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Date: October 30th, 2009
Reference: BR1003/5

Subject: Reaction CP28

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Dear Mr. Vossen,

Thank you for giving us the opportunity to express our views regarding the recent consultation paper on Liquidity Buffers and Survival Periods (CP28).

We value the principle based approach that is taken by CEBS and welcome the distinction between a short and a long period of stress that is made in the guideline. This approach resembles the methodology that is currently in place in the Netherlands with regard to liquidity risk regulation. Adopting a similar approach in the EU would make a positive contribution to the level playing field. Further alignment to the BIS approach would increase these benefits as well as addressing the national deviations of the criteria for eligibility and transferability of collateral. We welcome the possibility for institutions to tailor their liquidity risk management to their individual business models.

We understand from the tone of the consultative paper that in the opinion of CEBS, central banks should not be seen as a primary provider of liquidity. We agree with this point of view, but would like to emphasise that there is a strong correlation between the liquidity of assets and the overall market conditions. Assets that are highly liquid under normal conditions can become illiquid in periods of stress. Therefore, the central bank will always have an important role to play in terms of providing liquidity to banks in periods of name specific- or general economic stress. In such cases central bank eligibility appears to be a more predictable measure for liquidity risk management and eligiblity for liquidity buffers than market liquidity.

We would like to point out that the potential effects of the proposed changes can be far reaching. These effects will be closely linked to the definition of assets that are eligible for the liquidity buffer. At this point, these definitions have not yet been made specific enough to allow for a full impact assessment.

Next to this, it should be noted that the proposed changes to liquidity regulation cannot be seen in isolation. There are additional regulatory and accounting initiatives that are strongly connected to this, e.g. restrictions on leverage ratio and securitization. In the end the total effect of all the proposed changes to the regulatory framework will impact the operation of banks, their lending capacity and eventually the economy as a whole.

In the next pages we provide further detailed responses to your questions. We hope that our input will be helpful and we are looking forward to continue to work with you on this and other issues.

Kind regards,

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General Observations

- Key concepts like - liquidity, central bank eligibility, marketability and guidelines as to which instruments will be allowed to be part of the liquidity buffer - should be defined and explained in more detail to avoid misinterpretations. We welcome the remarks made by CEBS during the public hearing, stating that the definitions of liquidity and eligibility will be made more specific.

- With regards to paragraph 38 we note that a multi notch downgrade can have an effect on an institution in terms of additional margin calls, etc. However, practice has shown that the amount of liquidity available to an institution can not always be directly linked to the credit rating of that institution. Single name headlines or a sudden loss of market confidence in an institution - for instance - have a more direct effect.

- The definition of wholesale funding that is used should in our view be made more specific. A rough definition also conflicts with CEBS's important point of diversified funding sources. We welcome the intention to redefine the concept of wholesale funding, as was mentioned during the public hearing. We suggest differentiating between banks, large corporates and small and medium enterprises, with regard to their reaction speed.

- If it was the intention to add scenarios (e.g. market and name specific), we would like to stress that these should not overlap. In line with current Dutch regulation, we favour to determine one worst-case stress test including both market and name-specific stress to derive the size of the required liquidity buffer. Besides this worst-case test, other stress tests should/could be done to assess more specific areas of risk (e.g. market scenario to identify reliance on professional market funding).

- In paragraph 61 two buffers are mentioned; one for the business as usual liquidity risk management and a regulatory buffer that should be complied with at all times. This creates the impression that there should be two separate buffers, where the regulatory buffer is not to be touched (i.e. dead capital). In practice there is only one buffer which is used for internal liquidity risk management as well as achieving regulatory compliance. We feel that the entire liquidity buffer should be available for an institution to generate liquidity if it needs to. If the institution should fall below the regulatory requirements, this should be addressed in the one to one relationship with the prudential supervisor.

We think it would be beneficial to clearly set two horizons and link them to the buffers; i.e. 1 week for the short-term and 1 month for the longer period. In some paragraphs (e.g. 43) other periods are mentioned and the link to the buffers becomes less clear.

Feedback on consultation questions:

1.1 Would you foresee any shortage of eligible assets, such as government bonds, or any increase in the concentration or cost of holding such assets? Any impact on less liquid assets?

A: In the coming period we do not foresee a shortage of eligible assets. Yet, we do expect an increase of the market price of these assets due to increased demand. If the definition of eligibility is narrowed, this will increase the costs of the liquidity buffer.

