Mr. Arnoud Vossen
Secretary General
Committee of European Banking Supervisors
Floor 18, Tower 42
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1 August 2008

ESF Response to the CEBS Consultation Paper: 'Technical Advice to the European Commission on Liquidity Risk Management'

Dear Mr. Vossen,

The European Securitisation Forum[1] (ESF), an affiliate of the Securities Industry and Financial Markets Association[2] (SIFMA), is pleased to respond to the June 2008 CEBS Consultation Paper on the second part of its Technical Advice to the European Commission on liquidity risk management.

The market turmoil has highlighted the risk that liquidity shortfalls pose not only to individual market participants but to the global financial system and wider economy. It is clear that liquidity risk management and supervision needs to be reviewed to reflect the complexities and global nature of participants, transactions and products. We believe that a common global set of sophisticated and consistently applied standards is required.

The events of the past year have demonstrated the global nature of liquidity risk and the consequent importance of globally consistent liquidity risk management regulation and of co-operation between authorities. We therefore support the draft Technical Advice in so far as promotes a common regulatory framework for liquidity risk management and the convergence of supervisory practices through colleges of supervisors.

[1] The ESF is the voice of the securitisation and CDO marketplace in Europe, with the purpose of promoting efficient growth and continued development of securitisation throughout Europe. Its membership is comprised of over 150 institutions involved with all aspects of the securitisation and CDO business, including issuers, investors, arrangers, rating agencies, legal and accounting advisors, stock exchanges, trustees, IT service providers and others. The ESF is affiliated with SIFMA. The ESF is a sister organisation of the American Securitization Forum.

[2] SIFMA brings together the shared interests of more than 650 securities firms, banks and asset managers. SIFMA's mission is to promote policies and practices that work to expand and perfect markets, foster the development of new products and services and create efficiencies for member firms, while preserving an enhancing the public's trust and confidence in the markets and the industry. SIFMA works to represent its members' interests locally and globally. It has offices in London, New York, Washington DC, and its sister Association, the Asia Securities Industry and Financial Markets Association (ASIFMA), is based in Hong Kong.

To ensure strong liquidity risk management, market participants must be permitted to manage such risks in the manner most appropriate to their nature, scale and complexity. We therefore support the draft Technical Advice in so far as this will allow global firms to use their own integrated internal methodologies and that provide less complex firms with a common standardised approach to use.

We support the Technical Advice as a significant step towards establishing a common regulatory and supervisory framework liquidity regime whose proportionate and flexible approach allows market participants to manage their liquidity risk in a way most appropriate to them. However, we do have a number of general and more specific comments on the draft technical Advice.

Our general comments would include the need for convergence of the CEBS proposals with those of the Basel Committee of Banking Supervision and more specifically the "Principles for Sound Liquidity Risk Management and Supervision" to ensure a globally consistent framework. To avoid regulatory overload, we would also advocate the implementation of the Technical Advice be timed in a way which is sensitive to the national initiatives already underway to enhance local liquidity standards. We recommend that the implementation of these standards in the Capital Requirements Directive or in Level 3 guidance is timed to ensure a smooth interaction with Member State initiatives and are carefully consulted with the relevant parties.

We support a closer cooperation between the industry and the regulators including the European Central Bank and the national central banks particularly during periods of liquidity stress.

We have a number of securitisation-specific comments that we have listed below:

- Point-of-interest / Lesson 3 states that the originate-to-distribute (OTD) model has increased banks' dependence on capital markets. While this may be true of certain institutions it is not true to say that all credit institutions rely heavily on wholesale funding. We suggest that the Technical Advice text be nuanced to reflect this.

- Paragraphs 33 and 34 state that no public information is available on the valuation of CDOs and that it is difficult to predict how the cash flows generated by complex products might behave in times of severe market stress. In terms of information available for CDO valuations, we note that public valuation information is not available for a wide variety of financial and non-financial assets, not just CDOs. On CDOs, there is considerable information available on the assets included in each CDO, the structure, performance triggers, and in many cases, cash flows models available from a variety of commercial data and analytical services providers. Some of these services provide quotations and/or valuations on many, but not all CDOs. The industry agrees that additional analytical and valuations services are important in terms of coverage of a broader range of transactions, and the industry data and analytics commercial sector has already taken steps to achieve this. In terms of access to CDO information, the ESF is taking steps to encourage more open access to investor reports on widely-marketed CDO transactions. The ESF also recently published a directory of CDO websites[3] where CDO managers and other data provider sites in an effort to increase marketplace awareness of how various types of securitisation market data can be obtained and to increase transparency. In terms of whether the amount of data available for CDO valuations is sufficient in order to prepare a thorough valuation, we note that there can

