

The image shows two overlapping rectangular boxes. The top box is blue and contains the text 'AF' in white. The bottom box is grey and contains the text 'GAP' in white.

AF

GAP

The logo for ALMA (Asset and Liability Management Association) features the word 'ALMA' in large, bold, white capital letters on a blue rectangular background. Below this, the full name 'Asset and Liability Management Association' is written in a smaller, white, sans-serif font on a dark blue background.

ALMA

Asset and Liability Management Association

# IIF and EBF Recommendations

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ALMA & AFGAP joint conference

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# Working groups on liquidity risk management



- Worldwide

Institute  
International  
Finance



Basle Committee

- Europe



European Banks  
Federation



CEBS

- Country



AFGAP / ALMA



FSA  
Commission Bancaire  
Other national regulators



French Banks Federation  
British Bankers' Association  
National Banks Federation



# Two Recent Industry Papers

- Institute of International Finance (IIF)
  - *“Principles of Liquidity Risk Management”* (March 2007)
    - Shared with Basel Committee Working Group on liquidity
    - Shared with ECB Working Group on liquidity
    - Public released
- European Banking Federation (EBF)
  - *“Supervision of Banks’ Liquidity Management”* (January 2007)
    - Presentation to European Banking Committee (27 March 2007)
    - Presentation to the ECB Banking Supervision Committee (19 April 2007)
- 44 “Comply or explain” recommendations for the banking industry
- Policy recommendations for supervisory & central bank approach to liquidity risk
- Both papers from perspective of international banking groups operating across EU and globally

# IIF Recommendations for the Banking Industry



- Effective governance and organizational structure for managing funding risk are critical (*recommendations 1 to 13*)
  - Strong, clear and widely internally disclosed internal governance, control and limit framework
  - Strong involvement of the Executive management and integration of funding issues to the Enterprise Risk Management, business development and strategic decision making
  - Public disclosure focused on supporting understanding of the risk-management and governance approaches of each firm, not mandated metrics

# IIF Recommendations for the Banking Industry

- Resolute investments in analytical approaches for measuring, monitoring and controlling liquidity must be made (*recommendations 14 to 30*)
  - Continued enhancement of analytical tools for estimating funding needs and capacity
- Substantial attention must be paid to Stress Testing and Contingency Planning (*recommendations 31 to 44*)
  - Stress scenarios and contingency plans must be firstly conceived to identify potential liquidity gaps, weaknesses and survival strategies



# Do Banks meet the IIF requirements ?

FRANCE



- French banks

- They comply with 95 % recommendations....that's a good result !!!!
  - They do not ‘fully’ comply with a few recommendations such as
    - “liquid” assets assessing based on a demonstrated ability to obtain liquidity (programs for sale, securitization or secured borrowings...) and not accountancy classification
    - testing the contingency plan and crisis plan
- ⇒ AFGAP next workshops

UNITED KINGDOM



- UK banks

- They comply with 90 %- 95 % recommendations....FSA's Systems and Controls Requirements are very much in line with IIF proposals
- They do not ‘fully’ comply with a few recommendations such as
  - some detailed issues around treatment of complex instruments
  - debate about appropriate levels of overlays
  - concern about using results in pricing

# IIF Considerations for the “Official Sector”

- Principles-based approach

- Flexibility for banks/groups to use internal “models” tailored to business characteristics and risk profile
- Not “one size fits all” prescription of quantitative metrics
- Stress testing and contingency planning a key requirement

- Consistent framework

- Remove barriers to cross-border flow of liquidity : Avoid trapped pools of liquidity
- Reduces systemic risk
- Requires :
  - home/host co-operation
  - consistency between intra-group Large Exposure and Liquidity regulation
  - central banks co-operation on collateral eligibility and transferability



