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Euroclear response on CEBS' Technical Advice on Liquidity Risk Management

Euroclear welcomes the publication by CEBS of its Technical Advice on Liquidity Risk management. The Euroclear group is the world's largest provider of domestic and cross-border settlement and related services for bond, equity, derivatives and fund transactions. User owned and user governed, the Euroclear group currently comprises four CSDs (Euroclear Belgium, Euroclear France, Euroclear Nederland and Euroclear UK & Ireland) as well as EMXCo (the UK's leading provider of investment-fund order routing) and Euroclear Bank which is a limited purpose bank, offering banking services solely in relation to securities settlement and asset servicing. Its banking role is an essential component in delivering efficient Delivery versus Payment (DVP) settlement and asset servicing services to the European and global securities markets .

In general, we consider that the various recommendations made in the CEBS document are relevant and sound and should, if implemented, enhance the stability of financial markets. However, we believe that it is important to recognise that the nature and impact of liquidity and liquidity risk differs between sectors (for example credit institutions and investment firms) and that even within a sector the nature of liquidity risk differs according to the activities and specificities of individual institutions. It is essential that the recommendations are not too prescriptive, take into account the specific business and risk profile of each firm and recognise the principles of materiality and proportionality.

We have only one specific comment.

The practical implications of recommendation 11, which states that intra-day liquidity in payment and settlement systems should be managed on a gross basis, is not clear. We understand that it does not imply that collateral would need to be allocated to cover all individual outflows in a netting system, but rather that banks should be aware of the possible risks involved in the netting of intra-day flows. The final report should be explicit on this point.

In this respect, we would also like to point out that the discussion in Annex B on the liquidity management aspects of different designs of settlement systems is incomplete; only the advantages of a deferred settlement system (eg that liquidity need is not immediate) are mentioned, not the disadvantages (eg that incoming liquidity is delayed, giving less possibilities to re-use the liquidity elsewhere and, importantly, that the annex does not elaborate the benefits of intraday finality which reduces systemic risk). In addition, the same annex does not mention that the challenges of intraday liquidity management in a real-time gross settlement system can be alleviated by various forms of liquidity saving features in settlement systems¹.

We hope that these remarks can be taken into account when finalising the paper. If you require further information or clarifications please contact helene.deboeck@euroclear.com

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¹ Ref : *Recent developments in intraday liquidity in payment and settlement systems*, Banque de France – Financial Stability Review No 11, February 2008.