

April 16, 2010

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

Dear Sirs/Madams:

**Re: CBA¹ Comments on the Basel Committee's consultative document
"International framework for liquidity risk measurement, standards, and monitoring"**

Thank you for the opportunity to comment on the Basel Committee's consultative draft entitled *International framework for liquidity risk measurement, standards, and monitoring*. We support the objective of the framework, which is to enhance financial system stability by improving internationally active banks' management of liquidity and by increasing international harmonization of liquidity risk supervision.

However, we are concerned that implementation of this document as proposed will result in unnecessarily high levels of reserve liquidity and/or required funding for all Canadian banks. This will most likely result in material adverse impacts on the efficiency of financial markets, the availability of financial products, the stability of financial institutions, and the cost of extending credit to the Canadian and global economy. Further, instead of enhancing resiliency, we believe that narrowing the liquid asset buffer and disclosing Liquidity Coverage Ratio (LCR) positions may in fact restrict action and freeze liquid asset markets. Also, while conceptually desirable, international harmonization of liquidity risk supervision will be challenging given expected inconsistent interpretation of the proposals (e.g. classification of deposits).

To mitigate these expected negative impacts, our overarching recommendations are that the proposal's requirements be recalibrated to be much less punitive (and ideally more risk-sensitive) and that these new measures be implemented gradually over several years to provide time to assess the impact of the proposed liquidity and capital changes, to develop and implement IT system enhancements, and to better understand the trade-offs between risk reduction and economic growth. In addition, we urge reconsideration of some of the detailed rules that have been proposed for deposits and liquid assets, as, from the perspective of experienced liquidity managers, they will require significant investments without clear risk-based benefits.

¹ The Canadian Bankers Association works on behalf of 51 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 263,400 employees to advocate for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions.

We believe it would be productive for the Basel Committee to examine the factors that contributed to the ability of the banking industry in some jurisdictions such as Canada to successfully weather the recent financial crisis.

From our perspective, both the Canadian system of regulatory oversight and our banking business model contributed to the strength and resilience of the industry. We utilize a robust, principles-based regulatory system where all banks are under the scrutiny of one regulator with a clear mandate. We believe financial institutions are made safer through effective bank supervision (i.e., an effective process whereby regulators identify and resolve risk management problems at individual institutions) not simply by enforcing compliance with fixed and detailed rules. With respect to the Canadian banking model, we would point to the following factors as sources of strength: 1) Our banking business is predominantly an “originate to hold” rather than an “originate to sell” model; 2) We utilize effective risk management practices and embed risk management as part of our culture; 3) We use simple, common sense loan-to-value (LTV) rules regarding residential mortgages and insurance requirements; 4) Our legal system provides recourse to borrowers in the event of default; and 5) Our tax system does not incent leverage through tax deductibility of mortgage payments. The Canadian experience clearly demonstrates that effective principles-based regulation is more effective and we would caution against over-reliance on rules-based regulation. It is our recommendation that the Basel Committee give further consideration to the interplay between effective supervision, risk management, and prudent bank business practices in their efforts to reform the global banking industry.

Below is a summary of our key concerns with regards to the Basel Committee’s consultative document. Additional detailed discussion on specific paragraphs is included in the attached Appendix 1 (“CBA Comments”).

Assumptions and Definitions - excessively conservative and not risk-based

Stressed scenario too extreme

We believe that the proposed specific stress scenario used to measure liquidity risk as a minimum global standard is too extreme. Further, we believe that the various and numerous restrictions and factors used in the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) that are associated with this stress scenario are, in the aggregate, unnecessarily onerous. As per the page 3 of the proposal, “*The specified (stress) scenario entails both institution-specific and systemic shocks built upon actual circumstances experienced in the global financial crisis.*” Since the proposed stress scenario and all related assumptions are based on an extreme global systemic experience, it is unreasonable to assume no central bank support, especially when some central banks have recently reaffirmed the role they should be expected to play in severe systemic stresses. Many central banks intervened in the past crisis and would be likely to do so in the future for a similar severe systemic stress. We believe that the more a severe systemic stress is assumed, as is the case here, the more central bank support would likely be provided. If the Basel Committee wants a scenario for which no central bank support is assumed, then assumptions about market liquidity, such as the definition of liquid assets, need to be far less conservative. The proposed stressed scenario otherwise introduces extremely punitive liquidity requirements on banks to protect the broader economy against severe systemic stresses.

Moreover, it is our view that the stressed scenario should assume that banks are fundamentally sound within the context of strengthened (i) regulation, (ii) rating agency assessment, and (iii) bank risk management frameworks. With that background, and as per the Bank of Canada, prudential supervisors are “...establishing standards that encourage financial institutions to

*maintain sufficient liquidity to deal with idiosyncratic or small systemic shocks*² without central bank support. Stress scenarios of this type should provide for a wider definition of eligible liquid asset buffer and less severe cash flow assumptions. This would prudentially reduce the material adverse impacts that appear likely under the proposed stressed scenario.

High quality asset definition too narrow

We also believe that the proposed extreme stress scenario leads to an exceptionally narrow definition of eligible liquid assets and excessively severe cash outflow assumptions. As a result, it appears likely that the proposed measures and standards will have a material adverse impact on the liquidity of financial markets, the stability of financial institutions, and the cost of extending credit to the global economy, with the expected secondary and tertiary impacts outside the financial industry. In addition, we believe that stress scenarios should not be created from the worst potential outcomes for every parameter assessed if it is very unlikely that the outcomes would occur concurrently in a real life scenario.

We believe that Canadian residential mortgages (particularly Canada Mortgage and Housing Corporation (CMHC) insured mortgages for the NSFR calculation and mortgage-backed securities (MBS) for the LCR calculation) should be accorded a higher liquidity value in the liquidity standards, especially since there is an established public securitization program available in the normal course of business. These are low-risk assets capable of being sold or securitized, and which comprise a substantial proportion of Canadian banks' balance sheets. We believe that failure to recognize their true liquidity value will put Canadian banks at a significant disadvantage versus other international institutions based on the different structure of our markets. Furthermore, the proposals do not recognize the standing liquidity provided by the Federal Home Loan Bank (FHLB) system in the U.S. or by other government sponsored programs in other countries (e.g., Canada Mortgage Bonds (CMB) in Canada). Banks are able to pledge high quality loans and security assets at significant collateral weightings (~75%) in exchange for term funding in keeping with the objective of the NSFR. We do not believe this source of secured term funding should be ignored in the framework.

We believe that requiring stable funding for a very large percentage of loan assets maturing within a year because they are assumed to be rolled-over (e.g. loans) is too extreme given the degree of severity of the scenario, since banks would be able to quickly adjust their appetite for assets, particularly on wholesale products. Liquidity requirements for these asset types should be lowered in the NSFR.

We also believe that collateral that is acceptable for secured central bank facilities that are available in the normal course should be included in the definition of liquid assets. This is particularly appropriate for central-bank-eligible instruments, which qualify for a 0% risk weight under the Basel II framework. With that said, we advise caution about the convenience of using capital weightings as a key indicator of market liquidity when there are plenty of examples where a 20% or higher weighted security may be far more liquid than a 0% weighted security (e.g. U.S. Agency bonds (Fannie Mae and Freddie Mac) can be more liquid than some types of government guaranteed obligation or non-central government PSEs obligation). We are also concerned with the complete exclusions of other types of securities such as top equities, agency debt, and asset-backed securities (ABS). The discussion as to which liquid assets should be classified as "high quality" should be dissociated from the determination of which liquid assets could receive some liquidity value in the LCR and NSFR.

² See D. Longworth, Deputy Governor of the Bank of Canada, Remarks to C.D. Howe Institute, "Bank of Canada Liquidity Facilities: Past, Present and Future", February 17, 2010, page 8.

In addition, the proposals assume that assets having an associated hedge are encumbered and unavailable for liquidity purposes. We believe this treatment is too broad in its application for LCR and NSFR, and consideration must be given to refining the requirements such that identified assets with a hedge relationship that are repoable or otherwise easy to monetize should be afforded a reasonable liquidity value (e.g. long positions hedged against short positions in other high quality assets). Similarly, assets tied to total return swaps can be liquidated at periodic 'mutual put' windows. Excluding such assets entirely from consideration in the LCR and NSFR does not reflect actual experience.

We also feel that the treatment for reverse repos for high quality assets is very harsh, since no recognition is given for them from a liquidity perspective. This is particularly punitive for banks that do reverse repos only, or for those banks that are net long reverse repos, since no recognition is given for the collateral for reverse repos.

We have a similar concern with the punitive treatment of bank debt as a source of asset liquidity. Notwithstanding the market and economic impact that we discuss further below, this discourages the investment in high-rated bank debt, for both funds transfer pricing purposes (therefore pushing down deposit pricing) and/or for cash or liquidity management purposes. While we appreciate the concern regarding "wrong way risk" during a banking industry market event, there are material implications for affording no liquidity value to instruments issued by very highly rated financial institutions. Where will banks obtain the funding required to meet the significantly higher incremental liquidity levels that will need to be maintained to meet the proposed standards? Deposit rich banks will be forced to invest in government securities at reduced yield or alternatively invest in corporate bonds, which may carry higher credit risk, but will at least be recognized for some portion of liquidity under a broad buffer approach. The result will lower earnings and significantly impair the banks' collective role as providers of liquidity in the normal course. We are concerned about the constraints this restriction places on individual firms' ability to manage their liquidity, and the impact this will have on system-wide term funding capacity and the broader economy. Recognizing the hazards of 'wrong-way risk', we believe allowing inclusion of bank debt in the liquid asset buffer with concentration restrictions and haircuts would be more appropriate. It would otherwise be too extreme to respond to this concern by eliminating, rather than limiting, their eligibility as liquid assets when their overall market liquidity is comparable to other corporate bonds. The potential for banks to be exposed to wrong-way risk by only holding government debt as a liquid asset buffer in a severe systemic crisis, which is triggered by government fiscal crises globally, should also not be underestimated.

