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IBF COMMENTS TO THE SECOND PART OF CEBS'S TECHNICAL ADVICE TO THE EUROPEAN COMMISSION ON LIQUIDITY RISK MANAGEMENT

The Irish Banking Federation welcomes the opportunity to comment on the second part of CEBS's technical advice to the European Commission on liquidity risk management. We fully support the approach that has been taken by CEBS, particularly the focus on proportionality and materiality, and the willingness to accept internal methodologies as a potential substitute to quantitative supervisory requirements. We do however have a number of comments to make, which are mainly clarification requests or wording suggestions. These comments are set out below.

Lesson 2

1.0 Lesson 2 states that liquid assets are usually defined as assets that can be quickly and easily converted into cash in the market at a reasonable cost. While we have no objections to this statement, we would like to note that we have interpreted the 'market' to mean any relevant commercial counterparty including Central Banks.

Lesson 5

2.0 It is stated in Lesson 5 that if securitisation is used as a regular source of funding, it can trigger liquidity problems in times of stress, when new issuances prove difficult. It is then stated that this illustrates the risks involved in relying heavily on market funding sources. It is not, in our view, appropriate to suggest that the issues that can arise in relation to securitisations automatically apply to all market funding sources. We would therefore suggest that this sentence be re-phrased to state; "that this illustrates the risk involved in [concentrated] market funding sources".

Recommendation 1

3.0 The Irish Banking Federation fully supports Recommendation 1. However, for clarity purposes, we would suggest that the words 'liquidity risk' be inserted into the first sentence, so as to read as: "The Board of Directors should…..set [liquidity risk] management policies that are…".

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Recommendation 2

4.0 While we agree that all banks should consider the cost of liquidity, as suggested in Recommendation 2, it is important that CEBS do not prescribe how this should be addressed by banks. While we accept that a transfer pricing mechanism may be appropriate in certain circumstances, it would in our view, be more appropriate if this recommendation was kept high-level, without any specific references to the tools that could be used by banks. It is also important that banks are not forced to pass the cost of liquidity down to the business unit. The decision as to whether or not this is suitable should be left to the individual bank.

4.1 It is further stated as part of this Recommendation that institutions should have in place an adequate liquidity cost/benefit allocation mechanism, which provides appropriate incentives regarding the contribution of liquidity risk. Clarification is sought as to what is meant by the term 'appropriate incentives'.

Recommendation 4

5.0 Recommendation 4 states that all institutions should be aware of the strategic liquidity risk and liquidity risk management at the highest level of the group, and have adequate knowledge of the liquidity positions of members of the group and the potential liquidity flows between different entities. It is unclear to us whether this recommendation applies at a group level or at both the group level and the subsidiary level. While completely acceptable to expect the parent institution to be aware of the liquidity risk management of the group and the liquidity positions of each member of the group, it would not be feasible to expect subsidiary entities to have a knowledge of the liquidity positions of other subsidiaries of the parent, based in various countries, with potentially different markets and regulatory frameworks and other constraints. Subsidiary operations can only be expected to have an awareness of the overall group liquidity risk, and the liquidity positions of its own subsidiaries. We would suggest that the application of this recommendation is clarified by CEBS in line with the comments we have made.

Recommendation 11

6.0 It is stated under Recommendation 11 that institutions should manage intraday liquidity on a gross basis. We fully accept that banks should be aware of, and monitor the risks involved in intraday liquidity management, and hold sufficient collateral, or have access to additional collateral, if required. However, this Recommendation should not be interpreted to mean that banks should hold collateral on the basis of gross positions.

Recommendation 15

7.0 Recommendation 15 states that institutions should have adequate contingency plans, both for preparing for, and for dealing with liquidity crisis and that these procedures should be tested regularly. While we fully accept the importance of contingency planning, it should be noted that it is not always possible to conduct live testing of contingency plans. For example, if a bank were to test its access to committed lines, there could be a reputational impact for the institution.

7.1 Furthermore, it is not possible for a contingency plan to prepare an institution for a liquidity crisis. A contingency plan can only help an institution to deal with a liquidity crisis. With this in mind, we would suggest that this statement be re-worded to state that “institutions should have adequate contingency plans for dealing with liquidity crisis”.

Recommendation 18

8.0 While we fully accept CEBS’s intentions to increase transparency as part of Recommendation 18, further clarification would be required as to what CEBS expects banks to disclose. Unless the information disclosed by banks is standardised, it is possible that the information disclosed would be misinterpreted by the market.

Recommendation 23

9.0 It is stated in Recommendation 23 that supervisors should take into account the potential role of central banks when assessing the marketability of assets. We welcome CEBS’s recognition of the role of central banks. We would however like to highlight the inconsistency between Recommendation 8 and 23. Recommendation 8

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states that covenants linked to supervisory should be strongly discouraged. We would suggest that Recommendation 8 is amended in line with Recommendation 23.

Recommendation 24

10.0 While we have no objections to Recommendation 24, we would like to note that the results of stress tests do not always trigger action.

Recommendation 25

11.0 It is stated in Recommendation 25 that supervisors should consider whether their quantitative supervisory requirements could be supplemented or replaced by reliance on the outputs of institutions' internal methodologies. We fully support this recommendation. We would however suggest, for clarity purposes, that the term 'insurance' in the last sentence be replaced by 'assurance', so as to read; "…have been adequately assessed and provide sufficient assurance to supervisors…".

Recommendation 28

12.0 As part of Recommendation 28, it is suggested that supervisors explore the possibility of developing a minimum set of common reporting requirements applicable to all credit institutions. It would in our view, be more appropriate if CEBS was to recommend that supervisors consider accepting data in the format used by the individual institution, particularly given the frequency with which most supervisors are currently requiring liquidity information from institutions.