BANK FOR INTERNATIONAL SETTLEMENTS

Basel Committee on Banking Supervision
Consultative Document: International framwork for liquidity risk measurement, standards and monitoring
December 2009
Issued for comment by 16 April 2010

Paragraph 34. Definition of liquid assets

Definition of liquid assets

34) The stock of high quality liquid assets should be comprised of assets which meet the characteristics outlined above. The following list describes the assets which meet these characteristics and can therefore be used as the stock of liquid assts:

(a) Cash

(b) central bank reserves, to the extent that they can be drawn down in times of stress;

(c) Marketeable securities by sovereings, central banks, non-central government public sector entities (PSEs), the Bank for International Settlements, the International Monetary Fund, he European Commision, or multilateral developments banks as long as all the following criteria are met:

(i) they are assigned a 0% risk-weight under the Basel II standardised approach, and

(ii) deep repo-markets exist for these securities, and

(iii) the securities are not issued by banks or other financial services entities

(d) Government or central bank debt issued in domestic currencies by the country in which the liquidity risk is being taken or the bank´s home country.

The types of asset included in Section 34 on "the stock of high quality assets" suggests that they exclude senior debt issued by financial institutions with a State guarantee.

We believe there are arguments in favour of the inclusion within this section of bonds issued by financial institutions and guaranteed by the State:

1. Bearing in mind that the State bond guarantee is unconditional and irrevocable, we feel they should be considered as valid assets for section 34, since the section does include an entry for the bonds issued by Governments: "Marketable securities by sovereigns".

2. The issuing of bond guarantees by the State involves budgetary procedures equivalent to the State actually issuing securities, as both are entered in the corresponding budgetary

items, and hence involve the same payment obligation on the part of the State as if the bond was issued by the Government itself.

3. Bonds with a State guarantee have a risk weighting of 0% in accordance with the demands of section 34.

4. In terms of liquidity there is no reason why this market should be any less liquid than others included in section 34. "Securities guaranteed by non-central government PSEs (20% Risk weight)" do include securitisation tranches guaranteed by the State.

5. In the recent crisis the effectiveness of such instruments in obtaining liquidity has been demonstrated.

Paragraph 34-37. Definition of liquid assets

34. The stock of high quality liquid assets should be comprised of assets which meet the characteristics outlined above. The following list describes the assets which meet these characteristics and can therefore be used as the stock of liquid assts [...]
35. [...]
36. Corporate Bonds that, depending on their credit assessment, receive either a 20% or a 40% haircut and satisfy all the following conditions [...]
37. Covered bonds that, depending on their credit assessment, receive either a 20% or a 40% haircut and satisfy all the following conditions [...]

The type of assets included in the section on "Definition of liquid assets" is limited to:

- Liquid assets, understood as:
  - Cash
  - Central Bank Reserves
  - Public Debt
- Non-financial corporate bonds
- Mortgage warrants not issued by the institution itself nor by other financial institutions
- Other types of sovereign bond or those of other public sector entities with a weighting of 20%.

We believe there are arguments in favour of the inclusion in this section of high credit rating securitisation bonds (from AAA to A-) along with mortgage warrants issued both by the institution itself and by other financial institutions with a high credit rating (from AAA to A-).

1. As with multi-assignor mortgage warrants, securitisation bonds or other warrants, irrespective of the type of issue, are backed up by loans the yield on which will establish the performance of the bonds. If we focus only on securitisation bonds or warrants with a high credit rating, the view is that the type of loan backing up such bonds is also of high credit quality.

2. Mortgage securitisation bonds are, along with high credit quality mortgage warrants, in market terms just as liquid as the assets included in the section "Liquid Assets". We cannot regulate only on the basis of past impulses: just as the current crisis scenario has penalised mortgage warrant securitisation bonds more heavily, because of the lack of information about the securitised portfolios, as perceived by the market, in previous financial crises mortgage warrants and other assets backed up by the entity's balance sheet were more heavily penalised, precisely because the lack of information lay in the accounting information of the issuing entities (Enron, Parmalat, etc.). As a result, depending on the crisis scenario different types of asset will bear the brunt, but we feel that the study should

remain at a distance from specific crisis situations, such as the scenario seen at present with an increase in debt default and with securitisation bonds paying the price, as opposed to a scenario where entities' ratings fall for reasons other than debt default, with the market thus penalising other assets, and instead base itself on the real value of the guarantees behind each security (for example, we do not feel that a senior security is the same as a junior or subordinate, even if they both have an A- rating).

