CRD IV

4 May 2012

Liquidity – Differentiation of risks from types of undrawn facilities

Liquidity risks arising from different types of facilities

The outflow factors assigned under Article 412 are not considered appropriate and it is suggested that a recalibration to reflect more realistic rates is needed. This is particularly the case in relation to the 100% outflow factor assigned under Article 412(4) to facilities for financial customers, which could include the treasury functions of corporate customers. If this recalibration is not undertaken, then the availability of certain products may be affected, distorting commercial relationships.

AFME is suggesting therefore that an approach to recognising the different liquidity risks which arise from different types of undrawn facilities should be adopted. In particular it can be noted that:

- un-notified facilities can be cancelled by a bank without notice to the customer and without running reputational risk;

- undrawn revolving credit and liquidity facilities need to be distinguished from other types of lending facilities. In the case of the former, draw-down is linked to the working capital needs of the customer and in the latter the draw-down will be in line with the needs of the specific project for which the loan facilities have been made available. In the latter case, therefore, draw-down in full is almost certain, but may not all occur within the next 30 days.