European Association of Co-operative Banks
Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken

Committee of European
***Banking* Supervisors**

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CP19@c-ebs.org

Consultation Paper (CP 19) on second part of technical advice on Liquidity Risk Management (Second part)

Dear Sir or Madam,

The European Association of Cooperative Banks (EACB) welcomes the opportunity to comment on CEBS's orientations on the specific elements of its technical advice on Liquidity Risk Management.

This matter is of crucial importance for many of our member organisations. Please find below our answer to your Consultation paper. We are available at any time for more detailed comments on the matter in question.

Yours sincerely,

Hervé Guider
General Manager

Volker Heegemann
Head of Legal Department

I. General Remarks

A. Flexibility

The members of the EACB welcome the CEBS' 31 recommendations on liquidity risk management. We think that together with the BCBS' "Principles for Sound Liquidity Risk Management and Supervision" they will help banks to develop improved standards for the management of their liquidity risk.

Regulation regarding liquidity risk management differs between Member States. This variety indicates that there are different approaches to the matter that can all lead to satisfying results. Moreover, in most Member States regulation for liquidity risk management is relatively "open" and allows banks to develop their own models.

From our perspective, it is therefore highly important that the new EU framework for liquidity management remains "open" and flexible and gives sophisticated international banks as well as smaller and non-complex institutions room to develop their own management systems for liquidity risk. Such "openness" and flexibility are also also a precondition for further technical progress: The suggested principles should allow, possibly even encourage banks to further develop and improve their systems.

Therefore, it will be highly important that supervisors do not take a narrow approach to the document and demand the fulfillment of the principles and the accompanying text by the letter. To the contrary, there has to be a "comply or explain (your alternative solution) - approach", which allows banks and supervisors to discuss the matter.

This however, seems to be difficult, where the explanatory text becomes highly descriptive, as is the case, for example regarding intraday risk management positions (principle 8).

B. Proportionality

It is evident that the paper mainly focusses on medium and large complex banks, while under the "Recommendations" the concept of proportionality is underlined as an overarching principle. The members of the EACB strongly welcome this "proportionality" element, which is both relevant for banks' obligations and measures taken by supervisors.

However, we fear that the application of some of the more detailed recommendations, e.g. regarding organisational structure in recommendation 2 or recommendation 12 (short-term liquidity) could be overly burdensome. The same applies to the design of stress-tests.

We appreciate that the text explicitly allows that national authorities design a set of "more simplified standard rules for smaller banks" (recommendation 26). However, we insist on the opportunity for smaller banks to establish their own tailor-made liquidity risk management systems for their banks, if they so wish.

Simplified standardized requirements should only be a kind of fall-back option, an offer, but not a must.

II. Specific Aspects

A. Recommendation 1: Management of Liquidity across business lines

As regards this element, we doubt that it should relate to smaller, non-complex banks.

Furthermore, we think that for complex banks the only aim should be to "treat together what belongs together" and that therefore banks should be free to define their business-lines.

B. Recommendation 3: Organisational Structure

Requirements for the organisational structure and the segregation of tasks should take into consideration as well the situation of smaller banks with limited workforce.

In this respect we would like to draw the attention of CEBS to the fact that a number of co-operative banks are part of a cash-clearing system (currently article 113 3 n of the CRD), where a "sectoral" central bank ensures a balanced liquidity position of the adhering member banks. The CEBS recommenations should reflect these systems, in particular their organisational structure and internal requirements.

C. Recommendation 11: Management of Intraday Liquidity on a gross basis

It seems that this recommendation goes beyond what is required by the Basel Committee. In particular, this is not in line with current practices in many banks. While generating significant cost, we do not see that such a change would lead to a reasonable improvement of the management of liquidity risk.

D. Recommendation 14: Stress-Testing

The definition of the parameters of the stress-test is finally the decisive element for the quality of liquidity management. While we accept that stress-scenarios should be "extreme but plausible", we would nevertheless wish to underline that it will be important not to go too far and to keep the right balance between what could be one out of many unexpected traumatic developments and the precautions that a bank can meet to handle such developments.

In particular "combined" scenarios could lead to a ban of a certain combination of business activities and create a strong danger for profits.

As for smaller retail banks, it will be important that they do not have to build their individual stress-scenarios themselves, but that they can use certain "standard scenarios" as patterns developed by associations or external consultants, which are then adjusted to the individual situation.

E. Recommendation 17: Funding strategy

It has to be pointed out, however, that in many decentralised non-consolidating co-operative banking-groups, local banks often channel the funding through their (sectoral) central banks. This is normally complemented by specific guarantee schemes for co-operative banks, which in the past have more than once proven their merits.

F. Recommendation 18: Public disclosure

The publication of any data regarding a bank's liquidity management is highly sensitive on one hand. The disclosure of data on the liquidity management and the liquidity position could give (too) much of an insight, also to competitors. On the other hand we see the aim of supervisors to develop a tool that could help to build the confidence of market-participants.

Also it has to be avoided that disclosure of information on liquidity management and the liquidity position becomes an end in itself: The liquidity position of a bank is extremely fast-moving and may change considerably even during a single day. Therefore causes for misunderstanding or misinterpretation by the public have to be avoided.

For this reasons we think that expectations regarding this aspect should not be too high, but realistic.

For further information or questions on this paper, please contact Mr Volker Heegemann, Head of Department
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