



Association of Swedish Covered Bond issuers
The Covered Bond Voice of the Swedish Bankers' Association

POSITION PAPER

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Basel Committee on
Banking Supervision
By email to:
Baselcommittee@bis.org

Consultative document “International framework for liquidity risk measurement, standards and monitoring”

The Association of Swedish Covered Bond issuers¹ (ASCB) welcomes the opportunity to comment on the Basel Committee’s consultative document “International framework for liquidity risk measurement, standards and monitoring”.

As a member of the European Covered Bond Council (ECBC) we fully support their response on the consultative document. Hence, we agree that covered bonds should be included in the narrow definition of highly liquid assets in the liquidity buffer and that the suggested haircuts are overly conservative and does not reflect the high quality and liquidity of these bonds.

Furthermore, ASCB would like to stress that Swedish domestic issued covered bonds play a very important role as the liquid instrument for investing and handling Swedish krona liquidity for the professional Swedish community. The Swedish domestic covered bond market is one of the largest in Europe, sized EUR 144bn as per end of 2009. The outstanding covered bond volume was 38,5 % in relation to GDP in 2008 and the share of covered bond funding of residential mortgages amounted to 63,5 %. The Swedish covered bond market has a long history and has withstood the external shocks of the last decades, including the Nordic financial crisis in the early 90’s, the LTCM crisis, the Asian and Russian crisis and the 9-11, by remaining open and providing functionality to issuers and investors in terms of two-way pricing on outstanding benchmarks including repos. Perhaps an important reason for this strong performance is the issuance format for the Swedish market place. The so-called tap issuance format has helped to maintain liquidity and transparency in the market by supporting a price-discovery process during difficult times and thereby reducing execution uncertainty for both issuers and investors. It is also very comforting to note that the Swedish covered bond market has remained open for business with interbank functionality and two-way screen pricing throughout the recent financial crisis. This track-record shows the high quality of Swedish covered bonds.

Since Sweden is a country with a limited government debt and a very small currency it would be necessary for the credit institutions to be able to include other kind of liquid assets in the buffer in addition to government bonds.

Yours sincerely

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Association of Swedish Covered Bond issuers (ASCB)

¹ The Association of Swedish Covered Bond issuers is the voice of the Swedish covered bond industry. The purpose of the ASCB is to represent and promote the interests of the Swedish covered bond market. Website: www.ascb.se