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Deputy Director General - Directorate General Operations
Banque de France

Ms. Carolyn Wilkins
Co-Chair - BCBS Working Group on Liquidity
Chief, Financial Stability
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Re: Liquidity Coverage Ratio Disclosure Standards

Dear Sylvie and Carolyn:

The IIF and GFMA[1] are pleased to respond to the Basel Committee's captioned Consultative Document. We note with appreciation that the Committee shares many of the concerns that the private sector has expressed about the specificities and potential risks of liquidity disclosure, which distinguish liquidity disclosure from other types of mandated regulatory disclosures, and has made creative efforts to deal with them. Although some of the comments below disagree with certain of the proposals being made to counter the potential downsides of liquidity disclosures, we want to underscore that we applaud the thinking that has gone into them and hope the Basel Working Group on Liquidity will continue a creative and constructive dialogue with the private sector on this important topic.

The comments below first discuss the general areas of concern, and then turn to the specific issues that have been identified in the consultative document. The following points summarize some of the headline points of this letter.

- The Basel Committee's approach of using average data for public disclosure purposes is appropriate and is in line with the industry's views. However, the requirement to produce averages based on *daily* observations raises significant concerns about feasibility and meaningfulness. While daily data is available and prepared from time to time for supervisory observation and analysis, it is usually not in a form that can be readily reconciled for public disclosure. Such data are unlike monthly data that are aligned with data from regular feeds, diverse branches located in different geographic areas, and reconciled to reportable balance sheet format, which meet the usual requirements for public disclosure. It would be very

[1] GFMA is the Global Financial Markets Association.

challenging and of at best marginal benefit to bring daily data to the standards required for public disclosure. Also, we believe that more experience with producing daily LCR data and understanding the sources for daily variations is needed before basing disclosure on such data. More specifically, we are concerned that daily fluctuations may not be meaningful and cause undue concerns. Of course daily data would continue to be available to regulators on request.

- While the statements on the usability of the buffer in Paragraph 6 are reassuring, it is unclear how disclosures should be treated when a firm's LCR drops below 100% momentarily during the reporting period, especially when a drop below 100% may not be the result of HQLAs' being used, as would likely be the case in most instances.
- National discretion with regard to sub-consolidated level disclosure could lead to confusion and disclosure challenges, particularly if such disclosure is to be reconciled with the group level disclosure and in cases where there are local deviations to the Basel liquidity framework.
- In light of the above and other detailed points explained further below in the *specific comments* section, it would be beneficial to consider a phase-in approach, to allow enough time for supervisors, as well as the industry to get more comfortable with the nature of disclosures and how they may be understood by the public.

General Comments

The general approach taken seems appropriate and we note the stress put on *the Principles for Sound Liquidity Risk Management and Supervision,* which continue to provide important overall guidance for liquidity risk management and disclosure. While the LCR and NSFR naturally attract the greatest attention as they are approaching finalization, the *Sound Principles*, which are generally congruent with industry thinking, remain a fundamental point of reference and ultimately are at least as important as the more prescriptive measures.[2]

We also note the importance of aligning these liquidity disclosure standards when finally articulated by the Basel Committee with the Recommendations of the Enhanced Disclosure Task Force (EDTF), as published by the Financial Stability Board (FSB), [3] while maintaining some element of flexibility for each bank to adapt its disclosure as it best suits its own circumstances. Ultimately, that may imply some adjustment in both directions, but it is important that these two international standards be as aligned as possible. Similarly, the accounting standard setters, both the International Accounting Standards Board and the US Financial Accounting Standards Board, have been working on general approaches to disclosure, including liquidity disclosure recently. It will be important for the Committee to work with the Boards to assure consistency across regulatory and accounting standards for liquidity disclosure, once the Basel standards are finalized. A further test of success will be to assure quantity of disclosure is kept under control, so as not to overwhelm the quality of aggregate disclosure, i.e. so that useful information that is relevant to understanding how banks manage this risk is disclosed.

