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EBF Response to EBA DP on Defining Liquid Assets in the LCR under the draft CRR

General Remarks

The EBF welcomes the EBA's discussion paper on Defining Liquid Assets in the LCR under the draft CRR which gives a very interesting insight into various methods of assessing the liquidity of instruments. Obviously there has been very valuable work done on the topic. Please find below our general comments and answers to your questions for your consideration.

Methodology already used

EBA and the national supervisory authorities could substantially benefit from using what is already in place and well tested in terms of the liquidity categories for marketable assets for the Eurosystem credit operations. This would promote smooth financial market functioning, under normal and stressed conditions. It is important to reduce as much as possible the uncertainty about the EBA working definition of the buffer for liquidity, both in terms of its length and of the final outcome.

In order to identify Extremely Highly Liquid and Highly Liquid assets a simple and pragmatic approach could be to adopt the "Guideline of the European Central Bank on monetary policy instruments and procedures of the Eurosystem" (paragraph 6.4.2. Risk control measures for marketable assets). The benefits are that it:

- will minimise any unintended negative consequence on smooth market functioning, and eliminate unjustified divergence from ECB
- efficiently and effectively leverages on the several years of experience and testing by the Eurosystem, and especially ECB risk management.
- leverages on the competence accumulated over years on an issue where securities supervisors and central banks may have important experiences to share.

The list of ECB eligible assets – which does not include gold, equities and commodities - is sufficiently broad in terms of issuer location (EEA plus G10), issuer type (all), asset type (all relevant), currency denomination (most relevant currencies) and creditworthiness. This implies that the Eurosystem scope is compatible with the EBA scope, since there should be sufficient information for EBA to make use of the Eurosystem classification for most of the relevant assets to be included in the LCR. EBA could focus its efforts on those asset categories not included in the broad list of ECB eligible assets or on minor countries and less relevant currencies or major non-EU currencies.

Should the above approach not be accepted, below we offer our comments on the proposed EBA methodology.

We support EBA objective to define Liquid Assets based on asset class and easy to get (publicly available) asset's characteristics, provided that the number of asset classes and subcategories are not too numerous and are flexible enough to reflect the evolution in assets or market environment.

As the classification process will need to be updated over time for changes in the market environment, it is important that the classification process is made transparent enough to enable banks to duplicate it so that they can anticipate changes in regulator-defined asset classes and avoid 'cliff effects' that would happen at each regulatory update. This would also be helpful in dealing with assets that are not covered by EBA methodology (i.e.: non EU assets). The possibility to duplicate the classification process will require that it is based on publicly available data (rather than on data available only to regulators, such as MiFID data).

Impact of Financial Transaction Tax

We also like to highlight the likely impact of financial transaction tax (FTT), expected to be introduced on 1 January 2014, on the liquidity of financial instruments. FTT will be 0.01% on derivatives and 0.1% on other financial instruments (including shares and bonds). It is important to note that FTT is not applicable at issuance but only on subsequent trading of securities. Proponents of FTT suggest that it is likely to deter excessive trading and promote market stability and long-term investing. Obviously, there is a compelling counterargument that the FTT will result in higher price volatility, increased transaction costs and cost of capital. This will also seriously impact the repo market and overall secondary market liquidity. An interesting comparison for the FTT was the implementation of similar scheme in Sweden during 1989 that led to massive falls in bond sales, futures and options trading, eventually causing the scheme to be withdrawn. In light of these concerns, some relaxation in the text is forthcoming whereby, for instance, Repo trades will be treated as a single transaction instead of two, halving the tax levy.

Good liquidity management requires banks to turnover their liquidity portfolios regularly by repo and outright sale so as to demonstrate both that:

- the assets are liquid and
- the market is not able to tell whether the bank is liquidating the asset in normal circumstances or because of a stress

Therefore the FTT will result in additional costs to banks to demonstrate liquidity and therefore such 'business as usual' management of liquidity portfolios might be reduced. This would result in additional, rather than less, liquidity risk.

The impact of the FTT might be that the market gives more focus to primary issuance (where the FTT does not apply) and therefore less trading in the secondary market. This could lead to a situation where banks are less able to find buyers for their liquid assets (especially in a stress) and also without suffering a more significant price discount.

Additionally, the FTT might lead to less dealing in the relevant currency due to the extra costs that banks will encounter as a result of their needing to hold corresponding liquid assets in that currency. Such

costs would ultimately be passed on to the real economy as banks seek to charge-out their costs of liquidity.

