Groupe de Contact CEBS 2008 146

18 September 2008

Feedback to the consultation on CP19

1. The consultation paper on liquidity risk management (CP19 - answer to the 2nd part of the Call for Advice no. 8) was published on 17 June 2008. The consultation period ended on 1st August 2008. 28 responses were received, all but two of which (who asked for their comments to be treated confidentially) were published on the CEBS website. Respondents ranged from banking groups and banking associations to accountancy bodies, audit companies and payment and settlement systems.

2. In addition to the early consultation with the European Central Bank's Banking Supervision Committee (Task Force on Stress Testing and Contingency Funding Plan) in May 2008, comments were also received from the ECB's Payments and Market Infrastructure Directorate General in late August, as agreed with CEBS's Chair. Drafting suggestions were welcome on payment and settlement systems related issues.

3. The consultation paper was well received, echoing the positive feedback given during the 4 July public hearing. Therefore the changes proposed are limited and mainly consist of fine-tuning or clarification, except for Recommendation 11 on management of intraday liquidity positions, as anticipated.

4. Some respondents have also taken the opportunity to reaffirm their concern regarding the Commission's proposed changes to the CRD on large exposures and ask for a review of the risk weight associated with interbank exposures. As this issue has already been addressed by CEBS, it has been left out of the scope of the present analysis.

5. As a supporting document for the approval of the revised advice by CEBS members, this paper presents a summary of the key points arising from the consultation and the changes made to address them. It includes an Annex presenting detailed views on the comments received. It will also serve as a basis for CEBS's official feedback that will be published on the website.

6. For the purposes of assessing the comments received, a distinction has been made between:

   - general comments on key issues relating to the concept and content of CP19; and
   - specific comments, in particular on recommendations 1-3, 11, 16, 18 and 28-29 of CP19.

I. General comments

7. CP19 was welcomed by respondents although for sometimes differing reasons. Most respondents considered it helpful in providing a common understanding of key concepts relating to liquidity, liquidity risk, liquidity risk management and supervision as well as a useful clarification of supervisors' expectations on liquidity risk management in the light of the events in 2007-2008. Two respondents also supported CEBS's recommendations as highlighting best or good industry practices. A more widespread expectation is that CEBS's advice on liquidity will contribute to bringing more convergence over time in the approaches used in the supervision of liquidity risk management within Europe, particularly through the colleges. Respondents also stressed the need for broader global convergence and in this respect, welcomed the coordination with the BCBS's work.

8. The special focus put on proportionality was highly appreciated. Similarly, the choice of a principles-based approach was applauded even if a few respondents identified some developments as being overly prescriptive, notably in relation to Recommendations 2 (internal transfer mechanism) and 11 (intra-day liquidity management in relation to Payment and Settlement Systems), and in the design of stress tests. Linked to this approach, materiality as currently incorporated in the recommendations was welcomed, even if here again a few respondents thought clarification would be helpful. Overall, this paper is expected to foster dialogue between the industry and supervisors concerning the practical evolution of liquidity risk identification, measurement, monitoring and management.

The final paper states upfront in the introduction the principles-based nature of the recommendations and the need to read them in the light of the overarching principle of proportionality. The executive summary will further specify the need for enhanced dialogue between supervisors and controlled institutions in the context of implementing the recommendations under the proportionality principle.

9. A large number of respondents were strong supporters of CEBS's step towards possible reliance by supervisors on internal methodologies developed by institutions for liquidity risk management purposes.

10. Respondents also pointed out that CP19 rightly did not propose additional capital requirements to address liquidity risk.

11. Finally one respondent viewed CP19 as an important contribution towards recognizing the costs of mitigating liquidity risk, which has not always been the case in post-turmoil official discussions.

12. However, for a number of respondents:

a) **CP19 does not go far enough**. Eight respondents were particularly concerned that not only practices but also regulations should be harmonised. One of them noted that, at least, the objective of establishing a common European framework for liquidity risk management and supervision should be pursued. These comments echo those made on recommendation 29, which was deemed not to be demanding enough to match the changes in liquidity management or monitoring that is increasingly being done at group level. Therefore several respondents called for a more ambitious stance, highlighting the central part that the consolidating supervisor should play in the college to supervise liquidity risk and encourage the delegation of task for branches and subsidiaries.

