INTESA SANPAOLO

International Regulatory and Antitrust Affairs

INTESA SANPAOLO RESPONSE TO

CONSULTATION PAPER ON CEBS GUIDELINES ON LIQUIDITY COST BENEFIT ALLOCATION

(CP 36)

JUNE 2010

Intesa Sanpaolo, a leader bank in the Italian market with a strong international presence focused in Central and Eastern Europe and in the Mediterranean basin welcomes the opportunity to comment on CEBS' consultation paper on Guidelines on liquidity cost benefit allocation (CP 36).

Intesa Sanpaolo already uses an internal pricing mechanism to allocate liquidity costs. In this context, we welcome the proposed principles-based CEBS guidelines as a way to incentivise the use by all financial institutions of adequate allocation mechanisms of liquidity costs, benefits and risks.

We also support the proposed liquidity cost concept to include both direct funding costs and associated indirect costs.

Guideline 1 - The liquidity cost benefit allocation mechanism is an important part of the whole liquidity management framework. As such, the mechanism should be consistent with the framework of governance, risk tolerance and decision-making process.

Intesa Sanpaolo agrees that the liquidity cost benefit allocation mechanism is an important element of a firm's risk management framework and should be based on the firm's fund transfer pricing system.

Guideline 2 - The liquidity cost benefit allocation mechanism should have a proper governance structure supporting it.

Intesa Sanpaolo supports the possibility mentioned in § 8 for the management to incentivise certain behaviours, subject to a separate approval and reporting process. It is important that a firm has the possibility to structure its cost allocation mechanism according to the firm's objectives, overall liquidity policy and specific market conditions, which might require a particular treatment for certain types of assets and liabilities.

We welcome the request in § 11 for a consistent approach to the allocation of liquidity cost, ensuring consistency between the parent institution and subsidiaries within groups.

Guideline 3- The output from the allocation mechanism should be actively and properly used and appropriate to the business profiles of the institution.

Intesa Sanpaolo supports the requirement that the liquidity allocation mechanism be sufficiently granular, so as to reflect the size and sophistication of the institution.

Guideline 4- The scope of application of internal prices should be sufficiently comprehensive to cover all significant parts of assets, liabilities and off-balance sheet items regarding liquidity.

We do not agree that for uncommitted credit lines and implicit support the business units should be charged in a "similar" manner to that applied to committed lines. The legal and behavioural differences between committed and uncommitted credit lines should be taken into account, and a "similar" treatment would be punitive for uncommitted lines. Therefore, we suggest that the wording be changed to "As to uncommitted credit lines and implicit support, they should be carefully assessed and proportionately charged."

Guideline 5- The internal prices should be determined by robust methodologies, taking into account the various factors involved in liquidity risk.

As regards the modelling of behaviour, Intesa Sanpaolo supports the use of internal models, which it considers to be more tailored to the specific business activities and risk profile of individual institutions. Such models do not necessarily need to be aligned with the assumptions in the (forthcoming) liquidity rules; for example, the current version of the proposals on the Net Stable Funding Ratio states that 50% of a corporate loan maturing in three months from now should be rolled over beyond a one year horizon, while a bank's internal model may prove a different behaviour.

The examples on possible adjustments are welcomed. It should be clearly stated that they are not limitative. Furthermore, there is, in our view, need for some clarification. Specifically, some examples appear to be overlapping (e.g. letters a and c); the reference to the interest rate term structure model when discussing the liquidity cost may create confusion; the mentioning of "CDS spreads quoted in the secondary market" would benefit from being completed also with a reference to bond spreads quoted in the secondary market. In addition, we take the view that the use of not common adjustments listed under letter e, especially of the country risk premia, should be strongly encouraged.

The wording in § 25 appears to us particularly blurred and in need for simplification. It is important to define the meaning of "average". We would welcome, for example, if it were made explicit that it means that the daily marginal costs may be compounded as a moving average over the last 30/60days. Furthermore, expressions such as "dynamic price setting" should not be used as if they were self-explanatory: there is no common understanding of this concept in the industry.

Annex 2

Calculating the cost of a liquidity buffer is, indeed, a much less “precise” and more difficult exercise than the Annex suggests. For instance, in the current market environment it would make a great difference, in terms of carrying costs and price risks, whether a buffer is composed of core eurozone government bonds or, alternatively, (still highly rated) peripheral eurozone government bonds.

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