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Secretariat of the Basel Committee on Banking Supervision,
Bank for International Settlements,
CH-4002 Basel
Switzerland

16 April 2010

Dear Sirs,

INTERNATIONAL FRAMEWORK FOR LIQUIDITY RISK MEASUREMENT, STANDARDS AND MONITORING

Barclays Bank PLC ("Barclays") welcomes the Basel Committee's consultation paper "International framework for liquidity risk measurement, standards and monitoring" and we acknowledge the critical importance of the issues the paper raises. We are grateful for the opportunity to respond on the Committee's proposals.

1. Executive Summary

1.1. We support the direction of prudential reform outlined by the G20 and taken forward by the Committee in this paper. In principle we agree with the need to raise prudential liquidity standards for the banking sector and indeed have materially increased liquidity buffers in Barclays compared to levels pre-2007.

1.2. It is important authorities consider and analyse the conflicting objectives of limiting banking risk, maintaining the supply of credit to the economy at an acceptable price and ensuring a sufficient supply of liquidity is available to meet the new level. Building on this analysis, authorities should articulate a vision for the desired end state that the collective capital and liquidity reforms are trying to achieve.

1.3. We fully support the Quantitative Impact Study which will provide an input in to this analysis. Further inputs are also required to cover other changes, such as funding of deposit insurance schemes, which would impact bank profitability. Completion of this important analysis prior to finalising the new requirements will mitigate the risk that implementation negatively impacts the economic recovery.

1.4. We have also been undertaking detailed work over the last three months to better understand the likely impact of the aggregate reform package. It is clear from the analysis that the impact of the proposed capital and liquidity reforms will be severe – particularly in context of other proposals such as Resolution Levy.

1.5. Given the materiality and international nature of the changes proposed to liquidity, it is critical that the level playing field is maintained. Consequently, we recommend authorities reach international consensus on both the changes required and the pace of implementation rather than proceeding unilaterally ahead of such consensus and needing to reverse later (which may

be politically challenging) if international consensus proves to be different. Reaching consensus first will have the benefit of limiting potential arbitrage between jurisdictions whilst protecting individual economies from unfair competition.

1.6. In terms of specific elements, at a high level, we are concerned that:

- Available funding may not be sufficient for institutions to meet the standards;
- The rationale behind the use of standardised assumptions may be flawed and should be reconsidered;
- The cumulative impact of proposed regulatory changes would negatively impact the economy and process of recovery;
- The interpretation of data must be done with caution to avoid damage to financial stability; and
- Proposed national and international regulations would create conflicting priorities.

1.7. We believe that the following modifications would address many of these concerns:

- Rather than the proposed narrow definition of eligible assets we strongly advocate that there should be a wider definition; critically that needs to include covered bonds as well as a proportion of financial institution paper;
- Rather than having prescriptive rules on outflows, regulators should apply their expert judgement to reflect the exposure of the business and the mix of funding used;
- Trading book assets should be funded in a way reflective of the liquidity of the assets as opposed to the contractual maturity;
- Repo activity should be incorporated into the required calculations in a way that reflects the capabilities of the entity managing the repo funding; and,
- Wholesale funding has an important role to play in the financial system and should be recognised as having value as part of the stable funding structure of a bank. This could be incorporated by allowing increasing percentages within the stable funding sources as the funding term is increased.

1.8. This letter discusses the above points in more detail below. We have also made a number of more detailed comments on the consultation paper in an appendix to this letter.

2. *Available funding may not be sufficient for institutions to meet the standards*

The proposed regulation requires banking institutions to hold high quality liquid assets in the short term and seek stable funding in the long term. Those principles plainly have merit and should receive wide-spread support. However, we think that there is considerable doubt as to the availability of assets and funding in the current economic conditions to enable institutions to simultaneously meet the requirements in their proposed form. An unachievable requirement negates the value of the regulation. The quantum of longer term unsecured funding required for the net stable funding ratio may be greater than that which is available. Additionally, the value of wholesale funding is minimised, eliminating this significant source of financing from a stable funding structure.

