

## Unofficial translation

### **Policy rule of De Nederlandsche Bank N.V. (DNB) of 23 June 2011 containing principles for the evaluation, referred to in section 3:18a of the Financial Supervision Act, of the Internal Liquidity Adequacy Assessment Process of banks and investment firms and concerning the application of the Liquidity Regulation (Financial Supervision Act) 2011 (Liquidity Policy Rule (Financial Supervision Act) 2011)**

De Nederlandsche Bank N.V.,

After consultation with the representative organisations concerned;

Having regard to section 1:29a, subsection 1 (d), section 3:17, subsections 1, 2, opening words and (c), 3 and 4, and sections 3:18a, 3:63 and 3:111a of the Financial Supervision Act;

Having regard to articles 23, 23b and 25a and chapter 11 of the Prudential Rules (Financial Supervision Act) Decree;

Having regard to article 2 of the Liquidity Regulation (Financial Supervision Act) 2011);

Having regard to Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management (OJ L 302);

Having regard to Annex V, point 10, subsections 14-22, and Annex XI, point 1 (e) and point 1a of the recast Banking Directive (Directive 2006/48/EC), as amended by Directive 2009/111/EC;

DECIDES:

#### *Section 1: Definitions*

##### **Article 1**

The following terms have the following meanings in this policy rule:

- a) *Wft*: Financial Supervision Act;
- b) *Decree*: Prudential Rules (Financial Supervision Act) Decree;
- c) *Regulation*: Liquidity Regulation (Financial Supervision Act) 2011 (Government Gazette 2010, 17092);
- d) *DNB*: De Nederlandsche Bank N.V. (the Dutch central bank);
- e) *EBA*: the European Banking Authority, as established by Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331);
- f) *BCBS*: Basel Committee on Banking Supervision;
- g) *ILAAP*: Internal Liquidity Adequacy Assessment Process;
- h) *Evaluation*: the evaluation referred to in Section 3:18a, subsection 1, of the Financial Supervision Act.

## *Section 2: Evaluation of the ILAAP*

### **Article 2**

This section applies to banks and investment firms that have their registered office in the Netherlands.

### **Article 3**

In carrying out the evaluation of the ILAAP of an undertaking as referred to in article 2, DNB shall base itself on the following recommendations and guidelines of the EBA and the BCBS:

- a) *second part of CEBS's technical advice to the European Commission on liquidity risk management (CEBS 2008 147)* of 18 September 2008;
- b) *CEBS Guidelines on Liquidity Buffers & Survival Periods, of 9 December 2009*;
- c) *CEBS revised Guidelines on the Management of Concentration Risk under the Supervisory Review Process* of 2 September 2010 (section 4.4. on liquidity risk);
- d) *CEBS Revised Guidelines on Stress Testing* of 26 August 2010;
- e) *CEBS Guidelines on Liquidity Cost Benefit Allocation* of 27 October 2010;
- f) *BCBS Principles for Sound Liquidity Risk Management and Supervision* of September 2008;
- g) *Guidelines on the Application of the Supervisory Review Process under Pillar 2* of 25 January 2006;
- h) *CEBS Liquidity Identity Card* of June 2009
- i) *BCBS International Framework for Liquidity Risk Measurement, Standards and Monitoring* of December 2010.

### **Article 4**

1. Pursuant to article 107, paragraph 1 (b) and (c) of the Decree, DNB shall carry out the evaluation of the ILAAP that concerns the position of the undertaking referred to in article 2 on both a group-wide basis and an individual basis.
2. If the undertaking shows that the distribution of the liquidity within the group and the liquidity risk management are adequate DNB may, on request, grant the undertaking an exemption, pursuant to section 3:17, subsection 4, of the Financial Supervision Act.