We also believe according zero liquidity value to major index equities is also overly punitive and does not recognize the value of equities in terms of two "fundamental characteristics" of high quality liquid assets as noted in the consultative document, specifically "*ease and certainty of valuation*" and "*being listed on a developed and recognized exchange market*".

Granularity of assumptions and their one-size fits all application

We believe that assumptions for many parameters are too binary (e.g., liquid or illiquid; exclusion of assets held as a hedge against another exposure; 100% roll-over of secured funding of liquid assets) and that graduated ranges for cash and time values for each type of inflow and outflow, in line with the timeframe of each metric, should be considered. Conceptually, we would prefer that common risk-sensitive principles be developed by regulators, with different factors by product and market, as appropriate, bearing in mind each firm's circumstances. We would point out that the Committee of European Banking Supervisors (CEBS) has also proposed a graduated approach in its recent "*Guideline on Liquidity Buffers and Survival Period*" paper.

We are concerned that prescribing very conservative one-size-fits-all numerical assumptions will ultimately impact not just how various assets, liabilities, and off-balance sheet products are treated in LCR and NSFR, but more importantly how these items will need to be re-priced and funded to reflect new liquidity values. This will impact related strategies, products, and markets. We also firmly believe that regulators, in consultation with central banks and other public sector entities, should consider the pricing impact of these assumptions before finalizing them.

Not only do we believe that the run-off factors are generally too conservative, we also believe that cash flow categories are simplistic and will not facilitate consistent and meaningful measurements across institutions. For example, stressed deposit run-off assumptions require deposits be classified as retail relational insured, small business relational, and non-financial operational. If deposit categories cannot be readily identified, the highest risk factors are applied. Another example is commercial deposits stepping from a 25% to a 75% LCR factor based on the operational relationship with the bank. This is a significant, and highly punitive, distinction to make based on a single characteristic. A set of graduated factors based on additional characteristics should be employed to avoid unnecessary “cliff effect” conditions.

Liquidity measurement not risk sensitive

While “*inaccurate and ineffective management of liquidity risk*” existed leading to the recent crisis and there is room for further improvement in banks’ practices, we believe that the proposed standards should recognize that the recent crisis affected different countries and banks very differently for predictable reasons (i.e. each bank’s practices, circumstances, and market places potentially expose them to very different types and magnitudes of risk.)

In addition, the proposed standards seem to ignore the quality and safety of bank balance sheets. The underlying assumption of the proposals is that a defined liquidity stress will affect all banks to the same degree of severity, no matter how strong their balance sheet or management is. This is at odds with the risk-based approach taken (and still favoured) for other risks. We feel that a risk-based approach to the selection of assumptions for these metrics would be more appropriate.

Harmonization, consistency, or a level playing field will not be achieved by using the same numerical assumptions for each type of inflow and outflow in all jurisdictions and for each bank within a jurisdiction. Moving from Basel I to Basel II allowed the elimination of many crude “one-size-fits-all” capital measurement assumptions. We believe that using specific and concrete assumptions for each type of cash inflow and outflow would be a set back. This would be like using the same Probabilities of Default (PD) for capital measurement for all types of loans in all countries. As is done for Basel II, we believe that each firm should be using assumptions tailored to their particular circumstances and experiences. Consistency could be achieved by using common risk-based principles to arrive at appropriate run-off rates and haircuts for each firm, with regulators reviewing and challenging each firm’s assumptions to ensure adherence to these principles. As such, we believe that the liquidity measures should continue to evolve over time so they can more appropriately capture firm-specific liquidity risk. In the interim, we believe that assumptions should not be too extreme given this context.

Market and Business Impacts

Material increase in liquidity and funding costs

As noted previously, we believe the various standards and factors included in both the LCR and NSFR are in aggregate excessively high and will result in liquid asset levels and term funding

requirements that are considerably and unnecessarily higher, even for those Canadian banks currently considered by OSFI to be well managed from a liquidity risk and funds transfer pricing perspective. The cost of meeting these requirements will be significant for the Canadian banking industry, customers, and the economy in general.

Limited capacity of funding markets and potential impacts

Overall, we believe that the amount of eligible liquid assets and longer term funding required by banks will materially distort markets. Demand for eligible liquid assets will increase their price, and conversely, reduce the price and demand for ineligible assets, including those that have retained good market liquidity in most observed stressful environments. The limited scope of eligible liquid assets could also lead to their reduced liquidity, particularly during periods of stress, as all banks may look to improve their liquidity positions at the same time. Demand for the limited supply of stable and term funding will likely increase their costs, and potentially by a material amount. Higher funding costs would be passed on to borrowers to the extent possible. Demand for funding deemed non-stable will decline and could potentially lead to the loss of a well diversified and proven stable funding source under most stressful environments. All combined, these distortions will reduce the banking system's financial stability and maturity transformation role.

We are also concerned that a number of businesses or products may become uneconomical given higher operating costs caused by these liquidity requirements (e.g. securitization, equity arbitrage, equity total return swaps, market making in bonds/derivatives, secured funding markets for non-high quality liquid assets, and providing credit/liquidity commitments) and that the downstream impacts are not sufficiently understood. The proposed requirements around liquidity facilities for ABCP conduits for example are likely to both drive up the cost of financing through this market and dramatically reduce capacity. A potential downstream consequence is the reduction of available consumer credit and increasing costs for individual borrowers. It is very likely that there will not be enough low run-off deposits and wholesale term funding in most economies for all banks to manage to the NSFR standard without materially reducing illiquid assets, such as loans, even if some retail money moves out of mutual funds back into bank deposits. Further, if the onerous assumptions on commitments are implemented, certain markets that provide liquidity in the normal course will be constrained, adding to the potential risk of a liquidity crisis. Clients will also be reluctant to pay much higher costs for committed lines, which will lead to a transfer of some liquidity risk from banks to their clients.

The clear implication of these rules is that credit will become less available and more expensive across the spectrum of clients and products. This has large-scale implications for the Canadian and global economies. We are concerned that globally, the amount of longer term wholesale funding required by banks to meet the NSFR will most likely exceed available supply, especially if bank debt does not qualify as a high quality asset, and other issuers of non-high quality assets need to rely more on bank loans due to reduced demand for their securities. This could lead to market distortions and push spreads out materially. In addition, the LCR may create liquid asset concentrations that could effectively reduce liquidity during a systemic crisis. We are concerned that the imposition of the two proposed liquidity ratios will result in a rush by under-funded banks to increase stable and/or term deposits, and that this will result in material mispricing of these balances (e.g. as seen in the US during the crisis), fundamentally worsening the liquidity characteristics of so called "sticky" deposits. There is also the potential for significant disruption in short-term 30-day to 1-year wholesale funding markets given the complete lack of recognition of this source of funding in the NSFR for assets that could reasonably be considered liquid with one-year time horizon.

Proposed metrics may over-ride bank's risk appetite

The Basel Committee's September 2008 liquidity risk principles state that each firm should set its own board-approved liquidity risk tolerance. We agree. However, with the current proposal, it is much more likely that the risk tolerance and business model of many banks will be superseded by the minimum regulatory standard for LCR and NSFR (with a reasonable cushion) as the proposed inflow and outflow assumptions are extremely conservative. If national authorities adopt arrangements that set higher levels of minimum liquidity than this proposal, this will add even more layers of conservatism. Despite being much better tailored to the firm's specific environment, firms' own policies, methodologies, stress tests, and limits will become less relevant since the new regulatory metrics will become the binding constraint.

Liquidity Reporting and Disclosure

Liquidity Reporting Requirements

Conceptually we agree that improved and standardized public disclosure would assist stakeholders in their assessment of banks' liquidity risk. However, we believe this type of disclosure is only useful when stakeholders can compare a bank's reported liquidity level against an appropriate or "true" minimum standard. This would be a standard that a bank could choose to exceed in order to differentiate its liquidity risk management program, while at the same time acting as a floor that represents minimum prudent liquidity, of which the market should be aware and regulators should be concerned. As stated previously, the LCR and NSFR requirements as proposed represent well in excess of minimum standards.

Practically, we are concerned with the impact that reporting a substandard result to such a high standard - even for one quarter - might have on public perception (especially given the significant new reporting requirements). Care must be taken with respect to rigid standards where measurements can be difficult to interpret or can move dramatically under changing environments, even more so from the perspective of a less informed reader. We believe that the disclosure requirements could undermine an institution's solvency and be pro-cyclical. Further discussion is required, once the final standards are established, to determine the best types of disclosure and how to coordinate their implementation across jurisdictions. The disclosure of regulatory metrics may effectively encumber the pool of high quality assets firms have to hold, even if supervisors were to allow a temporary relaxation in a crisis, as rating agencies and investors would react very negatively to any such disclosure reduction.

