banks to assess its exposure to the contingent of liquidity events. This scenario calls for the calculation of total net outflows from the next 30 days. The rules assume that in the absence of financial stress, the coefficient is not lower than 100% (meaning that minimum HQLA should be equal to the actual total net outflows). Moreover, during the period of severe financial strain banks can use free HQLA fund commitments to be reduced below 100%, proving risky maintaining of LCR level of 100% on banks and other market participants. The previously scenario of period of tension will include many of the disturbances experienced during the recent crisis and will be considered by banks as a minimum of supervision, in addition to stress tests that will determine their own level of liquidity to be maintained above the minimum.

LCR indicator consists of two componenente: HQLA fund value in tension situations and the total effective outflows, calculated according to the above periods.

$$\frac{HQLA}{Totaleffectiveoutflowsin\ 30\ days} \geq 100\%$$

An asset is considered HQLA it can actually be transformed quickly without loss of value or their a very low level. Free of commitments - is the fact that these activities should not be subject to any legal restrictions, regulatory, contractual or other form preventing bank to liquidate, sell or transfer those assets. An asset belonging to this fund shall not be subject to any kind of guarantee or collateral of any operations an must be diversified across all asset classes.

The denominator of the fraction, total net outflows actually refers to the difference between actual outflows and expected inflows during the voltage of 30 natural days.

Total net outflows= outflows – min. {inputs, 75% from outflows}

Should be noted that the standards for LCR assume a minimum liquidity of internationally active banks, but the supervisory authorities have the freedom to require maintaining additional liquidity if it considers that the LCR is not precisely reflect the liquidity risk assumed by banks. Although LCR is sufficient for dimensioning bank's liquidity risk, the Basel Committee has developed a series of tools for improving and promoting international consistency in the supervision of liquidity risk. Those instruments should be used to complement the LCR and continuous monitoring of liquidity risk exposures of banks, but also to communicate the local supervisors.

According to the Basel Committee, LCR is an essential component of Basel III Agreement and once implemented will help in creating a more resilient banking system. Aware of also the effects of implementation this instrument in financial markets, lending and also on economic growth the authorities decided its gradual implementation. The LCR will be introduced from 1 January 2015 to a minimum of 60% and will be increased annually in the same way until you reach the level of 100% on January 1, 2019. The Committee also noted that in times of tension will allow banks to use HQLA fund that falls below the minimum level.

LCR coefficient is based on the traditional methodology of "coverage factor" of liquidity used internally by banks to assess their exposure to the liquidity contingents events. Recent rules specifies that in the absence of periods of tension, the value of this coefficient is not lower than 100% as it claims use HQLA fund in case of liquidity risk. Even if it requires the LCR to be apply and to be account in in the single currency, banks must ensure the necessary liquidity and the HQLA according to need.

Although the majority of LCR parameters are harmonized internationally, there might be national differences in the the countries subject to national jurisdiction and when some supervisors adopt more severe parameters.

In order that assets and activities of banks to be financed for a longer period of time, the Basel Committee has established the net stable funding factor (NSFR). This indicator establishes a minimum contribution by stable funding accepted in relation of liquidity characteristics of assets and the institution's activities during the year. The aim of applying this coefficient is to complement LCR and supplement the surveillance initiatives in the restructuring of the institutions liquidity risk, eliminating the inadequacies of short-term funding and promoting a more stable funding and on long-term of activities and the assets. NSFR role is to ensure that the long-term assets should be financed by a stable minimum liability based on the liquidity risk profile. Also by this coefficient is intended to limit excessive dependence on short-term financing in periods of abundant liquidity and promote a more realistic assessment of liquidity risk from counterparties within and outside balance sheet.

$$\frac{ASF}{RSF} > 100\%$$

The denominator, ASF is defined as that contribution of own resources and foreign who can be reliable sources of funding on an annual under prolonged financial tensions. Required amount of stable funding liquidity is reflected in the characteristics of different types of assets, off-balance sheet commitments undertaken and / or completed activities.

The monitoring instruments together with the liquidity standards, supervisors provide the necessary information to assess a bank's liquidity risk and may be supplemented by national supervisors. The monitoring instruments do not indicate a level of liquidity risk, do not have warning limit, but provides useful information to monitoring and surveillance. Stress test scenarios for must combine bank and market specific issues, incorporating many of the shocks during the recent international financial crisis. The stress test is regarded as a minimum, banks should build their own scenarios specific to their work and to consider longer time horizons.

THE LEVEL OF IMPLEMENTATION OF THE NEW BASEL III AGREEMENT ON LIQUIDITY

In order to follow the implementation of the new Basel III Agreement on rules, the Basel Committee conducted an entire process in this regard, following three main areas: ensuring appropriate and timely adoption of Basel III Agreement on, the compliance of the new rules and ensure the correct calculations especially in reference to risk-weighted assets. Just like in the case of the new capital requirements under Basel III Agreement on (Apătăchioae, 2013), the largest economies (G20) have assumed the application a comprehensive and coherent manner of new liquidity requirements during 2013 and 1 January 2019 - a period of transition. Since the actual implementation of the new liquidity requirements will begin in 2015, these considerations will be analyzed later and not covered in the last report in 2012.

