EUROPEAN FORUM OF DEPOSIT INSURERS

EFDI NON-BINDING GUIDANCE PAPER: DGSs INVESTMENT POLICY

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SUMMARY

- The Deposit Guarantee Scheme Directive[1] (DGSD) requires Deposit Guarantee Schemes (DGSs) to invest their available financial means in a low-risk and sufficiently diversified manner through cash, deposits and low-risk assets. Low-risk assets are themselves defined as "items falling into the first or second category referred to in Table 1 of Article 336 of Regulation (EU) No 575/2013 or any assets which are considered to be similarly safe and liquid by the competent or designated authority". The purpose of this requirement is to ensure that the financial resources of any DGS will be available in due time to compensate depositors of a failed bank within 7 working days after deposits have become unavailable.
- While DGSs, as institutional investors, then all face short-term investment constraints, the implementation of these requirements by DGSs can be made in various ways and is accompanied by various questions. This EFDI note intends to support DGSs by providing non-binding guidance that can be applied when defining and implementing investment policies under the EU regulatory framework.
- European DGSs use a wide variety of investment management approaches. Each approach has its pros and cons under specific or local circumstances, including the institutional positioning of the DGS, its accounting standards and the main characteristics of the markets (assets and players) it has access to. Irrespective of investment approaches, the need to compensate within 7 working days emphasizes the criticality of liquidity and security. Common challenge is then under all investment management approaches, to ensure in all market configurations and especially in crisis times, the liquidity and security of their assets, while accepting different risks in terms of interest rate, credit, maturity, volatility, among others.
- The note proposes a set of detailed recommendations for various aspects of the investment policy DGSs have to pursue in their regulatory and institutional environment: design of the governance, selection of asset classes and asset allocation, risk considerations, holistic analysis of the portfolio, definition of investment constraints, selection of external asset managers and management style, conflicts of interest, indicators, monitoring and stress-testing.

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[1] Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes.

1. INTRODUCTION

1. Capacity for an immediate financial resources mobilisation is a key prerequisite for a DGS. Faced with the challenge of serving depositors' compensation within a very short timeframe, a DGS shall build reliable systems and procedures ensuring efficient data processing, swift and smooth payout, as well as quick access to the resources needed to finance depositors' compensations. Side-by-side, all those elements are required to permit a DGS to fulfil the promise made to depositors and, thus, to concur to public confidence in the banking sector and serve financial stability.

2. Given the importance of timely repayment to depositors, DGSs strive to improve their compensation proceedings in order to meet their public mandate and the regulatory requirements and international standards involved. Requirements for the pay-out process have become significantly more ambitious over the recent years, with the maximum time period for repayment allowed by the DGSD in the EU being reduced from 3 months in 2009 to 7 working days in 2024 at the latest. This trend is also reflected in the revised IADI Core Principles for Effective Deposit Insurance Systems that were agreed upon in November 2014. Principle 15.1 contains the provision that "the deposit insurer is able to reimburse most insured depositors within seven working days". In conjunction with depositors' expectations for nearly instantaneous repayment of their deposits, those trends lead DGSs to make all the processes they manage, including financial resources mobilisation, faster, more efficient and proven.

3. This overarching context puts more pressure on the definition and implementation of a DGS's adequate investment policy. When the payout delay in the EU was 3 months renewable, DGSs could potentially make the choice of investing their short-term liquidity resources in short term assets of the same duration. With now much shorter payout delays, only sight or very short-term deposits or securities seem to mature within this investment horizon. A broader understanding of the factors affecting liquidity has thus become necessary.

4. EFDI launched the DGSD2 Implementation Initiative ("D2I") to identify the main challenges and issues DGSs are facing in the implementation of the new Directive. The D2I aims to develop non-binding guidance and best practice in regard to technical topics such as investment policy. The development of such non-binding guidance is supported through surveys among the EFDI membership and workshops to discuss the technical topics among experts.[2] As part of this initiative, an *EFDI Investment Policy Workshop* was held on 30 November 2017 in Paris, France. It was jointly organized by the Portuguese Fondo de Garantia de Depositos and the French Fonds de Garantie des Dépôts et de Résolution. The workshop brought to the attention that, however different the financial environments may be, DGSs largely deal with the same challenges and impediments when it comes to investing their assets with the constraint and objective of a being able to finance a quick pay out at any time.

