Liquid Asset Buffers – Extension of Permissible Asset Classes

The current CRD IV text proposes a fairly narrow definition of liquid asset buffers which would lead to a concentration in eligible assets. Meanwhile inconsistencies between the EU and other jurisdictions could cause level playing field concerns and it appears counter-intuitive to require that liquid assets are located where liquidity risk is being incurred. These issues are likely to result in increased costs for SMEs and corporates and to limitations on product availability.

AFME and its members have noted that in practice there are a range of assets that can provide liquidity which include assets such as equities, high quality securitisations and commodities and assets of sufficient credit quality to be eligible collateral for the use of central bank facilities or to qualify for the use in the implementation of monetary policy. Ideally, assets which provide liquidity such as these should be eligible for inclusion in the liquid assets buffer with appropriate haircuts. If this is viewed as not possible, then the liquidity they provide should as a minimum be recognised in the denominator of the LCR calculation. Meanwhile, AFME welcomes the withdrawal of the 60% minimum requirement for assets of ‘extremely high liquidity and credit quality’ under the Presidency Compromise Text.