



CEBS's

Consultation Paper on Liquidity Buffers

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CEBS

Committee of European
Banking Supervisors

Outline

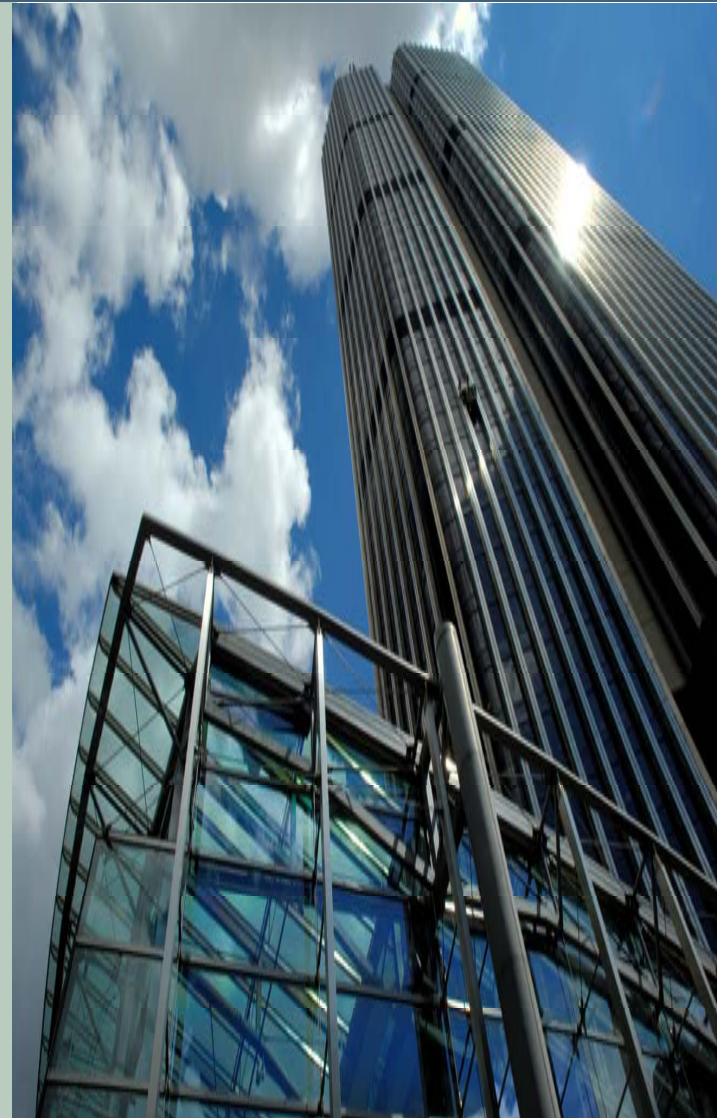
- 1. General introduction**
- 2. CEBS's proposal on liquidity buffers**
- 3. Q&A**

General introduction

- The Composition of CEBS
- The Role of CEBS
- CEBS' Task Force on Liquidity Risk Management
- The CEBS Philosophy on Liquidity Buffers

The Composition of CEBS

- Established in Nov 2003; first meeting in Jan 2004;
- High level representatives from the banking supervisory authorities and central banks of the EU;
- 27 Member States, 3 observers from EEA countries, the EU Commission, the ECB and the Banking Supervision Committee of ESCB;
- Chair : Kerstin af Jochnick (Finansinspektionen);
- Secretary General : Arnoud Vossen (DNB).



The Role of CEBS

Objectives:

Promote efficient and effective supervision and the safety and soundness of the EU financial system through:

- Good supervisory practices;
- Level playing field and proportionality;
- Efficient and cost-effective approaches to supervision of cross-border groups.

 *Emphasis put on Colleges as of 2004*

Main tasks:

- Give advice to the Commission
e.g. Technical Advice on Liquidity Risk Management - 18 Sept. 2008
- Promote consistent implementation/application of the EU legislation;
- Enhance convergence of supervisory practices;
- Exchange information and enhance supervisory cooperation;
- Regular risk assessment.

CEBS' Task Force on Liquidity Risk Management



- 25 members from 19 countries;
 - reporting to the *Groupe de Contact* (Chair: Jukka Vesala) and then CEBS;
 - 18 meetings since 15 March 2007;
 - Chaired by Dominique Laboureix (Commission Bancaire).
- A bottom-up approach focusing on the specificities of the European market, building on an advanced dialogue with CEBS' Industry Expert group on Liquidity (IEGL); and
 - Takes into account other global initiatives (BSC, BCBS, Joint Forum,...).

The CEBS Philosophy for Liquidity Buffers

- **Fostering harmonization across jurisdictions;**
- **Conserving flexibility through a “Pillar 2”- type approach;**
- **6 principles-based guidelines expanding on recommendation 16;**
- **Consultation Paper to be issued this month;**
- **Considering economic impact of guidelines.**

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CEBS' Proposal on Liquidity Buffers

Core principles

- *Core activities should be funded by core funding sources.*
- *The liquidity of an asset may vary depending on the time horizon considered .*
- *Buffers are only the short end of the overall counterbalancing capacity under a “planned stressed” view.*
- *The buffer is meant to be used when needed, but there should be an internal policy dedicated to how to trigger its use and who should be informed, as well as a plan to build it up again.*
- *Buffers should be designed by currency and local entity where appropriate.*

Choice of a rather simple supervisory approach

- *To facilitate implementation & communication with stakeholders.*
- *A bespoke approach while a series of factors will be spelled out.*
- *To be supplemented by banks where appropriate.*

The liquidity buffer is dependent on 3 dimensions

1) Severity & characteristics of the stress scenarios

- *An idiosyncratic stress (e.g. a multi-notch downgrade, no roll-over of unsecured wholesale funding, severe retail outflows...),*
- *A market specific stress (e.g. unavailability of several markets, decline in liquidity value of some assets, deterioration in funding market conditions...), and*
- *A combination of both.*
- *CEBS will further refine common assumptions, while leaving the details of calibration to a dialogue between supervisors and banks.*
- *The related stress scenarios should be consistent and integrated logically with other stress tests in place at an institution.*

The liquidity buffer is dependent on 3 dimensions

2) The time horizons to be considered - survival period

- *A two-tiered survival period of at least one week and at least one month.*
- *The tiers drive the composition of the buffer, not its total size.*
- *Buffer to be funded over the complete period on a rolling scale.*
- *Surviving means surviving each day as the cumulative flows build up.*
- *Need for proper action plans to regularize the situation in the event the buffer falls below its minimum.*

The liquidity buffer is dependent on 3 dimensions

3) Composition of the buffer

- *Cash and a core of assets that are both central bank eligible and highly liquid in private markets.*
- *The longer end of the buffer might allow a wider set of liquid or central bank eligible assets, subject to the bank proving the ability to generate liquidity under stress from these in the given period of time.*
- *Need to manage the stock of liquid assets to ensure their availability in times of stress.*
- *Should adequately reflect the structure and activities of the group.*

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