Association des Banques et Banquiers, Luxembourg
The Luxembourg Bankers' Association
Luxemburger Bankenvereinigung

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Response to the Basel Committee's Consultative Document "International Framework for Liquidity Risk Measurement, Standards and Monitoring"

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Executive Summary

The Luxembourg Bankers' Association (the ABBL) welcomes the opportunity to comment the Basel Committee consultative document setting up an international framework for liquidity risk.

Our comments focus on the impacts of the new framework on two activities, which are not properly recognised by the proposed liquidity rules: the mortgage (or public sector) lenders as Covered Bonds issuing banks and the custodian banks' activity related to investment funds.

1. Impacts on the Mortgage (or Public Sector) Lenders as Covered Bonds Issuing Banks

Mortgage lenders using Covered Bonds as funding instruments will be at a disadvantage, as the liquidity metrics that are proposed do not take the specificities of their model into account. i.e.:

1. The bank's assets and their respective funding are segregated in a sub-entity with a strong interconnection and matching between the assets and their respective funding.

2. Covered Bonds issued by mortgage and public sector lenders obtain excellent ratings by rating agencies, i.e. triple-A or high ratings in the double-A bracket. These ratings are due to the coherence between the lending and funding activities of the banks.

3. Rating agencies include liquidity risks in their rating procedures. Issuing banks increasingly face the request to set up an over-collateral buffer (from 10% to 20%), the main objective of which is to serve as liquidity buffer.

The rationale governing the generic Covered Bond model pleads for the **non-inclusion of the Covered Bonds** used as funding for the cover pool **into the cash-outflows categories** envisaged under the consultative document. Consequently, only the remaining assets or liabilities on the banks' balance sheet should be considered.

Paragraph 37 of the consultative document recognises Covered Bonds as high quality and liquid assets. While welcoming this proposal, we suggest the following amendments:

1. The condition that Covered Bonds shall not be issued by the bank itself is not applicable to Covered Bonds, because the ultimate risk is the default risk of debtors present in the cover pool and not the risk of the issuer itself. As a consequence, Covered Bonds issued by the bank itself should qualify as high quality and liquid assets.

2. We assume that there will be no haircut for a triple-A rated bond and we suggest haircuts of 5% and 10% for the two brackets below the AAA.

3. Market characteristics make it difficult to establish if the bid-ask yield spread has not exceeded 50 bps during the last 10 years, or during a relevant period of significant liquidity stress, for each type of issuer and for specific issues of a given issuer. This restriction should be cancelled.

2. Impacts on the Custodian Banks’ Activity and on Investment Funds

2.1 Liquidity Coverage Ratio

Investment funds provide usually funding to their custodian bank via their cash account and deposits.

The run-off factor of 100% that is supposed to be applied to this funding (see paragraph 55 of the consultative document) appears excessive for the following reasons.

1. The Basel Committee proposal fails to demonstrate the articulation between the underlying assumptions (a combined idiosyncratic and market-wide shock) and their outcome (the 100% run-off factor).

2. **The strong operational relationship** existing between the investment funds and their custodian banks is not taken into account. Custodian banks indeed offer to investment funds a wide range of services in the framework of a global custody contract: Cash management, Management of the currency risk, Management of securities transactions, etc. Such an operational link is a strong incentive for investment funds to maintain a stable relationship with their custodian bank. Should however an investment fund decide to terminate the contractual relationship, it would take a long time to do so, well above the 30 days period prescribed by the LCR.

3. It is not consistent with the lessons learned from the crisis that are corroborated by quantitative observations:

    (i) The regulatory framework of investment funds contributes to their liquidity and facilitate, in times of stress, the reimbursements to the shareholders who redeem their shares without drying up the buffer of cash held by the investment funds at their custodian bank.

    (ii) The asset managers’ investment strategy in times of stress increased the level of cash held by investment funds, leading to liquidity inflows at the custodian banks.

    (iii) The funding base of the custodian banks is well diversified among a large number of investment funds and sponsors, mitigating the risk that all the investment funds (and their sponsors) simultaneously terminate their contractual relationship with the custodian banks.

    (iv) The observed run-off factors: we have observed the monthly variations of the (up to one month) funding received by a representative sample of custodian banks from December 2006 to December 2009: they are comprised in a range varying from **+ 20% to – 12%, the latter being hence the worst run-off factor observed.**

In order to fairly reflect the operational, legal and economic reality of the Custodian banks’ activity, we call for a maximum **25% run-off factor** to be applied to the part of the (up to one month) funding **related to the operational relationship** between the investment funds at their custodian banks. This part of operational-linked funding is **material** as it represents, based on our observations, **70% to 95% of the total** (up to one month) **funding** provided by the investment funds to their custodian banks.