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[2] The power to issue non-binding guidance is laid down in article 3.2 of the statutes of EFDI.

2. BACKGROUND AND STATE OF PLAY

2.1 LEGAL BACKGROUND

5. The legal framework for EU DGSs is set by the new DGSD which was finalised in 2014. The investment policy is regulated through Articles 2 (Definitions) and 10 (Financing of the DGS) of the DGSD. Article 2(12) of the DGSD defines the '*available financial means*' as "*cash, deposits and low-risk assets which can be liquidated within a period not exceeding that referred to in Article 8(1)*[3] *and payment commitments up to the limit set out in Article 10(3)*[4]", whereas Article 2(14) defines '*low risk assets*' the following way: "*items falling into the first or second category referred to in Table 1 of Article 336 of Regulation (EU) No 575/2013 or any assets which are considered to be similarly safe and liquid by the competent or designated authority*". Article 10(7) of the DGSD directly points at a DGS investment policy, stipulating that "*the available financial means of DGSs shall be invested in a low-risk and sufficiently diversified manner*". Table 1 of Article 336 of Regulation (EU) No 575/2013 sets the aforementioned items as:

- debt securities which would receive a 0 % risk weight under the Standardised Approach for credit risk;
- debt securities which would receive a 20 % or 50 % risk weight under the Standardised Approach for credit risk [...].

6. IADI Core Principles follow the same path. Core principle 9, in its essential criterion 6 also says that "[...] *the deposit insurer has a defined investment policy for its funds that aims at ensuring: (a) the preservation of fund capital and maintenance of liquidity; and (b) that adequate risk management policies and procedures, internal controls, and disclosure and reporting systems are in place*." In addition to the EU framework, essential criterion 7 also mentions that: "*the deposit insurer may hold funds in the central bank. The deposit insurer establishes and complies with rules to limit significant investments in banks*".

7. Complementing the regulatory requirements set for the investment policy, European Banking Authority (EBA) Guidelines recommend performing stress testing on the liquidity of DGSs' portfolios. The Guidelines on stress test of deposit guarantee schemes under Directive 2014/49/EU issued by the EBA on 19 October 2016 ask for an "*assessment of the liquidity of the invested available financial means and payment commitments, including under market stress*" (Article 7.2). In particular, this assessment should be performed through a "*qualitative assessment of the DGS's ability to liquidate assets invested […] within the [payout] deadline*".

8. Many of the European Union and European Economic Area (EEA) DGSs, if not all, have defined an investment policy and reassessed it, as far as it was needed, with the shortening of the repayment period and the increasing volume of their resources. Most of the European DGS have already introduced the 7 working-

[3] i.e. 7 days at the latest in 2024.
[4] i.e. up to 30% of resources.

day delay and adapted their internal processes accordingly. Ex post funded DGSs have switched to ex ante funded contribution systems, with a target size generally higher after DGSD was issued than before. DGSs' funding path has been set up till 2024. Those additional resources made the need for structuring professional investment policy even more obvious, if not already done.

2.2 ADDITIONAL BACKGROUND ELEMENTS

9. The mandate and regulatory framework of EU and EEA DGSs set for them two main investment objectives: liquidity and security. DGSs should be able to react swiftly in times of crisis and in all possible market configurations, which excludes illiquid and risky investments. In addition, the investment policy they implement can also concur to depositors' trust in the financial safety net, though an intelligible investment strategy, standard assets and regular results. On the contrary, losses in fancy or complex investment products could have detrimental effects on the DGS's credibility. As a whole, DGSs will look for performance only within the framework designed by the two 1st tier objectives (liquidity and security), after those two objectives are fulfilled in a particular market and institutional context.

10. As a whole, the legal requirements and the objectives pursued by the EU and EEA DGSs impose important and tight short-term investment constraints, whatever the asset-classes they invest in. This position is an unusual one in the investment business, and especially compared to insurers, both life and non-life, or to pension funds. This reflects the unique nature and mission of DGSs, only comparable to those of resolution funds as a whole, and of the Eurozone Single Resolution Fund (SRF) in particular.