Implementation Timetable

To better manage the risk of material unintended consequences on banks, markets, products and the economy, we believe consideration should be given to gradually implementing the LCR and the NSFR as their impacts are better understood, initially with no restrictive regulatory minimums as currently proposed. There is a significant amount of uncertainty regarding the proposed methodology and the potential impacts of the proposal, and it is doubtful that the Quantitative Impact Study (QIS) will properly capture all the secondary and tertiary effects with sufficient analytical rigor. We further believe that any public disclosure requirements should be delayed until the new metrics and their impact are better understood and calibrated within and across jurisdictions. The roll-out of common public disclosure requirements should be initially limited to qualitative information. Also, these disclosures should be introduced over an extended period to provide the time required for banks to inform their shareholders and other market participants on how to use and interpret these new standard metrics and associated results.

Implementation

Asymmetric implementation across jurisdictions

The proposal suggests that for the stated global objectives to be satisfied, it is critical that the final policy recommendations be materially adopted by all members of the G20 concurrently. A significant concern for Canadian banks is asymmetric implementation of these proposals in terms of timing and degree of adoption, since this would result in an unlevel playing field, in particular for capital market businesses. The standards should not be implemented unless consistent implementation can be guaranteed across jurisdictions and the competitive inequities of asymmetric implementation be avoided.

Significant system development required

From an operational perspective, the systems required to support the metrics will take significant resources and time to complete. Major system upgrades will be required, by legal entity, key branches, product types, and for the consolidated group. Contractual maturity balance sheets will be needed, as will details on interest paid/received, funding sources by client, available unencumbered assets, differentiation between various types of depositors (e.g., insured vs. non-insured deposits).

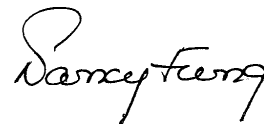
Since many of the proposed data requirements are complex, developing the required systems will be a material undertaking that will require significant investment, time, and resources. Indeed, we believe that the development of the required liquidity systems and process standards is a material undertaking similar to the Basel II implementation. As such, we appreciate that the Basel Committee appears willing to be flexible in the implementation of these new standards through a phased-in implementation and grandfathering arrangements for sufficiently long period to ensure a smooth transition to the new standards.³

Concluding Comments

We note that our assessment in our comments above is based on qualitative judgment by industry liquidity experts. We expect that the quantitative QIS results and other qualitative comments on the consultative document will provide further impact analysis of the proposed liquidity requirements. We caution, however, that the QIS may not capture many secondary and tertiary effects on broader macro-economic and market impacts. Overall, while in hindsight we recognize that too much liquidity risk existed in the financial industry as a whole prior to the recent crisis, which we agree needs to be avoided in the future, this proposal will result in excessive risk reduction at the expense of economic growth.

We thank you for taking our comments into consideration and would be pleased to discuss these issues further at your convenience.

Yours truly,



Attachment – CBA Detailed Comments

cc: OSFI (Gilbert Ménard, Richard Gresser, and Greg Caldwell)

³ December 17, 2009, Basel Committee press release, *Consultative proposals to strengthen the resilience of the banking sector announced by the Basel Committee*, <http://www.bis.org/press/p091217.htm>.

Canadian Bankers Association (CBA) Comments on the Basel Committee's Consultative Draft: *International framework for liquidity risk measurement, standards, and monitoring*

II.1 Liquidity coverage ratio (LCR) (pages 5 - 6)

Para 22 – Scenario of idiosyncratic and market-wide shock

If the scenario includes a systemic event, a flight to quality will likely occur, especially to the strongest banks in each market, whereas under the proposed scenario, all banks are assumed to lose the same percentage of deposits. If no consideration is given to this flight to quality, at the aggregate of all banks running this scenario, this will result in over-insurance of the financial sector.

Other Specific recommendations:

- Para 22a and 22c: An AAA rated bank that gets downgraded by three notches to AA- is assumed to lose full access to wholesale funding in the same manner as a weaker bank that becomes non-investment grade. As we believe that this assumption is too binary, we recommend that recognition be given to the relative strength of the bank.
- Para 22d: Many banks were able to continue to secure fund many non-eligible liquid asset securities throughout the crisis (e.g. equities and some type of fixed income securities). We believe that this assumption is too binary and we recommend some recognition of banks' assessment of available secured, short-term financing capability under stressed conditions.
- Para 22f: Assuming draws on all unused credit/liquidity lines do not remotely relate to previous experiences for most banks. This will force them to hold much larger portfolio of liquid assets if they decide to continue to provide these lines. This will materially affect their appetite for providing committed facilities, including to Asset-Backed Commercial Paper (ABCP) and Commercial Paper (CP) market issuers, which are key products/markets needed to support economic recovery. Even if banks can pass on the costs, due to constraints related to the leverage ratio, balance sheet and credit constraints, there will be limits on their ability to hold incremental liquid assets to support these products. While each firm will have had very different draw experiences for these various types of lines, we recommend that there be recognition that not all of the institution's committed but unused credit and liquid facilities would be drawn.

Para 26 – Stock of high quality liquid assets

To ensure a level playing field, we request clarification if banks should hold a minimum amount of assets to support payment and settlement

activities, and whether these assets should be considered encumbered.

Setting a regulatory minimum on high quality liquid assets and expecting banks to disclose adherence to these standards (Para 135) raises issues. While the regulatory intention may be to let banks under defined circumstances temporarily and in part reduce their level of high-quality liquid assets below the minimum, in practice, rating agencies and investors will not let banks do this without material consequences in any circumstances. Hence this earmarked pool of liquid assets could essentially become permanently encumbered due to reputational considerations unless the bank is in the direst of circumstances where its "going concern" status is questionable. We recommend that the requirement to disclose LCR, NSFR, or high quality liquid asset levels be reconsidered.

Para 26 – Stock of high quality liquid assets, footnote 5 – Unencumbered:

The consultative paper defines "unencumbered" in relation to the stock of liquid assets that a bank must hold. It indicates that the assets must not be held as a hedge for any other exposure. While this may make sense if the assets are tagged as a hedge for another exposure and cannot be repoed, we wish to ensure that the stock of liquid assets will not be considered encumbered if the exposure has been hedged with derivatives. If this were the case, then it would imply that a bank must either match fund the assets or keep the interest rate risk associated with the assets open as any pay fixed/receive float IR swaps would deem the assets encumbered. The definition of "unencumbered" stipulates that the liquid assets should not be held as a hedge for any other exposure.

- **We request clarification** on this footnote.
- In addition to this clarification, we request clarification regarding whether liquid instruments that are used to hedge interest rate or other risks of the bank should be considered as encumbered even if they can be repoed.
- **We request clarification** on the definition of unencumbered liquid assets. For example, is it the sum of the following if one is dealing with Canada Debts securities:

Long Canada Debt securities – Shorts Canada Debt Securities+[Reverse Repo of Canada Debt Securities – Repo Canada Debt Securities]+ [Borrowed Canada Debt Securities – Delivered Canada Debt Securities]+[- Loaned Canada Debt Securities + Received Canada Debt Securities]

We will seek clarification with our local supervisor on the following treatments:

- Assets hedged with a derivative to mitigate specific risk of the asset not be considered encumbered if the derivative is exchanged-traded (hence daily liquidity) or, if over-the-counter, has early termination features within an acceptable time horizon.
- Any repoable high quality liquid assets should not lose their eligibility because they may otherwise be tied. The current definition/description of

tied/encumbered assets will potentially result in many assets that could be monetized being excluded for undue reasons. Assets that are linked to another transaction do not necessarily lose their liquidity value, nor do they expose the firm to unwarranted risk/losses, if monetized. It should be left to the firm to demonstrate that its assets can be monetized even if tied. For example it may not be desirable for a firm to sell an asset hedged against another security or a derivative to avoid open market risk, but if there are no negative consequences in secure funding the asset in actively traded repo markets, the asset should not lose liquidity value just because it is hedged with another instrument. Separately, in some instances, there are markets that trade assets and their related hedges as a 'package'; for example, the asset swap market and the Exchange For Physical market, where a single price can be obtained to sell the assets and the hedge in one transaction.

In some cases, banks might use long term highly liquid assets as a way to hedge the interest rate risk of a long term funding. The fact that the asset is used as a hedge does not limit in any way the ability of the bank to monetize it through a repo transaction while still maintaining its effectiveness as a full hedge. Therefore, full credit of the liquidity value should be given to an asset that keeps its liquidity capability while being used for hedging purposes.

II.1A Stock of high quality liquid assets (pages 6 - 11)

Para 29 – 31 – Characteristics of high quality liquid assets – central bank eligible

The paper refers to the trade off between the severity of the stress scenario and the definition of the stock of liquid assets that will be held to meet the standard. In para 27 it states that these assets will "*ideally, be central bank eligible*". We request clarification on whether attempts will be made to converge central bank eligibility criteria for assets in conjunction with the imposition of these new liquidity standards. There currently are varying degrees of eligibility, and this is creating the potential for an uneven playing field.

Para 23 defines the stress scenario as the sum of actual events during the recent financial crisis. Many central banks broadened the scope of collateral eligibility during the crisis. We recommend that some recognition should be given to this type of liquidity intervention if the scenario is to include severe systemic components (i.e. there was some symmetry between the decreased liquidity in the financial system but systemic responses by central banks). Alternatively, the Basel Committee could choose less severe assumptions and assume no central bank involvement at all.