However, Stefan Ingves (2013) noted that under the revised LCR standards, the average LCR of the world's largest banks would be approximately 125%. In 2013, the Basel Committee plans to analyze the interaction between the LCR and the provision of central bank facilities. It also plans to develop liquidity disclosure requirements and market based liquidity measures. Between now and 2015, the Basel Committee intends to prioritize its review of the NSFR, which was introduced in the December 2010 Basel III liquidity framework alongside the LCR. The NSFR aims to ensure that banks maintain a stable asset-liability profile over a one-year time horizon. Basel Committee Chairman-Stefan Ingves reiterated that the NSFR would go into effect in 2018, as originally contemplated by the Basel Committee. It remains to be seen, however, whether the Basel Committee will ultimately permit the NSFR to be implemented on a phased-in basis, a move that would be consistent with the revised LCR standards. More generally, the Basel Committee stated that it will continue to strengthen its peer review program to monitor the implementation of Basel reforms in individual jurisdictions (Polk, 2013).

THE IMPACT OF NEW LIQUIDITY REQUIREMENTS

The Basel III introduced for the first time a series of regulations on liquidity risk, highlighting the negative effects who this aspect can generate. As mentioned Binseil and Lamoot (2011) a central bank plays a key role in procuring liquidity of banks both in normal times and in times of crisis and, therefor, the implication of central authority to ensure the involvement of these new rules is very important. The new Basel III Agreement on liquidity watch needs are to ensure liquidity in the financial institution and reduce risks that may arise in this regard. The measures are complemented by monitoring a minimum level of requirements and intended to maintain under control the liquidity.

The Liquidity Coverage Ratio (LCR) has as purpose to establish a minimum level of high quality liquid assets to withstand an acute stress scenario lasting one month. Provided the balance sheet and the firm's activities this stress defines the potential net cash drain. To determine the cash flow drain every source of liquidity risk has to be regarded which could affect the liquidity position of the financial firm. For instance, margin requirements from derivative transactions and liquidity support to conduits through committed facilities are captured within the measure. The liquidity buffer thus has to enable the firm to survive through a cash flow drain that results from a stress lasting one month. By requesting the liquidity buffer to consist of high quality liquid assets, which provide relatively low yields, the measure internalizes the liquidity risks from the activities of the banks, as holding the high quality liquid assets is costly to the bank.

The second measure, the Net Stable Funding Ratio (NSFR), is a more structural measure and has as purpose to ensure that the longer-term assets or activities are funded by more stable medium or longer-term liability and equity financing. The ratio is a more structural funding measure as it relates the maturity structure of the asset side with the liability side of the balance sheet. In broad, it requires that longer term assets are financed by funding of one year and more. The measure thus links the available stability of the funding with the required stability of the asset, or in other words, the illiquidity of the assets or activities of the firm (Binseil şi Lamoot, 2011).

The introduction of those two liquidity ratios are carefully analyzed as the impact on bank regulation but also financial markets and the entire economy. Evaluation of the new requirements will take place into the period of observation, that will occur by the end of 2014, for it to be introduced with the January 2015. The NSFR would follow and would be introduced by January 2018. The objectives of the Basel III Agreement in the terms of liquidity are formulated to determine the increase in liquid assets and to reduce short-term funding. However, the measures taken by the new regulations can reduce the risks, but can not exclude the emergence of vulnerabilities affecting the banking system in the future (Dedu, Nițescu, 2012).

The liquidity can generate effects in four main areas: on price, on the interbank market, collateral markets and the real economy. Allen and Carletti (2008) analyzed the effects of liquidity on prices because they consider that one of the main causes of the

recent crisis was the dramatic fall in house prices. However, the liquidity of has played a key role in the recent crisis.

The importance of liquidity in situations of tension and the response of monetary authorities led by the new Basel III Agreement rules on this item. Some analysis about this issue identifies potential adverse effects of the implementation of new rules on liquidity. It is considered that, under normal circumstances, any liquidity adjustment made by banks will reduce their profits, even through loans (Oliveira Santos, Elliott, 2012).

Other studies conducted on the possible effects of the new liquidity requirements shows that European banks will be most affected by NSFR requirements, which are the most delayed in the reaching 100% on this indicator. Some advice in the improve this aspect refers to the diversification of funds and / or reduction of assets. In addition to that the new liquidity requirements of banks affect investment plans of banks , they will affect banks' profitability depending on their business model flexibility and how they will fold these changes. For example, banks with a limited level flexibility in the assets and a reduced possibility to diversify assets will need time to implement new regulations. On the other hand, greater flexibility of balance sheet and stronger investment activity will reduce the negative effects of the new rules will draw liquid assets and can operate on the most profitable segments.

All these changes must be monitored because banking strategies can have adverse consequences on systemic risk, especially on less regulated segments (Ötker-Robe, Pazarbasioglu, 2010).