Part of alignment with other bodies of disclosure requirements (and universal practice) would be to make it clear that disclosures required pursuant to this document would be subject to normal materiality standards. While the Committee may well have intended liquidity disclosures to

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[2] See IIF's *Principles of Liquidity Risk Management*, March 2007; and *Reform in the Financial Services Industry: Strengthening Practices for a More Stable System,* December 2009.

[3] Enhanced Disclosure Task Force, *Enhancing the Risk Disclosure of Banks: Report of the Enhanced Disclosure Task Force,* 29 October, 2012.

be subject to the basic materiality standard, it would be very helpful to say so, to avoid potential doubts and conflicts.[4]

Finally, *paragraph 6* of the Consultative Document is especially important in stressing the usability of a bank's stock of HQLA in appropriate circumstances. The dilemmas between transparency and usability of the LCR are real and require continued attention, as discussed further below. The Committee certainly recognizes these dilemmas and trade-offs, as indicated in *paragraphs 7-9*, but it is worth underscoring the importance of getting the balance right on these points, which will require continued discussion with the industry, and, ultimately, with other stakeholders. While some of the more extreme dangers are avoided by the proposal, the issue remains a live one. Unfortunately, it will not be possible to assess whether a given disclosure approach is harmful or helpful until a real problem arises. Current LCR disclosures in some countries do not remove the question because such disclosures are not highly relevant in normal times but could still become problematic in times of stress.

Specific Comments

Usability of the Buffer (*paragraph 6).* As already stated, preserving the usability of the liquidity buffer is of great importance. Some more detailed observations may be helpful in continuing to work on the balancing required to provide useful disclosures to the market while not creating "undesirable dynamics during stress" as *paragraph 7* says very effectively:

- In many circumstances, it should be sufficient for banks to disclose only "compliance" with the LCR in accordance with the requirements of its supervisor. Such disclosure would presumably allow for occasional dips below 100% under circumstances approved by the supervisor. Such "compliance" disclosures could be stated as a separate requirement from the quantitative disclosures required, but would cover momentary deviations from 100%. As such, "compliance" disclosure could not be expected to replace fuller and quantified disclosures but could bridge gaps that might otherwise have unfortunate consequences.[5]
- "Compliance" disclosure in this sense would complement the disclosure of averages and make clear that (for prudential purposes at least) it would not be necessary to disclose brief deviations from a 100% LCR.
- If a bank were required to disclose an LCR below 100% at any time, it is important to recognize that the most likely reason, especially at the outset, would be that sufficient term funding past 30 days had not been raised to keep the LCR denominator lower and aligned with the LCR numerator. It would not in many cases be appropriate to disclose deviation below 100% as usage of HQLAs (i.e., lower numerator) per se. The former approach, would allow banks in appropriate cases to provide comfort that funding capacity under 30 days remains sufficient. This would be better on a relative basis than disclosing that HQLA had been sold or used since the market would assume that unsecured funding access is unavailable in such cases. Banks would also want to state as appropriate that regulatory

[4] Principle 4 of the EDTF Report is relevant to this discussion: "If disclosure of particularly commercially sensitive or otherwise confidential information would unduly expose the bank to litigation or other risks, the level of information provided will need to balance confidentiality and materiality. If material, a bank should assess what information should be provided to ensure users are aware of important issues without disclosing potentially damaging confidential details."

[5] In many countries, banks would have to make a determination whether such disclosures would meet the requirements of securities laws and, depending on the circumstances, might have to disclose a deviation from 100% LCR compliance if deemed "material" for such purposes; however, establishing a principle of simple disclosure of compliance under appropriate circumstances would assist banks in analyzing and managing such issues if they arise.

approval was received, including, as applicable, the time horizon for the exception and new temporary minimum requirement.

