Basel Committee on Banking Supervision
Bank of International Settlements
Centralbahnplatz 2
CH- 4002 Basel

Brussels, 29 July 2008

Dears Sirs,

The Dexia Group welcomes the opportunity to deliver some comments on the CEBS consultation document ' Liquidity Risk Management '.

Cross Border Banking Groups like Dexia, should be able to manage their liquidity on a group level instead of on a entity level.

We would welcome consolidated liquidity supervision or a harmonized liquidity supervision, which would match a liquidity management on a group wide basis.
Banking groups should have the possibility to fulfil supervisory reporting needs by delivering data based on internal models.

Please find enclosed Dexia's comments on the consultation paper that has been discussed during the CEB's public hearing on July 4th, 2008.
Dexia remains at the Committee of European Supervisors disposal for any further information.

Sincerely yours,

Johan Evenepoel
Global Head of Repo, Cash & Liquidity
Dexia SA
Place Rogier 11
B – 1210 Brussels

Comments of the Dexia Group

Paragraph 2

"Liquidity risk should be assessed as an unforeseen reduction in cash-generating/counterbalancing capacity at fair cost…. "We feel some clarification is necessary on the definition of ' at fair cost '. From Dexia's perspective, the possibility to attract cash through the standing facilities could be considered as being at fair cost.
(i.e. current FED discount window stands at 2.25%)

Paragraph 28

" Banks should no rely to heavily on obtaining funds from central banks "
We feel that this statement should be clarified because :

1. Central Banks should always be the lender of last resort (standing facilities)
2. Banks should have the adequate procedures in place to cope with lower than expected allotments .
3. The occasional use of the Fed discount window did not cause any stigma at Dexia Bank Belgium

Paragraph 29

"These trends were accompanied by a general increase in the cost of funding"
It is difficult to generalize, because fully dependent on the quality of assets on your balance sheet. Since the start of the liquidity crisis,' the short term funding cost ' of the Dexia Group has actually decreased.

Paragraph 39-41

We want to stress the importance of "point of interest/ lesson 6"
During the liquidity crisis, the repo business has been the cornerstone of stable and sound liquidity management for the Dexia Group
Operational framework & legal contracts are the key issues here.

Recommendation 2

We fully agree that institutions should have in place an adequate liquidity cost/benefit allocation mechanism.
But § 81 is perhaps too strict: once the boundaries of risk tolerance are well set within the liquidity risk framework, an optimization of the use of different funding sources (unsecured, repo, CP/CD's,…) should be encouraged to realize an additional P&L

Recommendation 3

§ 86" attention should be paid to the appropriate level for exercising some of these functions .While some functions (such as intraday management) should be exercised at the entity level …"

This should be viewed according to the organizational structure of the banking group
Concepts such as the virtual account of Target 2 make it possible to pursue an intraday management on group level.

Recommendation 4

"Liquidity management should not take the free flows of assets for granted…"

We can only partially support this idea : if a centralized liquidity management has been realized , assets are already moving on a regular basis .Since the start of the liquidity crisis Dexia has been able to transfer securities intra -group very easily
(Fed eligible securities to the DCL NY ; ECB eligible to the core Euro centers, SNB eligible to Luxembourg, tri party eligible to the repo competence centre of the group (Brussels),..

Paragraph 102

Dexia prefers a specific category ‘ loans and receivables ‘ in the ‘ Capital Adequacy Classification ‘ table

- because you can sell these assets , they don't qualify for ‘ held to maturity ‘
- because you don't have to mark them to the market , they don't follow the same treatment as ‘ available for sale ‘

Dexia fully supports the view that an accounting classification is not determining the liquidity of an asset

Recommendation 8

Liquidity risk linked to activities using complex financial instruments (§ 114) needs special attention because this risk is often underestimated.

Implementing this risk in IT systems will however not be easy to realize , but it can be part of the stress test scenarios.

Recommendation 10/ 11

This recommendation would need some additional clarification: it is impossible that banks should have “enough collateral equal to the gross amount of payments that are expected intra-day " (§ 128)

We believe it is possible to optimize collateral utilisation while ensuring our payment obligations – payment traffic covers both outgoing and incoming payments.

To this effect, Dexia purchased an IT application (Aleri) which calculates on a continuous basis the minimum amount of collateral Dexia needs as pledge to guarantee the smooth execution of our payment instructions.

Recommendation 14
Dexia fully supports the idea of a wide range of stress tests as described in § 152 -§164
Additional remarks made in § 234 have to be taken into account
Owing to these stress tests, Dexia has been able to improve the liquidity policies and the contingency plan on a continuous basis

Paragraph 187
“ Liquidity risk is not a significant determinant of ratings “
In our recent meetings with rating agencies , most of the discussion on risk management has been devoted to liquidity .In our opinion this statement is not valid anymore

Recommendation 18
To disclose quantitative information on the liquidity risk to the external market is a very sensitive issue. It is also difficult, if not impossible to realize a standardized reporting as funding sources and strategies are different for each banking group.
Quantitative external reporting could jeopardize the liquidity position of a bank.
However, information sessions on the liquidity position/funding strategy of the banking group; or bilateral contacts with rating agencies or specific cash providers providing unsecured cash, remain very important.

Paragraph 223
Dexia clearly prefers to use a centralized approach instead of operating on a stand-alone basis .Potential constraints on intra-group transfers of funds and collateral , even in times of stress have been tested , widely and extensive .
Since the start of the liquidity crisis (09/08/2007) Dexia manages the liquidity positions on a group level and as such reduced the liquidity risk of each entity quite substantially.
We would welcome a group approach of the different host supervisors.

Recommendations 25 & 28
Given the diversity of institutions liquidity risk profiles we believe that each banking group should have the possibility to seek for validation of its proper internal model by the supervisor. We do not believe in standardised liquidity models or standardised quantitative reporting for everybody.
We fully agree with the remarks made in § 247: for internationally active banks, a simple quantitative approach is not adequate for internal risk management. Quantitative regulatory requirements should be replaced by requirements based on the internal model.
But this should imply that' a minimum set of common reporting requirements , applicable to all credit institutions and possibly to investment firms that are not restricted to activities on behalf of third parties' (cfr paragraph 250) should be based on these internal models .

Recommendation 29
Dexia would welcome not only an exchange of information / coordination between the different supervisors involved but also a common approach of supervision, which matches the liquidity management on a group level

DEXIA