Para 29 – Fundamental characteristics of high quality liquid assets – listed on exchange market

On Page 7 (last paragraph), the document refers to an asset's liquidity increases if market participants are more likely to agree on its valuation. Further, on Page 8 (second bullet), the document refers to having the security listed on developed exchange market. As such, we do not understand why stocks are completely excluded from the list of stock of liquid assets or not given any cash inflow value in the LCR. Also, excluding

financials from the list is quite punitive and it could have negative impact on interbank market. We recommend that all investment grade securities and equities of major indices (e.g. S&P 500) be included to some degree with appropriate haircuts as a source of inflow in the calculation of LCR. Haircuts should be consistent with an idiosyncratic or small system shock, such as those included in central bank eligible assets or used in private repo markets. We recognized that most central banks do not accept equities for advances in normal course of business. The general tenor of open market operations at central banks is short-term and varies by jurisdiction and circumstances. Nevertheless, we believe equities should be given cash inflow value in the LCR because they are liquid to sell, repo or lend, which was proven in private markets even in the last few years irrespective of whether they were eligible at central banks.

Excluding financial assets (issued by an entity subject to these rules) is double provisioning for default – once by the asset issuer and again by the asset holder. If the asset is from a FI subject to these rules (i.e. LCR and NSFR), it should be considered a good credit. That is not to say an asset is liquid (saleable) and would qualify as a liquid asset buffer, but it should be considered a cash inflow during the assessment period (i.e. a 21-day bank debt counts for LCR but a 45-day bank debt would not qualify for LCR but would be considered cash inflow). We believe that there are many possible ways (e.g. portfolio limits, higher haircuts than other bonds) to deal with wrong way risk in holding of bank debt without totally excluding the asset class as a liquid asset.

Para 29 – Fundamental characteristics of high quality liquid assets – bank paper

There will be material macroeconomic consequences if bank paper is not eligible for the liquid assets buffer or receive any cash inflow value in any time period for any amount in the LCR methodology. We recommend that this rule should be less binary and some recognition be allowed for bank paper. Wrong way risk concerns should be addressed through portion limits and appropriate haircuts for bank paper as an eligible asset class. Overall, this proposal will require banks to maintain a much more conservative term liquidity profile, which at the margin can only be achieved by issuing more term debt or selling illiquid assets once core deposits have been maximised. Bank treasuries, which are important buyers of other banks' debt, will materially reduce their purchases if bank debt is not eligible. Estimates of the percentage of bank debt bought by other bank treasuries vary materially, but perhaps 30% could be used as a rough international estimate (i.e. it is material). One example is that Canadian corporate issuance peaked at \$92 billion over the last six years (2006); bank issuance peaked at \$31 billion over the same period (2008; 50% of issuance that year). The first problem is that required term funding under the proposal will dwarf the Canadian market depth. A second problem is that if banks or other financials are discouraged from buying bank debt for liquidity reasons where will demand come from?

Hence banks will need to raise more term funds at a time some key buyers disappear. Furthermore, by limiting the scope of other non-government debt eligible for the buffer and applying very large haircuts if eligible, this will reduce demand for such debt, which will result in more demands for bank loans by these issuers, further compounding banks' problems.

We recommend that, at the very least, long and short positions of the same security within different legal entities of a group should be allowed to be offset in the LCR and NSFR, where the firm could demonstrate with high certainty to its national regulator that it is reasonable to assume that related positions could easily be offset or self liquidated, whether for bank paper or any other non-high quality assets like equities. Large liquid equities should be considered as a source of inflow in a graduated manner if they are listed on exchanges and have large associated secured funding markets, especially if hedged with derivatives that eliminate market risk. Otherwise, there will be material market liquidity and cost consequences on all equity trading businesses with downstream impact on clients using these markets.

We recommend that the standard be amended to include a provision for the inclusion of bank debt using some specified industry haircut common to all banks based on observed market liquidity to sell or secured finance.

Para 32 – Operational Requirements - Buffer Assets

We request clarification on how banks are to interpret the requirements in the classification of assets as buffer assets. For example,

- If liquid assets are available at the demand / requirement of the Treasury, is this considered "control"?
- We would appreciate clarification on "*should be under the control of the specific function charged with managing the liquidity risk of the institution*". For example, does it mean that broker's inventory could not be used for liquidity purposes? While it may be acceptable that government bonds held by a fixed income trading desk be excluded from the liquid asset buffer (numerator in LCR), they should not lose their cash inflow liquidity value when calculating net cash outflows (denominator in LCR). The ability to repo these bonds should also be considered.
- Also if specific assets or asset types have not been subject to testing up to or as at the QIS (vs. sometime by 2012) but otherwise meet the criteria can they be included as buffer assets?

There is a need to dissociate the discussion on what liquid assets should be eligible as a buffer and what other assets should qualify to receive some cash inflow value in the first 30 days even if they don't qualify as a buffer. The two lists of assets and related rules do not have to be the same. For example, top equities should not be part of the liquid asset buffer, but they should get some value under 30 days (even more so under 1 year). The same applies to many other types of fixed income securities. The case for top index equities is particularly compelling, especially where hedged with OTC or exchanged-traded derivatives, where absent a default by the OTC counterparty (where collateral agreements are in place in most cases) or the exchange, the positions are essentially market and liquidity risk neutral once funded because a loss of value in equities is offset by a gain in variation margin on the exchange or collateral for OTC derivatives. For exchange traded products like futures, giving no value to long equities hedged with short futures positions implicitly states that the clearing system of the exchange will fail at contract settlement date to deliver a

long equity position into a short futures position. This is troubling given that the public sector is encouraging trading businesses to move to exchange-traded like mechanisms to reduce systemic risk.

While the need for liquid asset buffers to be booked in specific functions and held for specific purposes is understood, we recommend that, where the same assets are held for other purposes (e.g. hedging interest rate risk, trading and sales, arbitrage), this does not reduce their liquidity value, unless they are encumbered.

We will seek clarification with our local supervisor on the following treatments:

- Periodically monetizing a proportion of the liquid assets may have accounting consequences if Available for Sale (AFS) assets hedged with derivatives are sold or repoed too often. We believe that banks should be allowed to prove monetization value by selling or repoing similar assets in other portfolios on a regular basis.
- We will seek clarification on the conditions under which banks will be allowed to go below the minimum LCR requirement.

Para 33 – Operational Requirements – Legal Entities

Notwithstanding host regulatory requirements, we request clarification on whether banks can hold their buffers in one unit or legal entity if they demonstrate their legal obligation (e.g. units are part of the same legal entity with parri passu obligations in all units) or intent to support other units or legal entities (e.g. committed liquidity lines).

We believe that given the strength of most large international banks that it is not realistic to assume that (a) all banks would no longer be a going concern and (b) parent banks would not stand by their subsidiaries if they have provided liquidity lines. If supervisors managed to the assumption that parents will not support their subsidiaries, it would lead to an undue trap of liquidity that will stifle economic growth.

We recommend that banking groups be allowed to hold buffers in a centralized place provided they can demonstrate their legal obligation or intent to support their other geographies or legal entities and can satisfy the other host's regulatory requirements.

Para 34 – Definition of liquid assets – eligible securities and reverse repos

There could be material consequences for the market liquidity of eligible securities if all firms are asked to hold a limited array of eligible types of securities, both in normal course of business and under stressed conditions. We are concerned about what could happen if firms all need to raise liquidity at the same time by selling the same securities. If multiple banks were to run into trouble at the same time and a narrow buffer of assets was held by all banks, this could trigger a negative feedback loop that would be very hard to control. How much time will be allowed for banks to

make adjustments if a country gets downgraded below the minimum credit requirement?

We recommend that the inclusion of the following types of bonds should be considered in a graduated manner over 30 days with maximum portfolio limits: government-guaranteed bank debt, agency debt, agency or government guaranteed Mortgage Backed Securities (MBS) and bank, investment and insurance company paper. The impact on banks, markets and broader economy will otherwise be material. We are concerned that the definition of liquid assets is too narrow and that the proposal is excluding assets that should be liquid for the LCR calculation.

We request clarification on the treatment of reverse repo positions (i.e. why would this source of liquidity not be included in the calculation provided the counterparty is credit worthy?) This may force banks to hold cash vs. lending out. We recommend that for the final rules the net long reverse repo positions should be included in the definition of liquid assets, which would be consistent with the Basel Committee's response in their revised Quantitative Impact Study (QIS) Frequently Asked Questions (FAQs).

Para 36 and 37 - Corporate Bonds and Covered Bonds

Proposed haircuts for corporate and covered bonds are very high. For example, the haircuts (20% AA & 40% A-) on Corporate Bonds by investment grade are quite large when compared to the Bank of Canada eligibility criteria (6% AAA-15% A) and haircuts requested between private firms in the secured funding market. Also, qualifying conditions will be difficult to implement.

We recommend that guidance be taken from an appropriate sample of central bank haircuts. We also recommend that all investment grade securities and equities of major indices (e.g. S&P 500) be included with appropriate haircuts as a liquid asset buffer or a source of cash inflow in the LCR calculation. Haircuts should be consistent with an idiosyncratic or small system shock, such as those included in central bank eligible assets. We also recommend the use of central bank eligibility criteria and where reasonable the use of CDS market depth for a gauge on depth of market liquidity for securities (rather than a bid/ask spread).

Para 36 and 37 – We request clarification on the 3rd, 4th, and 5th bullet points. The proposed haircuts of 20 to 40% are too severe if applied to daily MTM values on a portfolio basis, especially if banks have to demonstrate that these bonds have not fluctuated by more than 10% in a 30 day timeframe. The eligibility criteria are harsh, subjective and onerous to prove. How is “low level of concentration” defined? 10 years worth of data will not exist for many issuers. Will the regulator approve qualifying bonds or will each bank keep their own records to prove they qualify?