# IIF Considerations for the “Official Sector”

- Greater and more uniform clarity on the central banks’ role as lenders of last resort would also help building realistic contingency plans
  - Review of the trade-off between “constructive ambiguity” and ability to build firm and system-wide contingent plans
- Capital is not the solution to liquidity risk
  - Recognise fundamental difference between models of potential loss versus “cashflow within timeband” focus of liquidity risk models

# EBF Considerations for CEBS



- There is an Opportunity for the EU
    - To set an example on home/host co-operation and harmonisation
    - To support shared objective of single EU market for financial services
  - European Commission : Call for technical advice to CEBS on Liquidity Risk Management (March 2007), in coordination with Basel Committee
    - July 2007: update of the stocktaking exercise on 27 regulatory frameworks
    - January 2008: deepen looking at issues such as collateral, liquidity market risk, settlement systems and the use of internal methodologies by sophisticated banks
- => National regulators should refrain from issuing new liquidity rules until a common understanding & approach has been achieved

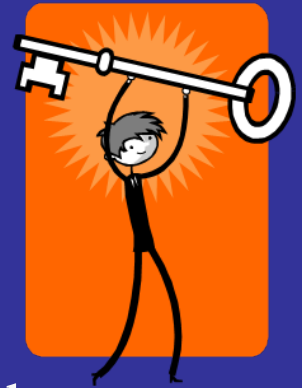
# EBF Considerations for CEBS

- EBF Liquidity Working group is asked to provide technical explanations to CEBS on the 4 following topics :
  1. Explain what “internal model” means in liquidity context
    - Establish contractual/normal/stress procedures
    - What historical data is required and how much
    - What does the “model” do?
  2. Input on stress testing & contingency planning
  3. Proposals for “simple” regulatory framework for smaller/less sophisticated banks
    - Do smaller organizations agree with EBF/IIF? For example, do they want prescriptive solutions?
  4. Proposals for home v. host and central bank roles

# Issues and outlooks for ALMA and AFGAP

- To convince National Regulators and Supervisors to follow the trend led by the German Regulator
- To contribute to define the possible regulatory and supervision harmonization in the European area within the EURO zone and between Euro in and Euro out countries
- To represent Small Banks in our respective countries
- To be coordinated with the other working groups

# Future events on liquidity



1. June, 29 Roundtable with IIF Banks members and the Official Sector
2. As soon as possible, EBF will provide to CEBS technical help
3. July 12, British Bankers' Association Annual Liquidity Risk Seminar
  - Dialogue goes on.
  - It is an opportunity for banks to “educate” regulators on liquidity matters

# Who we deal with ? (1/2)



- APRA : Australian regulator
- BaFin: Bundesanstalt für Finanzdienstleistungsaufsicht (Germany)
- BCBS : Basel Committee on Banking Supervision
- ECB : European Central Bank
- BFSR : Bank Financial Strength Ratings (Moody's)
- EBF: European Banks Federation
- EC : European Commission
- ECB : European Central Bank
- EU : European Union
- CEBS : Committee of European Banking Supervisors
- CRBF : Comité de Réglementation Bancaire Française
- ELA: Emergency Liquidity Assistance granted by Central Banks
- EFB : European Banks Federation
- FDIC: Federal Deposit Insurance Corporation (US)
- FED : Federal Reserve Bank (US)
- FSA : Financial Services Authority (GB)

# Who we deal with ? (2/2)



- GDC: Group de Contact
- HKMA : Hong Kong regulator
- Home supervisor : Parent company supervisor
- Host supervisor : Branch or Subsidiary supervisor
- IAIS : International Association of Insurance Supervisors
- IIF : Institute of International Finance
- IOSCO: International Organisation of Securities Commission
- Joint Forum : Group composed of the BCBS, IOSCO and IAIS
- LLR: Lender of Last Resort; facility granted by Central Banks
- MAS : Singapour regulator
- OCC: Office of the Controller of the Currency (US)
- Official Sector : Regulators + Supervisors + Central Banks
- OTS: Office of Thrift Supervision (US)
- SGCB: Secrétariat Général de la Commission Bancaire (France)