

CRD IV

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Liquid Asset Buffers – Inclusion of liquid assets of high liquidity or credit quality that are eligible collateral in normal times with Central Banks

The current CRD IV text proposes a fairly narrow definition of liquid asset buffers which would lead to a concentration in eligible assets. CRD IV Article 404(1) states that firms can include transferable assets that are of high liquidity and credit quality in their liquid asset buffers providing they are not excluded by Article 404(2) and that they meet the requirements of Article 404(3).

AFME and its members consider that there should be a distinction between assets of high liquidity and high credit quality and that both should be eligible for inclusion in the liquid assets buffer. The distinction is desirable as assets may be highly liquid, e.g. equities, but may not be considered to be of high credit quality. In addition, there is the possibility that during a market stress there may be insufficient liquid assets. Accordingly, transferable assets that are of high credit quality that meet the requirements of Article 404 (3), primarily high quality assets that would be eligible as Central Bank collateral in normal times, should be permitted.

At present, Article 404(3) sets out additional conditions that assets of high liquidity or credit quality need to meet. AFME and its members consider that the eligibility of high quality assets as collateral in normal times for intra-day liquidity needs and overnight facilities of a Central Bank, or their recognition by Central Banks as assets of sufficiently high quality to qualify for use in the implementation of monetary policy, should be sufficient reason for their inclusion in the liquid assets buffer. In addition, it is considered that the requirements around the location of liquidity risk in the context of Central Bank eligibility and claims on central governments are counter-intuitive and run contrary to good risk management practices.