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**CEBS TECHNICAL ADVICE TO THE EUROPEAN COMMISSION ON LIQUIDITY RISK MANAGEMENT**

APACS Liquidity Managers Group have considered the Second Part of CEBS' Technical Advice to the European Commission on Liquidity Risk Management and are pleased to respond. The Group represents the liquidity providers for the major payments and securities settlement systems in the UK, notably the net payments schemes (Bacs, Cheque and Credit and Faster Payments) and the RTGS systems (CHAPS and CREST). The Group have no comment to make on the bulk of the Recommendations (although individual members may respond individually) but they have the following comments on Recommendations 11 and 18.

**Recommendation 11:** The Group considers that the wording of the Recommendation could lead to misinterpretation. Although payments in a gross system require sufficient cash and/or collateral to enable each payment to be made individually, in practice funds flow between payment banks such that the timely inflows permit constant and steady outflows. It is the responsibility of the liquidity managers to ensure that there is sufficient cash and/or collateral reserves available to meet any shortfall and they invest considerable effort in establishing a forecast of payments flows from the systems infrastructures and from their customers. It would raise the cost of running gross payments systems significantly if members were not able to take advantage of the offsetting capacity of payments flows between members intraday.

The Group also considers that the wording relating to net payment systems is misleading. It is true that each payment within the system is individual, but the final settlement of those payments is made net between the settlement banks. Often that final settlement takes place by means of the banks passing payments between themselves either within a RTGS system or directly and simultaneously across the books of their central bank.

Those final settlement payments must be made gross, but they are separate from the underlying payments within the net system.

Members of the Group consider that the Recommendation is designed to reflect Principle 8 of the Basel Committee on Banking Supervision's "Principles for Sound Liquidity Risk Management and Supervision". If this is so the wording of the CEBS Recommendation 11 could perhaps be more similar to the wording to the Basel Committee's Principle 8.

**Recommendation 18:** The Group are of the view that, while a qualitative disclosure of their strategies for liquidity risk management is acceptable, a quantitative disclosure is not appropriate and could even, in certain circumstances, be counter-productive. It is appropriate to include a description of liquidity risk management strategies in the balance sheet, for example. This provides stakeholders with information on the kind of action a firm would take to manage liquidity risk even if that risk materialised out of an off-balance sheet item.

But the publication of quantitative information requires a different approach. To be meaningful it needs to be timely, which implies a possibly significant investment in publication techniques. And publication carries significant risks that the information might be misinterpreted, and significant and possibly systemic damage could be done to the reputation of a firm.

Members of the Group suggest that the Recommendation should refer to qualitative information only and not discuss quantitative information.

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Secretary, APACS Liquidity Management Group.