### **Article 5**

Each undertaking that is obliged to carry out an ILAAP shall, on request, supply DNB with all data necessary for the evaluation, including in any event the data on the basis of which DNB can determine:

- a) how the ILAAP is integrated into the operating processes of the undertaking;
- b) how the policy aimed at managing the liquidity risk in both the short term (including intraday liquidity risks) and the longer term is recorded in procedures and measures and is integrated into the operating processes of the undertaking;
- c) what arrangements have been made by the persons responsible for the day-to-day policy of the undertaking for the segregation of duties within the organisation and the prevention of conflicts of interest;
- d) how the persons responsible for the day-to-day policy of the undertaking are involved in the ILAAP;
- e) what procedures and measures exist to enable the undertaking to ascertain and ensure on a continuing basis that the level, composition and distribution of the liquidity, taking into account of any charge on the assets, is in keeping with the scope and nature of the current and possible future liquidity risk;

- f) how the procedures and measures, (quantitative) monitoring and stress testing take account of the technical criteria concerning the organisation and management of the (liquidity) risks referred to in Annex V, point 10, to the recast Banking Directive;
- g) what the risk tolerance of the undertaking is (quantitative and qualitative) and how this relates to the liquidity position and the funding profile;
- h) how account is taken of stress tests;
- i) what level, composition and distribution of the liquidity is necessary, according to the undertaking, in order to cover the present and possible future liquidity risk and how this relates to the current available liquidity;
- j) how, in the case of a group, the available liquidity is distributed among the main entities in the group and how this relates to the required liquidity under section 3:63 of the Financial Supervision Act and the liquidity deemed necessary on the basis of the ILAAP for these entities.

*Section 3: Application of the rules under section 3:63 of the Financial Supervision Act to branches of banks that have their registered office in another Member State or in a state that is not a Member State*

#### **Article 6**

This section applies to:

- a) banks that have their registered office in another Member State, insofar as they carry on their business from a branch situated in the Netherlands;
- b) banks that have their registered office in a non-Member State, insofar as they carry on their business from a branch situated in the Netherlands.

#### **Article 7**

1. With regard to a branch as referred to in article 6 and for the purposes of the Regulation:
  - a) the liability items resulting from the commitments entered into from that branch in relation to third parties are designated as the liability items referred to in article 108, paragraph 1, of the Decree;
  - b) the asset items that are shown, to the satisfaction of DNB, to be always exclusively at the disposal of that branch for the fulfilment of the obligations entered into from that branch in relation third parties are designated as the asset items referred to in article 111, paragraph 1, of the Decree.
2. DNB will deem the liquidity calculated in accordance with paragraph 1 and article 2, paragraph 1, of the Regulation to be sufficient only if the bank referred to in article 6 also demonstrates that its risk management focused on managing the liquidity risk takes sufficient account, to the satisfaction of DNB, of criteria that are at least equivalent to the technical criteria concerning the organisation and treatment of the liquidity risk in point 10 of Annex 5 to the recast Banking Directive.

*Section 4: Final provisions*

#### **Article 8**

This policy rule will enter into force with effect from the day after the date of publication of the Government Gazette in which this policy rule appears.

**Article 9**

This policy rule will be cited as the Liquidity Policy Rule (Financial Supervision Act) 2011.

This regulation, together with the explanatory memorandum, will appear in the Government Gazette.

*Amsterdam, 23 June 2011*

*De Nederlandsche Bank N.V.*

*H.J. Brouwer, Executive Director*

# EXPLANATORY MEMORANDUM

## General

### 1. Introduction

This policy rule sets out further provisions concerning the evaluation by DNB under section 3:18a of the Financial Supervision Act (known as the Supervisory Review and Evaluation Process or SREP) of the strategies and procedures for risk management (known as the Internal Capital Adequacy Assessment Process or ICAAP), which banks and investment firms having their registered office in the Netherlands should have in place under section 3:17 of the Financial Supervision Act, specifically insofar as this focuses on the liquidity risk. This policy rule is connected with the Capital Requirements Directive (CRD) II,<sup>1</sup> which tightens up among other things the technical criteria for liquidity risk management within the meaning of Annex V to the recast Banking Directive, and also the supervision thereof as described in Annex XI to the recast Directive. Pursuant to these parts of the CRD II Directive the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS) have drawn up guidelines with a view to ensuring convergence of the existing practices in the various Member States of the European Economic Area (EEA) for the supervision of liquidity risk management. In connection with the parts of the CRD II Directive that deal with the liquidity risk, and in view of the guidelines of the EBA and the BCBS mentioned above, DNB has decided to have a separate structure for evaluation of the strategies and procedures of banks and investment firms for overall liquidity risk management, the so-called Internal Liquidity Adequacy Assessment Process (ILAAP). This is the purpose of the present policy rule. As liquidity supervision is applicable to investment firms only to a limited extent, the ILAAP and its evaluation by DNB only apply when DNB has explicitly requested such an assessment. Banks are obliged to implement an ILAAP on a group-wide and individual basis and to report on this at DNB's request.