3. *The rationale behind the use of standardised assumptions may be flawed*

3.1. The proposed basis for calculating the ratios assumes that all banks exhibit identical liquidity risk profiles. We think that that is fundamentally incorrect. Whilst a Pillar 1-type approach may help regulators (and investors if these metrics are made public) undertake an initial comparison of the liquidity position of financial institutions, that should just be the starting point for understanding the true level of risk in individual firms and the financial system as a whole. We do not believe that that a "one-size-fits all" approach is an accurate means of determining risk. It will not give a fair representation of the position of all the banks and will unreasonably constrain economic growth. Instead, we believe that regulators should use expert monitoring,

to now determine the exposure and mix of funding particular to each business that should be taken into account.

3.2. The proposal that banks publish their conformance to the ratios may well incentivise some to focus on managing their performance against these specific ratios and lose sight of the bigger more significant risks, including other indicators of liquidity stress. The liquidity risk management process would become less effective as a result.

4. The cumulative impact of proposed regulatory changes would negatively impact the economy and process of recovery

4.1. Recognising that there are also multiple proposed changes to the regulation of capital, credit, leverage and concentration risk we believe that it is critical that the cumulative impact of all proposed regulatory changed is understood. This applies not only to the impact on the wider economy, but also the impact on the banking industry's return on equity. Aggressive reductions on returns to bank equity holders could well precipitate the failure of the banking system and impose a long-run burden on tax payers.

4.2. These are highly complex and interconnected issues. A level of risk is unavoidable if banks are to perform the vital economic function of maturity transformation. The key question is how much risk is acceptable and how do we transition to the new regime? Accordingly we welcome the Committee's QIS initiative to inform the implementation and calibration of future regulatory reform.

5. The interpretation of data must be undertaken with caution to avoid damage to financial stability

Careful interpretation of the data received from banks will be essential for the proposed regulation and monitoring tools to be effective. It is our view that the regulators should aim to obtain an overarching view of the assets and liabilities that banks hold. For instance, regulators should not place reliance solely on monitoring those assets with a market value as it would make little sense to give firms credit for assets that are held, but not actively traded. The liquidity value of an asset remains very firm specific. In this regard we consider the FSA's requirements for an "individual liquidity adequacy assessment" a helpful tool for constructive dialogue with regulators.

6. Proposed new national and international regulation would create conflicting priorities

6.1. The proposed liquidity regulation is one among several others at the national and international level. These regulations together will impact capital, liquidity, revenue and earnings. For example, the recent proposed changes to capital ratios will put pressure on earnings as fixed income and equity investors will either require greater compensation for exposure to bank risk or will simply not wish to hold bank equity.

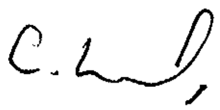
6.2. We note that regulation has required certain suppliers of funding, for example the US money funds, to only invest in very short duration assets. That conflicts with the increased regulatory expectation on the demand side that banks seek longer term funding from a variety of sources. The business model of certain financial intermediaries will come under strain if they are unable to place medium to longer term funds with regulated banks and they could even be forced to exit the market. Regulated banks will therefore need to seek medium to long term deposits to replace these funds. Whilst direct retail deposits seem the obvious replacement we believe that, behaviourally, there are limits on the amount of retail deposits available at term. We also suggest that locking such available funds into long term deposit accounts could create a further drag on economic recovery.

7. *A sensible "flight path" for change is crucial to ensure that financial stability is protected*

7.1. We urge the Committee to take into account the need for the careful management of the transition to any new requirements and the establishment of a sensible "flight path" for change. A key consideration would also be the physical capacity of the market to meet the new requirements for particular assets that the new legislation would create. This would help ensure that all the institutions affected do not create instability in the market by simultaneously trying to meet stringent requirements requiring drastic changes to their businesses and balance sheets.

7.2. As noted above, our detailed comments are attached. We hope that they are of assistance to the Basel Committee in the further development of its work, and we of course stand ready to discuss these with the Committee if that would be of assistance. We look forward to working with the Basel Committee to attain our common objective of a soundly capitalised and well-managed banking sector.

