

MICHEL BARNIER
Membre de la Commission européenne

17. 03. 2011
Brussels,
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Dear Ms Meldgaard,
Dear Mr Sander,

Thank you for your reply of February 2 to my letter of November 25, 2010. I apologise for the delay in responding. As you are aware, the Basel Committee has issued its liquidity standards subject to so-called observation periods, which run until 2015 for the liquidity coverage requirement and 2018 for the net stable funding requirement. The objective of these observation periods is to further review the implications of these standards for financial markets, credit extension and economic growth, addressing unintended consequences as necessary. Please be assured that we take these observation periods very seriously and that we will, in particular, propose key elements of the standards as legislation only towards the end of the observation periods. This will allow for full political scrutiny of the observation periods' outcome by the European Parliament and the Council before the elements that concern you - the final regulatory definition of liquid assets and the stable funding requirement - will be enshrined in legislation.

Without prejudice to the final content of the Commission's legislative proposal, we are exploring the idea that during the observation period, the European Banking Authority could be empowered to evaluate possible indicators of market liquidity across European markets and asset classes. This could be an important underpinning of the outstanding political decision. Furthermore, we will propose that a mechanism be introduced in order to adjust the required composition of banks' holdings of liquid assets depending on the relative scarcity of the highest quality liquid assets in a given currency.

Ms Anne-Marie Meldgaard
Chairman of the European Affairs Committee

Mr Helge Sander
Chairman of the Business Affairs Committee

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As regards the net stable funding requirement, we are still exploring different legislative options. A stable funding requirement is meant to improve the resilience of banks funding structures and therefore has a potentially very profound impact on business models and market structures. Therefore, we may intend to use the benefit of the longer observation period until 2018 to further investigate structural implications based on banks' reporting of the different funding sources and needs for stable funding. This would allow us to gain a better understanding of possible ways banks and financial markets could adjust to different options as regards the design of a net stable funding requirement. In any case, your concerns will have our full attention in this context.

Let me conclude by saying that your input into our work has been very valuable and we look forward to continuing the good cooperation.

Yours sincerely, 



Michel BARNIER