Nederlandse Vereniging van Banken

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Committee of European Banking Supervisors
Via email cp36@c-ebs.org

Date June 10th, 2010
Reference BR1172\2

Subject: NVB Reaction to CEBS consultation on Liquidity Cost Benefit Allocation (CP36)

Dear Sir, Madam,

The Dutch Banking Association[1] (NVB) welcomes the opportunity to comment on Consultation Paper 36 on liquidity cost benefit allocation. We appreciate the efforts taken by CEBS to provide guidance on this topic which, in our view, is very important to banks. Making sure the costs of liquidity risk are understood and allocated internally is important for conducting business, as liquidity characteristics of products significantly influence the funding- and buffer requirements. The paper reflects mechanisms that already received a lot of attention from our member banks and forms a welcome addition to the efforts that our members have already taken.

Although we generally endorse the guidance that is provided in the consultation paper, our main concern relates to the level of descriptiveness that is provided in certain sections of the document.

A first example of this concern relates to the allocation of indirect liquidity costs. If the tenor of an instrument and the funding used match, the costs of contingent liquidity should be zero. Banks should only be required to allocate the liquidity cost to the current instrument and should not have to assume any additional costs for potential roll-overs that could occur. These costs should be taken into account separately at maturity in case the instrument is rolled over.

The second concern relates to the mismatch liquidity costs. If an instrument is funded using a shorter tenor than the instrument itself (for instance a three year loan that is funded by paper with a three month tenor), a longer tenor of the funding would come at a premium. The transfer price of the funding should therefore be set at a level that takes all of the cost elements into account.

The third concern relates to the internal price setting of liquidity, which is covered in paragraph 25. This section describes how transfer prices should be calculated in detailed terms, while there are also other options available to banks. We request CEBS to either make clear that the proposed approach is an example, or to state that other methods that are fit for purpose for an individual institution are also regarded as eligible approaches under these guidelines.

[1] The Nederlandse Vereniging van Banken (NVB) is the representative voice of the Dutch banking community with over 90 member firms, large and small, domestic and international, carrying out business in the Dutch market and overseas. The NVB strives towards a strong, healthy and internationally competitive banking industry in the Netherlands, whilst working towards wider single market aims in Europe.

Next to the examples relating to the discriptiveness of the consultative document, we are unclear about what is meant by paragraph three on page five. We kindly request you to clarify this paragraph in the final version of the guidelines.

Regarding paragraph seventeen we feel that the charge for uncommitted lines of credit that is proposed in the consultation paper does not match with the proposals that have been put forward by the Basel Committee in '*International framework for liquidity risk measurement, standards and monitoring*', where exclusion of uncommitted lines is proposed. We acknowledge the potential moral hazard that is possibly associated with not granting roll-overs of uncommitted lines, as this might have an impact on the reputation of the institution. However, incorporating these roll-overs into the liquidity transfer price based on a treatment that is similar to the approach of committed lines is overly strict and does not reflect the uncommitted nature of these lines.

This concludes our feedback on the consultation paper. Should you have any questions, please feel free to contact me at your convenience.

Kind regards,

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