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NVB Response
Second part of CEBS's technical advice to the European Commission on Liquidity Risk Management

The Dutch Bankers' Association (NVB) welcomes the consultation of 'Second part of CEBS's technical advice to the EC on Liquidity Risk Management'. In general the NVB supports the CEBS advice, which aims to strengthen banks' management of liquidity risk and contingency funding plans.

General comments
The NVB advocates sound liquidity risk management, which primarily should be given form in a qualitative manner with quantitative elements. Since liquidity risk is managed on a central level the quantitative supervisory requirements should be applied at an aggregated and consolidated level. This supports the macro economic view of the supervisors as well.

If additional quantitative information is requested the NVB is of the opinion that this request should as much as possible be aligned with already internal available liquidity data to avoid an extra administrative burden, especially in times of stress. Furthermore the NVB advocates that if supervisory quantitative liquidity models are required, supervisors specificy liquidity scenario's in such a way that internal models can be applied.

Specific comments
The NVB supports the response of the European Banking Federation (EBF) and would like to give some detailed feedback, as questioned by CEBS, regarding 2, 8, 9, 10, 11, 14, 15, 16, 18, 25, 26, 27 and 28.

The NVB supports CEBS recommendation 8, 9, 10, 14, 15, 20, 26 and 27.

Recommendation 2)
"Institutions should have in place an adequate internal liquidity cost/benefit allocation mechanism – supported where appropriate by a transfer pricing mechanism – which provides appropriate incentives regarding the contribution of liquidity risk of the different business activities. This mechanism should incorporate all <u>relevant</u> costs of liquidity (from short to long term, including contingent risk)"

The NVB strongly believes that effective and efficient management of liquidity risk should be based on relevant data and suggests to add the word 'relevant' in the last sentence. An important condition for an adequate cost pricing model which provides appropriate incentives is that an institution has a risk/reward strategy at its disposal in the first place. Furthermore the NVB would like to remark that CEBS should not focus solely on an internal liquidity cost/benefit allocation mechanism to give appropriate incentives, other mechanisms can be involved as well.

Recommendation 11)
This recommendation states that institution 'should manage intraday liquidity on a gross basis, due the time necessary to have cash available and post collateral.' The NVB endorses that globalization and changes in payment and settlement systems have increased the importance of intraday liquidity management. For the NVB it is obvious that an institution should have information on a gross basis for intraday liquidity management. However, the NVB does not understand why an institution should

manage intraday liquidity on a gross basis rather than on a nett basis with some additional safety margins. The NVB would like CEBS to clarify this recommendation.

Recommendation 16)
The NVB supports this recommendation that liquidity buffers should be sufficient to enable an institution to weather liquidity stress during its defined 'survival period' without requiring adjustments to its business model. The NVB would like to add that defined 'survival period' depends on the strategic risk appetite of an institution.

Recommendation 18)
Recommendation 18 states that 'Institutions should have policies and procedures that provide for the disclosure of adequate and timely qualitative and/or quantitative information on their liquidity risk management and/or their liquidity positions, in both normal and stressed times. The nature depth, and frequency of the information disclosed should be appropriate for their different stakeholders.'

The NVB firmly believes that disclosure should be confined to information which is (i) necessary and (ii) relevant for the stakeholders. The establishment of the procedures for disclosure of information is hampered by the fact that there are many different situations thinkable for which a procedure can be written. Therefore the NVB would like to remark that these procedures can only have a general character. In addition the NVB would like to point out that disclosure of qualitative information in stressed times can misinterpreted by the stakeholders and backfire on the institution that disclosed the information.

Recommendation 28)
Recommendation 28 states that 'Supervisors should have at their disposal precise and timely quantitative and qualitative information which allows them to measure the liquidity risk of the institutions they supervise and to evaluate the robustness of their liquidity risk management.'

To measure the liquidity risk and to evaluate the robustness of the liquidity risk management the NVB believes that relevant, timely and reliable information is extremely important in times of stress for institutions as well as for supervisors. The NVB strongly advocates that in times of stress institutions and supervisors should use the same information to measure banks' liquidity risk. Therefore supervisors should primarily rely upon internal information available as much as possible to minimize the extra administrative burden, especially in times of stress.

The NVB suggests to rephrase Recommendation 28 as follows:

'Supervisors should have at their disposal precise and timely quantitative and qualitative information that is already used by the internal risk management function. This will allow them to measure the liquidity risk of the institutions they supervise and to evaluate the robustness of their liquidity risk management.'

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