In addition, this policy rule also specifies how DNB applies the Liquidity Regulation (Financial Supervision Act) 2011 (Government Gazette 2010, 17092) to Dutch-based branches of banks that have their registered office in another EEA Member State and Dutch-based branches of banks that have their registered office in a non-Member State. This involves specifying the liquidity items of these banks that can be taken into account in calculating the liquidity of their Dutch branches. This is necessary because the fact that the relevant branches are an integral part of these banks without having legal personality imposes limits on the extent to which separate liquidity items can be attributed to these branches.

Under section 1:29a, opening words and (d), of the Financial Supervision Act, DNB makes known the general criteria and methods on the basis of which the evaluation referred to in section 3:18a of the Financial Supervision Act is performed. This policy rule also implements this insofar as it concerns the liquidity risk.

#### **1.1. Scope and application of the ILAAP/SREP**

The evaluation (SREP) by DNB of the ILAAP concerns, in principle, the position of the relevant financial undertaking both on a group-wide basis and on an individual basis.

On request, DNB may grant a bank an exemption, on the basis of section 3:17, subsection 4, of the Financial Supervision Act, from the obligation to carry out an ILAAP concerning the position of the

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<sup>1</sup> Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own fund items, large exposures, supervisory arrangements and crisis management (OJ EU L 302).

bank on an individual basis if the bank is a subsidiary of a Dutch parent credit institution.<sup>2</sup> Such an exemption will be granted by DNB if the provisions of section 3:278, subsection 1, of the Financial Supervision Act are fulfilled. This means that (a) supervision of the parent company is exercised on a group-wide basis and the relevant subsidiary that applies for the exemption is included in such supervision; and (b) the qualifying capital is adequately distributed between the parent company and the subsidiary in that: (i) no factual or legal obstacle exists or is to be expected that could prevent an immediate transfer of qualifying capital or repayment of debts by the Dutch parent company; (ii) the parent company provides for controlled business operations on the part of the subsidiary and guarantees the subsidiary's obligations with the consent of DNB; (iii) the risk assessment, measurement and monitoring procedures of the parent company also include the subsidiary; and (iv) the parent company holds more than 50% of the voting rights attached to the holdings in the subsidiary's capital or has the right to appoint and dismiss the majority of the persons determining the subsidiary's day-to-day policy.

The ILAAP on a group-wide basis and the ILAAP on an individual basis take account of present or possible future restrictions on the transferability of liquidity between group units, which include branches both in the Netherlands and abroad. This means that DNB expects financial undertakings to make explicit allowance in their liquidity risk management for the possibility that supervisory bodies in other Member States or outside the EEA may ringfence surplus liquidity. Especially where a significant part of an undertaking's liquidity at group level is attributable to surpluses held by local subsidiaries, the undertaking should estimate the likelihood of the local supervisory authority not permitting this surplus liquidity to be deployed elsewhere within the group in stressed times. In evaluating the ILAAP, DNB bases itself on the guidelines and recommendations of the EBA and the BCBS concerning liquidity risk management and its supervision. Section 1.7 of this Explanatory Memorandum refers to these guidelines and recommendations. The purpose of the EBA guidelines is to achieve convergence of supervision practices in the European Union. The aim of the BCBS's recommendations is to introduce prudent standards for management of bank liquidity risk. These recommendations complement the technical criteria for the management of liquidity risk and its supervision as contained in Annexes V and XI (as amended by the CRD II Directive) to the recast Banking Directive.

