



*European Association of Co-operative Banks
Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken*

***Committee of European
Banking Supervisors***

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liquidity@c-eps.org

**CONSULTATION PAPER ON LIQUIDITY BUFFERS AND SURVIVAL PERIODS (CP
28)**

Dear Sir/Madam,

The European Association of Co-operative Banks (EACB) welcomes the opportunity to comment on the consultation paper on Liquidity Buffers and Survival Periods.

Please find our remarks on the following pages. Do not hesitate to contact us should you have any questions.

Yours sincerely,

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GENERAL REMARKS

We strongly appreciate the principle-based character of the proposed guidelines. Such an approach is crucial in order deal properly with a large variety of business models and multitude of forms of liquidity management.

It seems fully appropriate that CEBS refrains from naming explicitly assets that qualify for liquidity buffers.

Prior to the implementation of these guidelines, we strongly recommend executing a study to assess the impact of these measures on securities markets.

We also appreciate that the principle of proportionality has been implemented as an overarching principle in these guidelines (Nr. 13, 33, 34). This is essential to address the liquidity management both in large and small banks as well as in complex and less complex institutions.

We think that this principle should also permit to properly consider the particularities of liquidity management within co-operative banking groups, consolidated as well as not consolidated. In fact, it is a typical feature for co-operative banks that their central institution has the task to balance their liquidity needs. This situation is reflected by the new CRD and has resulted in specific rules for large exposures regarding the treatment of consolidating groups (Art 113 4 c CRD) and for non-consolidating banking groups (113 4 d CRD). In particular as regards the treatment of the affiliated banks, e.g. regarding stress-scenarios, these "liquidity systems" should be taken into account.

A risk-based approach for the treatment of liquidity risk seems fully appropriate (Nr. 35). We do not fully share, however, the presumption on market failure (Nr. 15). In this context we would like to underline that apart from prudential requirements on liquidity buffers the mutual guarantee systems of co-operative banks may significantly contribute to internalize social cost of failure.

Finally, we strongly appreciate that CEBS intends to further assess the impact of its proposals on banks' activities and on the broader economy.

SPECIFIC REMARKS

Guideline 2

The combination of idiosyncratic and market specific stress scenarios should not simply be an addition of the two types of scenarios. There are numerous interdependencies between them. In our view, the application of idiosyncratic stress scenarios on the basis of the current financial crisis appears to be such a combined scenario already.

When defining the parameters of stress scenarios we would consider it to be inappropriate to "squeeze" the impact of the current financial crisis, i.e. developments that now last for more than two years, into a time frame of one month.

The parameters for idiosyncratic risk, as defined under Nr. 38, seem to be too specific and detailed. We do not consider the assumption that no rollover of unsecured wholesale funding in the acute phase of stress to be appropriate for all markets. We consider this presumption as too conservative, even in an acute phase of stress.



Due to the fact that the amount of the liquidity buffers will depend on the outcome of stress-scenarios, a convergent understanding of an appropriate design of stress-scenarios, will be highly important, not least under competition aspects. Especially regarding market-wide stress (Nr. 39) a convergent understanding of the underlying market disturbance/market failure would be helpful.

Market-wide stress-scenarios are more meaningful for those banks, which rely on money-markets or securities-markets for their re-financing. We therefore suggest clarifying in the guidelines that with regard to proportionality aspects market-wide and combined stress-scenarios should primarily be relevant for banks, whose refinancing activities are strongly based on the securities- and money-market.

Guideline 3

We doubt that an obligation to generally apply two survival periods (one week and one month) makes sense, while it would certainly imply a heavy burden for institutions.

We think that liquidity buffers should be based on such a way that banks can survive within one month both a moderate, longer stress, as well as an acute stress during a shorter time period. Thus there should only be the assumption of a time-period of one month as survival period.

Guideline 4

A too narrow definition of assets that qualify for liquidity buffers should be avoided, since this could lead to a significant price increase for all assets that are eligible for rediscount at the central bank.

Banks rely on using assets that are eligible for rediscount with the Central Bank for refinancing "peaks". If the assets that are used during the first days of a stress-scenario as a liquidity buffer were to be liquid in "private markets" as well, banks would not be able to use at least some parts of their means to refinance during "peaks" for their liquidity buffers.

We therefore suggest reconsidering the condition that core assets have to be highly liquid in private markets.

Furthermore funding facilities in the unsecured market should – at least in part – be eligible for recognition if this is considered appropriate with regard to the bank in question.

Furthermore banks should be entitled to put those form of collateral in the liquidity buffers, which is suitable for them. Eligibility should depend on the marketability of these assets. Estimated haircuts would have to be taken into account.

It seems appropriate to accept assets as part of emergency facilities that would not qualify for liquidity buffers in "normal times". In stress situations certain assets should be eligible for liquidity buffers, which would then be eligible for recognition as emergency facilities. In such cases assets could be used for maintaining liquid funds.

For large, internationally active banks, the implementation of tests for each individual asset would result in an enormous effort and create cost out of proportion. Furthermore,



transactions for testing purposes could result in disturbing signals to the market which could potentially have an adverse effect for banks. There should be guidance ongoing tests of the central bank eligibility.

With regard to Nr. 59, we would appreciate clarifying that frequent participation in open market operations is not considered as “relying too heavily on central banks”. In addition guidance is required on the relevant criteria for “relying too heavily on central bank facilities”.

Guideline 5

While we agree with the guideline in principle, we have doubts that it is appropriate to impose restrictions even on concentrations of assets, which are eligible as collateral for central banks. Any such concentration should not be relevant, as long as limits imposed by the central bank are respected.

For smaller banks and retail-focused banks, the requirement pursuant to which banks have to be active on a regular basis (paragraph 64) in any market in which they hold assets for liquidity purposes is excessive. In particular when these banks are part of a consolidating or non-consolidating co-operative banking group, they have access to markets only by the way of their central bank.

Guideline 6

If the location and the size of the liquidity buffers within the banking group is to adequately reflect the structure and activities of the group this may imply that liquidity buffers are to be presented at an aggregated level for the banking groups. We would appreciate guidance in this respect.

We appreciate that Nr 69 stipulates that there is not only one single model for the organization of liquidity management. A centralized liquidity risk management is deemed acceptable, provided there are no impediments to the transfer of liquidity within the group and that the relevant regulators are satisfied that the ability to move funds between entities would be resilient also during stress situations. Also at this juncture, we feel it is important that regulators develop a common understanding and that banks are subject to convergent reporting requirements. Differing requirement would tie up resources and create transaction cost beyond the necessary.

Annex – Cash flows and liquidity potential

We understand that the contractual cash flows shall be relevant for liquidity risk management. In the context of Nr. 13, these contractual cash flows would have to be presented in a modified manner on a proportionate basis to reflect the type and scope of a bank's business activity in the scheme. A double presentation would neither generate more insight but generate a considerable administrative burden for banks.