In general, if a bank holds a government bond that is financed at EURIBOR, this will always cost money as EURIBOR is generally higher that a government bond return. Pre-crisis a 3 month German government bond return was roughly 20bps lower than 3 month EURIBOR. At the top of the crisis (flight-to-quality) the difference was in the range of 200bps and in September this spread was in the range of 50bps. We expect this spread, and consequently the cost for banks, to increase if the demand for government bonds strongly increases due to a very narrow buffer definition.

Based on aggregated data of the Dutch financial sector -including the foreign operations- we expect a significant impact that could result in more than EUR 100 bln of additional high quality assets.

It goes without saying that the narrower the definition of the buffer, the more the industry would be concentrated in similar assets; i.e. a risk of e.g. fire sales in periods of market stress.

1.2 Would you expect any potential pressure points due to possible inconsistencies in the definition of the liquidity value of eligible collateral and the liquidity value of assets / collateral taking into account in the computation of the net cash outflow?

A: More consistency in definition and computation of eligible collateral between similar rated assets and/or regulators will remain a point of attention.

1.3 What conditions, if any, should be fulfilled in your view before a narrow definition could be applied, without undue side effects?

A: A diversion of banking funds to government bonds away from e.g. corporate bonds or lending to the economy is to be expected.
It is hard to quantify the overall impact of all the proposed restrictions. We propose to perform an industry wide impact study as part of the consultation that also includes other initiatives (e.g. restrictions on leverage ratio).

Given the current economic climate, we feel there should be a gradual transition. This should be spread out over a period of several years, with a proper macro prudential oversight. The approaches adopted by the Swiss and UK regulators could serve as examples. Allowing a larger array of assets into the buffer would support this and would also remove a part of the concentration risk.

2. Would you consider that a too narrow definition of assets eligible to the buffers could entail a possible sub-optimal allocation of means from a macro-economic perspective? Would you see a risk of wrong incentives?

A: taking into account the response to question 1.1, we expect an increase of the total costs. These costs will have an upward impact on e.g. the price of lending.

3. How would you assess the reference to central bank eligibility for the purpose of specifying which assets should be eligible to the liquidity buffers?

A: In practice, market liquidity is volatile. Assets that are highly liquid under normal market circumstances might become illiquid in periods of stress. Taking this property into account, the quality of the asset should be a more important driver for central bank eligibility than market liquidity. Under normal market circumstances, marketable and highly liquid instruments are usually central bank eligible as well. Therefore, central bank eligibility appears to be a more predictable measure for liquidity risk management. This does not mean that the central bank should be regarded as the primary provider of liquidity, especially under normal market circumstances. However, in times of market- or institution specific stress the central bank will always have a very important role in the liquidity risk management framework. This is a role that cannot be substituted by the market. It would be beneficial if we could receive guidance from regulators regarding the eligibility criteria and the associated (minimum) requirements for collateral. Alignment in the European domain would be welcomed.

20a How does the return on liquid assets compare to the return on less liquid assets? Do you anticipate a (significant) impact on ROE?

A: The return on liquid assets is lower than those of corporate paper. As explained under 1.1. a highly liquid government bond already has a negative spread, while a credit bond has a clear positive spread against EURIBOR (e.g. a single A bond was approx 90bps higher in September). In case of a very narrow definition of a liquidity buffer, banks will lose the difference between the spreads of government bonds and credit bonds.
This negative impact in combination with higher capital requirements will significantly lower bank's ROE.

20b Do you believe CEBS's proposal could lead you to restrict your lending capacity or increase the cost of financing for borrowers?

A: As outlined above, the current proposals will have a large impact on the lending capability of banks (crowding out of government bonds) and will have an increasing effect on customer rates.

20c Do you foresee any impact of these proposals on your business models or activities? Do they present any level playing field issues with competitors other than credit institutions?

A: Cross border banks that manage their liquidity risk on a central level might need to change their business model to some degree if they were faced with local requirements for liquidity buffers that were unharmonised or even protective. With regards to the lending business, we do not expect the business model to change, but the pricing may have to be adjusted. We are not in favour of introducing local restrictions on the liquidity buffers. If these are introduced, the requirements should be transparent and harmonized (incl. reporting formats). In terms of impact on the level playing field, we advocate tight regulation that also addresses the competitive advantage that will be created for non-bank lenders. In order to create clarity around the locally applied weightings, we suggest creating a report that shows the average weightings that have been applied.

20d Do you consider that these Guidelines can help to restore confidence in the interbank market? To improve funding costs?

A: This depends very much on the implementation (i.e. a sufficiently long introduction period). Again we want to point out the importance of looking at the complete picture of regulatory changes and performing a holistic impact study. Higher liquidity buffers alone will not be sufficient to restore confidence.