World Council of Credit Unions, Inc.

April 16, 2010

Mr. Nout Wellink
Chairman
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel, Switzerland

**Re: Consultative document on *International Framework for Liquidity Risk Measurement, Standards and Monitoring***

Dear Chairman Wellink:

World Council of Credit Unions (WOCCU) is the leading trade association and development organization for the international credit union and financial cooperative movement. WOCCU represents more than 54,000 cooperatively-owned, not-for-profit credit unions in 97 countries with assets of US$1.2 trillion in the retail financial services market. Globally, all types of financial cooperatives by various names (i.e. credit unions, rural credit cooperatives, cooperative banks, savings and credit cooperatives) serve an estimated 857 million people.

Throughout the global financial crisis, not a single credit union received government recapitalization, to the best of our knowledge. When credit unions did incur losses related to broad economic problems, those losses were covered by other credit unions in their country and did not burden local governments or their citizens with bailout demands.

We understand that the proposed framework for liquidity standards is aimed towards internationally active banking organizations. Credit unions which operate on a local basis do not fall within this scope. However, Chapter IV of the consultative document suggests that these standards also will be applied to domestic institutions to level the playing field. In addition, the practical experience from Basel I and Basel II suggests that in order to ensure that countries are seen as having sound financial systems (by analysts and in financial sector assessment programs), regulators will apply the standards in a uniform fashion across all financial institutions unless provided with clear alternatives. In light of this situation, please accept our comments on the consultative document on *International Framework for Liquidity Risk Measurement, Standards and Monitoring*.

## General Comments

Our most significant concern is that the standards do not recognize the need for proportional application of the requirements even though the crisis has demonstrated that smaller community-based financial institutions are oftentimes *safer* and present less risk than larger, more complex banks. This is the exact opposite of the bias witnessed in Basel II's weightings, which is more favorable to larger institutions using advanced risk-weighting approaches.

For example, the consultative document on liquidity monitoring recommends that financial institutions report their liquidity ratios on at least a bi-weekly basis to supervisors and run stress tests as frequently as daily. Neither of these requirements recognizes the practical realities for smaller

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community-based financial institutions and credit unions. We urge the Committee to include a simplified standard that could be utilized by domestically active institutions should the standards be applied broadly.

**Specific Comments**

***Methodology of establishing the short-term liquidity ratio***

The Basel Committee proposes a liquidity coverage ratio for banking organizations to provide for net cash outflows over a 30-day period under an acute stress scenario.

Assessing liquidity stress over a rolling 30-day period will be difficult for many credit unions as their systems and capacity are stretched. In fact, WOCCU has never heard credit unions discuss their 30-day funding needs; credit unions instead consider broader asset liquidity measures in relation to total deposits. WOCCU's standards require credit unions to have 15%-20% liquid assets to total deposits. This methodology is simple and easy to follow, even for the smallest institutions.

***Central bank reserves as high quality liquid assets***

The consultative document states that the short-term liquidity ratio shall be composed of high-quality liquid assets that include cash and central bank reserves, among others. In discussions with a representative of the Basel Committee, we understand that the deposits credit unions hold in other credit unions, banks or their second-tier wholesale institutions may not be counted as liquid assets. Given that these funds are generally short-term fixed or demand deposits, we assume this was a misunderstanding and not the intent of the Committee. This discrepancy should be clarified in the final document.

We strongly recommend that central banks provide liquidity access to all financial institutions that mobilize deposits in their countries. Unfortunately, access to central bank liquidity, maintenance of reserve accounts at a central bank and direct access to national clearing and settlement systems are still not guaranteed for credit unions in most countries. In fact, a 2008 WOCCU survey of 60 credit union systems around the world found that only 32% had direct access to payment and settlement systems (see attachment A).

We firmly believe that financial systems are strengthened when organizations involved in financial intermediation and retail payments also have access to such facilities. We encourage the Basel Committee to provide clear guidance to central banks recommending that they allow access for all deposit taking institutions to central bank liquidity and payment and settlement systems. This will provide significant support and much needed access to liquidity facilities for credit unions.