Yours faithfully,



APPENDIX

A. GENERAL COMMENTS

1. *Available funding may not be sufficient for institutions to meet the standards*

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2. *The rationale behind the use of standardised assumptions may be flawed*

2.1. The proposed basis for calculating the ratios assumes that all banks exhibit identical liquidity risk profiles. We think that that is fundamentally incorrect. Whilst a Pillar 1-type approach may help regulators (and investors if these metrics are made public) undertake an initial comparison of the liquidity position of financial institutions, that should just be the starting point for understanding the true level of risk in individual firms and the financial system as a whole. We do not believe that a "one-size-fits all" approach is an accurate means of determining risk. It will not give a fair representation of the position of all the banks and will unreasonably constrain economic growth. Instead, we believe that regulators should use expert monitoring, to determine how the exposure and mix of funding particular to each business should be taken into account.

2.2. The proposal that banks publish their conformance to the ratios may well incentivise some to focus on managing their performance against these specific ratios and lose sight of the more significant risks, including other indicators of liquidity stress. The liquidity risk management process would become less effective as a result.

3. *The cumulative impact of proposed regulatory changes would negatively impact the economy and process of recovery*

3.1. Recognising that there are also multiple proposed changes to the regulation of capital, credit, leverage and concentration risk we believe that it is critical that the cumulative impact of all proposed regulatory changed is understood. This applies not only to the impact on the wider economy, but also the impact on the banking industry's return on equity. Aggressive reductions on returns to bank equity holders could well precipitate the failure of the banking system and impose a long-run burden on tax payers.

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should not place reliance solely on monitoring those assets with a market value as it would make little sense to give firms credit for assets that are held, but not actively traded. The liquidity value of an asset remains very firm specific. In this regard we consider the FSA's requirements for an "individual liquidity adequacy assessment" a helpful tool for constructive dialogue with regulators.

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5.1. The proposed liquidity regulation is one among several others at the national and international level. These regulations together will impact capital, liquidity, revenue and earnings. For example, the recent proposed changes to capital ratios will put pressure on earnings as fixed income and equity investors will either require greater compensation for exposure to bank risk or will simply not wish to hold bank equity.

5.2. We note that regulation has required certain suppliers of funding, for example the US money funds, to only invest in very short duration assets. That conflicts with the increased regulatory expectation on the demand side that banks seek longer term funding from a variety of sources. The business model of certain financial intermediaries will come under strain if they are unable to place medium to longer term funds with regulated banks and they could even be forced to exit the market. Regulated banks will therefore need to seek medium to long term deposits to replace these funds. Whilst direct retail deposits seem the obvious replacement we believe that, behaviourally, there are limits on the amount of retail deposits available at term. We also suggest that locking such available funds into long term deposit accounts could create a further drag on economic recovery.

6. *A sensible "flight path" for change is crucial to ensure that financial stability is protected*

We urge the Committee to take into account the need for the careful management of the transition to any new requirements and the establishment of a sensible "flight path" for change. A key consideration would also be the physical capacity of the market to meet the new requirements for particular assets that the new legislation would create. This would help ensure that all the institutions affected do not create instability in the market by simultaneously trying to meet stringent requirements requiring drastic changes to their businesses and balance sheets.

7. *The aggregate impact of the proposed changes is excessively severe*

7.1. Whilst we appreciate the reasons underpinning the conservative stance of the regulation in respect of wholesale funding, we believe that the drastic measures proposed would have a severe impact on the ability of banks to conduct their banking businesses.

7.2. The proposed changes would remove all value for short term wholesale deposits and to minimise the banks' willingness to hold longer dated paper of borrowing banks. Whilst we understand the drive behind removing excessive reliance on short term wholesale funding, it is important to acknowledge that this does remain an important transmission mechanism that banks, and in particular smaller banks, use to fund their business. Rendering short term wholesale deposits valueless would leave an aggregate funding gap in the market, one that we believe covered bonds and limited amounts of financial paper should be allowed to fill.

