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European Banking Authority
Via email: EBA-DP-2013-01@eba.europa.eu

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Subject: NVB response to EBA DP on Defining Liquid Assets in the LCR under the draft CRR

Dear Sir, Madam,

On behalf of the Dutch Banking Association[1] (NVB), I would like to thank you for giving us the opportunity to react to Discussion Paper 01 on Defining Liquid Assets in the LCR under the draft CRR. The liquid asset definition is important for several reasons. First and foremost, the assets in the buffer will help banks weather a period of idiosyncratic stress, making them more resilient. A well diversified buffer will further enhance the framework, as it will make sure there is no over-reliance on a particular asset class. The main points with regards to this discussion paper are:

a. Curbing complexity
b. How to ensure the level playing field
c. The impact of the financial transaction tax

Ad a: curbing complexity
By nature, liquidity is intangible, hard to predict and hard to quantify. The approach suggested by EBA is very quantitative and implies a level of confidence that might not be achievable in practice, i.e. there is a risk of over fitting the approach to the sample used. We therefore advocate adding qualitative indicators as well. Next to this, ordinal scales only provide information about characteristics on a relative scale. It is therefore not clear which assets are to be regarded as liquid and which ones as illiquid.

Ad b: how to ensure the level playing field
In the previous point, it was stated that creating a cut-off in the ordinal ranking (and in the process specifying the distinction between assets that are liquid and those that are not) is a challenge. Liquidity characteristics might vary across time, and institutions could come to different conclusions regarding the liquidity (and buffer eligibility) of assets. Against this backdrop, we recommend the creation of a centralised European database. This database should contain a list of security identifiers (such as the ISIN code), the (in-) eligibility of the asset, and the level of the buffer it belongs to. The creation of a centralised database is in our view the only way to ensure a level playing field, keep the operational requirements for banks to a minimum and to ensure a consistent

[1] The Dutch Banking Association (NVB) is the representative voice of the Dutch banking community with over 90 member firms, large and small, domestic and international, carrying out business in the Dutch market and overseas. The NVB strives towards a strong, healthy and internationally competitive banking industry in the Netherlands, whilst working towards wider single market aims in Europe.

implementation across Member States and institutions. The EBA is in the best position to take on this role. It also allows for a periodic update of the liquid asset definition.

In case the EBA decides not to create a central database, a ‘decision matrix’ that is based on asset characteristics should be set up. In all cases, a periodic review of actual market liquidity will be required, and this process is potentially cumbersome. New issues of securities will have a disadvantage when it comes to the quantitative indicators, as it will not be possible to measure them beforehand, underscoring the importance of adding qualitative dimensions.

Ad c: the impact of the financial transaction tax
The introduction of the financial transaction tax (FTT) will increase barriers for trading, reducing market liquidity of assets across the board. EBA should take this effect into account, as the FTT should not decrease the scope of the liquid asset buffer. A forward looking approach is therefore required.

This concludes the main remarks. Please refer to the annex, for the reponses to the various questions. Should you have any questions or remarks, please feel free to contact me at your convenience.

Kind regards,

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Annex – Answers to the questions

Question 1:
Given the difficulties with obtaining transactional data outlined here, do you think a data sample cover 2008-2012 is sufficient for this analysis? Would you see merit in extending the sample in those countries where more data is available?

A: In first instance, the data sample covers the period from 2008 to 2012, which seems conservative, as this is a period of market stress. However, market liquidity is difficult to forecast on the basis of historical evidence. The current market situation seems to be the best indicator for market liquidity, although one could argue if the next period of market stress will result from the same issues (i.e. a sovereign debt issue). As future crises are hard to project, the current period should serve as an inspiration, to be expanded with other scenarios where possible and relevant. This is especially true in the light of current regulatory developments, such as Basel III and the EU's FTT proposal. We see no merit in extending the sample to a longer period, since this will cause more difficulties, such as breaks because of market disruptions and new regulation.

Question 2:
Do you have additional data sources to suggest? Specifically, can you suggest a source of repo data and gold that would fit our needs?

A: For repo data the following platforms might be good data sources:
-Astec (SunGard)
-Equilend.
-The Eurex platform

The ICMA European Repo Council bi-annual survey of the repo market might also provide useful data.

Question 3:
Do you agree with the list of liquidity metrics under consideration to be used in the EBA assessment, as mentioned in this section and Annex 5? Can you suggest further metrics the EBA should make use of, where information would be available?

A: The list of liquidity metrics seems quite comprehensive. We do not have further suggestions at this point.

Question 4:
Do you agree with the list of explanatory characteristics whose linkage to liquidity it is proposed to be tested in the EBA assessment? Can you suggest further characteristics the EBA should assess?

A: The list of explanatory characteristics is broad, and we have no further suggestions at this point. However, we expect the list is to be complemented with institution specific aspects, such as share that the institution owns in relation to the total outstanding amount in the market or the share that the institution owns in relation to the total liquidity buffer of the institution (concentration).

Question 5:
Do you agree with the methodology proposed? Do you have alternative approaches that might be used?

A: The backward looking methodology should be complemented with a forward looking methodology, which takes qualitative aspects into account, such as future regulatory developments. In fact the qualitative aspects should receive more weight than the quantitative aspects, since recent history proved that market circumstances can change rapidly. As regulatory developments have a significant impact on the market, history becomes less relevant. The list of asset categories to be investigated should include instruments issued by PSEs as a separate category.