- It would be very helpful if the BCBS could take the lead in suggesting a general approach for supervisors to take in cases where "use" of the buffer is allowed (i.e. deeming compliance at less than 100%). The more clarity on this issue the better (cf. *paragraph 17*, recognizing that the LCR is only one measure of a bank's liquidity risk).
- All of the foregoing points contribute to the conclusion that it may be essential for the Basel Committee and national supervisors to provide some background information and orientation to the investor, analyst, and journalist communities, to try to develop better understanding of this and other aspects of the Basel III liquidity framework and its disclosure. While that's obviously a difficult task, and one where understanding must develop over time, it might be worth thinking about the type of roundtables the accounting standard setters sometimes use to explain new standards to users.

As the further comments below indicate, we are not comfortable that the proposals of the Consultative Document as yet mitigate the risks of volatility that disclosure of a LCR below 100% would have.

Disclosure on a Consolidated Basis *(paragraph 10)*. We entirely endorse the principle that disclosure should generally be on a consolidated basis;[6] however, we are concerned that more cognizance needs to be taken of the substantial issues that any decision by national supervisors to impose these disclosure requirements to sub-consolidated entities would cause.

Within an integrated group,[7] disclosure at any other than the consolidated level is likely to cause a number of practical compliance problems, and could under some circumstances lessen rather than enhance the utility of disclosures to users. The data challenges of disclosures below the consolidated level may be substantial, especially where local requirements deviate from the Basel norm in some respects. Excess granularity, especially where local requirements are different from those applied at the top-company level is likely to make the disclosures more confusing than useful to users.

The complexity and weight of disclosures would also be compounded, as it would become necessary to explain intercompany items, in ways that appear to be of little relevance to most market users of the information.

The question of how to process local differences affects consolidated reporting as well, as discussed further below, but multiple, potentially not-fully-consistent disclosures for a single group seem especially daunting.

All of the foregoing suggests that the Basel guidance on this point should be more detailed and not biased toward encouraging local disclosure. While it may not be possible to constrain local authorities' discretion on this point, at the least some caveats about the issues raised by requiring local disclosure where it is not really necessary or useful to investors should be added.

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[6] The disclosure should of course cover only information required to be included in the consolidated LCR, omitting subsidiaries such as leasing companies or non-financial subsidiaries not picked up by the LCR calculation.

[7] Issues may of course be different where separately listed, partially owned subsidiaries of a global group are concerned.

Similarly, if, contrary to the general presumption for group disclosure, national authorities require local disclosure for subsidiaries or branches, the presumption should be that such local disclosure would be in appropriate local documents. Where the top company or parent bank is not otherwise required on generally applicable disclosure principles to disclose such local information, the local regulator should not purport to require disclosure at the group or parent bank level of local information that would not be material at the top-company level, and therefore would add volume to disclosures (perhaps including complex reconciliations to top-company reporting where bases are different), with little utility to general users of the firm's reporting.

Effective Date (*paragraph 11).* While congruence with the effective date of the LCR is at first glance appealing, the industry is concerned that more experience is needed with the disclosures proposed (especially if finalized as proposed) and therefore suggests that a phase-in period would be appropriate.

During such a phase-in period, LCR disclosures would be made only to the relevant supervisors (through a bank's college of supervisors), before moving to full disclosure to the market. For reasons set out below, it would be appropriate for supervisors to provide such disclosures to each other through the BCBS to consider their implications and any issues.

Given how extensive the new disclosures would be, it will be important for both managements and supervisors to understand them and get comfortable with the way their inputs behave and what they mean. Before disclosing them to the public, it would be very useful to see what kind of volatility manifests itself, and what other supervisory or market-relations issues may come up.

More basically, there are likely to be issues of interpretation with such new disclosures. A phase-in period, with the opportunity for the industry and the Committee to identify and address any questions of inconsistent interpretation, would be most helpful to assure that, when public disclosure is commenced, practices are as converged as possible across jurisdictions.