With regards to haircuts for corporate bonds, we believe that the proposed haircuts and eligibility criteria are unnecessarily onerous and close to impossible to meet. We question the need for need to meet “all the requirements” vs. “one of following”. We recommend that requirements be based on “one of the following conditions”.

With regards to the exclusion of bank issued debt, as per comment for #29, we question why bank issuance should be excluded especially after the imposition of new liquidity standards. We recommend that the paper include bank issued bonds as eligible assets.

Para 35 – 37 Definition of Liquid Assets (see also Para 29 comments)

Under liquid assets, the methodology indicates that securities issued by financial institutions are essentially given a 100% haircut and do not count as part of high quality liquid assets when calculating the LCR. We believe that all financial institutions should not be broad brushed in this manner. For example, the Canadian financial institutions were rated the soundest in the world and did not experience the extent of problems of the other international banks. Unintended consequences could be that:

- It will make it difficult for financial institutions to raise funds in the capital markets.
- It will increase the funding costs for financial institutions in the capital markets.
- Financial institutions will pass these increased costs on to consumers.

We believe that high quality debt from financial institutions should rank at least the same if not higher than high quality corporate bonds, perhaps either as high quality liquid assets or as cash inflows if within a given timeline of the LCR and NSFR metric. We recommend that countries should be given the leeway to include high quality financial institution bank debt (e.g. senior term debt, Bankers Acceptances (BAs), Bank Deposit Notes (BDNs)). BA's in particular may have a larger market impact, as many corporations issue short-term debt via BAs.

The document indicates that depending on their credit assessment, corporate bonds could receive either a 20% or 40% haircut if they satisfy various conditions. One of these conditions is "*a maximum decline of price during the last 10 years not exceeding 10%.*" A general move of interest rates would move prices on corporate bonds 10%. This movement would not necessarily be indicative of the credit on the bond, but it could be just be related to rate movements. Also, this could mean that newer bond issues would be at a competitive price disadvantage, not due solely to credit but also to regulatory requirements. This could result in a misallocation of economic resources within the financial system. Therefore, we recommend that this test be removed and that haircuts be based on a combination of central bank and private secured funding market practices.

Para 37 – Footnote 11 Covered bonds

We request clarification on whether covered bonds that are not subject by law to special public disclosure are not eligible under any circumstances. If so, banks in many countries will need to lobby their government to enact laws and deal with legacy issuance if laws are enacted. We believe the proposed haircuts and eligibility criteria for covered bonds are unnecessarily onerous and close to impossible to meet. We believe covered bonds should be eligible because there is less possibility of wrong-way risk because investors have the security of the underlying assets. We recommend

adding a category for AAA rated covered bonds with a reasonable haircut and a liquid asset portfolio limit to address wrong-way risk, and we recommend recognition of covered bonds issued by banks as presumably high rating comes from dual reliance on assets and FI issuer. Additionally we question the need to meet all the requirements vs. one of following; we recommend that requirements be based on “one of the following conditions”.

II.1B Net cash outflows *(pages 11 – 19)*

Para 38 – Footnote 12 Earned Interest

The increased precision achieved by identifying net earned interest on all inflows and outflows may not be material enough to justify costs. We recommend that this footnote be removed or be presented as an option.

Para 41: Retail deposit run-off – insured deposits

Para 10 and 41a: Deposit insurance is one of many important factors that affect run-off rates for retail deposits. Other key drivers include nature of market place, number of competitors, client type and delivery channels. Preferential treatment based on this factor alone may drive wrong behaviours, make these deposits less core over time, and increase systemic dependency on deposit insurance. We recommend that the Basel Committee consider other factors when determining retail deposit run-off rates. In keeping with our overall comment to use a risk-based approach, an institution-specific analysis of historical run-off rates should be used to derive the factors that apply to that institution. A homogeneity argument would be countered with an industry wide study. Factors for Canadian banks will be different than US or UK banks in the past 2 years and should be taken into consideration.

We also believe that some consideration should be given to the degree of market concentration/fragmentation. For smaller financial systems such as Canada or Australia with a few dominant players, assuming the same degree of deposit run-off may be inappropriate. There is a degree of self-interest in ensuring that a struggling FI survives to avoid a wider crisis (including country risk). We believe that there is a lack of differentiation in factors to reflect competitive structure of bank market and/or historic industry performance. Run-off will be higher for markets with numerous deposit gathering institutions (e.g., US where there is material experience with bank failures) vs. a more consolidated market (e.g., Canada or Australia where there has been limited bank failure experience). We recommend that the Basel Committee should consider regional, jurisdictional and firm-specific retail run-off factors or provide for lower initial factors with provision to go higher.

Para 41 and 42 – Retail deposit run-off – stable vs. unstable deposits

The split between stable and unstable is based on customer information that might be difficult to obtain. As an example, term deposit classification to “stable” or “less stable” based on withdrawal penalty calculation is not available and would represent an IT challenge. As above, in determining run-off expectations, we recommend that broad characteristics and attributes (e.g. number of players in the market, strength of firms, key delivery channels, historical deposit stability, etc.) be considered in the context of each market, jurisdiction, and firm. We note that current bank IT systems can only provide a view of how “core” deposits are at the product type level by looking at source systems and not at the individual customer level via client relationship management systems. We believe that there is little benefit for the required IT system development. We would need to be specific on the details before we can assess IT implications.

Para 43 – Fixed or time deposits

While the terms of fixed or time deposits stipulate that customers cannot withdraw the deposits prior to the maturity, is it the intention that 100% of fixed or time deposits will be subject to the same run-off factor as other deposits in the cash outflows calculation? We believe that term deposits outside the relevant time bucket are not subject to run-off (i.e. the run-off rate is 0 if the terms of fixed or time deposits clearly stipulate that customer cannot withdraw the deposits prior to the maturity of the deposit and the maturity date does not fall into the 30-day time band.) We request clarification on this interpretation.

We request clarification on the application of the following criteria: “...have a *withdrawal penalty not materially greater than the loss of interest*...”

Para 44 – “Domestic” foreign currency deposit run-off rates

Has OSFI determined the run-off rate for foreign currency deposits in Canada or held by Canadian banks abroad? We request clarification on if we are to use the 15% for “less stable” deposits? Foreign currency deposits are not necessarily less core than domestic currency deposits ((Para 41b and 44). We recommend that banks should be permitted to demonstrate what they consider to be its core deposits.

Para 45 – Unsecured wholesale funding run-off

The definition of wholesale funding (non-retail) is broader than what most market participants use. It includes many disparate types of deposits from a stickiness perspective. We recommend that a distinction be made between relationship and non-relationship wholesale deposits.

Para 46 – Callable deposits/liabilities

For callable deposits/liabilities, does it make a difference if the call is owned by the bank as to what the assumed maturity will be?

Para 41 to 56 – Cash outflows

Some of the criteria for classifying deposits are questionable or will be very difficult to implement (e.g. established relationship, transactional account, withdrawal penalties, operational purpose, EUR 1 million aggregate threshold for SME clients, direct link between size and core value, foreign currency deposits less stable than domestic ones, frequent insured deposit data). One example is the classification of insured /uninsured deposits, which is currently done once a year in Canada; moving to a more frequent time interval would require significant IT development. Some of the proposed run-off rates are too high (e.g., no value to financial, fiduciaries and beneficiaries deposits when core value exists in many instances, 25% value to non-financial customers with no operational purposes).

It will be technologically challenging to identify SME deposits of aggregate funding of 1million euros or less. Fixing maximum amounts without considering the particularities of each jurisdiction and the nature of each market is not risk-based. The concept that the stickiness of deposits is fully correlated with the size of deposits is not always correct. The degree to which this may be true will vary by country and apply at different amounts. How high could the run-off rate go for deposits over 1 million euro, 25%? Will the difference in treatment between the two be justifiable?

On a relative basis, too much value is assigned to retail over wholesale (as defined in this paper) deposits. In time, retail deposits will become less sticky because competition will further intensify. Wholesale deposits with 100% run-off factors will become stickier as banks will not be able to use them to fund illiquid assets. Banks will not want to materially increase leverage and credit usage to place low-value funds they do not need back into the market. This may also lead to more retail clients dealing directly with banks than via fund managers since the core value of their cash will be better recognised if dealing directly with banks (e.g., taking cash out-of-money money market funds and placing it into savings accounts).

The current proposed classification is retail or wholesale. We believe that within wholesale, there should be a difference between relationship accounts that use multiple services, non-relationship accounts that are primarily driven by rates and credit risk, and other accounts for banks. Related party deposits also have a unique set of circumstances to consider; for example, what is the third party source of these deposits (e.g. retail stable deposits or volatile wholesale deposits)?

We recommend that:

- Deposits should be classified into retail, relationship and non-relationship wholesale, related party, and inter-bank. For the run-off rate, financial institutions should be allowed to design their rates within the prescribed minimum rate set by the country regulator with exceptions, where reasonable, reviewed and approved by regulators.

- If the standards apply on a consolidated basis, a Canadian foreign bank subsidiary should be exempt from compliance with these ratios.

Para 50: Unsecured Wholesale funding run-off

The paper contemplates determining the run-off factors by “aggregated funding” over one or several legal entities that may be considered as a single creditor. This data would be extremely difficult to obtain since current bank IT systems are not amalgamated in this fashion, within or across systems. Banks would need to develop coding at the account level, possibly across business platforms where this may raise confidentiality issues due to the need to access client data across multiple jurisdictions and legal entities. Given the requirement to consider “aggregate funding” for small business customers, we believe that system capability to link connected small business accounts is not in place for most banks. We also question why liquidity standards should be different than those in place for Basel II (i.e. where there is no requirement to connect small business loans). We recommend that the need to consider aggregate funding requirements be removed.