CEBS has been given a mandate only to promote convergence of supervisory practices within the current EU and domestic legal frameworks, where it believes significant enhancements can already be achieved. However, a reference to the industry's expectations of harmonization of liquidity rules will be made in the transmission letter to the European Commission. Moreover, in line with other detailed comments received, Recommendation 29 will be strengthened to emphasize the need to avoid duplication of requirements where possible. Similarly, active consideration should be given to the delegation of tasks relating to the supervision of branches' liquidity. The role of the colleges was already mentioned and will be further supported by CRD changes.

b) A number of respondents stressed that the implementation of the recommendations, whether via Level 3 guidance or through inclusion in the CRD framework should be **timed to ensure a smooth interaction with Member State initiatives** to revise local liquidity standards. In order to avoid 'regulatory overload' for national supervisors and institutions, it was suggested that CEBS and the European Commission consult and coordinate with relevant Member States to establish meaningful and achievable implementation dates and to guarantee a smooth transition between national and European-wide liquidity regimes. Some recommendations have also been identified as requiring some time for them to be properly implemented (typically Recommendation 4 on internal allocation mechanisms).

The CRD changes on liquidity risk management and supervision will be finalised by April 2009. The implementation date is still unknown and will be decided upon based on the extent of the changes made, including but not only in the field of liquidity.

As for CEBS's recommendations, a new paragraph has been added at the end of the executive summary, specifying that, as CEBS's recommendations are principles-based and subject to the overarching principle of proportionality, it is expected that the implementation of the first 18 recommendations on liquidity risk management that target credit institutions and investment firms will foster dialogue with the relevant supervisory authorities.

As for the last 12 recommendations that target supervisors, CEBS is keen to ensure that they serve effectively as a common basis for the supervision of liquidity risk and liquidity risk management, especially in the context of changes contemplated/undertaken in domestic liquidity regimes, and thereby contribute to promoting convergence of practices. An implementation study to check members' degree of compliance and/or plans for compliance could be launched in 2009. (The work programme for 2009 is to be decided on in October 2008).

II. Specific comments

13. Most of the detailed comments focused on Part III, and more precisely on Recommendations 11 and 18, to which a majority of respondents reacted.

c) First, as expected, **Recommendation 11 on intraday liquidity management** has been redrafted: it is now aligned with the current Basel draft revised principle 8 and CEBS's concerns about monitoring on a net basis have been clarified in a new paragraph in the main text.

> ***New paragraph 133****: When using net payment and settlement systems, institutions could manage the related intraday liquidity on a net basis, provided that these systems are overseen by central banks, comply with oversight principles and standards and effectively mitigate settlement risks.*
>
> ***Revised Recommendation 11***
>
> *Regardless of whether an institution uses net or gross payment and settlement systems, it should actively manage its intraday liquidity positions to meet payment and settlement obligations on a timely basis under both normal and stressed conditions and thus contribute to the smooth functioning of payment and settlement systems.*

d) Second, respondents were keen to express their concern regarding **Recommendation 18 (disclosure of quantitative information)**, which could harm an institution's liquidity position, even under "normal conditions", and could turn the liquidity buffer into a minimum liquidity reserve. A few also stressed that if too much disclosure is required under normal conditions, institutions will have less flexibility available in term of disclosure when a stress situation occurs. There is strong support for further clarification of qualitative disclosure and enhanced dialogue with the supervisors.

> *The current drafting was deemed balanced enough since disclosure of quantitative information is mentioned but not required in Recommendation 18 and the need for a careful impact analysis is clearly stated before being in a position to have a more prescriptive position. No changes are proposed.*

14. Some respondents also commented on Recommendations 1-3 and 28-29.

e) As far as **Recommendation 1 (responsibilities of the Board and senior management**) is concerned, the request was made to better distinguish Board of Directors functions and executive management functions, notably in line with BCBS Principle 3. Recommendation 1 has been streamlined to better reflect the corresponding Basel corporate governance principle and a footnote including an explicit quotation from the BCBS report on 'Enhancing corporate governance for banking organisations' has been added.

