Ministry of Finance Finland
Bank of Finland
The Financial Supervisory Authority of Finland

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Basel Committee on Banking Supervision

INTERNAL FRAMEWORK FOR LIQUIDITY RISK, MEASUREMENT AND STANDARDS

Joint response by the Finnish financial market authorities to the Basel Committee consultation document of December 2009

The Finnish authorities support the harmonisation of liquidity requirements. However, in order to be able to fully assess the proposals, quantitative data is needed especially on the aggregate amount of additional liquid assets that banks need to obtain in order to be able to meet the proposed requirements.

We believe that the requirements should be applied both at solo and consolidated level. Consequently, impact studies should include both levels.

With regard to the eligible liquid assets, we believe that the most appropriate approach could be to include all instruments eligible for central bank funding to the extent they are traded in an adequately liquid market.[1]

As far as net stable funding ratio is concerned, we are in favour of a framework allowing this ratio to be used as a monitoring tool rather than mandatory requirement, in order to better take into account the diversity of credit institutions in terms of their size and the degree of complexity of their business model. In addition, such an approach would avoid the difficulties involved in assessing the joint impact of two different mandatory quantitative requirements. The monitoring tools should be included in the Pillar II framework by requiring the supervisors to include the results from such monitoring in the annual risk assessment of the bank. Should the NSFR be implemented as mandatory requirement, from macro-economic perspective, treatment of household and corporate lending in maturities above one year should be carefully assessed based on QIS data.

Definitions of product categories differ on national level, and harmonized categories may be difficult to reach. More work maybe needed to find liquidity characteristics for e.g. deposits. Even then, room for interpretation is probably required to allow for national differences. To promote transparency and equal treatment, national specificities could be published. It should also be considered whether it is necessary to differentiate between different categories of deposits protected by the deposit guarantee as such distinction would significantly increase the administrative burden of banks.

We welcome the harmonization of Monitoring Tools for supervisory purposes as proposed in the consultative paper.

[1] In addition, the Fin-FSA has studied in a preliminary fashion the liquidity of certain instruments and the appropriate liquidity regime, and has concluded that there would be justifications to include high quality corporate bonds and covered bonds as specified in the consultative paper in the stock of high quality liquid assets, together with cash, central bank reserves and government or central bank debt.