

**WELCOME REMARKS BY
MR. HOOKYU RHU
EXECUTIVE DIRECTOR, THE SEACEN CENTRE
FOR
SEACEN COURSE ON ASSESSING LIQUIDITY RISK OF A BANK
*Ulaanbaatar, Mongolia, 29 September – 3 October 2014***

Mr. Batshugar Emkhbayar, Deputy Governor, The Bank of Mongolia

Distinguished Resource Persons

Senior Officials of Bank of Mongolia

Course participants

Colleagues

Ladies and Gentlemen:

Good Morning and Welcome to the **SEACEN Course on Assessing Liquidity Risk of a Bank**. First of all, allow me to express our deepest appreciation to Mr. Batshugar Emkhbayar, Deputy Governor for hosting this learning event and for their continuing support of SEACEN activities. Our special thanks go to The Bank of Mongolia's management, organising committee led by Mr. Munkhbat Yondon, Director, Restructuring and Policy Division and the Secretariat team for working closely with The SEACEN Centre months before this event. During this four-day learning event, we are pleased to have resource persons from international financial institutions, the academia as well as central banks and monetary authorities in the Asia Pacific region to share their wealth of knowledge and experience with us. They are namely, in the order of appearance:

1. *Mr. Michael Zamorski, The SEACEN Centre*
2. *Mr. Paul Veerhuis, Australia Prudential Regulation Authority*
3. *Mrs. Chawanun Chuensuk, Bank of Thailand*

4. *Mr. Graeme Knowd, Moody's Investors Service*
5. *Mr. Calvin Choo Wai Hung, Bank Negara Malaysia*
6. *Mr. Sansar Baatarkhuu, XacBank*

With this group of experienced speakers, I am sure your learning programme will be a fruitful one. Please join me to give them a round of applause.

Ladies and Gentlemen:

On this opening day of SEACEN Course on Assessing Liquidity Risk of a Bank, SEACEN's first learning program in the area of liquidity risk management, I would like to share with you some of my thoughts on the importance of good liquidity management practices and their relationship with the stability of the financial industry and the financial system.

The experience of sudden liquidity freezes during the Global Financial Crisis clearly showed us that even deep financial markets in advanced economies can rapidly become illiquid and that this can be spread into emerging financial markets, threatening their financial system stability.

Liquidity risk is an inherent risk in the banking sector due to the critical role played by banks in liquidity transformation in a market economy and providing financial services and products with varying degrees of liquidity to meet needs of different economic agents to facilitate economic activities. In general banks face two types of liquidity risk; namely, funding risk and market risk. With regard to their sources, liquidity risk could arise in banks mainly from their funding model, financial products, asset quality of balance sheet activities and external forces such as market turmoil. Hence, financial institutions and supervisory authorities have given attention to liquidity risk as a part of their overall risk management strategies.

Although maturity transformation is one of the key roles of banks, this may come at the cost of heightened vulnerability to liquidity shocks. Thus, it is important for banks to hold an adequate buffer of high-quality liquid assets that is large enough to cover their net capital outflows and to maintain access to funding during stressed period. It is also important that banks should have a safe level of stable and long-term funding.

In this context, bank supervisors should be able to effectively monitor a bank's management of its intraday liquidity risk as well as its payment and settlement behavior. Particularly, in this SEACEN region which is highly opened and has strong demand for foreign capital, it is important to ensure that banks should establish robust frameworks to manage foreign currency liquidity risks which will serve as effective buffers to withstand sudden reversal of foreign capital flows in times of severe financial turmoil.

Ladies and Gentlemen,

This learning programme has been designed to improve participants' knowledge and skills in indentifying, assessing and managing liquidity risk in banks as well as assessing the robustness of the banks' liquidity risk management process and the appropriateness of the banks' public disclosure in accordance to the principles for sound liquidity risk management and supervision. It also provides the participants an opportunity to discuss issues and challenges in improving liquidity risk management in the banking sector and share their experiences in assessing and monitoring liquidity risk. The programme is also designed to provide participants a highly engaging learning experience through a dynamic mix of interactive cases and exercises on topics related to Liquidity Risk Management. In this context, the learning event is timely and highly relevant for the staff in the SEACEN member and invitee central banks.

With this, please allow me to say a few words about The SEACEN Research and Training Centre. As approved by the Board of Governors in February 2011, our new vision is "***To be the Regional Learning Hub for Central Banks in the Asia-Pacific Region***". As a Learning Hub, SEACEN aspires to drive central bank excellence in learning for the region, by being a platform for collaboration for members to synergise efforts in central bank learning among themselves, and across SEACEN's network base. The vision would be achieved through SEACEN's mission in building capacity in central banking and fostering networking and collaboration. With strong commitments from our stakeholders as seen in this Seminar, we are confident that our vision will become a reality.

Coming back to the Seminar, I hope that the participants will find it both fruitful and rewarding. Above all, the interaction among participants and with the resource speakers will provide an opportunity to learn from one another and strengthen the bond of friendship and cooperation. I

also hope that you will be able to find the time to enjoy the culture and beauty of Ulaanbaatar, Mongolia.

Allow me to conclude by thanking once again The Bank of Mongolia for hosting this event; organizing committee and the secretariat team of The Bank of Mongolia for the excellent arrangements and warm hospitality; resource persons and their respective institutions for the generosity and support; and finally to all our member central banks and associates for nominating suitable participants for this Course. I wish you a productive and rewarding learning experience.

Thank you.