7.3. The proposed regulation therefore indirectly supports the creation of a banking industry with just a few large players, and the resulting concentration risk appears contradictory to the underlying spirit of the new regime.

8. The level of required disclosure must be set carefully

8.1. The proposed legislation suggests that information on the metrics, particularly on the standards, should be publicly disclosed. The proposed disclosures would cover the value, level, size, composition and drivers behind the metrics as well as some qualitative information.

8.2. Whilst we acknowledge the moral and ethical duty for disclosure leading to the proposed requirement, we are of the opinion that complete disclosure may jeopardise financial stability should the disclosed information not be completely and correctly understood. Protecting financial stability also entails establishing a correct balance between any duties to disclose and allowing sufficient time for the bank and/or the authorities to take remedial action prior to alerting the general public. The timing and level of detail for statutory disclosure and publication must therefore be set with these in mind.

8.3. It would be counterproductive if the disclosure were to increase the probability of bank runs, which is feasible if remedial action does not have the required time to take effect.

9. The importance of international co-ordination

9.1. Barclays welcomes and supports the development of harmonised global standards. We believe that it is important that national and regional supervisors resist the temptation to anticipate the development of international standards and where they have anticipated these that they swiftly come into line with global standards once they are agreed. However, this also means that global standards need to be agreed without undue delay and in line with the timetable set by the G20.

9.2. It is also important that prudential regulation does not become, or does not become perceived to be, the source of competitive distortion. While we understand that the proposed framework is not legally binding and the Committee has no enforcement mechanism, we do think it is important that the national implementation of the standards is reviewed by the Basel Committee, perhaps through its Standards Implementation Group, and that differences in interpretation and implementation are discussed and – it is to be hoped – minimised or eliminated. Even before the implementation of the trading book amendments issued in July 2009 and the proposals in this consultation, there is significant variation in how the leading economies have implemented the Accord.

10. There should be an increased focus on forward looking regulation

10.1. The recent wave of proposed regulation has clearly arisen from a widely shared desire to ensure that individual institutions do not repeat the mistakes previously made. This is important but it is our view that there should be equal, if not more focus on ensuring that new sources of future systemic risk are identified earlier, since this was a failure that proved instrumental to the financial crisis. A more forward looking approach to anticipate any new issues that may arise as a result of the new economic and regulatory environment would be preferable.

10.2. This would entail authorities focusing on identifying and dealing with systemic risk, as well as enforcing stronger liquidity/capital management within individual banks. The resulting environment would include early warning indicators; requirements for banks to hold adequately diverse liabilities and buffers - diversity would cover both geography and class; counter cyclicality in buffers; and remuneration schemes to align objectives of stakeholders and senior executives within banks. Amending the way business is conducted in the financial sector to ensure greater transparency would also assist: for example, using clearing houses and central counterparties would support a managed environment and a reduction in contagion risk.

11. The application of the proposed standards at the legal entity level may trap liquidity

11.1. The consultation paper suggests that the proposed standards may be applied at a legal entity rather than consolidated level. A requirement for individual or sub-groups comprising legal

entities to satisfy the two proposed ratios may create a situation where pools of liquidity are trapped within legal entities managing their individual compliance.

11.2. Unless these entities are able to manage and transfer excess liquidity across the group as required, inefficiencies would arise and ultimately translate into increased costs for customers. Moreover, legal entities within a group may find themselves unable to assist a related entity experiencing difficulties if this would entail breaching the standards. However, meeting entity level standards would not offer immunity from the negative market repercussions arising from the failure of a related entity.

11.3. Therefore we are of the opinion that regulation should provide for the inclusion of a mechanism enabling liquidity to be managed globally, in a similar to how the FSA modification rules allow for the fact that compliance by the firm with the rules should not be unduly burdensome and remain focused on achieving the purpose for which the rules were actually made.

12. The proposed regulation may actually adversely impact financial stability

Meeting the new requirements and holding large liquid asset buffers would not provide an institution with complete insulation from contagion by the negative impact on market and public sentiment that would arise from the failure of a smaller and weaker institution. In addition, the necessity for larger institutions to meet strict criteria under the proposed regulation may render them unable to assist other failing institutions in the event of a crisis. The potential overall impact of the regulation in this situation may therefore be undesirable for financial stability.