***Long-term liquidity ratio***

Unlike other parts of the financial sector, the majority of credit union systems around the world manage part or most of their liquidity on a joint basis through the operation of second-tier wholesale credit unions. These wholesale credit unions serve primarily small and mid-sized credit unions with payment and liquidity investment services that otherwise would be difficult for small financial institutions to obtain. As owners of the wholesale credit unions, the primary credit unions hold both deposits and ownership share accounts with these organizations. These membership shares and deposits should qualify as available stable funding as they are non-maturing deposits, expected to stay with the institution and are used for clearing balances.

In addition, the proposal assumes a level of depositor choice and movement that is not prevalent in communities with few options due to geographical or economic reasons. The 2008 WOCCU survey of credit union activities also showed that only 48% of all credit union systems around the globe have deposit insurance systems in place (see attachment B). In some countries this is because credit unions are not granted access to the bank deposit insurance system, may operate their own stabilization fund, and/or the countries themselves do not have deposit insurance for any financial institutions. The consultative document indicates that the presence of deposit insurance does not categorically make deposits "stable". Likewise, the absence of coverage does not necessarily make deposits less stable, justifying a higher run-off factor. As such, we recommend this differentiation in weightings be eliminated.

In conclusion, although on the surface deposits and ownership shares for individuals in a specific community may seem to concentrate liquidity risk, we have found instead that small deposits from many individuals are a very stable source of funding for credit unions. We hope that this and other realities of financial access for rural and low-wealth individuals are recognized in the Committee's final standard.

Thank you for considering our comments. Please feel free to contact me at +1 608 395-2087 or via email at dgrace@woccu.org if you have any questions.

Sincerely,

Dave Grace
Vice President

**Attachment A**

**Survey Results: Do credit unions have direct access to payment and settlement systems?**

Total responses: 60

YES: 19 countries (32%); NO: 41 (68%) countries

| YES | NO | NO |
|---|---|---|
| Australia | Azerbaijan | Lesotho |
| Bahamas | Barbados | Macedonia |
| Brazil | Belize | Moldova |
| Canada | Bolivia | New Zealand |
| Colombia | Cameroon | Nicaragua |
| Costa Rica | Cayman Islands | Panama |
| Ecuador | Chile | Peru |
| Gambia | Dominica | Romania |
| Great Britain | Dominican Republic | Russia |
| Honduras | El Salvador | South Africa |
| India | Estonia | Sri Lanka |
| Kenya | Ghana | St. Vincent |
| Lithuania | Grenada | St. Kitts |
| Paraguay | Guatemala | Taiwan |
| Philippines | Guyana | Tanzania |
| Poland | Hong Kong | Thailand |
| Seychelles | Indonesia | Trinidad & |
| Tonga | Ireland | Tobago |
| USA | Jamaica | Uganda |
| | Latvia | Ukraine |
| | | Uzbekistan |
| | | Zimbabwe |

Source: WOCCU Survey 2008

**Attachment B**

Survey results: *Do credit unions in your country have deposit insurance on par with banks?*

Total responses: 60 (100%) countries
YES: 29 countries (48%); NO: 31 countries (52%)

| YES | NO |
|---|---|
| Australia | Azerbaijan |
| Belize * | Bahamas |
| Bolivia * | Barbados |
| Cameroon * | Brazil |
| Canada | Chile |
| Cayman Islands * | Dominican Republic |
| Colombia | Estonia |
| Costa Rica * | Guatemala |
| Dominica * | Honduras |
| Ecuador | Hong Kong |
| El Salvador | India |
| Gambia * | Indonesia |
| Ghana * | Jamaica (private) |
| Grenada * | Kenya |
| Guyana * | Macedonia |
| Ireland | Moldova |
| Latvia | Nicaragua |
| Lesotho * | Paraguay |
| Lithuania | Peru |
| New Zealand | Philippines |
| Panama * | Poland (private) |
| Seychelles * | Romania |
| South Africa * | Russia |
| St. Kitts & Nevis | Sri Lanka (private) |
| St. Vincent & Grenadines * | Taiwan |
| Tonga * | Tanzania |
| United Kingdom | Thailand |
| USA | Uganda |
| Zimbabwe | Ukraine (private) |
| | Uruguay |
| | Uzbekistan |

* No deposit insurance system exists in this country, therefore banks and credit unions are on par.

***Source: WOCCU Survey 2008***