> ***Revised Recommendation 1***
>
> *The Board of Directors should approve the liquidity strategy, policies and practices, developed by senior management. The Board should ensure that risk management policies are suited to the institution's level of liquidity risk, its role in the financial system, its current and prospective activities, and its level of risk tolerance. The Board should have a clear view of the risks implied by the institution's degree of reliance on maturity transformation and should ensure that an adequate level of long-term funding is in place. The strategy, policies and practices should consider both normal and stressed times and should be reviewed regularly, including (at a minimum) when there are material changes.*
>
> *The Board should ensure that senior management defines adequate processes and organisational structures to implement these strategies and policies.*

f) The principle underlying **Recommendation 2 (internal mechanism to link cost of liquidity and strategic incentives)** received general support but the mention of a transfer pricing mechanism, as an example of a cost/benefit allocation mechanism was deemed to be possibly misleading since they would not be designed to achieve the same objectives. The latter is directed to the measurement of performance, whereas the former is directed to the provision of incentives for the generation and use of liquidity, consistent with an institution's risk tolerance.

> *Without changing the underlying principle, the reference to a cost/benefit allocation mechanism has been deleted.*

g) Most of the comments although supporting the general thrust of **Recommendation 3 (segregation of duties between operational and monitoring functions)** were keen to insist that this should be done within each specific organisational setting, which is not in contradiction with the paper. One respondent suggested the inclusion of a requirement that the relevant liquidity risk experts should be associated with the analysis of the liquidity risk impact and mitigation prior to approval of new business initiatives. This suggestion was deemed to be helpful as it may contribute to closing information gaps between new product business and treasury.

> ***A new paragraph 92 has been added:*** *Liquidity risk impact and mitigation should be analysed prior to approval of new busines initiatives. Therefore, it is important that institutions' risk management frameworks ensure the timely involvement of relevant liquidity risk experts.*

h) As for **Recommendation 28 (supervisory reporting),** respondents strongly support reporting based on validated internal models (as far as possible). Some of them are worried that the references made to the use of standardised supervisory reporting frameworks may indicate that regulators will be able to access both standardised and internal reporting data which would impose a burden of dual reporting.

> *It was deemed premature to alter the recommendation in such a way before discussions have even started in this area. No changes proposed.*

i) On Recommendation 29, on top of the comments received from the industry, which are reflected above (I. 12 a)), the ECB suggested that, owing to the specific emphasis put on intraday liquidity risk challenges in CEBS's advice, it would be fair also to promote communication of information to overseers of payment and settlement systems.

> *It was not deemed appropriate to make such a change in the context of home-host cooperation, which specifically relates to banking supervisors. Moreover, such a statement is not necessary in the European Union where Article 49 of Directive 2006/48/EC explicitly authorises exchange of confidential information between supervisors and PSS overseers. Such exchanges are all the more meaningful in the context of a crisis, for which detailed provisions have been agreed upon between Finance Ministries, supervisors and Central banks in a dedicated Memorandum of Understanding on cross-border financial stability (1 June 2008).*
>
> *No changes proposed.*

15. <u>Last, some comments were also made on Recommendation 16.</u>

j) Comments received on **Recommendation 16 (liquidity buffer)** have been analysed in conjunction with comments made on paragraph 4 of Part I relating to the definition and composition of the liquidity buffer. As regards the composition of the liquidity buffer which is expected to consist of "unencumbered highly liquid assets", several respondents thought it useful to clarify that cash is eligible to be part of the buffer. One respondent thought that the wording was too strict as it would exclude undrawn committed credit facilities on the liabilities side. Indeed CEBS's position, in line with the Basel Committee on Banking Supervision, has always been deliberately to exclude off-balance sheet commitments, especially in the light of the events of 2007-2008. Another respondent called for precision on the process for building up and using such a buffer.

> *Clarifications to paragraph 4 and Recommendation 16 that the buffer should be composed of "<u>cash and other</u> unencumbered highly liquid assets" and that it should be "<u>built up during benign conditions</u>" have been made. No other changes.*

16. A number of other specific comments have also been accommodated by amendments to the text. Notably substantial streamlining of the presentation of liquidity risk management issues in relation to payment and settlement systems has been made, including deletion of one of the two dedicated annexes (former annex B) and inclusion of a reference to the ECB's "Blue Book". However, CEBS did not believe that all of the comments received justified changes in the text. The feedback table in the Annex and revised advice give a more comprehensive overview of how these comments have, or have not, resulted in changes.