B. LIQUIDITY COVERAGE RATIO (LCR)

1. *Liquidity Coverage Ratio (LCR)*

$$\frac{\text{Stock of high quality liquid assets}}{\text{Net cash outflows over a 30 day time period}} \geq 100\%$$

The LCR aims to ensure that sufficient liquidity is maintained to survive for 30 days under a stress scenario. We support this requirement, and consider it broadly consistent with the requirements of the Individual Liquidity Guidance (ILG) issued by the FSA. However, we would like to comment on the calculation of this ratio.

2. *The short term stress scenarios are extremely conservative*

The conservative stance of the proposed regime would have a negative impact on a number of activities, such as short-term repo activities, conduit financing and extension of credits through revolvers. Although this may initially be seen as beneficial from a liquidity management standpoint, further deleveraging of the banks may ensue which would adversely impact the economy. In addition, should some of those activities transfer to non-regulated entities (such as hedge funds and private equity firms) transparency would be impaired rather than enhanced as intended by the proposed regulation. We would therefore recommend that repo activity be treated so as to reflect the capabilities of the entity managing the repo funding.

3. *The level of prescription in the factors to be applied is excessive*

The proposed legislation prescribes minimum factors to be applied to calculate "net cash outflows". For instance, cash outflows for a period of extreme stress would include 7.5% of "stable" retail and small business deposits being withdrawn in the first 30 days of stress. As noted earlier in our response, we believe that the application of standard criteria to all banks irrespective of their individual characteristics is not appropriate. We would instead support a more individual approach, where the percentages provided by the regulator are guidelines and the detailed assumptions made by individual institutions are agreed with the regulator. This is similar to the recently updated FSA regime.

4. *The definition of what constitute "High quality assets" may be too narrow*

Under the new regime, all banking institutions would seek to hold more of the same assets and this would increase concentration risk as institutions would become exposed to the same organisations. Whilst the asset classes might generally be considered as undoubted, the ability of banks to convert them into cash assumes either a sufficiently deep market or their use in central bank operations. It is possible that once banks have built up substantial liquidity buffers using the prescribed assets, there will no longer be a deep and liquid market in which to monetise those assets if required. That risk may be reduced if an appropriately more diversified asset pool is allowed. We therefore support the proposed widening of the definition to include a proportion of high quality corporate bonds and covered bonds as this would help to reduce concentration risk. We believe a limited amount of other financial institution paper should be allowable, again with entity specific differentiation considered.

5. *The treatment of ABCP conduits needs to be clarified*

A strict interpretation of the proposals could lead to a perverse treatment of potential exposures from ABCP conduits. Combining the level of ABCP issued along with the value of liquidity and credit enhancement facilities could result in a coverage requirement that is a multiple of the

potential funding requirement. Clearly that is not the intention and guidance will be required to ensure that double counting of exposure is avoided.

C. NET STABLE FUNDING RATIO (NSFR)

1. *Net Stable Funding Ratio (NSFR)*

The liquidity coverage ratio is defined as:

$$\frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 100\%$$

The NSFR aims to improve the resilience of banks to liquidity shocks by promoting longer-term funding of the assets and activities of banking organisations. The proposed method is to ensure an adequate level of available stable funding (ASF) to sustain extended stress over a one year time horizon.

2. *The standards may have a negative impact of the ability of banks to perform maturity transformation*

Increased regulatory standards are likely to drive out weaker institutions, an outcome which is desirable in itself. However, migrating those deposits to stronger banks increases concentration risk and plays into the "too big to fail" debate. If large systemically important banks are ultimately required to maintain an appropriately low risk profile, their ability to undertake the key economic process of maturity transformation will by definition be limited. The impact on the economy of a material reduction in the supply of credit will be far reaching and destabilising.