Furthermore, there is a good case to be made for separating initial compliance with the LCR from initial disclosure of the LCR given that there are still aspects of the LCR itself that are being clarified, or on which supervisory or industry interpretation and practice need to come together. While it is true that there will be market pressure to disclose LCR information (and some banks are already doing so in some form), EDTF liquidity information should be sufficient for the initial period for market purposes and it would be prudent for banks and supervisors both to hold off the full-blown LCR disclosure, especially if the full detail of the present disclosure is maintained.

A final reason to propose such a phase-in period is that it is quite possible that the local implementation of the Basel disclosure (or substantive) requirements may not be finalized before January 1, 2015, whether in the EU, the US, or elsewhere. Aside from compounding the risk of inconsistent interpretations, any such delays in the applicable regulations would create a risk for banks of using scarce implementation resources on developments that would later have to be changed to comply with local regulations.

The phase-in period would be most manageable if disclosure were required beginning one year from the start-date of substantive LCR requirements. While a shorter phase-in period might be suggested, a shorter period could give rise to comparability issues as not all firms have the same

quarterly reporting requirements.

Placement *(paragraph 12)*. Paragraph 12 is not entirely prescriptive on the issue of where the LCR disclosures are to be placed but requires either placement in financial reports or to be linked to financial reports to websites or other regulatory reports. It seems more appropriate for placement to be left to firms' general disclosure policies, or to the forthcoming review of Pillar 3. One source of concern is pending proposals for increasing standards for auditors' review of "other" (non-audited) information included in or associated with financial statements. While this document is important for establishing the specifics of regulatory LCR disclosures, it is not necessary or appropriate to deal with the issue of where the disclosures should be made in this context, given that the overall process of disclosure is undergoing review from so many perspectives.

Averages *(paragraphs 14 and 15).* In many respects, calling for disclosure of average LCR is congruent with our thinking on mitigation of the risks of LCR disclosures; however, we do have significant concerns with the specifics as proposed.

- Disclosing averages of *daily* observations is a problem. While banks are able to do "flash" reports of daily LCR information to supervisors when needed and have necessary daily information for management purposes, there is a significant difference between such ad-hoc information, often from risk as opposed to financial systems, for risk-management and supervisory purposes in specific situations and information that is destined for public disclosure. Whereas a flash report can be based on interim information, not all of which may be as of the same date or within the same tolerances, public disclosures must meet higher standards (even if not audited) and generally need to be reconciled to the financial statements because securities law, management certification (Sarbanes-Oxley) requirements, and firms' own disclosure standards demand it.
- Reportable liquidity data is dependent on upstream processes that are generally aimed at month-end closings that must meet high reliability standards (and general tie to the General Ledger). Such information may include data on lower-risk, lower-volatility portfolios (e.g., many mortgage or retail portfolios) that are not highly volatile and do not for normal risk-management purposes need to be reported daily, but might be produced, say, weekly on an interim basis, subject to review and quality checks for the monthly closing. Thus, including such information in daily averaging would require some assumptions or adjustments, or simply carrying forward the previous information, which would somewhat complicate the process without enhancing the meaningfulness of the information.
- Similarly, the consolidation issues discussed elsewhere in this document need to be considered. Although flash information sufficient for risk-management purposes would generally be available on a consolidated basis, full consolidation where a bank acts through national subsidiaries and legal entities on a basis acceptable for public disclosure would be very difficult to achieve on a daily basis.
- Bringing daily information up to the necessary standard would require a costly and resource-intensive development effort that, if it is even feasible, would produce at best marginal benefits in terms of meaningfulness of information to firms, users and supervisors.