11. Complementing this, highly liquid assets of high creditworthiness defined by the EU regulation set for the SRF comprise various asset classes, including covered bonds, asset-backed securities (ABS), equity and shares in collective investment units (CIU). With various requirements in terms of rating, maximum exposures and diversification proper to investments authorized for the SRF, this regulation, including Article 75(3) of Regulation (EU) No 806/2014 of 15 July 2014 and Article 4 of the Commission Delegated Regulation (EU) 2016/451 of 16 December 2015, characterizes highly liquid assets of high creditworthiness in relation with Articles 10, 11, 12 and 15 of the Commission Delegated Regulation (EU) 2015/61 (2). Shares in major stock indexes, with limited volatility, corporate bonds shorter than 10 years and down to BBB- in S&P scale, various ABSs and covered bonds are authorized within the same category ("level 2B assets"). Share in CIUs investing in liquid assets are also authorized and may make use of derivatives "to the extent necessary to mitigate interest rate, currency or credit risk in the portfolio". As a whole, this range of assets gives preliminary but solid indications, to be adapted to each regulatory and market environment, as for assets which could be "*considered to be similarly safe and liquid by the competent or designated authority*" for setting DGSs' investment policies.

12. Investment policy objectives constraints cover an extensive range of risks, beyond liquidity and credit risks. The requirement made by EU regulation for low-risk and diversified investments includes various risks, other than mere liquidity and credit risks, which investment policies have also to take into account:

- interest rate and duration risks (losses on a debt securities portfolio when market interest rates go up – the longer the duration, the higher the risk);
- concentration risk (too high dependency on a limited number of issuers and asset classes);
- market risk (market turbulences, freeze or crash especially at the time the portfolio has to be liquidated, impact of a fire sale);
- currency risk (mismatch between the investment currency and the compensation currency);
- counterparty risk (in case a third party is involved – e.g. use of derivatives);
- banking sector risk (risk of being penalised both on the asset side, if investing in banking securities, and the liability side, when the DGS faces a bank failure);
- accounting risk (accounting entry of volatile unrealized losses and gains, depending on the accounting standards applied by the DGS).

13. Investment risks are better captured when considered both at the level of individual assets or securities and at the level of the global portfolio. For instance, the liquidity of a given security, e.g. a sovereign bond, may be checked per se, taking into account various factors such as the size of the issuance and the trading volume. But the diversification of the portfolio, including the diversification of asset classes, may also add to the global liquidity performance, especially in crisis times when markets freeze on a given asset class. In the same manner, derivatives may be risky per se, except if they are used to mitigate other risks in the portfolio.

14. Shortening of the repayment period may increase the role of repo transactions as a liquidity enhancement instrument. In the extent the DGS can accept the counterparty risk, repo transactions can increase a portfolio liquidity and mitigate the tension between the regulatory liquidity requirements and maturity of cash investments. Depending on their characteristics, securities in the portfolio may be used as a collateral of the repo transactions from which the DGS can obtain required liquidity without immediate sale of the securities. As a consequence, the DGS has to deal with a risk on the counterparty of the repo, which can be a member bank (wrong-way risk) or the Central Bank.

15. Investment policies can be defined and implemented along various models, from complete internalisation to complete externalisation. The EU regulation does not prescribe any model and hands the matter over national authorities so as to respect local institutional frameworks and specificities. In terms of corporate governance and efficiency, all models can be defended. Eventually, given the size of DGSs' available financial means and their mission, the main requirement is to make the proof of an appropriate professional investment capacity. DGSs have also to avoid any conflict of interest, especially if they invest in securities issued by their own member banks.

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2.3 STATE OF PLAY OF INVESTMENT PRACTICES IN THE EEA

16. According to the survey made in November 2017, European DGSs show a wide variety of investment practices as for the role they play, the way their policy is defined, the content of the policy and its implementation. These practices reflect various institutional frameworks and different market environments. The role taken by DGSs in this field also depends on its position within the institutional safety-net framework, its statutes, by-laws or strategy and the volume of its resources. Accessible liquid and secure asset classes and issuers differ from one jurisdiction to another.

- **Policy definition:** Within the regulatory framework, most DGSs define their investment policy by themselves. In only one case collated by the survey, the investment policy is defined by law. The investment policy is also reassessed on a regular basis, typically annually.

- **Implementation:** Most DGSs also implement the investment policy by themselves, including through selected asset managers. In various cases, the investment policy is implemented by an external or related institution, mostly the National Central Bank.