## **1.2. Legal framework and scope of this policy rule**

Section 3:18a, subsection 1, of the Financial Supervision Act provides that DNB should periodically carry out an SREP concerning the ICAAP performed under section 3:17 of the Financial Supervision Act by banks and investment firms that have their registered office in the Netherlands. The ICAAP and the SREP are described in articles 24a and 25a of the Prudential Rules (Financial Supervision Act) Decree. Part of the ICAAP is the entirety of procedures and measures designed to manage the liquidity risk, namely the ILAAP. The assessment of the ILAAP takes place by reference to the technical criteria of Annex V to the recast Banking Directive, in particular the technical criteria of point 10 (Liquidity risk) of this Annex. In addition to the ILAAP framework, a regulatory framework to ensure the maintenance of a minimum level of liquidity is applicable pursuant to section 3:63, subsection 1, of the Financial Supervision Act. Section 3:63 of the Financial Supervision Act provides that the undertakings specified in that subsection, including banks that have their registered office in the Netherlands, should have sufficient liquidity. Under sections 3:64 and 3:65 of the Financial Supervision Act, section 3:63 of that Act applies by analogy to banks that have their registered office in another Member State or in a State that it is not a Member State and carry on their business from a Dutch-based branch. The requirement of section 3:63, subsection 1, of the Financial Supervision Act is elaborated in chapter 11 (Liquidity) of the Prudential Rules (Financial Supervision Act) Decree and in DNB's Liquidity Regulation (Financial Supervision Act) 2011 of 26 October 2010, which entered into force on 1 May 2011. Chapter 11 of the Prudential Rules (Financial Supervision Act) Decree

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<sup>2</sup> Or of a Dutch parent investment firm or a financial holding company that has its registered office in the Netherlands and is subject to the same kind of supervision as credit institutions.

requires banks to ensure that the liquidity present is at least equal to the requisite liquidity calculated in accordance with the rules in that chapter and the Regulation based on it. The latter regulation contains rules drawn up by DNB governing the calculation of the minimum amount of liquidity, taking into account asset and liability items (including off-balance-sheet items) and their weighting.

Article 2, paragraph 2, of the Liquidity Regulation (Financial Supervision Act) 2011 provides that if DNB considers that the liquidity of an undertaking calculated in accordance with this regulation is insufficient, it may specify an additional liquidity requirement for the undertaking concerned. This may be the case if DNB considers on the basis of the evaluation referred to in section 3:18a of the Financial Supervision Act that the procedures and measures setting out the policy of an undertaking for managing the liquidity risks does not guarantee controlled and lasting cover of the liquidity risks. Specifically as regards a Dutch-based branch of a bank that has its registered office in another Member State, DNB applies the principle that the liquidity calculated in accordance with article 2, paragraph 1, of the Liquidity Regulation (Financial Supervision Act) 2001 can be regarded as sufficient if the undertaking concerned shows that it pursues a policy recorded in procedures and measures for the control of the liquidity risks that is at least equivalent to the business operations required pursuant to section 3:17 of the Financial Supervision Act. DNB applies the same principle to a Dutch-based branch of a bank that has its registered office in a non-Member State, as referred to in section 2:20 of the Financial Supervision Act. If it cannot be demonstrated in respect of such Dutch branches that, in brief, the liquidity risk management is adequate, DNB can set an additional liquidity requirement in respect of that branch pursuant to article 2, paragraph 2 of the Liquidity Regulation (Financial Supervision Act) 2001. The rules relating to the ILAAP and its evaluation have been tightened up on the basis of the CRD II Directive, in which additional technical criteria concerning the organisation and treatment of the liquidity risk have been included in point 10 of Annex V to the recast Banking Directive (Directive 2006/48/EC – the CRD).

Moreover, the CRD II Directive inserts additional technical criteria concerning the evaluation of the ILAAP in Annex XI to the recast Banking Directive. Pursuant to point 1, opening words and (e) of this Annex XI, it is provided that the evaluation carried out by the competent authorities (i.e. DNB) relates to the exposure to and measurement and management of the liquidity risk by banks and investment firms. This deals with alternative scenarios, the management of risk mitigation (in particular the level, composition and quality of liquidity buffers) and effective contingency plans. The stricter provision introduced by the CRD II Directive in point 1a of Annex XI also stipulates that the competent authorities (DNB) should regularly carry out a comprehensive assessment of the overall liquidity risk management by the undertakings concerned and that they should promote the development of sound internal methodologies.

