CEBS Committee *of* European Banking Supervisors

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CEBS's technical advice on liquidity risk management (second part)

18 September 2008

Committee of European Banking Supervisors (CEBS) is publishing today the second part of its advice on liquidity risk management, including 30 recommendations on liquidity risk management and supervision.

This advice, which has been sent today to the European Commission, has been prepared in response to the Commission's Call for Technical Advice No. 8. The first part of CEBS's advice was published in August 2007. In elaborating its views, CEBS has benefited from input provided in regular meetings with experts representing a broad range of market participants (Industry Experts Group_Liquidity), in ad hoc meetings with banking associations and rating agencies, as well as in the public hearing held on 4 July 2008 and in the industry's responses to the public consultation on CP19 which were published on CEBS's website in August 2008.

CEBS's 30 recommendations on liquidity risk management are principles-based and subject to an overarching principle of proportionality. The first 18 recommendations are targeted at credit institutions and investment firms established in the European Union to ensure that adequate liquidity risk management for both normal and stressed times is in place. In particular this should build on diversification of funding sources, appropriate liquidity buffers, robust stress tests and regularly tested contingency funding plans.

The Board of Directors is ultimately responsible for an institution's liquidity risk strategy and risk tolerance, which should be appropriate to the institution's funding profile, its current and prospective activities and the robustness of its risk management, taking into account all liquidity risks, including intra-day and contingent risks, as well as potential constraints on cross-border and intra-group flows. Appropriate responsibilities and incentives, in line with long-term objectives, should be set by senior management.

CEBS's last 12 recommendations target liquidity risk supervision. Supervisors should consider whether their requirements could be supplemented or replaced by internal methodologies developed by institutions, based on a thorough prior supervisory assessment. Enhanced coordination between supervisors should be pursued, notably through active use of colleges or through delegation of tasks.

While preparing this advice, CEBS has liaised closely with other European and global institutions currently reflecting on liquidity risk issues, and particularly with the Basel Committee on Banking Supervision (BCBS), so as to ensure consistency on the key messages.

CEBS encourages dialogue between credit institutions and investment firms and their respective supervisors when implementing its 30 recommendations, especially in the light of possible changes to domestic liquidity regimes.

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Committee of European Banking Supervisors (CEBS) is comprised of high level representatives from the banking supervisory authorities and central banks of the European Union. CEBS main tasks are to advise the Commission in the field of banking activities, to contribute to the consistent implementation of Community Directives and to the convergence of supervisory practices and to enhance supervisory co-operation. The Committee is chaired by Ms Kerstin af Jochnick. The CEBS Secretariat is based in London. The Secretary General of the Committee is Mr. Arnoud Vossen.