ANNEX 1: Feed-back table on CP19 (paragraph numbers referred to in this table are those in the final advice, unless otherwise stated)

Draft text CP19	Comments received	CEBS Analysis	Amended text
General Comments			
Proportionality, principles-based approach & implementation	While the overarching principle of proportionality and the choice of a principles-based approach were highly appreciated, questions were raised as to their implementation: the advice was expected to foster dialogue with supervisors for identification, measurement, monitoring and management of liquidity risk. Some respondents also identified a few developments as being over prescriptive, notably in relation to Recommendations 2 and 11.	The final paper states upfront in the introduction the principles-based nature of the recommendations and the need to read them in the light of the overarching principle of proportionality. The executive summary will further specify the need for an enhanced dialogue between supervisors and controlled institutions with a view to implementing the recommendations under the proportionality principle. Recommendations 2 and 11 have been amended to follow more closely a principles-based approach.	See new paragraphs 6 and 22 on proportionality and the need for enhanced dialogue with supervisors in the introduction and executive summary. See also revised Recommendations 2 and 11
Harmonisation of practices and regulations	Eight respondents were particularly concerned that not only practices but also regulations should be harmonised, one of them noted that at least the objective of establishing a common European framework for liquidity risk management and supervision should be pursued. Several respondents also called for a more ambitious stance in relation to the role of consolidating supervisors, particularly regarding their roles in the colleges.	The scope of the Call for Advice is restricted to a technical analysis the current EU and domestic legal frameworks. One of CEBS's general objectives is to promote convergence of supervisory practices and it is the Committee's views that significant enhancements can already be achieved in the short run within the current legal framework. However, a reference to the industry's expectations of harmonization of liquidity rules will be made in the transmission letter to the European Commission. Moreover, in line with other detailed comments received, Recommendation 29 will be strengthened	See revised Recommendation 29

		so as to emphasize the need to avoid duplication of requirements where possible and active consideration of delegation of tasks relating to the supervision of branches' liquidity. The role of the colleges was already mentioned and will be further supported by CRD changes.	
Timing of implementation	A number of respondents stressed that the implementation of the recommendations, whether via Level 3 guidance or through inclusion in the CRD framework should be timed to ensure a smooth interaction with Member State initiatives to revise local liquidity standards. Some recommendations have also been identified as requiring time to be properly implemented (typically Recommendation 4 on internal allocation mechanisms).	The CRD changes on liquidity risk management and supervision will be subject to co-decision, with a final text to be adopted by April 2009. The implementation date is still unknown and will be decided upon based on the extent of the changes made, including but not only in the field of liquidity. As for CEBS's recommendations, a new paragraph will be added at the end of the executive summary specifying that the implementation of the first 18 recommendations on liquidity risk management that target credit institutions and investment firms should be discussed with the relevant supervisory authorities, in particular to take into account any changes in the regulatory framework for liquidity risk management at the domestic level. As for the last 12 recommendations that target supervisors, CEBS is keen to ensure that they serve effectively as a common basis for the supervision of liquidity risk and liquidity risk management, especially in the context of changes contemplated /undertaken in domestic liquidity regimes, and thereby contribute to promoting convergence of practices. An	See new paragraph 22 in the executive summary.