EEA centric view liquidity

The methodology is only focused on assets in the EEA, leaving a question mark over how banks will be able to justify non EEA assets. It is assumed the same methodology would be expected but other jurisdictions would need to opine. Collection of data should ideally be from *all* markets where the securities are traded. There must also be a possibility to locate and assess asset classes for all the securities that banks could have in their liquidity reserve. Otherwise there would be an unlevel playing field with non-EU owned branches not subject to CRR

Whilst we understand the convenience of restricting assets to EU currencies for analysis purposes, the exclusion of other currencies would result in a distorted view especially if certain asset classes are more liquid in non-EU jurisdictions such as the US. Also it is not clear how banks are supposed to deal with their e.g. US\$ net outflows and the liquid assets appropriate to them if EU confines its work to EU currencies. Any assessment of Liquid Assets criteria should be aligned to a globally consistent approach and we urge the EU to link up with counterparts in other jurisdictions.

Alignment with Basel

The explanatory characteristics look sensible; however we would point out that the Basel text already hard codes some asset specific characteristics and we would like to understand how these have been determined, notably with regards to ABS:

- The Basel document allows RMBS but excludes other ABS such as consumer ABS (this is inconsistent with ECB Eligibility definitions, RWA treatment). How has this distinction been determined? We would like to consider whether a broader range of ABS is eligible.
- Next to this point, the fact that covered bonds with ratings below AA- are not considered eligible under the LCR creates a disparity versus other instruments which are less liquid such as low-rated corporate bonds or even sovereigns.
- The Basel proposal allows RMBS with an average LTV of 80% or less only. We would like to consider whether a broader range of RMBS could be considered eligible, given that some RMBS demonstrate a wide range of other attributes that signal very high credit quality
- We would like to highlight the fact that specific conditions (may be useful to give an example) created illiquidity with respect to ABS assets in 2008/9 which do not exist today i.e. the price performance /liquidity of ABS in the second half of the 2008-2012 period is very different to that of the first part of the period.
- How is the remaining time to maturity defined for ABS (e.g. expected final maturity v legal maturity).
- Will EBA look at other commodities than gold?

Use of repo market

Definitively, no process for defining Liquid Assets can ignore the importance of the repo market (bilateral, tri-party or CCP-intermediated repos): this is a serious omission in the suggested EBA methodology.

Haircuts

EBA methodology suggests deriving the regulatory haircuts for Liquid Assets from the volatilities of the values of those Liquid Assets. This has several shortcomings:

- It would ignore the ‘flight-to-quality’ effect of most of the assets eligible for Liquid Assets. For those assets, this should result in ‘gross up factor’ rather than a ‘haircut’ factor;
- As the haircut would be applied to each Liquid Asset, it would ignore the diversification effect between the different assets, even though the diversification is a requirement for the liquidity buffer;
- It would most probably gold plate BCBS proposal with higher than BCBS proposed haircuts, even though no other jurisdiction is in the process of such gold plating.

Level Playing Field:

If the EBA classification process is binding for institutions subject to CRR, this will level the playing field within Europe but create a non level playing field since those institutions will compete with institutions that will not be subject to CRR (such as European branches of US institutions) and operate on the very same assets. To avoid the non-level playing field, we suggest a requirement to harmonise with other jurisdictions in their application of BCBS proposal, before applying those EU-specific requirements.

Ordinal ranking system

We are not sure how the ordinal ranking system will be linked to the determination of liquid assets, as ordinal scales can only provide a ranking, but they cannot provide a relative degree of difference between the ranks, i.e. the relative differences in liquidity of the instruments. We urge a more risk-based approach. Moreover ranking by asset class is too simplistic for this purpose.

The idea of having certain explanatory characteristics for each asset class may lead to a problem with the ranking of comparable assets in different asset classes. Especially, the proposed characteristics of covered bonds seem to be too extensive, especially when compared to similar asset classes (see annex 4).

Relative versus absolute liquidity metrics

Despite a common EU security market, local idiosyncrasies at national level within Europe still plays a key role. Additionally, differences in the security markets in terms of products design, investors profile, etc. create divergences in the liquidity behaviour of liquid assets among countries. Therefore, the proposed metrics should face this challenge calculating the rank of asset classes by either absolute terms or relative terms.