- Other disclosures are often based on month-end, quarter-end or other periodic information, not daily information, so daily-based information may not be consistent with other relevant disclosures.[8]
- This includes the planned Basel III LCR supervisory reporting itself.[9] There could be reconciliation difficulties between the regular LCR supervisory reporting, which is normally reconciled to financial systems, and the information included in daily averages, because of the data limitations stated above.
- Therefore, *reporting* of an average of month-end information would be much better grounded for public disclosure for data-quality reasons, would require substantially less IT development, and would be more in line with normal reporting standards and procedures.[10]
- A further issue, already mentioned with respect to the effective date above, is the newness of this type of liquidity disclosure. It would be useful to consider the industry's overall experience with the LCR, LCR disclosures, and issues such as the usability of the buffer before mandating complex and costly developments such as public disclosure based on daily information.
- It is understandable that there might be potential concern about "window-dressing" of month-end numbers, but such concern could best be addressed through supervisory oversight, possibly including non-public supervisory reporting that would not raise all the issues of publicly disclosable information. The risk of window-dressing may also be overstated to a degree because banks generally manage to various internal liquidity metrics, often measured daily, that both would operate against window-dressing and would facilitate supervision if concerns about window dressing should arise in a given case.
- A related question is whether the *previous quarter* is the appropriate period to cover. Because of the issue of creating self-fulfilling prophecies if ephemeral LCR non-compliance (or usage of the HQLA) had to be reported, it would be preferable to consider requiring a rolling average of, say, the previous four or six month-ends, rather than the previous quarter as such. This would give a good, and possibly more meaningful, overview of the bank's performance against the LCR while reducing the risk of a dip that might be over-interpreted in the market.[11]

Weighted and Unweighted Calculations *(Paragraph 15).* It is understood that providing "unweighted", market-value HQLA data is intended in part to correct for the fact that disclosure of the LCR as a conservative, stressed measure, while showing a bank's posture on the LCR itself, may not provide an accurate reflection of a bank's actual liquidity position at a given point in time. The LCR is

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[8] Paragraph 49 of the *Revised Basel III Leverage Ratio Framework and Disclosure Requirements* states, "Under Pillar 3, large banks are required to make certain minimum disclosures with respect to certain defined key capital ratios and elements on a quarterly basis, regardless of the frequency of financial statement publication. As the leverage ratio is an important supplementary measure to the risk-based capital requirements, the Committee has agreed that this Pillar 3 requirement applies to the disclosure of the leverage ratio. In order for a bank to meet this additional requirement, at a minimum, four items must be publicly disclosed quarterly irrespective of the frequency of financial statement publication: the Basel III leverage ratio (ie based on the average of the monthly leverage ratios over the quarter), along with three end of quarter figures – the numerator (Tier 1 capital), the denominator (Exposure Measure), and the end of quarter leverage ratio."

[9] Paragraph 162 of the Basel III LCR states that "the LCR should be reported to supervisors at least monthly…" although it asks for more frequent reporting under stressed circumstances.

[10] The same issues would arise if averages or fortnightly data were to be required. Although the data fixes required might be marginally less onerous than for reporting based on daily averages, it remains questionable whether the gains in meaningful disclosure would be commensurate with the difficulty.

[11] Again, in many countries, a dip that would be material to the bank's overall condition would in many cases have to be disclosed under securities laws, so such a rule would not act to "cover up" a truly troubling situation but would obviate the risk of turning a minor problem into a major one.

analogous to a stress test, as it is in many ways based on a hypothetical scenario that is both unlikely (although possible) to be realized and at most times unreflective of a bank's actual liquidity situation.

However, there is concern that attempting to explain a stressed measure by reporting an additional type of unweighted data alongside the LCR might be misunderstood or difficult to analyze for the market. In particular, there is the danger that the press or other uninformed observers might over-interpret the difference between weighted and unweighted information, especially in troubled market conditions. This takes us back to the issue of how to make sure all investors, not just the most sophisticated ones, understand the hypothetical and conservative nature of the LCR.