		implementation study to check member's degree of compliance and/or plans for compliance could be launched in the second half of 2009.	
Large exposures	Some respondents took the opportunity to reaffirm their concern regarding the Commission's proposed changes to the CRD on large exposures and asked for a review of the risk weight associated with interbank exposures.	The interaction between liquidity management and interbank exposures is already reflected in an annex to CP19. The broader issue of large exposures treatment has been addressed by CEBS in its dedicated Advice (http://www.c-ebs.org/Advice/documents/2nd.LE_advice.pdf) and later in its comment letter on the European Commission's proposal (http://circa.europa.eu/Public/irc/markt/markt_consultations/library?l=/financial_services/refinements_requirements&vm=detailed&sb=Title) .	NA
Liquidity risk as a stand alone risk	One respondent thought it contradictory to identify liquidity risk as a stand-alone risk while at the same time recognising that it was often triggered by difficulties stemming from other risks. Liquidity risk should rather be considered as the ultimate operational risk.	CEBS does not see any contradiction in stating that liquidity risk requires dedicated management in itself, including its links with other risks such as credit, operational and market risks. This holds particularly true in the light of the events of 2007-2008. Nobody would question the fact that credit risk is a stand alone risk, even though it interacts with other risks.	NA
Comments on specific paragraphs			
I. Nature and definitions of liquidity and liquidity risk			
Paragraph 4 (definition of a liquidity buffer)	*See below comments on Recommendation 16*		
Paragraphs 15-16 (definition of liquidity risk)	One respondent wanted to highlight a third source of liquidity risk, which is the risk related to a counterparty's unfulfilled obligations, on top of those identified in CP19, i.e. funding liquidity risk	CEBS believes that paragraph 7, which lays down the interactions between credit risk and liquidity risk, already addresses liquidity counterparty risk. As a lender and investor, a credit institution is exposed to	NA

	and market liquidity risk.	the failure of one or more of its counterparties, which impairs its cash flows and hence its ability to meet its commitments as they fall due. As an institution's creditworthiness as a counterparty to other market participants declines, it may face difficulty in generating funds at a reasonable cost or in a timely manner.	
II. Liquidity risk environment			
Para 25-27, 46, lesson 8 (retail deposits)	For a respondent, the term "core" or "relationship" deposits should be used instead of "retail deposits" due to the fact that some types of commercial, corporate and institutional deposits can exhibit stickiness that is comparable to some retail deposits.	While acknowledging that there are different degrees of stickiness within the broad category of deposits, CEBS believes that reference to "retail deposits" still makes sense in the light of the last decade as they have proved to be stickier.	No changes proposed
Para 33-34 (valuation of CDOs)	One respondent noted that paragraph 33 was not correct in stating that "no" public information is available for CDOs traded over the counter. Reference should be made to the ten transparency initiatives recently announced by the European Securitization Forum (see "Industry Initiatives to Increase Transparency Issuer and Investor Transparency Initiatives," June 28, 2008) and the 2008 IIF market practices report, which discusses directional developments in enhancing the transparency of the market (part VI).	CEBS has inserted references to the recent work undertaken in this field, including that by the ESF and IIF, as well as CEBS's own report on transparency with regard to the activities and instruments affected by the recent market turmoil and to nuance accordingly its statement in paragraph 33.	See nuanced paragraph 33 and new footnote 15
Lesson 5	Lesson 5 states that if securitisation is used as a regular source of funding it can trigger liquidity problems in times of stress when new issues prove difficult. This illustrates the risks involved in relying heavily on market funding sources. It is not, in one respondent's view, appropriate to suggest that the issues that can arise in relation to securitisations automatically apply to all market funding sources. It therefore suggests that this	Agreed.	See nuanced Lesson 5

	sentence be re-phrased to state; "that this illustrates the risk involved in [concentrated] market funding sources"		
III. Liquidity risk management at credit institutions and investment firms			
Recommendation 1 (responsibilities of the Board and senior management)	As far as Recommendation 1 is concerned, the suggestion was made to distinguish better between Board of Directors functions and executive management functions, notably in line with BCBS Principle 3.	Recommendation 1 has been streamlined to better match the Basel corporate governance principles and a footnote including an explicit quotation from the BCBS report on 'Enhancing corporate governance for banking organisations' has been added.	See revised Recommendation 1 and related footnote.
1. Internal governance			
Liquidity risk culture	One respondent called for a greater emphasis to be put on the importance of behaviour in an institution's internal governance.	The importance of behaviour would indeed nicely flesh out the current paragraph dedicated to the need to ensure adequate human resources are dedicated to liquidity risk management.	See amended paragraph 91 (former paragraph 89).
Recommendation 2 (internal allocation mechanism)	The principle underlying Recommendation 2 (internal mechanism to link cost of liquidity and strategic incentives) received general support but the mention of a transfer pricing mechanism, as an example of a cost/benefit allocation mechanism was deemed possibly to be misleading since that type of mechanism would not be designed to achieve the same objectives. The latter would be directed at the measurement of performance, whereas the former would be directed at the provision of incentives for the generation and use of liquidity, consistent with an institution's risk tolerance.	Without changing the underlying message of the recommendation, the reference to a cost/benefit allocation mechanism has been deleted.	See revised Recommendation 2
Recommendation 3 (separation of monitoring & operational functions)	Most of the comments, although supporting the general thrust of Recommendation 3 (segregation of duties between operational and monitoring functions), were keen to insist that each institution should be responsible for setting the structure best suited to its organisational setting. One respondent suggested the inclusion of a requirement that the relevant liquidity risk experts	As CP19 does not suggest, nor had been drafted to suggest, that supervisors should decide upon the institutions' organisational setting there is no need for adjustment. However, the last suggestion was deemed helpful as it may contribute to closing information gaps between new product business and treasury.	See new paragraph 92