3. *The impact on banks and their ability to obtain funding is severe*

3.1. For banks to fulfil this ratio requirement, wholesale funding maturing within one year may only be used for assets of matching duration. Banks will therefore not be able to lend to one another in a helpful way. As bank and financial debt maturing after one year would require 100% stable funding, this would further reduce the ability of banks to source long-term wholesale funding. In addition, as retail deposits become increasingly important, this may begin to distort customer behaviour and the reliability of that source of funding, a key assumption on which rests the rationale of the proposed regulation, may falter.

3.2. To solve this problem, the new regime must preserve some of the value for wholesale funding, by not assuming that it all matures in the short term. Allowing covered bonds to be treated as liquid assets and also, allowing some longer dated financial paper to be taken into account would be of considerable help. The value of wholesale funding in the financial system may also be recognised through allowing increasing percentages within the stable funding sources as the funding term is increased.

4. *The ability of banks to fulfil the requirements of the NSFR is questionable*

A wider question arises as to the ability of banks to fulfil the requirement set by the NSFR. As it stands, there is uncertainty as to the availability of funding in the global economy to enable all the banks to do so. This would mean that potentially, the banking industry would be dominated by just a few key players and, as we pointed out earlier, this may not be the desired effect of the regulation. However, there is also a more extreme, but possible, alternative scenario where all banks fail to satisfy the proposed ratio. The course of action should this situation arise is unclear.

5. *Banks may have difficulties in extending credit to customers under the new regime*

The limited availability of assets deemed suitable for inclusion in the calculation of the NSFR may force banks to reduce their balance sheets. This may be worsened by the fact that banks raising funds in the wholesale markets will now face competition not only from other banks subject to the same regulation but also governments attempting to fund government deficits in the US and Europe. The expected decrease in the availability of credit would ultimately be to the detriment of customers.

6. *The prescribed factors ascribed to components of the Available Stable Funding may be problematic*

6.1. The proposed regulation would represent a genuine challenge for UK banks, particularly for those with a loan to deposit ratio in excess of 100%, as:

- Most retail loans are weighted 100% (mortgages), with the rest at 85% (short term unsecured); and
- Retail deposits over one year are weighted at 100%, less than one year are weighted at 85% and less stable deposits are weighted at just 70%.

The above weights are punitive for transactional accounts even if these are traditionally among the most stable. We also note that whereas the regulation encourages banks to seek long term deposits to improve their ratios in the short term, that these same deposits will have the reverse effect on the same metrics when they approach maturity in the future.

6.2. The difference between the assets and liabilities (the "funding gap") would need to be funded and this presents a number of difficulties in the current market conditions:

- The proposed regulation is currently pushing banks to seek extended maturity debt, however the decreased appetite for holding long-term deposits with banks would restrict the ability of the market to provide this additional source of funding and as highlighted before, this would ultimately translate into a negative impact on the availability and cost of credit for customers.
- The withdrawal of funding by central banks will be another source of pressure on the amount of credit and associated terms that may be extended to customers. This would be undesirable in the current and foreseeable market conditions, where loan growth is expected to be slow.
- Recent research has shown that if a loan to deposit ratio of 100% was to be imposed, that either loans would be shrunk by 28% or deposits increased by 40%. In current market conditions, deposit growth is a problematic area as low interest rates imply that customers are more likely to pay down debt, rather than seek new loans or hold large deposits. In fact, deposit growth is widely expected to be limited to 5% per annum and banks are not expected to be able to rely on retail deposit growth only, despite the issues highlighted with finding alternative sources of funding (see above).
- In order to meet the required targets, banks may need to reduce their balance sheet by shrinking their overseas business as these typically worsen loan to deposits ratios. The Committee should consider whether this is a desirable consequence of the proposed legislation.
- The pressure on banks to build a base of stable long-term deposits is likely to lead to banks offering higher rates to attract deposits, and increased competition among deposit-taking institutions. This, in turn, would create an environment where retail deposits are less "sticky" as depositors seek higher returns and become more likely to switch funds among institutions. Therefore, regulation seeking to make retail deposits more "sticky" may well have the opposite effect in the longer-term.