- **Objectives:** they are mainly defined as safety, liquidity and diversification. But different paths and specifications are used to achieve those common goals. As detailed as they can be, the specifications also reflect the management capacity and the operational framework for each fund:
  - Safety is expressed in various ways, possibly cumulative: minimum rating requirements, minimum exposure to sovereign bonds, maximum duration, risk budgeting...
  - For liquidity, criteria may be: minimum cash requirement, maximum non-government non-cash exposure, issuance sizes, repo-market, liquidity lines, tests on the market...
  - Diversification is expressed through sets of indicators defining maximum exposures by asset class, issuer, sector or country...
  - In some cases, the policy is more specific, with a clear delimited scope: national sovereign debt, deposits within the National Treasury, deposits within the National Central Bank, exposure to domestic banks...

- **Asset classes:** On the public issuances side, they include government debt, below and above one year, as well as deposits in Central Banks and supranational issuers. On the private issuances side, they cover corporate debt, short term and long term, including in banks, covered bonds, equity and repos. Deposits in domestic banks and deposits in foreign banks are also used.

- **Portfolio management style:** Nearly half of the respondents do not use a benchmark. Some of those are also 100% invested in cash deposit at the Central Bank, while some management styles (e.g. minimum or absolute return styles or smart beta) conflict with benchmarks and are better assessed on a competitive basis.

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Other DGSs use market-based benchmarks, or tailor-made benchmarks more precisely adjusted to their specific investment policy. When they exist, benchmarks are reassessed with the same frequency as the investment policy.

- **Accounting**: Accounting of the investment portfolio depends on the standards applied by each DGS in its specific regulatory framework. Most DGSs record their investments on a mark-to-market basis clearly displaying the current level of their resources, but with a possible implied volatility (interest rate increase, declining markets or hard-selling in crisis times). A significant number of them use a buy and hold approach (especially pure cash investors) or the minimum between historical value and market value, with less visibility as for the current volume of their resources, but less volatility as well.

- **Risk management**: The way risks are managed is highly dependent on the investment universe. Investing through in Central Banks deposits requires limited risk management tools. For domestic government bonds, the main concern is on interest rate risk. With other asset classes, investment benefit from a larger diversification, whereas risk management should be extended accordingly.
  - Interest rate risk is usually managed through duration indicators and limitations but could also be monitored through VAR (value at risk) calculations, as for market risk as a whole.
  - DGSs who only invest in Central Bank securities or deposits, or in domestic government debt do not require any specific credit risk tools. Those who invest in bonds only buy investment grade bonds, following the credit risk metrics of rating agencies and internal ratings of asset management companies, or, in some cases, market data. Various DGSs define maximum exposures by rating class. The use of derivatives for the hedging of credit risk (CDSs) does not seem to be a practice of DGSs so far.
  - Beyond general prescriptions on the securities, liquidity risk may also be monitored, when relevant, through checking issuances outstanding and trading volumes. Bid/ ask monitoring looks only marginally used.
  - Concentration risk can be managed through specific limitations on issuers, sectors (including banking sector), rating classes, as well as through a general asset class allocation.
  - DGSs are usually not exposed to currency risk. Eurozone DGSs benefit from a large market denominated in their currency while non-Eurozone DGSs seem to invest only in assets denominated in domestic currency. Still a few DGSs work with larger investment universes, including non-domestic currency denominated assets. In such a case, they hedge the currency risk by using FX swaps or FX futures.

  Generally speaking, DGSs seldom use derivatives to manage their risks. However, a few of them hedge their currency or interest rate risks through such market instruments.

- **Stress testing**: the introduction of the EBA Guidelines in this field has probably fostered DGSs' appetite for this control instrument. The survey did not specifically

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address this topic, but DGSs have started to exchange views in that matter and some of them have already performed such liquidity tests to assess both the delay in which they could liquidate their invested assets and the price they might have to pay in case of fire selling.

2.3 OPEN QUESTIONS RELATED TO INVESTMENT POLICIES UNDER THE REGULATORY FRAMEWORK

17. DGSs are faced with numerous questions when defining and implementing their investment policies. The most difficult challenge comes with the first time a DGS addresses the issue, for instance when switching from an ex post funded system to an ex ante funded one. Now, the investment policy has also to be regularly reassessed, ideally following market evolutions, when the investment environment changes, becoming riskier (e.g. Eurozone crisis), more complex (e.g. negative interest rates), or more lenient (higher growth, lower credit risk). As a whole, defining an investment policy requires from DGSs special care, attention and resources. The implementation and monitoring of the policy, even performed through third parties such as external asset managers, also require professionalism and resources

18. Among the various topics DGSs have to work on, the following questions may appear. The way to answer them depends on many factors, including the EU and domestic regulation, the DGSs' institutional framework, its corporate strategy and size, features of the domestic market, market environment.