3. In the case of securitisation bonds, effective sale of the asset and the associated guarantee takes place, thereby isolating the banking risk of the bond. In the case of a systemic crisis, this type of asset is tied only to the evolution of delinquency and macroeconomic variables, and to a lesser extent banking risk itself.

4. As with mortgage warrants, security bonds are accepted as collateral in repo operations (private market) and also for policies (public market), in line with the demands set out in this section.

Paragraph 41. Stability of retail deposits

41. The presence of deposit insurance alone is not sufficient to consider a deposit "stable"

We feel that if a deposit is covered by a Deposit Guarantee Fund this is a factor of stability compared with sums enjoying no such cover, hence this characteristic should be taken into consideration in estimations of the run-off of liabilities in stress situations when calculating the Liquidity Coverage Ratio (LCR).

In Spain customers are guaranteed a refund of their deposits up to a given sum (€100,000 per depositor since October 2008), meaning that such sums are more likely to remain at the institution in situations of stress, irrespective of whether the customer is tied (weighting factor of 7.5%) or not tied (weighting factor of 15%). The importance of the guarantee offered by the DGF as a stabilising factor has been revealed by this crisis.

What is more, calculation of liquid assets does take into consideration the existence of an insurance factor, since corporate bonds guaranteed by the State are accepted.

We therefore reach the conclusion that insured sums should be favoured over other sums in the ratio calculation, since the risk of withdrawal is lower, as the customer will always recover cash up to a certain sum.

Paragraph 41 and 48. Stability of retail deposits

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41. y 48. Stable deposts will receive at least a 7.5% run-off factor in each jurisdiction. Less stable deposts will receive at least a 15% run-off factor in each jurisdiction

We feel these run-off ratios are excessive, since historically retail deposits, both sight and term, reveal highly stable behaviour.

An analysis of historic data since 2002 reveals a maximum monthly decline in values of less than 3%, far short of the proposed weightings of 7.5%-15% for stress cases in calculating the Liquidity Coverage Ratio.

Consideration should thus be given to the possibility of reducing the weightings of these ratios, given the stable behaviour of deposits over time.

A failure to do so would penalise retail banking, for which **diversification** (not considered in these weightings) is one of the strengths guaranteeing its greater stability.

Paragraph 66. Available drawdowns

66. (a) Draw downs on committed credit and liquidity facilities to retails: 10%. (b) Draw downs on committed credit facilities to non- financial corporates: 10%.

We believe that the application of a 10% factor on irrevocable drawdown availability is a very high stress measure, as stable levels are maintained over time.

Given the historic series for availabilities since 2002, the monthly increase in availabilities presents values of less than 0.5% in most cases. Over this same time period the maximum increase in drawdowns in any given month stood at around 2.9%, a figure considerably below the proposed stress factor of 10%.

Paragraph 86 (Table 1). Available Stable Funding

86. Table 1

Composition	**ASFactor**
Borrowings and liabiiities with effective maturities of one year or greater	100%
“Stable” non-maturity deposits and/or term deposits with a residual maturity of less than one year	85%
“Less stable” non-maturity deposits and/or term deposits with a residual maturity of less than one year	70%

The calculation of Available Stable Funding does not take into consideration diversification factors in establishing the weightings, penalising the private customer business as opposed to wholesale finance, generally with terms of more than one year.

Under the proposed calculation, institutions heavily dependent on capital markets will be given a better ratio than institutions financed through retail deposits, which have revealed themselves to be stable over time.

Meanwhile, retail customer term deposits (highly stable) are considered as equivalent to sight deposits (weighted at all times at 85%), irrespective of whether the maturity is one year or more.

Our conclusion is thus that in calculating Available Stable Funding consideration should be given to the factors inherent in retail customer operations, such as the diversification of resources, since this gives such balances considerable stability.

Paragraph 89 (Table 2)

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89. Table 2

Composition	**RSF Factor**
Loans to non- financial corporate clients having a residual maturity of less than one year	50%
Loans to retail clients having a residual maturitu of less than one year	85%
All other assets	100%

In calculating the stable funding required no consideration is given to the possibility of securitising an asset. In achieving liquidity, such an asset would not involve any funding requirement.

Loans are the main asset of retail banks. Long-term loans (100%), essentially mortgages, could be monetise by the institution through securitisations. Even for loans with a maturity of less than one year, the weighting factor for calculation of the Required Stable Funding (85% for retail customers) is also high if one takes into consideration the possibility of securitising.

We therefore feel there is a need to include a specific weighting taking into consideration the capacity to make liquid such assets, essential to retail banks.