Moreover, adding the unweighted data to the other required LCR disclosures will increase the complexity and weight of overall disclosure, which in turn would appear in addition to EDTF and other already-required liquidity information. Given that this will be yet another set of data that may not be readily reconcilable to financial or EDTF data, it would certainly add to the burdens of production of disclosure for firms, but, much more importantly, to the burdens faced by users in assimilating and interpreting all the data presented.

Because of significant issues with presenting both the LCR and the unweighted version of it, many banks believe it would be preferable to omit the unweighted data. The view is that it would produce more meaningful information if the standards were to call for narrative discussion of the differences between a bank's LCR as calculated and a bank's actual liquidity position, commenting on its specific market situation, the effects of the assumptions of the LCR, etc. Given the newness of liquidity disclosure at the level being mandated by this and other processes, it would be preferable to allow banks to take whatever course each deems best in providing the necessary explanations. If some banks conclude that unweighted calculations in some form would be the best way to do this, and users agree, there might emerge a similar market practice. In any case, disclosure practices are likely to converge over time, but at this stage, it is better to allow practice to emerge from preparers' and users' experimentation over a few reporting cycles. This would be in line with the general principles of *paragraph 9*, calling for other information, both quantitative and qualitative, that are essential for market participants to gain a broader picture of a bank's liquidity risk position and management.

As with officially mandated stress-test disclosures, there needs to be clarification of what the numbers mean and don't mean. This would allow interested users to assess the firm's LCR from a more realistic perspective, without the potential oversimplification of comparing the weighted and unweighted versions.

While the EDTF Recommendations are stated to be subject to finalization of the Basel liquidity disclosure requirements, and not all banks necessarily endorse the details of the current version of the liquidity and funding Recommendations, the EDTF's discussion of liquidity disclosure provides a good point of departure for considering how to present a bank's "true" liquidity position, as compared to the stressed hypothetical of the LCR:

> [Recommendation 18] Describe how the bank manages its potential liquidity needs and provide a quantitative analysis of the components of the liquidly reserve held to meet these needs, ideally by providing averages[12] as well as period-end balances. The description should

[12] The EDTF Report makes clear on the same page (40) that averages could be based on daily or monthly balances.

be complemented by an explanation of possible limitations on the use of the liquidly reserve maintained in any material subsidiary or currency.

[Discussion] Banks could provide a breakdown of the components of their liquidity reserve based on management's internal definition. They could provide a narrative discussion on whether or not their definitions of liquid assets are consistent with those prescribed or proposed by regulators, and their quantitative disclosures could be complemented by narrative describing the material percentages of their liquidity reserves that are maintained in significant restricted subsidiaries or in different currencies. Where relevant, it would be helpful to provide this information by business line.

The point here is not that the Basel Committee should necessarily adopt the same points that the EDTF has made on liquidity disclosure but that this language suggests a good approach to the problem of explaining a bank's actual liquidity position, as compared to its LCR, an approach consistent both with EDTF Principle 4 ("Disclosures should reflect how the bank manages its risks") and with the Basel Committee's *Sound Principles*.

LCR Common Disclosure Template. While a common template has advantages for providing a global basis for comparable LCR disclosures, it should be made as simple as possible. The present version raises concerns, partly related to the possibility of local regulators' requiring separate disclosure of sub-consolidated units, as discussed with regard to *paragraph 10,* above.

Simplification could in part be achieved by reducing the granularity of the template as proposed.

One can simply ask whether some of the breakdowns proposed (e.g., operational vs. non-operational deposits or outflows related to derivatives, to loss of funding on debt products, or credit and liquidity facilities) in fact would add a lot of value or be meaningful to most users.

In addition, the most specific information (tier-3 subcategories), such as stable deposits; less stable deposits; operational deposits; non-operational deposits; unsecured debt; derivatives outflows and collateral requirements; outflows related to loss of funding on debt products; and credit and liquidity facilities are likely to be less than fully comparable across markets and even across firms as business models or interpretations may vary. To be fully comprehensible, these items would require a good deal of supplemental explanation that would burden the disclosures, and probably not do much for users at the end of the day.