Para 51 – 52: Unsecured Wholesale funding provided by non-financial corporate customers

- The document indicates that “...*only the specific amount of deposits utilized for these operations functions qualify for the 25% factor.*” The isolation of these deposits from other corporate deposits would be close to impossible to achieve without considerable IT infrastructure upgrades as current bank IT systems have not been designed to track information about clients intended use of funds within the same account or different accounts. Within a client’s various accounts it will be challenging to distinguish between funds held for operational reasons from those that are not. Coding each bank account with defined rules would be a monumental task. Although conceptually acceptable, this would be very difficult to implement.
- The document indicates that if the “*customer has an established cash management or other administrative funds relationship with the bank upon which it has a substantive dependency*” the funds would qualify for the 25% factor. We note that customers with loans also have a substantive dependency on a financial institution.

To differentiate between the 25% and 75% categories, we recommend that customers with loan relationships with the banks should be added to this category. We request clarification on what would reasonably constitute “substantive dependency” and the manner in which a bank may reasonably provide evidence of an “operational relationship” on a customer by customer basis.

Para 53: Unsecured Wholesale funding run-off – clarification on run-off treatment for public deposits

We request clarification for cases where public deposit balances are 100% collateralized by assets not considered liquid. We recommend that funding from collateralized deposits be given a lower run-off factor, provided the assets are not included in the numerator calculation, since the collateral reduces the risk of clients withdrawing the money due to credit concerns.

Para 54 – Unsecured wholesale funding provided by non-financial corporate customers: 75%

The 75% run-off factor is far too high for many types of non financial corporate customers. In addition the disparity in the run-off factors between a small business and a large business is very wide (7.5% - 15% for small businesses, 25% for “relationship” large businesses, and 75% for large businesses). We question why such a substantial difference is applied to deposits from an insured commercial vs. retail customer, as there is evidence to suggest that the ability to switch accounts is lower for commercial customers since it would be far more complex and costly to change their banking relationship than retail clients. We recommend at a minimum that the run-off factor for wholesale funding provided by non-financial corporate customers be reduced. Ideally banks should be allowed to set run-off rates based on qualitative principles set and reviewed by regulators that take into consideration the various relevant factors previously mentioned. Alternatively, a range of factors should be developed based on further study of these issues and customer behaviour during the recent crisis.

Para 55 – Unsecured wholesale funding provided by other legal entity customers: 100%

Some of the deposits in this category are from relationship clients that have a record of exhibiting good stickiness, even if they come from financial corporates, fiduciaries or beneficiaries. We recommend that run-off rates should be derived based on qualitative principles set and reviewed by supervisors. For example securities settlement clients leave money with their custodial banks at all times to facilitate settlements. Financial institutions leave money with their vostro banks as a matter of course too. The manner in which these deposits are raised and booked would provide a good indication of stickiness. We see a strategic challenge for custodial and vostro banks, since their deposit base primarily fits into this category. Their Net Interest Margin (NIM) will be materially reduced unless the rates for their clients are also adjusted down. Almost all their assets will need to be high quality to meet LCR minimums.

Para 56 – Unsecured wholesale funding provided by other legal entity customers: 100%

We request clarification on whether structured notes sold to retail get core value, even if sold as a note not a deposit, and possibly including call features. Many such clients have a history of rolling over their notes as they mature in the same way that other retail clients roll their deposits.

Para 57 – Secured funding run-off

We request clarification on whether the definition of secured funding refers to “liability and general obligations” in an accounting sense or a legal sense. For example, is the loan of illiquid assets against the receipt of liquid non-cash assets as collateral considered secured funding given it is off-balance sheet with no receipt of cash?

Para 58 and 59 – Secured funding run-off

Some of the related rules are unclear (e.g. reverse repurchase for funding deals? reference to covering shorts?) and will raise material system issues. We believe these rules are too narrow and binary. We recommend that they should be more graduated based on each firm's experience. For example, secured funding markets for equities issued by strong names continued to function extremely well during the recent crisis. We also request clarification on why reverse repurchases are included in this paragraph if it refers to funding not lending transactions?

One of the impacts of the proposed rules is that firms that use short-term secured funding markets for non-high quality liquid assets will create a LCR gap that will have to be closed by buying high-quality liquid assets and funding them for terms past 30 days. As this would result in a very substantial increase in the size of the balance sheet, firms will instead have to stop short-term secured funding these assets and instead use long-term secured or unsecured funding. Similarly, where term secured lending against non-high quality liquid assets is conducted, because loss of access to secured funding is assumed, these transactions will also have to be funded with matching term secured or unsecured funding. In both cases, this will materially discourage usage of secured funding markets for non-high quality assets (as liabilities or assets), which will not only lead to reduced funding access and diversification for banks and their clients for such assets but ultimately undercut their desire to hold such assets, with negative impact on their price. We would argue this is not consistent with the Basel Committee's principle for funding diversification.

Paragraph 58 also presumes that lending of equities (given outside the definition of “high quality liquid assets”) is subject to 100% roll-off in a crisis market. As stated above, secured funding markets for top equities continued to function well during the recent crisis for strong names. Further, the requirement of market counterparties to borrow equities to cover their delivery obligations on short sales, and in return provide cash or government securities against the stock borrow, continued during the crisis environment. Therefore, we recommend that the assumption that 100% of secured lending against high quality equities (i.e. index names) be removed.

Para 60 – Increased liquidity needs related to downgrade triggers embedded in short-term financing transactions, derivatives and other contracts

We believe that assuming that 100% of all deposits with rating triggers of 3 notches or less are automatic outflows within 30 days is too binary and not graduated enough. This will have a material impact on business such as Municipal/Public Sector Guaranteed Investment Contracts. We recommend that banks be allowed to assess the appropriate outflow factor.

Para 62 – Increased liquidity needs related to market valuation changes on derivatives

We request clarification on whether the Basel Committee will determine the amount to be reserved and whether the liquidity impact will consider both collateral outflows and inflows on derivative marked to markets (MTM)?

Para 63 – Increased liquidity needs for valuation changes on posted collateral

We request clarification on the rationale for the additional haircut for non-high quality liquid assets. Less liquid collateral already attracts higher haircuts and is MTM on a regular basis. We believe that there were circumstances where insufficient haircuts were taken on some collateral in the last crisis, but there are most likely more examples where the appropriate haircuts were taken. We believe that if regulators think a firm is setting its haircuts too low, it should be addressed in the context of capital requirements to cover the related credit exposure, not by adding a one-size-fits-all incremental liquidity haircut in liquidity metrics.

Para 64 – Loss of funding on asset-backed commercial paper, conduits, securities investment vehicles and other such financing facilities

We request clarification on whether this applies to bank-owned assets only or third-party client assets too? Is this paragraph meant only to refer to a firm's own securitised assets or to third-party client assets too? If only for own assets then the following comments apply to Para 66. We believe that 100% draw assumption is too conservative when most firms did not experience loss of funding anywhere close to that in the recent crisis. Most banks that manage conduits and provide liquidity to them did not experience liquidity draws anywhere close to 100% or even 50%. There is a need to distinguish between various types of ABCP conduits as some are materially riskier than others. This is an issue for any Variable Rate Demand Note (VRDN) products too where a 100% assumption would also apply. These rules will have a major impact on securitization and municipal markets.

Para 65 – Loss of funding on term asset-backed securities, covered bonds and other structured financing instruments

We request clarification on whether banks should plan for a loss of access to regular securitization programs run by the government (e.g., Canada Mortgage Bond (CMB) funding in Canada)? We would think not, given that this funding channel functioned during the recent crisis for all participants. We request clarification on whether no value will be attributed to regular securitisation programs sponsored by government entities (CMBs) or US agencies (MBS) even if a firm has demonstrated on-going capabilities to access this market? What about secured borrowing facilities like Federal Home Loan Bank (FHLB), which also continued to function during the recent crisis for participants?

We request clarification on the treatment of pooled government guaranteed MBS. Our interpretation of the treatment of MBS (as an example) is that newly pooled products would be afforded a 100% factor consistent with Para 34 (i.e., treat 0% RWA assets as liquid).

Para 66 – Draws on committed credit and liquidity facilities – credit vs liquidity

We recommend that the distinction between credit and liquidity lines be clarified since most committed corporate revolvers are for “general corporate purposes”. It seems most appropriate to consider these corporate revolvers to be credit lines, but we request clarification. Also, we recommend that this requirement be modified to clarify that only liquidity lines that support paper maturing within 30 days need to be considered, as those supporting maturities past 30 days cannot be drawn in the first 30 days.

Para 66(d) – Draws on committed credit and liquidity facilities vs. Para 75(iii) Cash Inflows Lines of Credit – Collateral received on reverse repos

We believe that the treatment prescribed for certain items in the LCR is inconsistent. For example, committed interbank lines to the reporting institution are assumed not to be available on the basis that bank lenders would rather assume the lender liability risk than lend to the reporting bank in a crisis. However, the same assumptions are not afforded to committed lines provided by the reporting institution to other banks (i.e. these are assumed to be drawn 100%) [Ref Para 66(d) versus 76(iv)]

Similarly, reverse repos based on liquid asset collateral are assumed to roll if they mature within 30 days. While this is consistent with the treatment of like repos, the guidance also indicates that collateral received from the reverse repos may not be used as liquid assets. [Ref B2(c) of the QIS template instructions] . We recommend that collateral received on reverse repos that qualifies as liquid assets should be allowed for inclusion in the liquid asset buffer (since the default assumption is that such reverse repos will always roll). We believe it is inconsistent that value is given to reverse repos on illiquid assets and not to reverse repos on liquid assets. Reverse repos are often used for daily liquidity management and could represent a large proportion of a bank's liquidity buffer.