### ***1.3. Application of the principle of proportionality***

In determining the extent of the evaluation referred to in the opening words of article 3 of this policy rule, DNB applies the principle of proportionality. The following are some of the factors that play a role in the definition of this principle:

- the size of the undertaking both in absolute terms and in relation to the financial system in the Netherlands;
- the nature of the activities and the risk profile of the undertaking;
- the ratio of the liquidity buffers considered necessary by DNB on the basis of the evaluation (or a previous evaluation) to the liquidity buffers actually kept or, as the case may be, the liquidity buffers considered necessary by the undertaking on the basis of the ILAAP; the smaller the difference between the minimum liquidity considered necessary on the basis of the ILAAP/SREP liquidity and the actual liquidity, the greater the chance of a shortfall and the greater the required depth of the ILAAP/SREP;
- as regards Dutch-based group companies, the extent of the integration with the foreign parent company and the quality of the ILAAP concerning the position of the undertaking on a group-wide basis;

- for undertakings that are part of a foreign group company: the extent of the integration of the business operations and the risk management.

The principle of proportionality is also applied in determining the necessary depth of the assessment of the liquidity risk management of an undertaking, as referred to in article 7, paragraph 2, of this policy rule. The less the work performed by the bank concerned from Dutch-based branch and the less the liquidity risk entailed by such work, the less will be the depth of the assessment. In an extreme case (when the liquidity required under the Financial Supervision Act is negligible or nil) no assessment need be carried out. As, in the context of the Dutch financial services sector, investment firms in particular are often small and specialised in specific financial services (e.g. asset management), the regulatory framework focused on the management of liquidity risk is of little if any relevance to them. Such undertakings need establish and apply an ILAAP only if so requested by DNB.

#### **1.4. Frequency of the evaluation and the data required for this purpose**

DNB's evaluation should be updated at least once a year on the basis of the data referred to in article 5 of this policy rule. If, for any reason, this SREP no longer matches the internal liquidity target, for example because the target has been reviewed by the undertaking, or if the internal liquidity target is not met, or is in danger of not being met, DNB may assess whether these developments necessitate reconsideration of the evaluation or a renewed evaluation.

DNB will indicate in a request for submission of a (new) ILAAP what documentation and data are necessary as a basis for the evaluation. In this connection the form and timing are determined in consultation with DNB. The reporting of the data referred to in article 5 will be facilitated by DNB by reporting templates that will be made available to the financial services sector.

#### **1.5. Application of the Liquidity Regulation (Financial Supervision Act) 2011**

Section 3 of this policy rule contains an explanation of how DNB applies the Liquidity Regulation (Financial Supervision Act) 2011 to banks that have their registered office in another Member State or a non-Member State and operate from a Dutch-based branch. The Liquidity Regulation (Financial Supervision Act) 2011 contains rules relating to the items to be taken into account in the calculation of the existing liquidity and requisite liquidity and their weighting. These rules do not necessarily apply to banks that have their registered office outside the Netherlands and which operate from a Dutch-based branch because the branch and the foreign head office belong to the same legal entity and the branch in the Netherlands does not have legal personality of its own. This means that DNB must establish for the purposes of the Liquidity Regulation (Financial Supervision Act) 2011 what liquidity items of the bank in question can be attributed to the branch for the purposes of calculating the minimum required liquidity. In article 7 of this policy rule DNB takes as its principle in this context that only items stemming from commitments to third parties entered into by the branch should be treated as liability items. Only items that are always exclusively available to the branch, to the satisfaction of DNB, may be treated as asset items.

Where a Dutch branch of an undertaking has its registered office in another Member State or in a non-Member State and the liquidity supervision of the undertaking (including its branches) is carried out in a manner that provides, in the opinion of DNB, sufficient guarantees concerning the interests intended to be protected by Financial Supervision Act and written undertakings are given regarding the provision of information by the home supervisory authority and the foreign head office concerned of the branch in the Netherlands, DNB may, on request, grant an exemption on the basis of section 3:63, subsection 4, of the Financial Supervision Act.