Disclosure of the subcategories of LCR elements will certainly have two effects. First, the more the disclosure of LCR elements (which, as discussed above, may not be especially useful or meaningful to users), the more firms will need to expand their management's discussion or similar disclosures to explain the differences between the stressed assumptions behind the LCR and management's view of liquidity. Focus on these specific details, to the detriment of other dimensions of management's view of liquidity, could in fact dilute the quality of individual bank disclosures. Second, more voluminous disclosure of LCR elements in detailed tables would focus market attention on the LCR number even more than would otherwise be the case. This would have the disadvantage of compounding "usability" issues.

The more granular such disclosures become, the more they are vulnerable to variation as a result of applicable differences of interpretation or national discretions.

The issues arising if disclosure follows local requirements for a separate LCR per *paragraph 10* are multiple and subtle. Application and aggregation of different variations on the Basel paradigm and consolidation of the results of such different variations will impose calculation burdens. Moreover, narrative disclosure may be required to explain the effects, if material, of different applications of the Basel standard in different places, for example if one jurisdiction in which a bank acts has used discretion to opt out of allowing Level 2B assets or, more subtly, to different interpretations of the LCR. This is another reason why this letter argues, with respect to *paragraph 10* that local disclosures should be avoided.

With consolidated disclosures, such local variations in the underlying numbers can, where material, be explained in footnotes or narratives. If multiple disclosures at a local as well as consolidated level were required, the complexity of explaining the deviations and variations is likely rapidly to outweigh whatever value such detailed disclosures would have.

Additional Disclosures *(Paragraphs 9, 16, 17-20).* The principle articulated by *paragraph 9* that a bank ought to make the disclosures necessary to give a broader picture of its liquidity-risk position and liquidity-risk management is incontrovertible, and congruent with recommendations made by the IIF before the crisis[13], the Recommendations of the EDTF, and the Committee's *Sound Principles.* Nevertheless, there is a concern that some of the additional disclosures suggested for consideration depending on the circumstances could migrate to become prescriptive requirements, rather than useful points for consideration. This is especially of concern at a time when banks are being required – de facto or de jure -- to make numerous new disclosures by different new Basel proposals, by the EDTF, by national requirements, by the FSB (under its GSIB analysis) or by accounting requirements.

A bank might find that it would be useful to disclose to investors in narrative commentary how its home authority's implementation of the LCR (and thus its consolidated LCR) varies from the LCR as adopted by the Basel Committee, either because of exercise of national discretions, or because of material differences of implementation or interpretation. This is congruent with *paragraph 16's* requirement of links to the relevant supervisors' rules or guidance on national implementation of the LCR; however, links should only be required to those supervisors' rules that are material to the disclosures presented.

Given that the LCR (appropriately) reflects a stressed, conservative supervisory test, it is particularly important to underscore the importance of reflecting management's view of the firm's liquidity and condition in the additional and supplementary disclosure that is required. This is the same point as the Committee's observation in *paragraphs 15 and 17* that following the guidance of the *Sound Principles* would allow banks "to present information relevant to their business model that may not be adequately captured by standardized regulatory metrics." The EDTF also puts considerable stress on the importance of management's view to communicate a useful understanding of a bank's condition.

[13] IIF, *Principles of Liquidity Risk Management,* March 2007.

As is widely recognized, more disclosure is not necessarily better disclosure and regulators and banks share the concern about the weight of all the new requirements. For this reason, it would be preferable for the Committee to state principles and to avoid specifics in such sections insofar as possible, and to reiterate as emphatically as possible the judgmental character of whether many of these disclosures are needed. It might also be worth considering deferral of specifics to the pending review of Pillar 3.