[3] The CDO Directory is available at http://www.europeansecuritisation.com/dynamic.aspx?id=1488.

be are significant differences in detailed data availability among different types of CDOs. For example, for cash CLOs backed by leveraged loans, where the cash flows are relatively straight forward, in most cases there is sufficient detailed available to prepare valuations. However, on many “resecuritisation” CDOs which reference other securitisations, the industry agrees that there is room for improvement in the level of detail of data available, and increased availability of modelling systems to deal with the additional cash flow complexity. The industry’s CDO manager/issuer principles under development will address the reporting of information on all types of CDOs.

- Point-of-interest / Lesson 4 concludes that complex products pose a significant challenge to liquidity management and should be treated with caution and that the use of such instruments “may reduce the transparency of institutions' liquidity positions”. Transparency of liquidity positions would certainly be impacted if (a) a contract cannot be valued or if (b) it does not get booked in a way that ensures a proper reflection in treasury systems. If (a) and (b) are not an issue, then a company can make an informed decision about whether the resulting liquidity risks is acceptable and can include the impact from a particular transaction in liquidity tests on an ongoing basis. We support robust liquidity management measures and principles to valuate less liquid products.

- Point-of-interest / Lesson 5 concludes that securitisation can, if used as a regular source of funding, trigger liquidity problems in times of stress when new issuances prove difficult and that securitisation can be a potential source of unexpected cash outflow when an institution finds it necessary to provide liquidity to off-balance sheet vehicles to meet contractual commitments or to preserve its reputation. We agree that it is important for all financial institutions, in their liquidity planning, adopt contingency plans if liquidity in asset backed commercial paper or term securitisation markets is disrupted. . We recommend that the point on the diversification of funding sources of is made in the context of Recommendation 17.

- Paragraph 50 argues that the difficulty with the OTD model is that products may be opaque, market liquidity may dry up, and some operators may oppose incentives. We note that the majority of OTD products are not opaque. Opacity should not be generally assumed. Valid assumptions, replicable cash flows, and availability of prices of benchmark securities in deep and liquid market can ensure a high degree of transparency. The industry acknowledges that transparency in information provided on certain products, particularly resecuritisations, could be improved.

- Recommendation 17 requires institutions to actively monitor their funding sources to identify potential concentrations and to have a well-diversified funding base. Diversification of funding sources should be a principle but would need to be interpreted in light of the respective circumstances. For example, while insurance policies are a typical funding source for insurance companies, they would be highly unusual for banks. The opposite would be true for deposits. Funding strategy is also a function of size and regulatory environment (i.e. obligatory reserves).

- Recommendation 18 requires institutions to have policies and procedures in place that provide for the disclosure of adequate and timely quantitative and/or qualitative information on their liquidity risk management and/or positions. We agree that it is appropriate that firms should actively consider what information might be useful and relevant. The ESF, ASF and SIFMA are working on a number of transparency initiatives to improve digitalisation, accessibility and harmonisation of information for CDOs and other structured products that are aimed at facilitating and broadening investor access and understanding of transaction information and enhance usability and comparability of information.

- Paragraph 207 argues that information on implicit support should be made available since in stress situations these become active constraints and further worsen liquidity positions. This is reflected in recommendation 18 regarding the disclosure of quantitative and/or qualitative information on liquidity risk management and/or liquidity positions.

- Recommendation 28 focuses on availability of data for supervisors. While we are fully supportive of supervisors having at their disposal precise and timely information, we strongly advise to carry out cost and benefits analysis before new reporting requirements are put in place as there is a risk that an additional layer of costs that may discourage certain types of transactions. We also support European systems of collecting information to avoid the potentially duplicative reporting arising from single jurisdictions. The ESF are committed to provide on regular basis relevant information on the securitisation markets in terms of issuance, outstanding, rating changes, credit spreads, indices data, primary distribution of securities as well as global comparative data[4].

We appreciate this opportunity to comment on the consultation paper. Please do not hesitate to contact us at +44.20.77 43 93 00 should you have specific questions on the feedback provided.

Best regards,

Rick Watson
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Director

[4] The ESF Securitisation Data Report and the ESF Securitisation Monthly Data Supplement are available at www.europeansecuritisation.com.