In order to capture all the local characteristics, we believe that liquidity should be measured in relative terms rather than in absolute terms, since product types and market behaviour in the EU differ from one country to another.

The key element in implementing a relative approach is to identify which asset should be considered the anchor. So, we propose to use the sovereign debt in each jurisdiction as the anchor asset. In fact, this approach is aligned with the ECB discount policy methodology and the risk-free assets in the CRR.

In this regard, the ranking methodology should be based on *relative* terms, comparing for instance, securities issued in each country with the sovereign metrics.

Complexity vs. Simplicity

We note that it is not the intention to have banks run this assessment methodology but only to apply its assets to the resulting assets classes to be published by the EBA, after the EBA has finalised its process to obtain classes that are defined on simple and publicly available data. The EBF believes that the suggested model would be too complex to be carried out in practice by banks, not to mention that the data are not available to all banks. To collect and carry out tests with the purpose of establish the liquidity standards in this way for every reporting moment is not feasible. It will be essential however that the process that is applied by EBA is disclosed so that it can be duplicated and reviewed by institutions.

Our opinion is that focus should be on the factors that have a certain explanatory value for the securities' liquidity. For instance, we cannot be certain that there is a negative correlation between bid-ask spreads and the liquidity in a security that is traded in a market that is organised as a market maker market. When the stress in the market increases, you could probably see higher spreads but that could be seen as a way to keep some liquidity in the market. The causality is not crystal clear. Additionally, the reliability of bid/ask spread data is questionable since it does not necessarily convey the actual bid/ask spread for actual transactions' executions.

Though this is a complex model with a lot of explanatory factors, we understand that the authority still would like to have the freedom to rank the asset classes due to a methodology that will not be precise ex ante. With this in mind it is seriously hard to assess the model. Once again, the EBA process that leads to asset classes' definitions should be made public once completed.

Differentiating Extremely Highly Liquid and Highly Liquid

It is not clear to us how the boundary between Extremely Highly Liquid and Highly Liquid will be drawn (vs. the Highly Liquid vs. not Highly Liquid).

We would like to understand the approach that will be taken to measure the relevant importance of the components of the liquidity metrics.

- How this will be defined and how this will vary across asset classes/positions?
- If it is expected that this will be left to local regulators to define we would be concerned about the lack of a level playing field in this regard.
- How will the relative asset concentration limits be established?

It would be helpful to see a worked example to explain the above.

Qualitative vs. quantitative approach

EBA has taken a quantitative approach to the Liquid Asset challenge. In our view, more emphasis should be placed on qualitative aspects. Historic data will not always guide the liquidity of assets in the future, as we have seen in moving from the crisis of 2008, when all sovereign debt was considered liquid, to the Euro crisis when some sovereign debt lost its liquidity. Furthermore new factors, such as the proposed Financial Transaction Tax are likely to make the relative liquidity of different instruments alter over time.

So, whilst we applaud the proposed quantitative work done to date, we believe further thought is required in addressing the qualitative overlays that may be necessary.

Frequency of categorisation

We suggest that it is important that the asset classes will be questioned and redefined in a timely matter. These changes cannot be too often but it must be in a predictable manner. If these changes will depend on changes in the market, a change in these categorization could worsen the turbulence in the market. Therefore it could be suggested that a redefinition of the asset classes could be done once a year. This will of course lead to increased volatility in the market but less than if the market cannot predict when changes will happen.

Pro-cyclicality

Moreover, EBA may not be willing to endorse the responsibility of magnifying the market liquidity of such and such asset class by making it eligible or non eligible to Liquid Assets. Indeed, as the market and asset classes evolve over time, EBA will need to update regularly its analysis, with this magnifying effect happening immediately on each new release of EBA Liquid Asset classification.

Whatever the Liquid Asset classification process, its potential procyclicality should be analysed carefully. A method would be pro-cyclical if Liquid Assets would cease to be eligible as Liquid Assets in a crisis.

Promoting internal liquidity risk management

It would be sound for actual liquidity risk management, beyond regulatory liquidity risk management that consists of ensuring that regulatory ratios are passed, that banks own the analysis of the liquidity of the assets they hold to mitigate a liquidity crisis.

Answers to Questions

Q1. Given the difficulties with obtaining transactional data outlined here, do you think a data sample cover 2008-2012 is sufficient for this analysis? Would you see merit in extending the sample in those countries where more data is available?

