CEBS

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EAPB comments on CEBS' consultation paper regarding Liquidity Buffers and Survival Periods

The EAPB very much welcomes the opportunity to comment on CEBS' draft guidelines on the appropriate size and composition of liquidity buffers of credit institutions.

We very much welcome CEBS' approach to give principles-based guidance. In general, EAPB considers principles based regulation as indispensable in order to take account of the variety of business models and the differences in liquidity risk management. In particular, we welcome that CEBS refrained from listing assets which may serve as liquidity reserve.

Although we acknowledge that CEBS considered the economic implications of its recommendations during the consultation period, we would very much welcome CEBS conducting a proper impact assessment in order to assess the potential negative effects of these guidelines on capital markets.

Finally, we very much appreciate CEBS' adherence to the principle of proportionality throughout the draft recommendations.

In the following, we would like to submit our detailed remarks on the guidelines contained in the consultation paper.

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- Guideline 2 (stress scenario)

As to the idiosyncratic stress scenarios, the EAPB feels that the description given under para 38 of the draft guidelines is too detailed. According to draft guidelines, it is e.g. plausible that no rollover of unsecured wholesale funding would take place in the acute phase of the stress. The EAPB considers this assumption being too conservative. Even at the peak of the crisis this assumption could not be empirically substantiated. The said assumption should therefore only be used as an example for an idiosyncratic stress scenario which is not automatically relevant for all institutions. Although we acknowledge that in a stress situation the funding possibilities will deteriorate considerably, funds can continue to be raised on the money market to a limited extent. We take the view that institutions should be given the possibility to use other assumptions regarding the rollover in phases of stress in particular for credit lines of wholesale customers to which the institution has a strong customer relation.

- Guideline 3 (survival period)

We do not consider it mandatory to consider two survival periods, i.e. one week and one month. This would lead to an unnecessary additional burden for the institutions. To our understanding, the two-tier construction only ensures that the liquidity buffer is composed of appropriate assets which can be liquidated under the assumed stresses. The EAPB members do however not see any controlling impact from this two-tiered construction. Therefore, the institutions should determine their liquidity buffers in a way to withstand both, a moderate longer stress as well as acute short-term stress within a month. Hence, we plead for a one month survival period only.

- Guideline 4 (composition of the buffer)

The EAPB takes the view that the central bank eligibility should be the only and decisive criterion for securities to compose the liquidity buffer. Institutions rely on the fact that they can use central bank eligible securities for their refinancing with the central bank.
CEBS' additional requirement that securities which constitute the core of the buffer to cover the acute phase of stress should also be highly liquid in private markets would assume a situation where banks would not be able to use parts of their central bank refinancing facility for the liquidity buffer. As a consequence, the liquidity situation of an institution would be presented worse than it is in reality. Moreover, the criterion of central bank eligibility is also based on market liquidity.

Not least, objective criteria for "highly liquidity in private markets" have to be defined.

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We therefore advocate deleting the requirement that assets have to be highly liquid in private markets.

- Guideline 5 (diversification of assets)

We fully agree with CEBS that an adequate diversification of securities to serve as liquidity buffer is important for the liquidation on the market.
However we question the requirement that concentrations should also be avoided for central bank eligible securities. In our view, such a concentration would be harmless, as far as the concentration limits set by the central bank for delivery are not exceeded.

Furthermore, the requirement set out in para 64 that firms should seek to be active on a regular basis in each market in which they hold assets for liquidity purposes seems to be excessive for smaller and retail oriented institutions. Those institutions would face very high transaction costs in relation to the traded volume. Even institutions which are more capital market oriented and central banks should only be required to adhere to this requirement at random.

Should you have any questions, please do not hesitate to contact us.

Kind regards,

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The European Association of Public Banks (EAPB) represents the interests of 34 public banks, funding agencies and associations of public banks throughout Europe, which together represent some 100 public financial institutions. The latter have a combined balance sheet total of about EUR 3,500 billion and represent about 190,000 employees, i.e. covering a European market share of approximately 15%.

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