	should be associated with the analysis of the liquidity risk impact and mitigation prior to approval of new business initiatives.		
Recommendation 5 (IT systems)	A few respondents indicated that if the necessity for having adequate IT support for regular reporting is well recognised, regulators should be aware that where new demands are made and/or new products are developed, it can be expensive and take time.	As this recommendation possibly entails costly upgrades of systems and processes, clarification on the materiality of the activities to be captured in these systems and processes has been added.	See revised Recommendation 5
2. Influencing factors and operational components			
Recommendation 6 (liquidity generating capacity of an asset)	A few respondents underlined that in considering what constitutes the highest quality of liquid asset authorities must recognise that eligibility as collateral at central banks in both normal and stressed times will be a consideration.	CEBS fully agrees with the fact that eligibility as collateral at central banks has to be taken in consideration when assessing the liquidity of an asset. This holds true in both normal and stressed times, as indicated in lesson 2, p 16.	NA
Recommendation 8 & paragraph 118 (Documentation risk & IT system)	A few respondents pointed to the difficulty of managing particular clauses such as covenants within the IT system to reduce the documentation risk. Nevertheless, support was expressed for the importance of ensuring that liquidity risk arising from off balance sheet commitments whether explicit or implicit is part of the data collection process for liquidity risk management. One respondent suggested that the information can be collected readily as part of the “contractual” data collection process and assumptions added as the normal and stress positions are assessed. To that end these exposures would not be any different from on balance sheet exposures.	To address possible difficulties for institutions in capturing documentation risk through their IT system, an example of how practically to accommodate the data collection process has been added.	See revised paragraph 118
Paragraphs 128-129 (collateral management, intraday liquidity needs & PSS)	One respondent indicated that further elaboration would be welcome, notably to recognize the fact that collateral that serves to support intraday liquidity may appropriately also be available to be used (subject to close controls) to support overnight exposures. Another respondent called for adjustment of the sentence stating that collateral requirements in gross settlement		See revised paragraphs 128-129

	systems are equal to the total amount of payments that are expected.		
Recommendation 11 (management of intraday liquidity positions)	Several respondents considered the drafting to be potentially misleading as it did not adequately reflect the functioning of net payment systems, although agreeing on the principle that banks should have a full understanding of all possible risks associated with managing intraday liquidity flows.	The key message of the recommendation has been streamlined to focus on active management of intraday liquidity positions to meet payment and settlement obligations on a timely basis, in line with the BCBS Principle 8, while a new paragraph elaborating on the related message that specific due diligence is also required for management of intraday liquidity needs on a net basis even when using net payment and settlement systems.	See revised Recommendation 11 and new paragraph 133 on conditions for management of intraday liquidity on a net basis when using net PSS.
Paragraph 135 (capital & liquidity)	One respondent suggested not mentioning the link between capital and liquidity in paragraph 135. With maybe the exception of remedial measures under Pillar 2, this respondent considered that where a firm has failed to put in place good liquidity risk management there is generally not an appropriate direct link between capital and liquidity.	CEBS agrees that capital is not necessarily the appropriate response to liquidity risk: this led CEBS to caution supervisors not to overlook possible liquidity management weaknesses due to the existence of a satisfactory capital base (paragraph 227). However it seems sensible to recognise that a firm's capital position can strengthen its ability to obtain liquidity. Moreover, paragraph 135 is only factual in its reference to article 13 (2) of Directive 2006/49/EC.	NA
3. Internal methodologies to identify, measure, monitor and manage liquidity risk			
Recommendation 16 (liquidity buffer) & Part I, paragraph 4	Comments received on Recommendation 16 have been analysed in conjunction with comments made on paragraph 4 of Part I relating to the definition and composition of the liquidity buffer. The liquidity buffer is expected to consist of "unencumbered highly liquid assets" and several respondents thought it useful to clarify that cash is eligible for the buffer. One respondent thought that the wording was too strict as it would exclude undrawn committed credit facilities on the liabilities side. Another respondent called for	CEBS's position has always been to deliberately exclude off-balance sheet commitments, especially in the light of the 2007-2008 events. This is also consistent with the BCBS's revised principles on liquidity risk management. However, clarification has been made on the eligibility of cash and the suggestion to build up liquidity buffers during favourable times.	See revised paragraph 4 and recommendation 16