The EBF believes that data from 2008 was crucial but data over a longer than 4 year period may be desirable. In any case the data should include stressed periods and be updated regularly and care should be taken to recognise pro-cyclical effects. However we note that not much actually traded during 2008 – e.g. EIB paper did not.

However, longer time periods will also cause more difficulties such as system breaks because of market disruptions and new regulation. In this sense, taking into account only a 4 year period from 2008 to 2012, we will only be able to obtain a data sample covering the period of the recent crises. The desirable period should be long enough to include some years that do not belong to a crisis period.

The timeframe 2008 to 2012 can be seen as a period of high influence from activities stipulated from the changing regulatory environment. The hereby induced level of uncertainty may have led to a behavioural adjustment of some business activities during this timeframe, influencing the analysis on

liquid assets. For instance, dot-com stocks were probably less impacted liquidity wise than euro peripheral bonds but the opposite might have been true in the 2001 dot-com burst. Hence conclusions drawn from the 2008-2012 data need to take into consideration the type of macroeconomic stress that was involved and that underlies the current fragmentation of European markets. Hence it is deemed necessary to extend the timeframe as much as possible to more available data in order to have a clear picture of structural and temporary business changes.

On the other hand this is the stress period that led to Basle III LCR regulations. Securities that have been liquid during that period (not only in cash markets but also in repo markets) should qualify especially for LCR. Extending the period further out should support the results that are obtained from the suggested period, e.g. government bonds and covered bonds have been liquid also before 2008.

It might also be advisable to look at what assets are used for collateral and measure how the value of those assets changed during the agreed observation period.

Q2. Do you have additional data sources to suggest? Specifically, can you suggest a source of repo data and gold that would fit our needs?

The usage of MiFID data as a transaction based data base for debt securities seems reasonable as one of the components to consider. Additionally another data source for debt securities could be data from third party providers which frequently receive trade information from market participants. This could be clearing agents or third party data providers like Bloomberg or Markit. Perhaps dealers/market makers could provide the required data instead as well.

However, data on securities trading **must** be supplemented with data on repo markets; (bilateral, triparty, CCP-intermediated); even though the EBA has concluded that a source that would enable examination of the volume of trading at an ISIN level across the asset classes covered in the EBA report is not available. Although there is still a large part of repo transactions that is done OTC, it is possible to obtain repo data covering ECB eligible collateral. This can be obtained from EurexRepo; they publish the GCPI index family based on turnover in the GC Pooling ECB basket (DE000A0AE077) and the GC Pooling ECB EXTENDED basket (DE000A0WKKX2). Brokertec (ICAP) and MTS (majority owned by LSE) publish the RepoFunds Rate daily repo index for euro zone sovereign bonds. Also repo information is available in the following platforms:

- LCH
- CC&G.
- Astec (SunGard)
- Equilend.
- The Eurex platform
- MTS Repo and
- Clearstream

The European Repo Council (ERC) of the International Capital Market Association (ICMA) is already implementing initiatives and working groups discussing liquidity issues of repo business. Hence it is worth involving respective members in the analysis and to check with them on work already done.

They also conduct semi-annual surveys of the repo market in Europe which might be useful for the analysis.

Q3. Do you agree with the list of liquidity metrics under consideration to be used in the EBA assessment, as mentioned in this section and Annex 5? Can you suggest further metrics the EBA should make use of, where information would be available?

There is no disagreement with regard to individual members of the list being relevant, even though the mechanisms may not be absolutely unambiguous. Furthermore empirical studies have shown that the usage of all the metrics might lead to a very limited list of Liquid Assets.

As an example it could be questioned whether the regulatory framework (and in particular the liquidity framework) should give external credit ratings the same weighting as other factors. Many European economies have strong corporates with an excellent credit and issuance track record although they are not externally rated.

In the case of the rather rare examples of unrated multinationals, such as SAP AG, the requirement to belong to a stock index should be considered as a compensating criterion. Alternatively a shadow rating as generated by a central bank could be considered as a compensating criterion for liquidity. The shadow rating would further allow assessing other externally unrated and potentially liquid corporates. Additionally there are other regulatory initiatives which counteract some liquidity metrics. For instance the financial transaction tax legislation will have a serious impact on the minimum trade volume of the assets, average volume traded and average trade size respectively, maximum bid/ask spread, just to name some. This will affect the pool of available liquid assets.

