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	BSBV 115/Dr.Ru/Br	3137	16th of July, 2008

Re: **CEBS Consultation Paper on liquidity risk management**

The Bank and Insurance Division of the Austrian Federal Economic Chamber welcomes the opportunity of this public consultation to express its views on some of the issues stated in the document and would like to comment on the second part of CEBS's technical advice to the European Commission on liquidity risk management as follows:

General remarks:

- First of all we appreciate that CEBS points out the principle of proportionality.

- Furthermore, we welcome the well-established basic principles of essentiality and individuality in the monitoring of liquidity risks, as may be concluded from Recommendation 20. In contrast to market risk and credit risk, however, there is no generally accepted standard model for the measurement of liquidity risk of banks. Nor does the current document contain any detailed evaluation of the methodological approaches that would allow regulators to make liquidity risk of different banks comparable and evaluate the risk irrespective of the specific institution.

  Each banking group has developed its own specific processes, procedures, forms of organisation and methods in order to deal with the liquidity risk inherent in the banking business. Based on the CEBS document, however, which is very prudently and carefully written in many respects, we do not expect a further wave of additional rules and notification duties.

  In our opinion, the crisis of confidence could not have been prevented merely though greater administrative expenditure and additional data requirements, as called for by Recommendation 22. It is therefore necessary to subject all the measures aiming for enhanced transparency to a cost-benefit analysis in order to avoid unnecessary administrative expense and mismanagement.

In light of the above-mentioned lack of a generally accepted standard model for the measurement of liquidity risk, Recommendation 28, according to which supervisors are required to ensure the availability of precise and up-to-date quantitative information, is too vague. We therefore also recommend that you give a more precise definition of the information that is supposed to ensure comparability of liquidity risk among different banks.

Specific comments:

ad) pt. I.1.4. (page 12 – Nature and definitions of liquidity and liquidity risk; also Recommendation 16 on page 48)

Liquidity buffer:
The given definition in the paper *[(...) unencumbered highly liquid assets (...)]* is to strict in our view. It should also include undrawn committed credit facilities on the liabilities side. Furthermore, the term "highly liquid" would need more clarification or should be deleted. The reason for that is that, based on different scenarios set in the Liquidity Management process, also assets which might be not readily available at very short notice could be used in a medium or long-term horizon. Additionally, assets which might be used to refinance operations at the very moment could be freed over a certain period of time – and in a given scenario (-Contingency Funding Plan) - become therefore unencumbered.

We generally agree, that a liquidity buffer (= certain amount of available collateral especially for Central Bank facilities + undrawn committed credit lines) is a key element in managing a short-term name crisis or systemic event. However, we would not like to see the absolute figure of the liquidity buffer as the only number on which supervisors can evaluate the liquidity situation of a bank.

Survival Period:
In the context of the liquidity buffer also the *survival period* is mentioned in this section. We would like to emphasize, that for the calculation of a survival period not only highly liquid unencumbered assets should be taken into account. In a severe stress scenario the bank might also consider a change in its business model which would maybe allow to sell or collateralize not so liquid assets. Again, in context with our arguments above we would not like to see the survival period as a benchmark for the soundness of the liquidity risk management process in a bank if only highly liquid assets are allowed to consider.

General remark to the active management of liquidity buffers which is also demanded in this point 4:
We would like to point out that a simple increase of the liquidity buffer by e.g. issuing long-term funding and buy highly liquid AAA-rated government bonds against it, is not improving the overall liquidity situation on the current level. As those assets could be only used in an emergency case the liquidity raised on the liability side would be neutralized by the purchase. Additionally, due to the rating situation of most banks (not AAA rated) this transaction would imply a loss in the portfolio due to the negative credit spread between banks and AAA-governments.

Building up or increasing the available liquidity buffer would need long-term changes in the Asset/Liability Management process and supervisors should take this into consideration when assessing the importance of the liquidity buffer and/or survival period figures.

ad) pt. I.2.21. (page 15 – What is a liquid asset)

"Thus banks should not rely too heavily on obtaining funding from central banks":
We think this recommendation should not be included in the statement. Firstly, the Eurosystem is based on the shortage of cash in the banking sector (Mandatory Reserve Requirement) which is balanced out through the ECB tender operations. Consequently, banks are forced to participate and retrieve funding from the ECB. Furthermore, banks with access to the Central Bank are the intermediate for small banks to receive funding. We see it as very counterproductive if the liquidity management process of the ECB is interfering with a recommendation of the supervisor.

The also mentioned "stigma" potentially associated with the usage of the Standing Lending Facility of the ECB cannot confirmed from our side. Since the introduction of the Eurosystem there was never anything like a stigma related to both Standing Facilities of the ECB. Nor has there been ever made the name of a bank or several banks public which was using the facility for whatever reason. The Standing Facilities are regular tools to fine tune the mandatory reserve account held with the Eurosystem as markets might not be as efficient in certain periods of time, e.g. the last day of the maintenance period.
As the crisis has shown, this is now also true for the facilities of the Federal Reserve System in the United States.

Regarding Recommendation 5, it should be noted that the appropriate IT equipment cannot be set up untilL 1) it is clear which regulatory requirements the banks will ultimately be expected to comply with and 2) a reasonable time allowance for implementation of such IT is available.

Regarding Recommendation 8, it is unclear how or according to which principles the consultation of SPVs/conduits for the purposes of liquidity management-should be carried out. In this respect, it would be helpful to have criteria or it should be pointed out that this is necessary also for balance sheet or risk management purposes.

Regarding Recommendation 18, it should be pointed out that such information, which would also have to be supplied in a timely manner and on a regular basis according to Recommendation 28, would cause enormous expense. It is unclear how much added value such information would offer, since statements on liquidity may become inaccurate from one day to the next, so that the possibilities of early warnings (point 30) by the banking supervisory authority or the consequences of such reports (point 28), namely that the banking supervisory authority itself should also measure the liquidity risk, appear to be excessive.

The decentralized sectors would like to have a clarification on whether liquidity alliance is to be considered a diversification of funding and certain functions of liquidity management between the associated institutions and the central institution can thus be provided jointly. Therefore it would make sense to specify in future statutory provisions that liquidity management can also be considered a form of service which can be provided jointly, particularly in a liquidity alliance.

Yours sincerely,

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