Para 66(d) Draws on committed credit and liquidity facilities Item & Para 76(iv) Cash inflows lines of credit Item

Under the “outflows” section, the document projects that “*other legal entity customers*” including banks will draw down the undrawn portion of their credit and liquidity facilities by 100%. However, under the “inflows” section, the document assumes that “*no lines of credit, liquidity facilities or other contingent funding facilities that the bank holds at other institutions for its own purposes are assumed to be able to be drawn*”. This methodology is inconsistent. We recommend that either both are allowed, or neither is assumed to be drawn.

Para 66 – Draws on committed credit and liquidity facilities – 100% draw assumption

No consideration is given to portfolio effects in choosing a 100% draw assumption for liquidity and some credit lines. Also, from an aggregate perspective, this is not a market-based assumption as no consideration is given to where the drawn money from each bank will end up. It is implicitly assumed that none of this money will end up back with any of the banks that get drawn, or put another way, that the money will disappear or be absorbed by central banks. This is not plausible, especially in smaller markets. This assumption will have a material impact on any businesses, primarily capital markets, that offers committed liquidity facilities to any non-financial corporates and committed credit/liquidity facilities to large legal entities other than non-financial corporates. Overall the appetite for banks to offer credit/liquidity lines and for clients to pay for much higher costs will likely lead to a material reduction in the availability of these types of lines, thus materially affecting funding products that require them (e.g. CP, ABCP, and VRDN), and transferring liquidity risk out of the banking sector to the corporate sector because these lines will not be available or will be too costly. In short, if bank customers do not have access to liquidity lines in the normal course of business, they cannot issue short-term funding instruments (e.g. CP, ABCP, VRDN). This may not be a desirable outcome. We recommend that 100% draw down factors be revised with this background in mind.

Even for lines assigned a 10% factor, this will have an impact on the appetite of firms to provide these lines. This is not only a cost issue, which arguably could possibly be passed on if clients are willing to pay, it is a leverage issue. Banks will have to hold a larger amount of liquid assets to support this business at current volumes.

We recommend that for liquidity lines that back paper with remaining maturities past 30 days, there is a need to clarify that these lines should be excluded from this calculation since they cannot be drawn for the next 30 days.

Para 67 - 69 – Other contingent funding liabilities

The language describing “associations with, or sponsorship of, products sold or services provided that may require the support or extension of funds in the future” is subject to a lot of interpretation. We recommend that banks in each jurisdiction will need to discuss their products and services with their supervisors, review the legal and marketing documentation for each product or service, and confirm assumptions. We are concerned that assumptions will be determined nationally when circumstances may vary materially between firms in the same country. We request clarification on whether the Basel Committee (or OSFI) has any intention of prescribing treatment or % draws.

Para 69 – Examples of other contingent funding obligations

It would be double counting to ask a firm to assume draws on its VRDN liquidity lines and also assume buy backs of VRDN for the same issue. If a bank is assumed to be fully drawn on a liquidity line it has provided to a VRDN issuer, then it cannot also buy the same VRDN paper from the market since it already owns all the related balance sheet risk (i.e. same concept for ABCP). We recommend that an amendment should be made to this section to recognise that double counting could occur between Para 66 and 69 and that in these instances only one of the two forms of exposure should be considered. We also recommend differentiating factors by asset classes for these products.

A potential material unintended consequence of this proposal could be the reluctance of dealers to make any promise of secondary bids for anything they sell that is not eligible for the liquid assets buffer, which could further reduce market liquidity in many of these markets. We recommend that this point should be considered in the analysis of the impact of this proposal on the broader markets and economies.

We request clarification on what will be the criteria for including unconditionally revocable uncommitted credit and liquidity facilities? What will be the criteria for identifying them? There is a danger this might be read much more broadly than intended, or is reasonable.

We request clarification on the cash flow factor to be used for Bankers Acceptances that have been stamped.

Para 70 – Other cash outflows

We request clarification on this category, as it seems to be a catch-all category that may be difficult to evaluate. In particular, are short security positions included? Also, please see comments on Para 75.

Para 71 -73 – Cash inflows

We request clarification on what is meant by “*any planned outflows needed to refinance outstanding loans should be reflected fully as outflow*”? Does it mean that we have to assume that all loans maturing will need to be refinanced? How will these criteria be determined and how will it be applied consistently between banks?

We also request clarification on the requirement not to include flows tied to derivative contracts. Para 71 says that “*banks should not include inflows which are encumbered for other purposes, such as those which are tied to derivative contracts*”. We believe that not all such derivative's flows are encumbered. Does this only refer to pledged assets against collateral agreements, or any inflows based on contractual dates? Notwithstanding pledges, we believe this treatment should be similar to Para 77. We request that the Basel Committee provide examples.

Para 73 – Retail inflows

We request clarification given that in paragraph 89 (RSF %) retail loans maturing within 1 year require a 85% haircut, what should the haircut on demand/notice loans be for LCR?

Para 75 – Reverse repos and secured lending (0%, 100%)

- We request clarification on why reverse repos of high quality liquid assets are not a source of cash inflows (or alternatively a liquid asset) in the calculation? Even if outflows for related liabilities are not set in para 59, this does not help firms that are net lenders of cash through this product?
- We request clarification on the treatment of reverse repos, especially when the reverse repo is done for trading purposes.

Lending cash on a collateralized basis against government debt (e.g. reverse repos) is the most liquid and least credit risk trade a bank can do to lend its money. We believe that if the proposal is not revised to recognize this source of liquidity, banks will be forced to hold cash vs. lending out. Ultimately, we recommend treating reverse repos as a cash inflow (or alternatively a liquid asset) with the equivalent of a 100% factor provided such agreements are secured by government quality assets as proposed.

Unless there are problems with re-hypothecating assets acquired via reverse repos, most of these should qualify as liquid assets as defined in paragraph 34. The only potential problem relates to paragraph 32 (the domicile of the assets in a trading book vs liquidity pool). Structurally, most banks operate with cash management inventories falling in the trading books (e.g. potential booking points of liquid assets - in trading or treasury). If this issue can be resolved, we recommend that assets held in reverse repos that otherwise qualify as liquid can be treated as liquid.

We believe that the proposed treatment for reverse repos of liquid assets does not work where these are used to lend surplus cash raised against unsecured deposits. This is the most liquid and secured form of assets a firm can hold to lend cash, hence a 100% cash inflow is justified in this context. Not showing outflows for related liabilities in Para 59 works for the reverse repo side of a matched book, but does not help firms that are net lenders of cash via reverse repos. We also request clarification on the rules for short securities trades matched by reverse repos, which are not currently covered in the consultative document but should be consistent with the Basel Committee's response in their revised QIS FAQs.

Para 76 – Lines of credit

We believe that giving no cash inflow value to any committed facilities obtained by a firm is not unreasonable on its own, but it is at the aggregate of all firms if considering that Para 66 requires the providing firm to show an outflow. There is also a risk that this rule may drive the wrong behaviour for smaller firms, especially since costs of providing these lines will materially increase if firms have to hold 100% liquid assets against them. If smaller firms do not receive any credit for paying for committed liquidity lines, they will need to drop this alternative for buffering their liquidity levels. Thus, smaller firms may need to raise term money and hold liquidity asset pools instead of getting these facilities, which is far less efficient.

We request clarification on how this rule will be applied to committed lines between group entities (i.e. whether at the group level or if both units run separate LCR reports?) One unit cannot assume it will be drawn if the other unit cannot assume it can raise cash. This has to be a zero-sum game.

Para 77 – Other cash inflows

We request clarification on the exclusion of critical term funding sources (e.g. CMB program, FHLB lines of credit). Why would > 1 yr term funding available from collateralized lines held with the FHLB or the pooling of insured residential mortgages or fixed home equity lines of credit (HELOC) not be included as cash inflows? We recommend that the paper expand the category to include other standing sources of term funding that would be available to the bank in advance of, or during, the stipulated stress scenario outlined in Par 11 (i.e. possibly up to some specified limit or % of total cash inflow calculation). Under the proposed standard the existing ability that US banks have to pledge assets (at significant collateral weightings) that would not meet liquidity buffer requirements to the FHLB in return for incremental funding is not recognized.

II.2 Net stable funding ratio (NSFR) (pages 19 - 24)

Para 78 - Objective

We believe that focusing on increased retail deposit funding will force banks to prioritize those businesses that are self-funded, or that can be associated with retail deposit-gathering. Banks that have less low run-off deposits than loans on their balance sheets, and that run some level of structural liquidity risk, will have to ration their loan book if all loans have to be matched with low run-off deposits or term wholesale funding. This in turn could produce a bias toward firms' home markets, except where foreign business is retail-based (usually as a result of an acquisition). Thus, there may be some effect of retrenchment from overseas lending where managing to an acceptable NSFR will become uneconomic, especially corporate lending, which could be problematic for certain emerging markets.