The **residual funding** is not linked to the operational relationship and results from investment decisions taken by the investment funds’ asset managers: we agree that this funding is, by nature, less stable. However**, as a matter of reflexion**, we draw the Basel Committee’s attention on the negative consequences, for the whole financial industry, of applying to such funding an

overly conservative 100% run-off factor. Indeed, the residual funding is likely to be transferred from the banking sector to less regulated sectors, hence increasing the risk for the final investors (i.e. the investment funds).

2.2 Net Stable Funding Ratio: Investment funds as an Available Stable Funding category

The operational-linked (up to one month) funding provided by investment funds to custodian banks proves to be stable in the framework of the Liquidity Coverage Ratio, as we have demonstrated previously. The rationale can be transposed to the NSFR framework because this operational-linked funding fulfils the conditions of Available Stable Funding. Therefore, we propose to allocate a conservative **50% Available Stable Funding Factor** to the part of the (up to one month) funding **related to the operational relationship** between the investment funds at their custodian banks.

Regarding ABBL:
The Luxembourg Bankers' Association (ABBL) is the professional organisation representing the majority of banks and other financial intermediaries established in Luxembourg. Its purpose lies in defending and fostering the professional interests of its members. As such, it acts as the voice of the whole sector on various matters in both national and international organisations.

The ABBL counts amongst its members universal banks, covered bonds issuing banks, public banks, other professionals of the financial sector (PSF), financial service providers and ancillary service providers to the financial industry.

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Impacts on the Mortgage (or Public Sector) Lenders as Covered Bonds Issuing Banks

1. Background

This position primarily represents the interests of mortgage lenders (or lenders to public sector entities), which typically concentrate their main business on this market segment. Consequently, we will refer to a specific business environment that has not many similarities with the activities deployed by commercial banks.

Therefore, the conceptual approach used in the consultative document can be questioned from the outset as it is geared to a financial landscape that does not differentiate between business models and the use of funding models. We will touch below the funding specificities of mortgage (or public sector) lenders.

2. General remarks

2.1 High quality and liquid assets

Given the characteristics of high quality liquid assets as outlined in the consultative document we fear that banks will tend to accumulate a stock of these high quality liquid assets and – doing so – deviate from genuine lending activities. Their core business might be negatively affected. This could for instance significantly impact the housing market in Europe, in quantitative (reduced volumes) as well as in qualitative (higher interest rates for the consumers) terms.

2.2 Legal and macro-economic environment

At the same time, the legal and macro-financial environment is not taken into account as the proposed measures are exclusively geared at micro-economic levels. Especially **the role of the European Central Bank (ECB)** and its mission linked to the provision of liquidity and stability in the financial system cannot be wiped out.

The reference to the global financial crisis of 2007-2009 and its severity, only comparable to the crisis of 1929, makes clear that the implementation of new liquidity standards cannot take place without assuming the existence of efficient interrelations between the various actors constituting our financial system. For instance, the determination of the type of securities eligible at the ECB is a process that would have a high impact on the investment policy of banks as well as be a way to inject more liquidity into specific asset classes.

2.3 Impacts of the new rules

The set of measures envisaged would substantially reduce the managerial responsibilities of banking executives, as their activities in **maturity transformation** in an economy would be decisively reduced without putting in place replacement mechanisms. In any case we imagine

that future transformation mechanisms could therefore take place outside the regulated sector under additional economic or political risks.

The implementation of the new standards would also trigger **distortions** in connection with the type of assets or liabilities defined as eligible, increasing the volume and liquidity of these specific markets.

However we consider that the main potential distortion will relate to the **impact on the various business models** currently in existence. Stringent regulative requirements would automatically lead to a pre-determined and uniform way to adapt to the new standards.

We fear that primarily **mortgage lenders (or public sector lenders) will be particularly hit**. Their business models have been built up and consolidated over many decades and will now be threatened. Given the socio-economic mission of mortgage lenders, the key principle granting a preferential treatment to assets that would immediately be converted into cash, does not look appropriate at all. Mortgage loans are granted under observance of conservative lending criteria that do not entail as priority a future monetization of the loans. Securitization has already been a realistic exit option in the past, but the U.S. sub-prime crisis illustrates that the primacy of liquidity cannot result in an undifferentiated application of this principle.