In other words, the best approach here would be to "keep it simple" on the basis of the principles stated, without adding specifics at a time when a great deal of other specific requirements are being worked through. It may be expected that a sound range of disclosure practices will emerge over a relatively short period as banks come to grips will all the new substantive changes, new bodies of mandatory disclosure, the EDTF Recommendations, and the demands of the market.

Paragraph 16. Following up the general comments just made, it is correct to state the principle that "banks should provide sufficient qualitative discussion around the LCR to facilitate a greater understanding of the results and data provided." This is essentially what this letter advocates in the remarks above on *paragraph 15* and the *Template*.

It is helpful that *paragraph 16* introduces the specific items in clauses (a) through (h) as *examples* of items banks *could* discuss where significant to the LCR, but we are still concerned that, as stated, they might migrate to become firm requirements when considered by local supervisors or auditors or even users.

Our preference therefore would be to remove the specific examples and leave the general principle as the test to be met. This type of disclosure is already called for in some national disclosure regimes, either in accounting or in Management's Discussion and Analysis. In any case, several items are already covered by the EDTF, so it is not clear how much these rather general suggestions add.

If it is considered necessary to retain specific suggestions, then consideration might be given to recommending also that firms also consider providing a statement of their actual liquidity positions, correcting for the uneven conservatism of the LCR stress assumptions, as discussed above.

Paragraph 17 is also helpful in expressing the recognition that the LCR is only one measure of a bank's liquidity. As noted in the introduction, the reference to the *Sound Principles* is helpful in helping to demonstrate what complete-picture disclosures should include. See the discussion of *paragraph 15* above.

Paragraph 19 is quite helpful in that it stresses "metrics that management monitors", and recognizes the potential utility of customized measurement tools that reflect the bank's balance sheet and business model.

Here again, however, there is an issue in that the specific suggestions that are given that *"could"* be included may slide because of caution on the part of preparers or supervisors into de-facto mandatory requirements. The items that are mentioned are certainly appropriate to consider, overlap with the EDTF Recommendations, and will be included in many banks' disclosures in any case.

As stressed above, the question of disclosing exposures and funding needs at the local level (*paragraph 19(b)*) raises a number of questions of materiality and utility of the information requested. Certainly, the "trapped pools" of liquidity created by local limitations are often relevant to banks' liquidity positions and such effects should be disclosed on a consolidated basis where material; however, it is not obvious that exposures and funding needs at the local level would generally be of much interest, except under special circumstances that would need to be decided case-by-case. Such detailed disclosures about local offices would also create systems and control issues that would be burdensome without much corresponding disclosure benefit, if widely applied.

Paragraph 20. Much the same comments apply to the proposed language regarding additional qualitative discussion. As should be clear from this letter, banks are committed to providing the additional discussion to make the LCR, the bank's overall liquidity position, and its liquidity-risk management approach readily understandable to the market. As the paragraph recognizes, this needs to be done with a focus on the issues confronted by each specific institution.

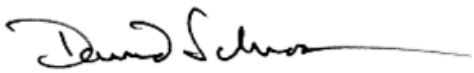
Thus, again, our reservation is not on the principle that is stated, but about the usefulness of the list of items that is provided. Much of this is already required either by local law, the EDTF, or other Basel requirements, so there is concern about interpretative complications created by specifying (albeit in general terms) these matters here.

Particular concern arises, however, about *Paragraph 20(e)* regarding "an outline of contingency funding plans." While no detail is provided (which may be just as well), firms are concerned that a broad interpretation of this clause could lead to very complex disclosures that could actually be destructive of a firm's ability to carry out a contingency funding strategy in times of stress. A more prudent approach would be to adopt the EDTF suggestion to disclose how a bank "would measure and manage the impact of an adverse liquidity scenario."[14]

Conclusion

The industry appreciates the Committee's thoughtful approach to liquidity disclosure issues and looks forward to further discussion of these and other disclosure questions in the near future.

Very truly yours,



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[14] EDTF Report, page 39.