We also note that the metrics focus too much on liquidity in *cash* markets. As liquidity can also be generated via *repo* markets, the criteria eligible for liquid repo baskets should also be added and examined. In a liquidity crisis it can be expected that not only the cash market but at least to the same extent the repo market will be used to generate cash. The analysis must also consider repos (repo rates, haircuts and maturities of the deals..). These are the items that support the transaction and the possibility of transforming that asset in liquidity.

This is important in particular for repo business traded in an organised market with a central counterpart, such like Eurex (GCPooling). There should be an agreement with the clearer on asset classes or issuer types that must not be a constituent of a basket ('classic', 'extended'), but for all other eligible assets the basket as such should be considered as 'extremely highly liquid' or 'highly liquid' (Level2). In other words, **the constituents being eligible under the basket should form a separate 'asset class'**.

Furthermore, the liquidity metrics seem to be biased by dimension: bigger markets, higher volumes seem to benefit from the definitions proposed. But liquidity is a relative concept, it needs to be assessed vis a vis the relevant market.

Another example of the need for a closer assessment, is the assumption that instruments having shorter "remaining time to maturity" are less liquid, because to a greater extent being "locked in" (page 14). Against this it can be argued that in times of stress, investors tend to ask for shorter maturities, thereby *increasing* demand for "short remaining time to maturity" instruments.

Finally, in annex 5 of the paper (pages 42 - 44) the EBA identifies 24 metrics (or factors) that might be used to identify the liquidity of a particular instrument. We would like to understand what weighting the EBA will apply to each metric (or factor). How will that weighting be defined and will it vary across

different asset classes? How will the relative asset concentration limits be established? Will any of these issues be subject to national discretion, which might lead to unlevel playing field.

The provision of a worked example would be helpful to help explain the above.

Q4. Do you agree with the list of explanatory characteristics whose linkage to liquidity it is proposed to be tested in the EBA assessment? Can you suggest further characteristics the EBA should assess?

In general there is no disagreement with the explanatory characteristics. Nevertheless the same argument as referred to in question 3 is valid too. Regulatory initiatives like Solvency II may affect the range of potential buyers and hence would have an impact on the set of liquid assets. Also the dependencies of some characteristics should be mentioned; e.g. the lesser the range of potential buyers the more are banks inclined to reduce market making and availability of additional platforms and markets. Consequently this will weaken the liquidity of an asset (class). Therefore the inclusion of repo markets relevant criteria as outlined in Q3 is essential.

We further expect the list is to be complemented with institution specific aspects, such as the share that the institution owns in relation to the total outstanding amount in the market or the share that the institution owns in relation to the total liquidity buffer of the institution (concentration).

Furthermore, it should be mentioned:

1. "Presence of a large number of market makers" tends to be naturally interpreted as a "minimum requirement". Such a requirement would rule out a large number of instruments. Furthermore, the presence of large number of market makers in normal times does not necessarily guarantee that the instruments are easy to sell in turbulent periods.
2. "Trade via additional platforms and markets" will of course give higher probability of making it possible to sell an instrument in a catastrophic situation. However, it is not obvious that the liquidity of the instrument generally is enhanced by spreading the trade over more than one market.
3. "Remaining time to maturity" - see reflection on Q3 above.

Q5. Do you agree with the methodology proposed? Do you have alternative approaches that might be used?

The EBA's proposed methodology, focused on the analysis of identifying the more liquid asset classes. However, some alternative methodologies should also be considered, since this methodology has the drawback that some figures may be correlated. A first alternative could be a methodology based on a weighting approach. The EBA would identify an overall weighting for different categories of liquid asset attributes, as for instance transparency, market structure or risk. In turn, each metric can be weighted. A second alternative, although more complex, would be to develop an analysis of principal components that has the advantage of avoiding correlation.

The overall methodology of developing a scorecard for asset classes seems reasonable to determine the liquidity ranking of asset classes. Similar approaches have been followed by several market participants and associations. However as mentioned before it is important to evaluate the impact of an over-fitting using the prescribed metrics and explanatory characteristics as well as to consider the counteracting impacts from other regulations or regulatory initiatives (e.g. Financial Transaction Tax, Solvency II) in order to avoid unintended distortions in the proposed liquidity metrics and explanatory characteristics.

It is however not clear as to the relative ranking of each of the 24 liquidity metrics when indentifying the liquidity of a particular instrument. We would like to understand how that weighting will be defined and will it vary across assets classes? Will there be any national discretion in this?