#### **1.6. Measures that DNB can take**

If the strategies, procedures and measures of an undertaking under section 3:17 of the Financial Supervision Act do not guarantee controlled and lasting cover for the liquidity risks of such undertaking or if the undertaking does not fulfil the liquidity requirements laid down by or pursuant to the Financial Supervision Act, DNB may direct in respect of that undertaking that it should take measures to rectify the failings that have been identified. In particular, DNB may direct among other things in this context that:

- the undertaking should maintain a higher liquidity buffer than is prescribed under section 3:63 of the Financial Supervision Act;
- the risks run by the undertaking should be limited, for example the risks relating to the scope and composition of the funding drawn down and the relevant maturities;
- the strategies introduced pursuant to sections 3:17 and 3:18a of the Financial Supervision Act should be tightened up; or
- the undertaking should apply a certain limitations in relation to the business activities and transactions of or network relations with other financial undertakings.

These measures complement the measures that can be taken by the competent authorities pursuant to article 136 of the recast Banking Directive if an undertaking does not comply with the provisions of that directive. Article 136 has been implemented in section 3:111a of the Financial Supervision Act. Notwithstanding the above, DNB may require an undertaking that does not fulfil the provisions laid down by or pursuant to sections 3:17 and 3:63 to maintain a higher qualifying capital than is required under section 3:57 of the Financial Supervision Act.

DNB will give undertakings written notice of the results of an evaluation. If the results of the ILAAP of an undertaking – i.e. the strategies, procedures and measured or the liquidity of the undertaking – do not, in the opinion of DNB, guarantee controlled and lasting cover of the risks, DNB will specify what additional measures it considers necessary or what higher solvency margin is necessary. In so far as the latter is the case, DNB will specify, giving reasons, any failings in the measures, strategies and procedures for the control of the liquidity risk and the additional measures to be taken by the undertaking, including the period within which these measures should be put in place, in order to comply with the rules under section 3:17 of the Financial Supervision Act.

### **1.7. Reference to BCBS and EBA guidelines and recommendations**

In evaluating the ILAAP, DNB bases itself on the following guidelines and recommendations of the EBA and the BCBS (for the following list see also article 3 of this policy rule):

*Second part of the CEBS's technical advice to the European Commission on liquidity risk management (CEBS/EBA 2008 147), of 18 September 2008,*

<http://www.eba.europa.eu/getdoc/bcadd664-d06b-42bb-b6d5-67c8ff48d11d/20081809>

[CEBS 2008 147 \(Advice-on-liquidity\\_2nd-par.aspx\)](#)

This advice to the European Commission contains 30 recommendations relating to liquidity risk management. 18 of them relate to the risk management banks and investment firms for both normal and stressed times, and 12 relate to the liquidity risk supervision by authorities charged with statutory supervision. In broad outline these recommendations correspond with the BCBS Principles for Sound Liquidity Risk Management and Supervision of September 2008.

*Guidelines on Liquidity Buffers & Survival Periods, of 9 December 2009*

<http://www.eba.europa.eu/documents/Publications/Standards---Guidelines/2009/Liquidity-Buffers/Guidelines-on-Liquidity-Buffers.aspx>

The EBA's Guidelines on Liquidity Buffers & Survival Periods are a further implementation of the recommendations in the Second Part of the CEBS's technical advice, of 18 September 2008. The five guidelines relating to liquidity buffers provide for a framework for the determination of the scope and composition of the requisite liquidity buffers in stressed times both in the long term and in the short term (week and month).