- **Execution**: how will the investment policy be executed? Will the DGS use dedicated internal staff for that purpose, will it totally rely on a third party, possibly a Central Bank, or to external asset managers?
- **Asset classes**: a precise definition of the investment universe has to be given, rationalised and documented. An asset allocation may also be designed.
- **Credit risk limitation**: within the authorized investment frame and domestic context, DGSs have to define further what their best possible, sustainable credit risk should be.
- **Duration**: for any given credit risk on bond investment, the duration sets the market risk of the investment and its sensitivity to interest rate variations.
- **Concentration/diversification**: the regulatory framework on one hand, the characteristics of the domestic market on the other hand, shape the extent in which the DGS can choose to further diversify its portfolio.
- **Investment or deposits in domestic member banks**: while IADI Core Principles discourage DGSs from investing in their own member banks, other investment objectives and market characteristics, may make that orientation difficult or impossible to reach. For instance, the Eurozone money market is mainly fed and animated by financial institutions issuers.

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- **Market conditions**: the current negative interest rate environment in the Eurozone and elsewhere is particularly challenging for short term risk-adverse investors. They are very likely to get negative returns from their investments, therefore losing a part of the resources they have raised from their member banks.
- **Monitoring and stress-testing**: what kind of techniques DGSs will design and develop to monitor the performances of the portfolio on a regular basis, measure the risks associated with the portfolio and perform stress-tests assessing the minimum value and liquidity of the portfolio.
- **Existing reserves**: the investment policy may differ for the assets which exceed the target level defined by the Directive.

3. NON-BINDING GUIDANCE

19. For DGSs within the European Economic Area, DGSD requirements in the field of investment policy and EBA Guidelines recommendations on the stress testing of portfolio liquidity are irrespective of local conditions and institutional frameworks. They define the needed overarching standards and objectives while leaving some leeway to member States and DGSs to adapt investment policies to local markets and specificities under their own responsibility. In exchanging their experiences in the field of investment, EEA DGSs have not encountered any specific issue for the definition and implementation of investment policies so far. In particular, no need for further or more detailed regulation has been identified. In this context, this non-binding guidance note only aims at taking stock of the analysis above and at providing a reference basis on the way to define and implement DGSs investment policies within the existing EU regulatory framework.

20. DGSs, or, as the case maybe, other national authorities designated by local regulation to that end[5], should be granted full autonomy in the definition of their investment policy. Beyond the overarching liquidity and security objectives, a DGS investment policy should be further detailed, regularly reassessed and should express precise prescriptions, within the regulatory framework, as for asset classes, asset allocation, risks and constraints, monitoring and stress-testing. As a whole, depending on local specificities, the investment policy formulation may be simple in some regulatory contexts and market environments, more detailed and elaborated in others. The elements of guidance below address all possible situations.

21. Execution: The DGS should assess whether it will maintain the management of assets as an internal function or will delegate that function to external parties – asset managers companies, Central Bank, National Debt Office.

[5] This addition may also apply to the rest of the guidance, without being repeated. Same when the competent or designated authority plays a role in the investment policy definition, pursuant to Article 2(14) of DGSD.

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- In case the choice is made to manage the assets internally, the DGS should precisely assess and put in place the human and technically resources needed to implement and monitor the investment policy in a secure and efficient manner, in respect of the objectives of the policy. Those function and resources should stay clearly separated from the depositor payout function and staff within the DGS. The management of the DGS should assign those two teams coordinated, but separate objectives and assignments so that the implementation of the policy in one field does not interfere with the other.
- If the management is delegated to external parties, the DGS should also maintain internally or with external supports the human and technical resources needed to closely monitor the way the investment policy is executed, including the performances of the investment policy, the day-to-day compliance with the constraints and requirements and the results of the stress-testing.