3. Specificities of mortgage/Public Sector lenders using the Covered Bond business model

Mortgage lenders using Covered Bonds as funding instruments will be at a disadvantage as the liquidity metrics that are proposed, i.e. a short-term metric named "Liquidity Coverage Ratio" (LCR) and a structural metric named "Net Stable Funding Ratio" (NSFR) do not take the specificities of their model into account.

3.1 Segregation of assets

This model is characterised by a situation where the bank's assets and their respective funding are segregated in a sub-entity with a strong interconnection and matching between the assets and their respective funding.

It is well known that Covered Bonds issued by mortgage and public sector lenders obtained excellent ratings by rating agencies, i.e. triple-A or high ratings in the double-A bracket. These ratings are due to the coherence between the lending and funding activities of the banks.

Legal frameworks impose strict rules to them in order to secure high interdependence and sustainability between the Covered Bond issues and the assets funded via these covered bonds. These type of separate sub-entity is **legally segregated** from the remaining bank assets on the balance sheet and keeps its own identity and survival capacity independently from the fate of the bank. **Bankruptcy remoteness** is obtained based on this legal and operational segregation.

3.2 Over-collateral buffer

Rating agencies have already included liquidity risks in their rating procedures. Issuing banks increasingly face the request to set up an over-collateral buffer. Even if over-collateralisation also accounts for potential collateral deterioration or theoretical survival in liquidation times, **its main**

objective is to serve as liquidity buffer. This precautionary measure has been in the past years one of the key requirements of rating agencies.

Law in many jurisdictions imposes this liquidity buffer, as it is the case in Germany or in Luxembourg for example. It is worth noting that there is usually an important differential between the over-collateral required by law (for instance 2% in Germany or in Luxembourg) and the over-collateral requested by rating agencies: we usually observe **over-collateral levels from 10% to 20%** as the precondition for obtaining a high-end rating by a rating agency.

3.3 Additional Supervision of Covered Bonds banks

It should also be noted that Covered Bond banks are additionally subject to supervision by the local supervisor and that a trustee is in charge of monitoring the adequacy of the practices applied in the bank with the various requirements imposed on them.

4. Cash Outflows

The scenario mentioned in point 65 of the consultative document assumes that the **cash outflows will be 100%** due to a non-existent refinancing market. This assumption looks conceptually **inappropriate** for a bank funding its assets via Covered Bonds.

Indeed, one of the reasons for imposing the maintenance of an over-collateralisation is due to the necessity **to bridge maturity gaps** that might appear from time to time. Furthermore, the experience gathered in the recent crisis shows that even under stressed circumstances selective issues of Covered Bonds were possible. The reference magnitude to document such a situation should not be the amount of public issues done at the peak of the crisis, but the issues in a non-jumbo format placed as private placements, or placed in using the technique of registered bonds.

Obviously, the assets constituting the cover pool cannot be considered as unencumbered because Covered Bond holders have a privileged claim on the cover assets in the event of an issuer's insolvency. However, the rationale governing the generic Covered Bond model (which includes the built-up of a strong over-collateralisation) pleads for the **non-inclusion of the Covered Bonds** used as funding for the cover pool **into the cash-outflows categories** envisaged under the consultative document. For the reasons exposed above their inclusion would result in the enforcement of a double counting and a double stress.

Consequently, **only the remaining assets or liabilities on the banks' balance sheet should be considered.**

5. Cover Bonds as high quality and liquid assets

Point 37 of the consultative document recognises Covered Bonds as high quality and liquid assets. However, the criteria laid down need to be reviewed for the following reasons.

The proposal includes the condition that Covered Bonds **shall not be issued by the bank itself.** The fundamental difference between Covered Bonds and other bonds (issued by banks or corporate) is that a pool of quality assets permanently monitored by a trustee collateralises Covered Bonds. **Therefore the inherent risk is ultimately the default risk of debtors present in the cover pool and not the risk of the issuer itself**. This dynamic pool is supervised by the

local supervisory authorities and is subject to permanent monitoring by the rating agencies involved in the rating procedure.