We also think that there will be issues regarding of the comparability between asset classes that incorporate large variations in liquidity. We assume that there will be asset classes that incorporate assets that, from a liquidity perspective, could be more suitable in another asset class but have the characteristics of a common asset class. As an example, we can see that certain government bonds have less liquidity than certain covered bond. When it comes to smaller asset classes these problems will be larger. This could be handled if there is a possibility for the investing bank to change some securities' from one asset class to another because of certain proof of liquidity.

As we have mentioned before, we have to keep in mind that although we are in a common market local idiosyncrasies still remain at the national level. For this reason, we believe that liquidity should be measured in relative terms and not in absolute terms, since product typology and market behaviour in the EU differ from one country to another. In this regard, the ranking methodology should be based, for instance, on the sovereign bond's benchmark in each country. Liquidity will be measured in comparative terms with respect to the free-risk asset in each jurisdiction where moreover the ECB has already established sovereigns in its discount policies.

The methodology must ensure that the outcome is a relative wide range of eligible securities, because in a general liquidity crisis a lot of market participants will be on the same side (taker in cash, seller in securities). If the eligible basket is not well diversified (e.g. everybody is long on Bunds) then that market might become illiquid soon.

The methodology further has to ensure that the following issues are considered in a reasonable manner:

- How to treat new issuances where no historic data is available.
- Is an asset with no offer but only bid sides in the market deemed to be liquid?
- How to ensure that an asset is treated consistently in different banks? If an asset is liquid for one bank, it should be liquid for another bank as well (as long as both banks sit in the same jurisdiction). There shouldn't be an idiosyncratic reason for liquidity.
- How to deal with outliers?
- What is the governance of changing the definition to asset classes when this is required due to structural market changes?

We would like to emphasize to complement the backward looking methodology with a forward looking methodology, taking into account qualitative aspects, such as future regulatory developments. In fact the qualitative aspects should get more weight than the quantitative aspects, since recent history has proven that market circumstances can change rapidly. As regulatory developments e.g. FTT have a significant impact on the market, history becomes less relevant. The list of asset categories to be investigated should include instruments issued by PSEs as a separate category.

Moreover, since in some banks from peripheral countries the vast majority of assets have not been liquid in recent years, subjective factors such as "key financial asset in a market" should be incorporated in the methodology established by EBA.

This analysis will help further refine the ordinal rankings that will have been produced, enabling to differentiate the liquidity of different groups of assets according to their explanatory characteristics.

Also since this methodology is based on two components - rating and liquidity - which are the characteristics of Liquid Assets, the application of these criteria to some banks has a complicated effect as their portfolios have national sovereign bonds which do not comply with the defined requirements of ratings and liquidity.

If the methodology is very strict, Portuguese Bonds would for example be classified not as Level 1 Assets, with 0% haircut, but as Level 2 Assets with 15% haircut (according to actual hair cut) or as non-Liquid Assets.

This becomes quite absurd as banks that have those assets can use them to obtain liquidity in other banks or in ECB, through repo. As such, this question has to be taken into consideration when an asset is classified as liquid.

'Basel III: The liquidity coverage ratio and liquidity monitoring tools – January 2013' defines Level 1 assets in paragraph 50 points (a) to (e). Specifically, point (c) defines marketable securities and points (d) and (e) allow for the inclusion of non-0% sovereign bonds. This point is very significant as Basel III is making a distinction between marketable securities which have to meet the criteria/conditions of traded in large, deep and active repo and cash markets and proven reliable source of liquidity in times of stress and non-0% sovereign bonds, presumably less marketable securities but qualify as Level 1 asset all the same if issued in the same currency in which the liquidity risk is being taken.

Similarly, the above paragraph 50 would be in line with 'CRDIV Article 404 – reporting on liquid assets' paragraph 1 points (a) to (d) whereby a distinction is made between transferable assets that have high and extremely high liquidity and credit quality points (d) and (b) respectively and point (c) transferable assets representing claims on or guaranteed by the central government of a member state etc.

Taking the above two references into consideration, the methodology on defining high quality liquid assets as set out in the EBA Discussion Paper should apply only to securities/bonds other than sovereign securities/bonds or sovereign securities/bonds issued by the bank's home country or currency in which the liquidity risk is being taken.

Similarly in the case of assets referred to under 75(d) which are approved as having extremely high liquidity and credit quality should not be subject to the methodology.