Para 79 - 80 - Objective

Term funding a portion of the securities inventories not eligible as liquid assets, off balance sheet exposures, securitization pipelines and other assets and activities is not on its own objectionable. However, it is the very extreme factors that are proposed (e.g. exclusion of up to 12-month funding from current financial institution funding providers, 50% for equities, 20% for highly liquid corporate bonds that do not qualify for the buffer (e.g. US Agencies)), which will have a material impact on traditional funding channels, capital markets businesses, the pricing and viability of these markets and, as a result, the broader economy.

Para 80 - Definition of the NSFR

The haircuts on Sovereigns and Corporate bonds are much higher than those eligible by Bank of Canada. While Bank of Canada margins may not be relevant (paragraph 84 explicitly rules out the assumption of extended central bank borrowing), these collateral values do look like systemic risk impacts. The scenario outlined in paragraph 83 refers to extended name specific issues, not systemic. We recommend that less punitive haircuts be considered.

Para 86 (table 1) and Para 87 – Components of Available Stable Funding and Associated ASF Factors

- We believe that the ASF and RSF categories to which factors are applied are not granular enough. As a result, categories where important distinctions would be warranted are grouped together with the worst assumption for the whole category (e.g. other assets/liabilities where for example DRA and DRL assumptions would create a huge gap). Broadly we have the same concerns for NSFR assumptions as we have for LCR: too conservative, too binary, not graduated enough. We recommend that the more the assumptions are simplified and until potential impacts are understood, the more this should be a supervisory discussion tool, not a regulatory minimum.
- The scenario assumes that banks would be unable to take corrective action within one year to address structural liquidity issues, which we believe is not realistic. We believe that assumptions for NSFR should be more "normal" course of business than LCR. Structurally there will be a

material deficit in the amount of core funding available in the market place to fund illiquid assets as defined in NSFR, with obvious economic consequences. Banks cannot dictate investors' term preference and yet regulators are prescribing that some investors reduce term (e.g. Rule 2a7 funds – e.g. money market funds in the USA that are key providers of cash to large global banks). We believe that the economy cannot bear this level of over-insurance of liquidity risk in the private sector. We believe that the more investors are asked to reduce average term to maturity through regulation, the more banks will have to be allowed to run worse LCR and NSFR, everything else being constant.

For Para 86 (table 1), we believe assumptions for non-financial corporates and other types of relationship deposits are extreme, as already discussed in the LCR section. We request clarification on the following points:

- Does it make a difference if the bank is long or short the option when assigning liquidity value to securities with callable/puttable features?
- For preferred shares or debt with options, is the shorter timeframe treatment only applicable to issues where the investor owns the call?

We request clarification on whether banks could receive recognition in the NSFR for some portion of unsecured wholesale funding from financial institutions with maturity less than 1 year but greater than 3 months to fund assets that would be considered liquid within the year under the proposal up to some reasonable limit. As proposed it gets a 0% ASF rate.

Also, we note that in the consultation document loans maturing past one year are not cash inflows and most loans have to be assumed to be rolled over. We request consideration of pooled government guaranteed MBS or available for pooling insured mortgages or fixed rate home equity lines of credit as a source of available term funding subject to a reasonable limit of total calculated available funding. As proposed retail mortgages with maturities greater than 1 year require 100% stable funding but available funding is restricted to enforce retail borrowings at the time of the calculation. In practice banks would have the ability to create additional mortgage-backed pools over a 12 month period to create additional term funding in the event of loss of other forms of financing. We believe that provisions should be made for including the additional source of funding over a 12-month period since it represents a reasonable source of counterbalancing capacity. We further request consideration for the unutilized term funding capacity available from the Federal Home Loan Bank system. The proposal does not recognize this source of funding that would be typically be available to member banks during a systemic market event to fund real estate loans.

Para 89 (table 2) – Summary Composition of Asset Categories and Associated RSF Factors

- The degree that retail loans maturing in 1 year will be renewed (set at 85%) would theoretically be closely linked to the retention of retail deposits. A rational response to accelerated deposit run-off would be to slow loan origination. We recommend that the rule correlate the run-off rates for both retail assets and liabilities, since as it is currently written it is asymmetric.
- We believe that many assumptions are implausible based on the criteria set in Para 88. For example, equities attract at best a 50% RSF when, based on the facts of the most recent crisis, their actual stressed liquidity value was considerably better than this ratio. We recommend that

they should attract a very small factor (especially if hedged). We are concerned because this will materially impact all equity businesses and their clients.

- **Similar to our comments on Para 75 above**, we recommend that reverse repos receive a 0% weighting, both for eligible and non-eligible assets if maturing within one year on the basis that counterparties will settle at the end of the contract. Table 1 should provide explicit direction on treatment of reverse repo positions.
- We believe that a 20 or 100% ASF factor on non-eligible fixed income securities will also have a material impact on this business. Using as an example a 3 month LIBOR Overnight Index Swap (OIS) spread of 25 bps and a term funding premium of 75bps, which is far from high based on the last two years, the cost of funding for 100% NSF bonds will go up by 100bps compared to the secured funding option, which will no longer be an acceptable option as a structural gap would be created.

Para 90 and 91 (Table 3) – Composition of Off-balance Sheet Categories and Associated RSF Factors

- Para 90 and 91: We believe that term funding part of the Off-Balance Sheet (OBS) exposure will materially impact ABCP and VRDN markets, as well as corporate lending and other products needing committed credit or liquidity facilities. Similar to our comment on Para 69, there is a risk of double-counting between liquidity lines to products and the assumed need to reputationally purchase paper back.
- Para 91 (table 3): We request clarification on what is the scope of affiliated entities in the context of a group entity report? Will a RSF apply to credit lines provided to a subsidiary of the group in a group report?

IV. APPLICABLE ISSUES FOR STANDARDS AND MONITORING TOOLS (Page 31)

Para 21 and Para 131 & 132 – Frequency of calculation and reporting

We will seek clarification with our supervisor on frequency of reporting and how to demonstrate that banks are “...*aware of any potential mismatches within the 30-day period and ensure that sufficient liquid assets are available to meet any cash flow gaps throughout the month*”.

Para 133 – Scope of application

We request clarification on why affiliated entities should be treated like third parties if it is clear that they will roll deposits internally as long as the client money stays with them?

Para 134 – Currencies

We believe that application of fungibility criteria should be risk-based and applied consistently to all currencies, taking into consideration size of mismatch and related capabilities to close the gap. The assumption of no liquidity in key FX forward short-term markets is not risk-based. We recommend that there should be more flexibility in these assumptions.

Para 135 – Public disclosure

For the initial implementation of these new liquidity measures, the disclosure requirements could undermine an institution's solvency and liquidity. While we are supportive of improved and transparent bank reporting of liquidity, we believe such reporting should be made relative to reasonable minimum standards. The standards outlined in this paper are closer to "maximum" standards and therefore disclosure by a bank of being below 100% could possibly trigger an unjustified level of market concern on the bank's viability or liquidity strength. Furthermore, disclosure may be procyclical and accelerate rather than resolve issues, especially if metrics are not understood. Granular disclosure of LCR and NSFR liquidity metrics, components, and drivers will likely be misinterpreted and accelerate bank issues in times of crisis.

We refer to the Banking Supervision Committee report on Stress Testing (European Central Bank) of November 2008, which concluded that "*While more disclosure, in particular on banks' liquidity risk management, is generally to be encouraged, the BSC considers that, in the case of liquidity stress test results, the detrimental effects of mandatory public disclosure are likely to outweigh the benefits.*" We further believe that any public disclosure requirements should be delayed until the new metrics and their impact are better understood and calibrated within and across jurisdictions. The roll-out of common public disclosure requirements should be initially limited to qualitative information. Also, these disclosures should be introduced over an extended period to provide the time required for banks to inform their shareholders and other market participants on how to use and interpret these new standard metrics and associated results.

ANNEXES (pages 32 – 36)

Annex 2 Full Explanation for Required Stable Funding Category (Page 34 - 35)

Annex 2, p.34, 3rd bullet

We request clarification that for embedded options, does it depend on who owns the call, the investor or issuer?

Annex 2, p.34 4th bullet

We request clarification on several points: Are short securities positions covered in this point too or only long securities positions? Should this say repos not reverse repos for long securities? This “matched cusip” rule needs to be analysed in parallel with the related LCR assumptions where a non-eligible security is deemed illiquid within 30 days and the related secured funding liability is an outflow. If a firm has to hold a liquid asset buffer and raise funding past 1 month when buying and repoing such bond, it does not seem helpful to say that no term funding past 1 year will be needed if the bond is repoed because the LCR rule will push firms toward unsecured funding anyway.

Annex 2, p. 34, 5th bullet

We request clarification. If the loan is collateralised with assets with maturities past one year, is it classified as “no cash in”; but if not collateralised, then it is classified as “cash in”. We believe that collateralization should not worsen liquidity treatment.

Annex 2, p.34, 7th bullet

Most or all covered bonds are issued by banks, so we request clarification on why are they excluded here?

Annex 2, p.35, 1st bullet

We believe that no securities will meet all these criteria; for example, equities are not central bank eligible. Is it the Basel Committee's intention to exclude all bank equities? We request clarification on whether bank equities are excluded even if part of an index? This paragraph says all criteria must be met, yet at least one of them does not apply to any of the proposed securities (e.g., bonds and gold mostly not listed on an exchange).

Annex 2, p. 35, 5th bullet

We request clarification on, or examples of, other assets (e.g. Derivatives Related Assets (DRA)/Derivatives Related Liabilities (DRL).