Regarding the same definitional issue we strongly believe that the **haircuts** mentioned should be improved. We assume that there will be no haircut for a triple-A rated bond. We suggest haircuts of 5% and 10% for the two brackets below the AAA. Regarding market characteristics it is difficult to establish whether the bid-ask yield spread has not exceeded 50 bps during the last 10 years or during a relevant period of significant liquidity stress for each type of issuer and for specific issues of a given issuer. This restriction should be cancelled. The statements by leading members of the European Central Bank with regard to the remarkable qualitative features of covered bonds were well perceived in the markets. The 60 billion EUR purchase programme of the ECB was an additional stabilisation factor for this market.

6. Concluding remark

Finally, we welcome the statement that a final calibration as well as a final composition of the various assets classes to be defined as high quality and liquid will be determined by the Basel Committee, with the objective to minimise the negative impact of the liquidity standards on the financial system and the broader economy.

Impacts on the Custodian Banks' Activity and on Investment Funds

1. Background

By not appropriately recognising the funding pattern of investment funds to custodian banks, the new liquidity ratios might increase the costs for all stakeholders with detrimental consequences for the activity of the custodian banks and for the investment fund industry as a whole.

Against this background, we like to propose adjusting the qualifying parameters for the metrics of "Liquidity Risk Coverage" and "Net stable funding ratio" in order to fairly reflect the operational, legal and economic characteristics of both the custodian banks' activity and the investment funds.

2. Liquidity Coverage Ratio: run-off factor of 100% applied to investment funds for the calculation of the cash outflows

2.1 Introduction

Investment funds provide usually funding to their custodian bank via their cash account and deposits.

The run-off factor of 100% that is supposed to be applied to this funding (see § 55) appears excessive because:

1. The Basel Committee proposal fails to demonstrate the articulation between the underlying assumptions (a combined idiosyncratic and market-wide shock) and their outcome (the 100% run-off factor)

2. The strong operational relationship existing between the investment funds and their custodian banks is not taken into account

3. It is not consistent with the lessons learned from the crisis that are corroborated by quantitative observations

2.2 Assumptions underlying the 100% run-off factor

The idiosyncratic shock resulting from a three-notch downgrade is questionable if considered as an absolute value without any reference to the current rating of the institution. The impact of the downgrade on a custodian bank's reputation will be different if its current rating is AAA or BBB: this shock should therefore be appreciated in a more relative and granular manner.

We believe that the contagion from specific risk (three-notch downgrade) to market-wide shock should be subject to a more detailed impact analysis. Clearly, all institutions do not bear the same level of systemic risk and it is unlikely that idiosyncratic, default-type event at the scale of an

institution systematically materialize into market shocks. We would thus advocate to analyse beforehand what is the extent to which the institution would contribute to systemic risk, for instance by means of analyzing the network of immediate dependences (in terms of funding risk, counterparty risk…) to this institution.

We agree that collateral quality of the assets should be taken into consideration as well, provided haircuts are adjusted to reflect increasing volatility and higher liquidity risk. We recognise that assets will definitely not be tradable at optimal level, but depending on their nature, some potential for recovery might be computed, even in very illiquid situations. This is particularly true for the assets comprised in the eligibility portfolio.

Concerning a market wide-shock, applying a 100% run-off factor would mean that all shareholders of an investment fund would redeem their shares simultaneously, leaving the investment fund short of liquidity. Such an assumption is not realistic and is not observed during the crisis.

2.3 Operational Relationship between the Investment Fund and its Custodian Bank

In § 51 the Basel Committee recognises the benefits of the operational relationship between a bank and its non-financial corporate customers by allocating a 25% run-off factor to the specific amount of deposits utilised for these operational functions. § 52 enumerates examples of cash management services that are part, amongst other types of services, of the operational relationship.

In a similar manner, investment funds maintain with their custodian banks a very robust operational relationship. Custodian banks indeed offer to investment funds a wide range of services in the framework of a global custody contract, mainly:

- Cash management
- Management of the currency risk
- Management of securities transactions: control of settlement and delivery of the securities
- Security lending or borrowing
- Management of security income (dividends on equity or interest coupons on bonds), including tax aspects
- Providing real time market information (on security prices for example)
- Providing real time access to transactions and positions
- Reporting
- Selection and control procedures for sub-custodians
- Granting of credit lines to the investment fund
- Pre-financing the transactions entered into by the investment fund

The relationship between investment funds and their custodian bank is a true partnership, which cannot be terminated within a short timeframe because:

- A custodian bank is legally mandatory and the investment funds need to have another global custody contract in place before cancelling an existing contract.

