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IRRBB & Liquidity risk

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European Central Bank

ECB: ALM Risks, Liquidity and Funding - a Supervisory Framework for Resilience and Stability

- In a keynote address at the 2025 SSM conference, Patrick Montagner, Member of the ECB Supervisory Board, outlined **the evolving supervisory approach to asset-liability management (ALM)**. The ECB has prioritized ALM since 2022, focusing on **interest rate** and **credit spread risk**, **funding structures**, and **governance**. The shift from a decade of low rates and ample liquidity to a tightening cycle necessitates robust ALM practices: **banks now face greater interest rate convexity, volatility in credit spreads, and challenges in behavioural modelling** due to unpredictable client behaviours and rapid digital fund transfers.

- **ECB reviews (2022–2024) revealed strengths and shortcomings in banks' ALM frameworks**, covering governance, strategic funding choices, and risk measurement. Strong governance entails transparent, timely data, effective decision-making structures, and robust three-lines-of-defence models. Funding strategies should include detailed breakdowns and account for cross-jurisdictional constraints.

- Liquidity steering must be responsive to instant payment systems and market shifts.

- From **a risk measurement perspective**, reliance solely on regulatory ratios like LCR and NSFR is insufficient. Banks must implement **stress testing**, **tailored risk metrics**, and **more rigorous behavioural models** - particularly for non-maturing deposits and prepayments - ensuring these reflect varied interest rate environments and stress conditions.

- The ECB also stresses **operational readiness to access central bank liquidity facilities**. As excess liquidity recedes, banks must transition from central bank deposits to collateral-based liquidity buffers. Supervisors expect banks to normalise their use of ECB operations (e.g. main refinancing operations) and maintain the infrastructure and governance required for rapid collateral mobilisation.