*Guidelines on the Management of Concentration Risk under the Supervisory Review Process, of 2 September 2010 (section 4.4 on liquidity risk)*

<http://www.eba.europa.eu/documents/Publications/Standards---Guidelines/2010/Concentration-risk-guidelines/Concentration.aspx>

The EBA's Guidelines on the Management of Concentration Risk replace the provisions on this subject in the *Guidelines on technical aspects of the management of concentration risk under the supervisory review process* of 17 December 2006.<sup>3</sup> The guidelines relate to both the concentration risk is within a particular risk category (intra-risk) and the concentration risks between risk categories (inter-risk), and they address the issues of credit, market, operational and liquidity risk. The guidelines on the management of the liquidity risk have been included in section 4.4 of the guidelines and in section 5, which contains guidelines for the supervisory review & assessment. Point 6 of Annex 1 (Examples of risk concentration) contains examples of inter-risk relations between liquidity factors and other risk factors. The guidelines on liquidity risk complement the recommendations in this respect in the CEBS's technical advice on liquidity risk management of 18 December 2008.

*Revised Guidelines on Stress Testing (GL32) of 26 August 2010*

[http://www.eba.europa.eu/documents/Publications/Standards---Guidelines/2010/Stress-testing-guidelines/ST\\_Guidelines.aspx](http://www.eba.europa.eu/documents/Publications/Standards---Guidelines/2010/Stress-testing-guidelines/ST_Guidelines.aspx)

These revised guidelines of the EBA replace the Guidelines on Technical Aspects of Stress Testing under the Supervisory Review Process that were published on 14 December 2006, which were implemented in the Policy Rule of 15 July 2008 on the Principles for the Application of Pillar 2 of the Basel Accord in Dutch supervisory practice. The guidelines supplement the guidelines relating to liquidity risk contained in the CEBS's Guidelines on the Application of the Supervisory Review Process under Pillar 2 of 25 January 2006, which were also implemented through the Policy Rule on the Principles for the Application of Pillar 2 of the Basel Accord.

*Guidelines on Liquidity Cost Benefit Allocation of 27 October 2010*

<http://www.eba.europa.eu/cebs/media/Publications/Standards%20and%20Guidelines/2010/Liquidity%20cost%20benefit%20allocation/Guidelines.pdf>

The EBA's Guidelines on Liquidity Cost Benefit Allocation in the context of liquidity risk management provide further guidance for the application of the technical criteria for the organisation and handling of risks in Annex V to the recast Banking Directive. Point 9 of this Annex indicates that the strategies, policies, procedures and systems for determining, measuring, managing and monitoring the liquidity risk aimed at maintaining sufficient liquidity buffers contain robust mechanisms for the allocation of liquidity costs, benefits and risks. The guidelines provide guidance on the elements to be taken into account in establishing the allocation mechanisms.

*BCBS Principles for Sound Liquidity Risk Management and Supervision, of September 2008*

<http://www.bis.org/publ/bcbs144.pdf>

These 17 principles of the BCBS for sound liquidity risk management concern the fundamental principles for risk management and its supervision, governance and risk management aspects of banks in the field of liquidity risk management, the transparency to be observed by banks and the role of authorities charged with supervision.

*Guidelines on the Application of the Supervisory Review Process under Pillar 2 (CP03 revised) of 25 January 2006*

<http://eba.europa.eu/getdoc/00ec6db3-bb41-467c-acb98e271f617675/GL03.aspx>

The EBA's guidelines relate to the Internal Capital Adequacy Assessment Process (ICAAP) that financial undertakings apply. This is the overarching body of strategies and procedures by which undertakings continuously check whether – and ensure that – the amount, composition and distribution of the qualifying capital match the scope and nature of their present and possible future risks,

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<sup>3</sup> These guidelines have been implemented in the framework of the Financial Supervision Act by means of the Policy Rule of 15 July 2008 on the Principles for the Application of Pillar 2 of the Basel Accord.

including the liquidity risk and relating to the evaluation thereof by the authority responsible for prudential supervision, the so-called Supervisory Review and Evaluation Process (SREP).

Liquidity Identity Card, CEBS 2009, 127, of June 2009

<http://eba.europa.eu/getdoc/9d01b79a-04ea-44e3-85d2-3f8e7a9d4e20/Liquidity-Identity-Card.aspx>

The purpose of the EBA's Liquid Identity Card is to provide the supervisory authorities involved in the supervision of financial undertakings (and groups of financial undertakings) that operates internationally with a uniform set of definitions to allow the meaningful exchange of information between them, particularly within colleges of supervisors for financial groups.

