



BANCO CENTRAL DO BRASIL

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31 July, 2008.

Mr. Nout Wellink
Chairman
Basle Committee on Banking Supervision

Dear Mr. Wellink,

Banco Central do Brasil welcomes the consultative document with the proposal to review the 2000 BCBS publication *Sound Practices for Managing Liquidity in Banking Organizations*. I believe the proposed *Principles for Sound Liquidity Risk Management and Supervision* introduce relevant enhancements in liquidity risk management practices. The changes to the original document may help foster more crisis-resilient practices by the industry and improve procedures by the supervisory authorities.

2. Indeed, the document is well aligned with the current scenario and future perspectives in liquidity risk management. However, I would like to suggest a change in the wording of principle 13, which states that "*A bank should publicly disclose information on a regular basis that enables market participants to make an informed judgment about the soundness of its liquidity risk management framework and liquidity position.*" The use of the term **liquidity position** may induce some misunderstanding, as it could be interpreted that the financial institution should disclose quantitative information concerning its liquidity position.

3. I strongly defend disclosure as a powerful tool to enhance market discipline and the revised principles should address this issue. Nevertheless, the Principles should focus on the disclosure of other aspects of the liquidity risk management framework for financial institutions. The disclosure of liquidity positions may have an incremental effect on financial crises, rather than mitigating them. I believe the disclosure intended refers to information regarding the composition of assets, and the breakdown of certain unconsolidated instruments. As seen in recent events, the lack of information on off-balance sheet conduits and firm's holdings of ABS were a problem.

4. In that respect, Banco Central do Brasil proposes the suppression of the term "**and liquidity position**", resulting in the following wording for principle 13: "*A bank should publicly disclose information on a regular basis that enables market participants to make an informed judgment about the soundness of its liquidity risk management framework.*"



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5. Finally, let me congratulate you on the way the Basle Committee has been handling this most challenging issue at such eventful times.

Best regards,

Alexandre Antonio Tombini
Deputy Governor