- A global custody contract is a long and complex document with many key clauses that require lengthy negotiations (such as pledge clauses, netting clauses, settlement conditions, etc.). Usually external lawyers are involved to participate to the negotiations.

- The migration of assets from the current custodian bank to a new one requires at least six months and represents a significant cost for the investment fund as well as unnecessary operational risk.

- The “pledge clauses” of the global custody contract enable the custodian bank to pre-finance transactions and ease the proper settlement of the transactions.

- The assets of the investment fund (including cash) cannot be deposited by the asset manager to any third party without prior approval of its custodian bank. The custodian bank is responsible towards the investment fund's investors that those assets are well safeguarded and not at risk (according to the legal obligation of the custodian bank towards investors and banking regulators).

- According to the investment fund’s prospectus, the asset manager is legally obliged to maintain minimum levels of cash, which is monitored by the custodian bank.

The operational link between an investment fund and its custodian bank proves thus to be, as a minimum, as robust as the operational link with a non-financial corporate customer.

Such an operational link is a strong incentive for investment funds to maintain a stable relationship with their custodian bank. This is particularly true in times of stress because the operational experience gained by both parties facilitates a prompt reaction to adverse events and the proper and timely execution of the investment funds’ transactions.

2.4 Experience of the past crisis

Regulation contributes to the stability of the investment funds’ funding patterns

Investment funds are generally highly regulated and are compelled to invest in high quality and liquid assets.

For example, in the EU context, the majority of investment funds take the form of Undertakings for Collective Investment in Transferable Securities (UCITS). UCITS are highly regulated and liquid investment funds, which meet the criteria laid down by EU Directives in this area. UCITS are subject to a mandatory diversification whereby no position held in portfolio can exceed 10% of the total assets.

These characteristics contribute to the liquidity of the UCITS and facilitate, in times of stress, the reimbursements to the shareholders who redeem their shares without drying up the buffer of cash held by the UCITS. During the crisis, we observed an extreme situation where some money market UCITS faced significant shareholders’ redemptions. This was due to an arbitrage made by the funds’ shareholders in favour of banking deposits benefiting from an extended public guarantee granted by some EU governments. In a first stage, the amount of cash held at the custodian banks decreased temporarily but it was promptly reconstituted after the sale of the corresponding proportion of assets.

The rationale could be extended to other regulated investment funds that are similar to UCITS with regard to their investment restrictions and redemption rules, for example to nationally regulated investment funds offered only to institutional investors.

The asset managers’ investment strategy in times of stress increased the level of cash held by investment funds

The asset managers are committed towards investors to manage adequately the liquidity risk of the investment fund (the figures we could see during the crisis demonstrated that asset managers increased the levels of cash to anticipate important redemptions).

In a market crisis, asset managers adopt a more defensive investment strategy and tend to increase the proportion of cash in the investment funds' portfolios: more cash in the portfolios indeed reduces the exposure to market risk. This leads to liquidity inflows at the custodian banks.

The funding base of the custodian banks is well diversified

Market practice shows that custodian banks benefit from a well-diversified customer base, mainly composed of two categories of investment funds

- The investment funds sponsored by a banking group, for which the banking group is sponsor, depositary bank and asset manager

- The other investment funds, sponsored by third-party financial institutions

The custodian banks' funding risk is hence split among a large number of investment funds and sponsors. It is therefore highly improbable that all the investment funds (and their sponsors) decide simultaneously to terminate their contractual relationship with the custodian banks. Should they however decide so, it would take a long time to terminate the custody contract, well above the 30 days period prescribed by the LCR.

Moreover, the volatility of the funding received from the groups' investment funds proves to be low due to the groups' decision to maintain the majority of the liquidity within the group. This is especially true in times of crisis where it becomes crucial for the group to maintain fast and safe access to liquidity.

2.5 Observed run-off factors

Methodology

We consider of primarily importance to deepen our analysis by observing the stability of the one-month funding deposited at the custodian banks.

For that purpose, we have aggregated the monthly balances of the (up to one-month) funding received by a sample of 8 significant custodian banks active on the Luxembourg marketplace. The observation period covers December 31st, 2006 to December 31st, 2009, i.e. 3 years. The category of investment funds observed consists mainly of UCITS.
The funding monthly balances are expressed on a 100 basis, i.e. the starting figure 100 represents the aggregated balance at December 31st, 2006.

