

## CEBS Consultation paper 36

### Consultation paper on CEBS' Guidelines on Liquidity Cost Benefit Allocation

#### Euroclear response

The Euroclear group is the world's leading provider of domestic and cross-border settlement and related services for bond, equity, fund and derivative transactions. User owned and user governed, the Euroclear group includes the International Central Securities Depository (ICSD) Euroclear Bank, based in Brussels, as well as the national Central Securities Depositories (CSDs) Euroclear Belgium, Euroclear Finland, Euroclear France, Euroclear Nederland, Euroclear Sweden and Euroclear UK & Ireland.

We are pleased to be given the opportunity to provide our view on the consultation issued by the Committee of European Banking Supervisors regarding *Guidelines on Liquidity Cost Benefit Allocation*.

#### General comments

We wish to draw your attention to the fact that some institutions are single-purpose and offer services that fall within the scope of one single business line, as defined under Basel II. This is the case of Euroclear Bank, whose services aim at facilitating the post-trade processing of clients' transactions. Euroclear Bank's liquidity needs are related to the provision of such services to clients only. Any liquidity needs arise as a consequence of clients' use of intraday credit facilities offered by Euroclear Bank to facilitate the smooth settlement of securities transactions.

Generally, the exposures resulting from such credit provision last less than 24 hours. The duration varies with the sources of exposure and funding. Participants for which cash flows are mainly driven by securities purchases and sales within the Euroclear System in a back-to-back mode, may need credit only for a few milliseconds, to allow the chain of transactions to settle. Exposure that needs to be funded by either cross-border deliveries or credits on Participant accounts from external counterparties tends to last longer, up to several hours. Only in unforeseen circumstances (primarily as the result of settlement failures or delayed credits), part of the exposure can become an end-of-day overdraft retained in the books of Euroclear Bank until the next day.

As intraday credit is free of charge, Euroclear Bank does not face any material direct liquidity costs. Only limited liquidity costs arise when debit positions on participant accounts are not resolved by the end of the day, or when collateral needs to be posted to allow cross-border settlement for clients in the Eurosystem or UK CSDs. Indirect liquidity costs are the main liquidity costs borne by Euroclear Bank; they result from the necessary committed facilities that Euroclear Bank needs to obtain from other credit institutions in order to be able to continue operating in contingency situations without suffering from liquidity strains.

We believe that it may not be meaningful for single-purpose institutions to allocate liquidity costs at a granular level, as all business units contribute to providing the core services in which such institutions are specialised. More particularly, in the case of Euroclear Bank, liquidity risk and costs predominantly arise as a consequence of the intraday credit that the Bank provides to its Participants. Credit usage is related to Participant behaviour, and cannot unambiguously be related to particular



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products, services or business areas. Where liquidity needs can be clearly related to particular services, as is the case for collateral posted in local markets to allow cross-border settlement, the cost of such liquidity is appropriately taken into account in the pricing of such services.

### **Specific comments**

Guideline 4: “for uncommitted credit lines [...], the business units granting the facilities should be charged in a manner similar to that applied to committed lines”

We understand CEBS’ view that credit lines, committed or uncommitted, may expose any institution to liquidity risk. However, we believe that charging the business units granting the facilities cannot be applied to the unconditionally revocable credit lines that Euroclear Bank provides to its clients, for the reasons outlined here above. In addition, it should be noted that, in the case of Euroclear Bank, the Credit Department, which rates Euroclear Bank Participants and grants credit lines, is not a profit centre. It does not derive any benefits from the credit that is granted, so that it does not have any incentives to potentially consume more liquidity than would be optimal for supporting Euroclear Bank’s services. This is appropriate, as Euroclear Bank only grants credit to facilitate securities settlement; such credit is not remunerated.

### **Contact**

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