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Basel Committee on Banking
Supervision
Centralbahnplatz 2
CH 4002 Basel
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Date
14 april 2010
Our reference
1162720

Concerning
BNG Reaction on bcbs165 "International framework for liquidity measurement, standards and monitoring" and bcbs164 "Strengthening the resilience of the banking sector"

Dear Sir, Madam,

On behalf of the BNG[1], I would like to thank you for giving us the opportunity to provide you with our feedback on consultative paper 164 "Strengthening the resilience of the banking sector" and consultative paper 165 "International framework for liquidity measurement and monitoring".

The proposals put forward are aimed at improving the system of supervision on the banking industry in general and on liquidity risk management in specific.

BNG welcomes the introduction of an international framework for liquidity risk management and measurement. However BNG feels that the proposals do not recognize the low risk features of a public sector bank like BNG. Introduction of the framework in this form would be over punitive and result in a substantial increase in the financing costs of the public sector.

The balance sheet of a typical non-retail public sector bank like BNG is very simple and transparent. The asset side consists for the majority of loans to the municipalities (non-central government) and loans to housing associations and associations in the healthcare sector (non-financial corporates) guaranteed by central and non-central government.

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[1] BNG is the largest public sector bank in the Netherlands with a balance sheet size of over € 100 billion

N.V. Bank Nederlandse
Gemeenten has its
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The funding side consists for the majority of wholesale funding.

Please find our comments below, which are divided into comments on the "Leverage Ratio" and comments on the proposals for "Liquidity management and measurement".

Leverage Ratio

The Basel Committee proposes in its resilience paper that banks would be submitted to a "leverage ratio", as a new supplementary measure. We do not support the introduction of the leverage ratio, as the suggested setup of the leverage ratio is risk insensitive. Therefore this ratio does not take into account the risk profile of banks. It will impact banks differently according to their business. Public banks and banks active in local credit will be, due to their specific type of counterparties (solvency free), more impacted than others.

Although we do not support the introduction of the leverage ratio, we propose to exclude highly liquid assets and assets with no regulatory credit risk from the leverage ratio, as there is no connection between the leverage ratio and additional safety of the financial system.

Liquidity management and measurement

We feel that the proposals that are made are an important step: it will be the introduction of the first global standard for liquidity management. To us, this is a very important step forward. Against this background, we have a number of concerns about the detailed proposals.

Our main suggestions of change with regards to the NSFR are:

1. Treatment of loans to or guaranteed by sovereigns, central banks and non central government PSE's with a maturity of less than one year with a required of factor 0 instead of the proposed 1. The loans have a hard maturity date and the experience is that there is no obligatory refinancing necessary in order to redeem the loan. The loans should have the same treatment as loans to financials with a remaining maturity of less than one year.

2. Treatment of loans to or with a guarantee from sovereigns, central banks and non central government with a maturity of more than one year with a required factor lower than 1 (for example 0.5) instead of the proposed 1. The loans have

low credit risk, which is recognized under Basel II with a risk weighting of 0% under the Standardized Approach. The loans furthermore have a proven marketability, which is recognized by the ECB through being eligible under the repo facility. These loans should be compared to marketable securities awarded with a lower factor than 1.

3. Treatment of lines of credit to public bodies should be at least in line with the treatment of lines of credit for private individuals and non financial companies.

4. Market liquidity vs. central bank eligibility: although we agree that the central bank should not be the lender of first resort, the current definition of highly liquid assets is too restrictive. Assets that are highly liquid under normal conditions can become illiquid in periods of stress. Therefore, the central bank will always have an important role to play in terms of providing liquidity to banks in periods of stress. In such cases central bank eligibility appears to be a more predictable measure for liquidity management and eligibility for liquidity buffers than market liquidity. Setting too narrow eligibility criteria would effectively increase the systemic risk, as banks would be holding very similar instruments. In order to reduce this risk we suggest including covered bonds, senior unsecured bonds issued by government sponsored entities or agencies and senior unsecured bonds issued by public sector banks with government ownership like BNG and NWB.

With best regards,