Evolution of the monthly balances of the funding received by custodian banks

Graph 1 attached shows the evolution of the monthly balances, which start increasing in May 2007 when the first signs of the crisis materialized: first articles and discussions on potential problems linked to subprime started to emerge in the newspapers and the market. We can see a clear and rapid trend beginning Q1 2008 with steep cash inflows that were accelerated by the Bear Stearns problems and the subsequent takeover in May 2008 of the latter.

The balances then increased rapidly and reached a peak of 209 at the heart of the crisis in September-October 2008. Balances decreased afterwards. It is worth highlighting that the balance at December 31st, 2009, is stabilized at a high level (161) compared to the starting point

of 100 (+ 61%). The observation proofs that the asset managers increase the cash positions of the investment funds in times of stress.

Monthly variations of the funding received by custodian banks

Graph 2 attached indicates the monthly variations of the funding, providing therefore a reliable evidence of the run-off factors over the period.

The monthly variations are comprised in a range varying from **+ 20%** to **– 12% and the average monthly variation is +1,6%.**

The first worst negative variation observed during the crisis **(- 6% in July 2008)** comes from the significant redemptions on money market UCITS, which we explain in § 2.4.
After Lehman collapse (September 2008), investors redeem their shares resulting in cash outflows at custodian banks, leading to the negative peaks of **-9%** (November 2008) and of **-12%** (January 2009).

From March 2009, stock markets turn positive again. Asset managers then buy stocks to be in the uptrend. Cash holdings at custodian banks obviously go down as cash cushion of investment funds decrease.

When stock markets are positive, cash at custodian banks decrease because asset managers fully invest. When stock markets turn negative, the cash at custodian banks increase because of asset managers anticipating redemptions. This mechanism is countercyclical and works in favour of custodian banks' liquidity position. Custodian banks usually monitor stock markets closely as an indicator on future cash inflows or outflows.

We can conclude that the observations corroborate the qualitative arguments discussed previously explaining why the funding received from investment funds is significantly more stable than advocated by the Basel Committee proposal.

2.6 Conclusion

In order to fairly reflect the operational, legal and economic reality of the Custodian banks activity, **we call for a maximum 25% run-off factor** to be applied to the part of the (up to one month) funding **related to the operational relationship** between the investment funds at their custodian banks. This part of operational-linked funding is **material** as it represents, based on our observations, **70% to 95%** of the total (up to one month) funding provided by the investment funds to their custodian banks.

The **residual funding** is not linked to the operational relationship and results from investment decisions taken by the investment funds' asset managers: we agree that it is, by nature, less stable. However, **as a matter of reflexion**, we draw the Basel Committee's attention on the negative consequences, for the whole financial industry, of applying to such funding an overly conservative 100% run-off factor. Indeed, this residual funding is likely to be transferred from the banking sector to less regulated sectors, hence increasing the risk for the final investors (i.e. the investment funds).

3. Net Stable Funding Ratio: investment funds as an available stable funding category

The operational-linked (up to one month) funding provided by investment funds to custodian banks proves to be stable in the framework of the Liquidity Coverage Ratio, as we have demonstrated in section 2.

The rationale can be transposed to the NSFR framework and we think that the operational-linked funding fulfils the conditions of Available Stable Funding defined in § 82 as: *" that portion of stable funding non-maturity deposits and/or term deposits with maturities of less than one year that would be expected to stay with the institution for an extended period in an idiosyncratic stress event."*

Due to the operational link described in section 2.3, investment funds maintain with their custodian banks a stable relationship that is of a corporate nature. This stability over a one-year horizon and in times of stress is confirmed by the yearly variations of the funding, which we derive from graph 1 attached, i.e.:

- **+ 41%**: December 2007 vs. December 2006
- **+ 48%**: December 2008 vs. December 2007
- **- 23%**: December 2009 vs. December 2008

These characteristics should be recognised by the NSFR. Therefore, we propose to allocate, similarly to non-financial corporate customers, a conservative **50% Available Stable Funding Factor** to the part of the (up to one month) funding **related to the operational relationship** between the investment funds at their custodian banks.