The effects which can be observed as a result of the new regulations on liquidity may concern improving the regulatory and supervisory oversight due to complementarity between micro and macro level, between external supervision and internal governance. It will also be an increase in the responsibilities of central banks and supervisory entities in terms of supplementary data to be provided. The new requirements will be reflected in the modification of the balance sheet of banks, but also to change their products to reduce and control liquidity risk. Moreover, it will be able to see a decrease in the profitability of banks, which will cause a shift in business strategies or business lines from counterparties with low profitability to those with high profitability. Another impact of the new Basel III liquidity rules can be seen in increasing of interconnectivity of all aspects of risk, increasing barriers to entry and exit as a result of increased operational requirements and orderly liquidity, modeling behavior and increase stress tests, modifying software and increase financial education efforts of the population

Although Basel III has improved the old regulations are expected in the future they continue to be under supervision and updated that to identify the weak issues during the crisis. Regulatory measures taken on time and their compliance will cause the markets to become more correlated, with effects in the reduction of differences in the regulatory level, increasing the availability of information and, simultaneously, the transparency.

Just as specify Mehrling (2010), we consider that the main issues faced by banking system since the crisis of 2007 is related to its level of capitalization and liquidity, therefore, requires that credit institutions should be subject to careful monitoring to meet the new rules. We believe that the new regulations have caused a

series of reforms to the banking system, but the compliance degree of their implementation effects of the new laws are different depending on the degree of development of each country, the main implications are differentiated by monetary transmission channels.

CONCLUSIONS

The evolution of liquidity in the banking system was concluded on the importance of establishing a tolerance level of liquidity risk; maintain an adequate level of liquidity that includes the creation of a buffer of liquid assets; the need to associate to each activities of business- costs, benefits and liquidity risk; identifying and dimensioning of full range of liquidity risks, including contingent risks; the need to build a robust and operational plan of financing; the management of intraday liquidity risk and collaterals; the use of stress tests of tension and public dissemination of information to promote market discipline. Another lesson was to highlight the importance to be given to supervisors and their important role in the management of liquidity risk and the development of measures to be taken in this regard.

The difficulties with which banks have experienced in relation with liquidity was due to lagoons from basic principles of liquidity risk management. In response, Basel Comite has published new rules on liquidity that form the Basel III, and introduced two additional minimum standards for liquidity intended for financing . These two standards aimed at two distinct objectives but complementary: first to promote short-term resilience of a bank's liquidity risk by ensuring sufficiency of high quality liquid assets to overcome the tension of a period of a month - for this purpose elaborating coficientul the liquidity coverage (LSF). The second objective aims to long periods of time, creating ways for banks to use stable sources of funding their continue work - net stable funding ratio (NSFR, 1 year).

The Basel III Agreement on liquidity addresses several key elements of the treatment of liquidity risk, taking into account the systemic risk: appropriate regulation of liquidity risk costs, arrangements for the support of banks to prevent and alleviate situations of severe financial stress and improve international coordination for crisis. For that banks to be more resistant to potential liquidity disruptions, supervisory authorities around the world will have to apply these rules consistently, becoming internationally harmonized, but with elements that matches specific conditions in each country.

The introduction of those two liquidity ratios are carefully analyzed as the impact on bank regulation but also financial markets and the entire economy. Evaluation of the new requirements will take place into the period of observation, that will occur by the end of 2014, for it to be introduced with the January 2015. The NSFR would follow and would be introduced by January 2018.

The effects which can be observed as a result of the new regulations on liquidity may concern improving the regulatory and supervisory oversight, an increase in the responsibilities of central banks and supervisory, the modification of the balance sheet of banks, but also to change their products and its business strategies.Although Basel III has improved the old regulations are expected in the future they continue to be under

supervision and updated that to identify the weak issues during the crisis. Regulatory measures taken on time and their compliance will cause the markets to become more correlated, with effects in the reduction of differences in the regulatory level, increasing the availability of information and, simultaneously, the transparency.

Considering that the main issues faced by banking system since the crisis of 2007 is related to its level of capitalization and liquidity, therefore, requires that credit institutions should be subject to careful monitoring to meet the new rules. We believe that the new regulations have caused a series of reforms to the banking system, but the compliance degree of their implementation effects of the new laws are different depending on the degree of development of each country, the main implications are differentiated by monetary transmission channels.

Banks aim to always maintain an acceptable level of liquidity, but also to try to maximize profits. For a bank an short-term placement based on long term deposits indicate a risk and high liquidity. The control of liquidity to credit institutions aims maximizing profits and providing money transfers within the economy.Because basically all assets held by a bank can be sold for cash, the liquidity of assets is viewed by time. In this context it is of major importance the quality of certain assets to be quickly transformed into cash that banks to be able to pay on time their obligations. It is normal for banks to maintain a minimum ratio of liquid assets to avoid losses occurred due to other investments instead of placing resources in normal interest-bearing assets.

The objectives of the Basel III Agreement in the terms of liquidity are formulated to determine the increase in liquid assets and to reduce short-term funding. However, the measures taken by the new regulations can reduce the risks, but can not exclude the emergence of vulnerabilities affecting the banking system in the future.

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