7. *The prescribed required stable funding amounts are very conservative*

The factors to be applied to estimate required stable funding include 50% for major index equities, 100% for BBB+ government bonds and 85% for loans to retail clients maturing within one year. As for the LCR, we are of the opinion that applying standard factors to all firms for calculating the NSFR is not correct, and a more individual approach where the required stable funding would be tailored to the circumstances of each bank would be more appropriate.

8. *There is much uncertainty around the impact of off balance sheet liabilities on the ratios*

8.1. The proposed NSFR would also include off balance sheet liabilities expected to crystallise in times of crisis. A different set of RSF factors are applied to off-balance sheet liabilities, including some determined by the national supervisors based on national circumstances.

8.2. There is potentially a high level of uncertainty around the off-balance sheet exposures i.e. how accurate is the estimation made for the exposures and also on what basis will the RSF factors applied to the contingent liabilities be determined. We would like to seek clarity as to how this will be determined, and any associated process of communication with the national regulator in order to do so.

9. *Dynamics of supply and demand will govern re-capitalisation of banks*

We understand that higher levels of capital and liquidity, and lower leverage, will be required features of the global banking system going forward. We do not seek to contest this and Barclays has made significant strides in strengthening its capital and liquidity resources. However, we are concerned that insufficient regard is being paid to the concerns of the investor community that will ultimately be called upon to fund higher regulatory capital and liquidity requirements and absorb the supply of instruments that the banking industry will have to issue to meet regulatory requirements. In the medium to long term investors will demand a return on capital that exceeds the cost of capital. Other things equal, banks will have to respond to increased capital and liquidity requirements either by increasing the cost of banking services to meet the return requirements of investors or to operate within constrained resources that will mean reducing the supply of banking services. It is important that banks remain a proposition that investors wish to support both to secure the recapitalisation of the banking sector and to avoid unintended damage to the real economy.

D. MONITORING TOOLS

The BCBS proposes to introduce a set of common metrics, to be used as a minimum by national regulators. These are:

1. Contractual maturity mismatch

1.1. We support the use of contractual balance sheets as the starting point for monitoring a bank's funding and liquidity. However, we would stress that that is only the starting point and that a detailed understanding of each bank's dynamics must be overlaid to provide a meaningful interpretation of the underlying risk. As mentioned previously, the FSA's "individual liquidity adequacy assessment" approach should be most helpful in this respect.

1.2. We would strongly urge the use of standardised templates by regulators. This will not only assist firms in producing the required information, but will also ensure that the base data is consistent and make for a more meaningful discussion at the colleges.

2. Concentration of funding

2.1. The proposed tool would analyse concentrations of wholesale funding provided by specific counterparties, instruments and currencies, to enable the identification of risk in the event that one or more funding sources would be withdrawn.

2.2. The concentration of funding tool would mirror the monitoring of large exposures on the assets side of the banks' balance sheets. The FSA has recently issued proposed new regulation on large exposures, aiming at restricting exposure risk arising from large related or unrelated counterparties. We are of the opinion that these measures are too severe, and may potentially be damaging to the group's risk profile as well as economic activities.

3. Available unencumbered assets

Barclays already actively manages available unencumbered assets, and will endeavour to satisfy any new regulation. However, as noted above, we question whether the preparation of multiple reports covering the same liquidity data would enhance the liquidity control framework or exert pressure on resources to concentrate on preparing different data cuts instead of managing liquidity risk.

4. Market-related monitoring tools

4.1. The BCBS suggests using market-based data as a valuable supplement to the metrics above. Useful data would include monitoring market-wide data on asset prices and liquidity, institution-related information such as credit default swap (CDS) spreads and equity prices, and additional institution-specific information related to the ability of the institution to fund itself in various wholesale funding markets and the price at which it can do so.

4.2. As Barclays has access to the same market data as the regulator, we do not anticipate significant issues in meeting this proposed requirement. However, careful interpretation of the data will be essential for this tool to be effective. As mentioned earlier in our response, we believe that the regulators should aim to obtain an overarching view of the assets and liabilities that banks hold, and not place reliance solely on assets with a market value. For instance, it would make little sense to give firms credit for assets that are held, but not actively traded.