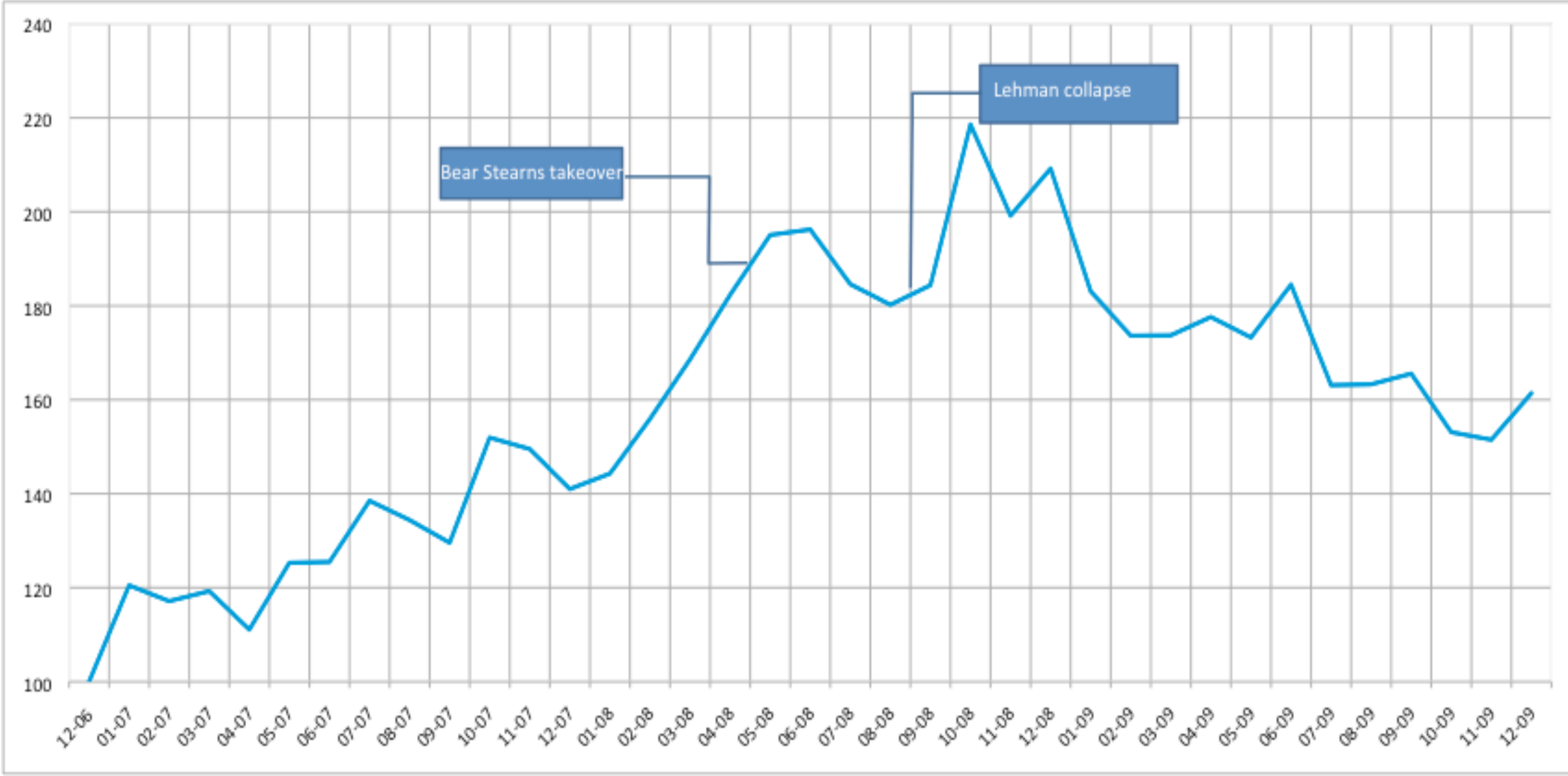
4. Net Stable Funding Ratio: investment funds as additional asset categories

We welcome that money market mutual funds are included in the category "All short-term unsecured instruments and transactions with outstanding maturities of less than one year", being assigned a Required Stable Funding Factor of 0%.

In order to be consistent, the investment funds investing in the other asset categories should also be recognised. For example, investment funds investing in sovereign debt rated AA or higher and assigned a 0% risk-weight under the Basel II standardised approach should be added to the list of the Asset Categories with the corresponding Required Stable Funding factor, i.e. 5%.

In the current proposal investment funds (other than money market mutual funds) are indeed unduly discriminated because they belong by default to the category "All other assets", which is granted a Required Stable Funding Factor of 100%.

Graph 1: Evolution of monthly balances of the funding received by custodian banks



Graph 2: Monthly variations of the funding received by custodian banks