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## **NVB Response**

### **BCBS Principles Sound Liquidity Risk Management and Supervision**

The Dutch Bankers' Association (NVB) welcomes the consultation of 'BCBS Principles for Sound Liquidity Risk Management and Supervision'. In general the NVB supports the BCBS principles to improve the ability of a bank to meet its obligations without incurring unacceptable losses. The implementation of the principles aims to strengthen banks' management of liquidity risk and contingency funding plans.

The BCBS guidance reinforces the role of the supervisors, who have to assess the adequacy of a bank's liquidity risk management framework and its level of liquidity. The principles also stress the importance of effective cooperation between supervisors and other key stakeholders, such as central banks. The NVB believes that the BCBS guidance is a step in the right direction to improve liquidity risk management internationally.

The NVB supports the response of the International Banking Federation (IBFed) and the Institute of International Finance (IIF) on the BCBS principles and would like to stress the importance of the following issues:

- In order (i) to create a level playing field for (cross border) financial institutions in this area the supervisory structure for the coordination of activities should be made more effective for several reasons. Firstly, the current structure has led to diverged liquidity supervision approaches between the Member States and impedes an effective cross-border liquidity funding between banking groups. Secondly, the BCBS high-level principles leaves room for the continuation of diverged liquidity supervision approaches. Thirdly, the fragmentation of the European prudential supervision practices for cross border institutions might hinder an adequate control in times of stress.

Therefore, the NVB suggests to impose effective cooperation between supervisors for large, cross-border European financial groups. This can be achieved through a College of Supervisors, where both home and host regulators participate. This leaves supervisory regulation for small, locally active institutions unaffected. The consolidating supervisor model explicitly recognizes the value of intensive dialogue, cooperation and coordination between the involved supervisors.

- Since the scope of application of the BCBS qualitative principles is restricted to the banking industry a universal level playing field cannot be achieved. Investment firms, hedge funds and other financial institutions, beyond the scope of application of the BCBS guidance, are also active actors on the (international) financial markets and can sort an unsettling effect on the liquidity markets. The NVB supports regulation on liquidity risk management, but would like to stress that BCBS principles do not necessarily result in a more stable liquidity market.

- Furthermore the NVB is of the opinion that, besides the importance of the cooperation between supervisors and the central banks, the role of the central banks and the (inter)national liquidity processes should also be highlighted. In this regard the NVB regrets that the role of the Central Banks as lender of last resort is not clearly defined in the BCBS principles. Since this role of the central banks as well as the Central Bank's actions and provisions do have an impact on a bank's internal liquidity risk management decision-making processes, the NVB firmly believes that the BCBS should have incorporated this relationship and effects in the principles.
- The BCBS principle 5 requests the banking industry 'to identify, measure, monitor and control a bank's liquidity positions for all future cash flows of assets and liabilities, all sources of contingent liquidity demand and related triggers associated with off-balance sheet positions....". The requested information leads to an increase in documentation of data and IT efforts for (re)modeling liquidity risk to meet the BCBS principles. To reduce this (administrative) burden the NVB recommends the BCBS only to focus on relevant data.

In addition, the NVB strongly believes that effective and efficient management of liquidity risk should be based on relevant data and as much as possible be aligned with the banks' own internal liquidity measurement. Banks should be allowed to use their own liquidity risk models. Consequently, the data request should be aligned as much as possible with the internal liquidity measurement system, so in times of stress banks can act swiftly, in time and focus on their primary task, i.e. meeting cash flow obligations.

- BCBS Principle 13, nr 127 states that 'A bank should disclose its organizational structure and framework of liquidity risk management. In particular '.... A bank should describe this structure with regard to its funding activities, to its limits setting systems, and to its intragroup lending strategies....'. The NVB believes that:
  - Disclosure is no panacea for transparency.
  - Disclosing quantitative information about funding activities, limits setting systems and intragroup lending strategies is competitive sensitive information and should therefore not be disclosed routinely.

In addition the NVB wonders if disclosure leads to commensurable information upon which market participants can make adequate judgements.

Therefore the NVB suggests to delete the sentence 'A bank should describe this structure with regard to its funding activities, to its limits setting systems, and to its intragroup lending strategies' in paragraph 127.

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