

CRD IV

4 May 2012

Liquid Asset Buffers - Operational Requirements for Holdings of Liquid Assets

CRDIV Article 405 (f) states that price risks associated with liquid assets may be hedged but that liquid assets need to be subject to appropriate internal arrangements that ensure that they will not be used in other ongoing operations, including; (i) hedging and other trading strategies; (ii) providing credit enhancements in structured transactions; and, (iii) to cover operational costs.

The inability to use assets designated as part of the liquid asset buffer for hedging and other trading purposes is considered a problem which will lead to inefficiencies in the financial markets, reductions in liquidity and adverse consequences for the wider economy.

AFME and its members believe that as long as assets are shown to be 'tagged' and can be taken by the Treasury or another central function for liquidity purposes in the event of need under a clearly articulated policy, then their designation should not be a factor. The 'tagging' of assets would involve their designation as such in the bank's management accounting systems so that it is clear to individual business lines and profit centres, their leadership and governance committees, as well as to the treasury and central functions of the bank, that these assets are available for use as liquid assets under the articulated policy.