BCBS International Framework for Liquidity Risk Measurement, Standards and Monitoring, of December 2010

<http://www.bis.org/publ/bcbs188.pdf>

These principles of the BCBS relate to the introduction of two new standards for monitoring the liquidity position of banks, namely the Liquidity Coverage Ratio and the Net Stable Funding Ratio. For the purposes of the present policy rule these new standards are important to the extent that DNB will require, as part of the evaluation of the ILAAP of undertakings, information about the manner in which, during the transitional stage leading up to the introduction of these new standards, undertakings bring the amount, composition and distribution of the liquidity buffers maintained by them into line with the requirements resulting from the application of these two standards.

## Notes on individual articles

### Article 4

As regards the circumstances in which an undertaking need not apply the ILAAP concerning the position of a subsidiary on an individual basis, reference should be made to section 1.1 of the general notes on the scope and application of the SREP.

### Article 7, paragraph 1

A bank that has its registered office in another State and operates from a branch situated in the Netherlands is required, on the basis of the provisions of article 7, paragraph 1 (b), of this policy rule to show to the satisfaction of DNB that certain assets are exclusively at the disposal of the Dutch branch at all times and can therefore be designated as asset items as referred to in article 111, paragraph 1 of the Decree requiring the liquidity present to be equal to the requisite liquidity, as referred to in article 108, paragraph 1, of the Prudential Rules (Financial Supervision Act) Decree. Pursuant to paragraph 1 (a) of article 7 the requisite liquidity is calculated on the basis of the obligations entered into by the branch towards the parties; the latter term excludes intra-group commitments. As regards the liquidity present, the undertaking in question is free to make an arrangement which, with the consent of DNB, guarantees that the assets to which the arrangement relates will at all times be exclusively at the disposal of the branch situated in the Netherlands. Without excluding alternatives, the asset items are in any event designated by DNB as items that are at all times exclusively at the disposal of the Dutch branch referred to in article 7, paragraph 1 (b) of the present policy rule, if this concerns assets items which are: (i) unencumbered; (ii) held in the name of the Dutch branch at a bank which may conduct its business in the Netherlands, and (iii) which can be used immediately and without restrictions for the performance of obligations entered into by that branch towards the parties. The last point can, for example, be demonstrated by means of powers of attorney exclusively for the person or persons who determines the day-to-day policy of the Dutch branch, to the exclusion of third parties. As an alternative to the provisions of (iii), an arrangement may also apply on the basis of which it is guaranteed to the satisfaction of DNB that the assets will be handed over only to the branch and that juristic acts will be performed in respect of these assets only if DNB has, on request, given consent for this. Article 7 excludes the possibility that intra-group moneys received by branches situated in the Netherlands from the head office or other group units can be treated as liquidity present, as referred to in article 111, paragraph 1, of the Decree. This implies that

standby facilities of the head office or other group units can also not be taken into account for the purposes of calculating the liquidity present.

**Article 7, paragraph 2**

DNB will deem the *minimum* liquidity calculated in accordance with paragraph 1 of article 7 and article 2, paragraph 1, of the Liquidity Regulation (Financial Supervision Act) 2011 to be sufficient only if it is demonstrated to its satisfaction that the liquidity risk management of the undertaking as a whole takes sufficient account of criteria that are at **least** equivalent to the technical criteria concerning the organisation and treatment of the liquidity risk as referred to in the (amended) Annex V to the recast Banking Directive. If the relevant bank has its registered office in another EEA Member State, the undertaking can demonstrate that its liquidity risk management meet this criteria by means of, for example, a written declaration of the supervisory authority in the Member State concerned. In that case, such a declaration must state that the undertaking has adequate procedures and measures in place to enable it to continuously check and ensure that the amount, composition and distribution of the liquidity present matches the scope and nature of the present and possible future liquidity risk. If the bank concerned has its registered office in a non-EEA Member State it may demonstrate by means of an ILAAP that its liquidity risk management is adequate.

*De Nederlandsche Bank N.V.*  
*H.J. Brouwer, Director*