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Credit Suisse response to CEBS Paper Second Part of CEBS' Technical Advice to the European Commission on Liquidity Risk Management, 17 June 2008 Draft for consultation

General Remarks

We support the work that is being undertaken by CEBS, through its June 2008 draft paper which sets common standards for liquidity risk management and how these should be applied in Europe to prevent future liquidity shortfalls at individual institutions potentially resulting in industry wide systemic shocks.

We appreciate and support the proposals made to achieve a more harmonized and coordinated framework within the European Supervisory area. We view this as an important milestone.

We expect reduced regulatory duplication and a reduction in trapped pockets of liquidity in cross-border funding. We fully support the proportional approach to supervision allowing for recognition of internal methodologies on a case-by-case basis and the call for an international framework to coordinate supervisory requirements and actions.

As an increasing number of Banks are operating in regions across Europe, US and Asia as a next step a global harmonised liquidity supervision model should be sought to reduce regulatory duplication and avoid trapped pockets of liquidity in cross-regional funding.

Specific Recommendations and Points

Recommendation 3 – Organisational Structure and Segregation of Duties
We would also include a requirement that the relevant liquidity risk experts are included in the New Business process analyzing liquidity risk impact and mitigation prior to approval of new business-initiatives by senior management.

Recommendation 11 – Intraday Liquidity Management
Managing intraday liquidity on a gross basis is not practicable in many areas as some settlement systems provide a permanent netting of DVP with the same counterparty. Market participants should be prepared to deal with large fails from either own or counterparty disruptions in cash and collateral management and should conservatively asses the potential intraday or end-of day liquidity need.
Point 130 should reflect this.

Point 4 – Liquidity Buffer
In addition to marketable securities a secondary liquidity buffer could also include non-franchise assets that can be monetized over a defined timeframe, based on analysis and in agreement with the relevant responsible individuals in the business.

Point 25 – Originate-to-distribute (OTD) model

The OTD model is addressed in various areas throughout the document. It may be worthwhile to point out the various concepts behind this model which may impose more or less liquidity risk:

- Securitizations (sale of assets)
- Covered Bonds (no sale of assets, no credit risk transfer)
- Synthetic Securitizations
- Credit Linked Notes

Point 74 – 2000 BCBS sound Practices for Managing Liquidity

We recommend close coordination with the final drafting of the paper issued on 17 June by the BCBS on 'Principles for Sound Liquidity Risk Management and Supervision'.

Point 78 – Maturity Transformation

We would also point out that pooling of amounts (example: many small deposits vs large loans) is also a central part of the banking business and is an important component of liquidity risk management – even if contractual maturities are matched.

Point 122 – Collateral Resources

We assume you refer to the "secured" funding capacity analysis as opposed to "security" funding analysis.

Point 173 – Contingent Funding Plans (CFP)

We prefer a detailed CFP. However even the most sophisticated "war plans" do not substitute for a professional and flexible response to any variations of a stress scenario which is managed by an expert group comprised of specialists in unsecured and secured markets complemented by operations, legal, economic, communication etc. specialists.

Point 176 - Main CFP objectives

A CFP should also include the measures to generate liquidity on top of reducing cash-consuming activities. The liquidity generation can be achieved form increasing secured funding activities, sale of assets and drawing upon facilities.

We would therefore recommend adding a 4th item:

- Activate counterbalancing potential

Point 197 – Disclosure level

We support a certain amount of disclosure on liquidity practices targets acknowledging that this may differ by bank depending on the businesses and markets they are engaged in.

The supervisors might define some common minimum standards for internationally operating banks before applying supervisory pressures.

Credit Suisse Global Treasury – 1 August, 2008

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