



July 29, 2008

Mr. Nout Wellink  
Chairman  
Basel Committee on Banking Supervision  
Bank for International Settlements  
Centralbahnplatz 2  
CH-4002 Basel, Switzerland

**Re: Principles for Sound Liquidity Risk Management and Supervision**

Dear Mr. Wellink:

World Council of Credit Unions (WOCCU) is the leading trade association and development organization for the international credit union and financial cooperative movement, representing more than 49,000 cooperative-owned, not-for-profit credit unions in 96 countries with assets of more than US\$1.1 trillion in the retail financial services market. Globally, all types of financial cooperatives by various names (i.e., credit unions, rural credit cooperatives, cooperative banks, savings and credit cooperatives) serve an estimated 857 million people. Please accept our comments on the consultative document on Principles for Sound Liquidity Risk Management and Supervision, outlined below.

***General Comments***

We commend the Basel Committee for looking into the issue of liquidity risk management and supervision. Credit unions are retail financial institutions that mobilize large numbers of small deposits, provide loans and other related financial and payment services. For more than 20 years, WOCCU has worked with credit unions and financial cooperatives around the globe to ensure that they have in place sufficient liquidity management practices. This includes establishing a standard that credit unions have at least 15% liquid assets (less short-term payables) compared to total deposits. Of course this simple standard also needs to be stress tested, monitored and evaluated against market conditions.

To better understand credit unions' need for liquidity and susceptibility to rapidly changing market conditions, within that past month we have completed a global survey of credit union systems in 60 countries to assess their ability to directly access national clearing and settlement systems. Unfortunately, over two-thirds of the credit union systems (41 countries surveyed) do not have direct access to clearing and settlement systems (see attachment). We believe that an even higher percentage of them do not have access to central banking liquidity facilities.



This puts a segment of retail financial institutions at particular risk. For countries such as Trinidad & Tobago, Kenya and Guatemala, where 45%, 20% and 10%, respectively, of their citizens rely on credit unions for financial services, financial systems are at unnecessary additional risk.

### *Specific Comments*

#### **Principle 7, Market Access**

This section of the document correctly identifies the importance of market access and establishing a plan and process for managing access to liquidity. In paragraph 69, it is recommended that financial institutions maintain a relationship with the central bank for liquidity access. Such a relationship must be a two-way street. Central banks must be willing to provide liquidity access to financial institutions that mobilize deposits in their countries. We strongly believe that the consultative document should be modified to provide such guidance to central banks.

#### **Principle 8**

Paragraph 80 also references central bank credit facilities for intra-day settlement of payment obligations. We are well aware that access to central bank liquidity, maintenance of reserve accounts at a central bank and direct access to national clearing and settlement systems are interrelated items and need to be dealt with as such. We firmly believe that retail financial systems and institutions are strengthened when organizations that are involved in financial intermediation and retail payments also have access to such facilities.

### *Conclusion*

In conclusion, we believe it also possible to establish liquidity ratios at too high of a level such that it limits an institution's ability to effectively intermediate resources and generate income to capitalize the institution. For example, we are aware of a central bank in South Asia that requires its financial cooperatives to maintain 25% liquidity reserves with the central bank plus a 3% cash reserve ratio. This has led to very low loan-to-asset ratios and therein profitability. This is evidence that supervisory balance is necessary to apply these principles and that it's possible at times to have too much of a good thing.

Thank you for your consideration. Please feel free to contact me at (608) 395-2087 or via email at [dgrace@woccu.org](mailto:dgrace@woccu.org) if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads 'Dave Grace'.

Dave Grace  
Vice President



## Attachment A

Survey Results: **Do credit unions have direct access to payment and settlement systems?**

Total responses: **60**

YES: **19** countries; NO: **41** countries

YES	NO
Australia	Azerbaijan
Bahamas	Barbados
Brazil	Belize
Canada	Bolivia
Colombia	Cameroon
Costa Rica	Cayman Islands
Ecuador	Chile
Gambia	Dominica
Great Britain	Dominican Republic
Honduras	El Salvador
India	Estonia
Kenya	Ghana
Lithuania	Grenada
Paraguay	Guatemala
Philippines	Guyana
Poland	Hong Kong
Seychelles	Indonesia
Tonga	Ireland
USA	Jamaica
	Latvia
	Lesotho
	Macedonia
	Moldova
	New Zealand
	Nicaragua
	Panama
	Peru
	Romania
	Russia
	South Africa
	Sri Lanka
	St. Vincent
	St. Kitts
	Taiwan
	Tanzania
	Thailand
	Trinidad & Tobago
	Uganda
	Ukraine
	Uzbekistan
	Zimbabwe