

Gruppe Deutsche Börse

Position Paper

Liquidity Risk Management

Frankfurt, 28 July 2008

A. Introduction

On 17 June 2008, CEBS has opened a consultation on its technical advice on liquidity risk management (second part) in order to answer the Commissions call for Technical Advice No. 8.

CEBS has asked to comment until 1 August 2008 and invited for a public hearing for 4 July 2008.

Deutsche Börse Group wants to contribute to this discussion.

Deutsche Börse Group is operating in the area of financial markets and operates along the complete chain of trading, clearing, settlement and custody for securities, derivatives and other financial instruments. Based on national law in Germany and Luxembourg, two of our companies acting as (I)CSD are classified as credit institutions as they settle in commercial bank money. Furthermore one CCP is classified as credit institution under German law. Nevertheless, the business of these institutions in general is quite different from that of most of the other banks in the EU. (I)CSDs and CCPs are just acting in a specific area of the banking business and their customers are only other financial institutions. As they are operating securities settlement systems and not granting loans or taking deposits outside this activities, the vast majority of deposits (mainly cash left for operational purposes or cash collateral) and receivables (mainly placings of collateral and cash held for operational purposes) are overnight or at least for short maturities and no trading book activity is performed. As a consequence, many of the specific items addressed in the second part of CEBS' technical advice are not concerning our group. The general approach presented by the CEBS proposal more or less ties in with our own approach – taking care of the specifics of our business as stated above. Moreover, we explicitly agree a) on the close link between liquidity risk management and the management of other risks, b) the consideration of a trade-off between costs and risk as well as c) the objective to allow for liquidity risk management at reasonable cost. In this context and in the light of the close link of the various types of risks we want to point out, that the current approach taken by the European Commission on the revision of the Large Loan regime related to Interbank exposures would have a severe impact on liquidity risk management in general and specifically on the costs of liquidity and liquidity risk management. Furthermore it might influence the efficient and effective construction of modern clearing and settlement systems for payments and financial instruments which then as a consequence might negatively also influence liquidity risk management.

On top of this more general – but important – remarks, we want to comment on a technical aspect of recommendation 1 in more detail in section B.

B. Comment on recommendations

Recommendation 1

Recommendation 1 puts the duty of defining liquidity risk strategy including setting of management policies and further details into the responsibility of the Board of Directors.

While we are in line with the material part of the recommendation as such, we disagree to put this task to the Board of Directors. This is especially true for companies with a two tier management structure where the Board of Directors is usually interpreted as being the supervisory body. The CEBS recommendation argues on the base of Annex V of the Directive 2006/48/EC. There, the management body is in charge for the tasks in question and moreover it refers to article 11 of the directive itself which relates to *“at least two persons who effectively direct the business of the credit institution”*. In consequence, it should be - in our point of view - the executive management according to article 11 of directive 2006/48/EC which should be in charge related to the tasks recommended and not the Board of Directors.

In addition to our arguments above, we want to point out, that the current draft version of the Basel Committee on Banking Supervision on “Principles for Sound Liquidity Risk Management and Supervision” published on 17 June 2008 acknowledges the different meaning of “Board of directors” in different countries and has put a caveat in footnote 4 related to the matters in discussion in its principle 3.