22. Asset classes and asset allocation: Within and under the conditions set by the EU and local regulation and notwithstanding the constraints to be added at a later stage, the DGS should select the asset classes or instruments it will invest in within an accessible range potentially and broadly comprising (see paragraph 11): deposits in Central Banks and National Treasuries; short term or long term and domestic or foreign sovereign bonds, corporate bonds, covered bonds; equities; asset-backed securities; deposits and securities issued by domestic and foreign banks; repos; derivatives; other assets. The DGS should:

- collect and analyse the elements needed to ground its decision,
- take into consideration its human and technical resources,
- consider the possible conflicts of interest and the way to mitigate them,
- integrate the possible public communication constraints (e.g. for complex asset classes),
- assess the correlations between asset classes and thus the resilience of the portfolio,
- use its best judgement to select the authorised asset classes.

In the same manner, the DGS may set an asset allocation, defining the minima or maxima it accepts to invest in each asset class so to best fulfil the investment objectives.

23. Risk considerations: In selecting asset classes and shaping the asset allocation, the DGS should consider the intrinsic characteristics of securities in each asset class. Depending on the accessible asset classes, the following features and risks should be reviewed:

- nature and complexity, alignment with investment strategy
- maturity and duration
- credit risk and counterparty risk, ratings
- liquidity in normal times and crisis times
- currency
- volatility, accounting risk.

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Doing so, the DGS may also take into account the level of unrealised gains it may have already accumulated within the portfolio. It may also, if appropriate, marginally adapt its investment strategy in consideration of the business cycle and of the correlated likelihood of its interventions.

When using derivatives, the DGS should be able to justify how their use serves the objectives of the policy and mitigates the risks of invested assets or global portfolio. It should also only use such derivatives if it can adequately control the risks associated with those instruments and prioritise the use of derivatives traded in clearing houses to limit its exposure on the banking sector

24. Global analysis of the portfolio: As far as possible and needed, the DGS should also develop and use a holistic approach of the portfolio, assessing what the risks of the global portfolio and asset allocation may be in various market configurations, also given the possible unrealised gains. The following elements should be reviewed:

- concentration risk
- market risk
- risk associated to double exposure on asset and liability sides
- potential correlation between bank failures and capital markets, sovereign and non-sovereign
- ways and instruments to mitigate risks of the portfolio.

This analysis helps to check the need for adjusting asset allocation or investment constraints, leading for instance to shorten durations or looking for more diversification because of too high interest rate risks or to invest in longer durations or in equity to add to the portfolio global liquidity.

In the extent DGSs are able to adequately assess the intervention risks they are likely to face, and with the needed caution, they may also think of adjusting the risk of their investment policy and looking for higher returns on a share of their portfolio, in consideration of the possible distance between their intervention risks and their global available financial means.

25. Investment constraints: The asset class selection and the review of risks may lead to add further detailed prescriptions to the investment policy such as:

- limits on maturities and durations
- limits on exposures to various issuers or issuer categories
- exclusion of issuers or issuer categories
- limits by credit ratings, limits on counterparties
- limits on foreign currencies
- any combination of the above limitations.

26. Selection of external asset managers, management style: When the DGS delegates investment to external asset managers, it should precisely express objectives, constraints and needs and select those asset managers through a competitive bidding process. Mandates should be long enough to allow asset managers to adequately develop their strategy. Depending on the characteristics of the chosen investment policy, the selected portfolio management styles may be diverse, active or passive, indexed or not, using or not benchmarks, risk-budget approach, external or internal ratings, as long as the DGS can justify the choice made and the relevance vis-à-vis the investment objectives.

27. Conflicts of interest: In pursuing the investment policy, the DGS should take care to avoid any possible conflicts of interest when defining, implementing and monitoring the investment policy, or when selecting external services providers. When investing in member banks securities or deposits, the DGS should develop the procedures which will ensure that no use can be done of the information it might have on those issuers.

28. Indicators, monitoring and stress tests: The DGS should develop or have free access to the indicators needed to regularly assess and report the performances and compliance of the portfolio with the investment policy objectives, requirements and constraints. The DGS should also perform regular stress-testing of its portfolio:

- assessment of the portfolio value in difficult market situations through standardised market stress-tests, using such indicators as Value-at-Risk (VAR) and interest rate sensitivity;
- impact of a fire sale on the value of the portfolio (in case that a more recommendable option such as a bridge-financing allowing the continuation of a buy and hold strategy does not look possible);
- measure of the portfolio liquidity in normal and difficult times through market indicators such as trading volumes or through market expert estimates.

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