

**AFME position on FSA Guidance on collateral upgrade transactions
(including liquidity swaps)**

Commenting on the publication today of the UK's Financial Services Authority's finalised guidance on 'FG12/06: Collateral upgrade transactions (includes liquidity swaps)', Sidika Ulker, a manager at the Association for Financial Markets in Europe (AFME) said:

"In its Guidance, the FSA has recognised that 'collateral upgrade transactions' bring real benefits to the economy. We believe that they not only provide an alternative means to utilise excess liquidity, they also provide an important source of liquidity to enable banks to lower their liquidity risks, an increasing priority in light of existing and forthcoming liquidity regulation - for example, CRD IV.

"The Guidance also identifies the potential risks associated with collateral upgrade transactions, such as asset encumbrance, and recognises that these should be dealt with in a broader risk management framework applicable to all forms of collateralised borrowing transactions. We hope that European policymakers and regulators approach these collateral upgrade transactions in a similar way."

The FSA finalised guidance can be found at

http://www.fsa.gov.uk/library/policy/final_guides/2012/fg1206