	precision on the process for building up and using such a buffer.		
5. transparency to the market			
Recommendation 18 (disclosure of quantitative information)	A lot of respondents stressed that disclosure of quantitative information could harm an institution's liquidity position, even under "normal conditions", and that disclosure on the liquidity buffer could turn it into a minimum liquidity reserve. A few also stressed that if too much disclosure is required under normal conditions, institutions will have less flexibility available in terms of disclosure when a stress situation occurs. There is strong support for further clarification of qualitative disclosure and enhanced dialogue with the supervisors.	The current drafting was deemed balanced enough since disclosure of quantitative information is mentioned but not required in R18 and the need for a careful impact analysis before being in a position to adopt a more prescriptive position is clearly stated.	NA
IV. Supervisory Approach to Liquidity Risk Management and Internal Methodologies			
2. Assessing liquidity risk management			
Recommendation 23 (assessment of liquidity risk insurance)	One respondent commented on the misalignments between assets considered liquid for supervisory purposes and those eligible as collateral for central banks. Supervisors and central banks should therefore cooperate to increase the consistency of their approaches. Another respondent identified a possible inconsistency between Recommendation 23, which recognizes the role of central banks when assessing institutions' liquidity risk insurance, and Recommendation 8 which warns against the use of covenants linked to supervisory actions or thresholds.	In the light of Recommendation 6, the liquidity of an asset should be determined based on its liquidity generating capacity only, which should address the differences within central bank policies and between central banks' policies and prudential rules. As for covenants referred to in Recommendation 8, they would for example terminate a commitment upon a regulatory change but are in no way related to central banks' refinancing policies.	NA
Recommendation 25	Respondents were all very supportive of this recommendation, underlining its principles-based formulation allowing each institution to use its own internal model with supervisory approval. Some however pointed out necessary further work with	A dedicated task force at the ECB is currently analysing stress testing practices in the field of liquidity risk management. The outcome of this work, which should be published in September 2008, will serve as	Further to a remark from a respondent, the word "insurance" is replaced by "assurance" to avoid confusion (in line with

	respect to i) a minimum set of common reporting requirements, including of those of a quantitative nature, and to ii) the definition of objective criteria to carry out the stress tests in order to ensure a level playing field and meaningful assessments and comparisons by the supervisors.	a useful reference for supervisors when assessing stress testing policies and practices at an institution. Further work on guidance for assessing internal methodologies, notably with a view to insuring a level playing field, could be undertaken.	paragraph 244).
4. Disclosure to supervisors			
Paragraph 252-253 (minimum set of common reporting requirements / standardized reporting format)	Several respondents advocate reporting based on validated internal methodologies (as far as possible). Some of them are worried that the references made to the use of standardised supervisory reporting formats (paragraph 253) seem to indicate that regulators will be able to access both standardised and internal reporting data which would impose the burden of dual reporting. Another respondent advocates the use of data based on the internal risk management function when extra requirements are imposed, especially during periods of stress.	CEBS is well aware of the industry's concerns when it comes to regulatory reporting. However, CP19 only mentions a standardized format in contrast to reporting based on data provided by internal methodologies (paragraph 253). Its efforts to promote more consistency in domestic reporting requirements (paragraph 252) echo industry proposals.	NA