Basel Committee on Banking Supervision recognises ESM and EFSF securities as Level 1 High Quality Liquid Assets (HQLA)

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Luxembourg – Securities issued by the European Stability Mechanism (ESM) and the European Financial Stability Facility (EFSF) have been designated as Level 1 High Quality Liquid Assets (HQLA), according to a decision today by the Basel Committee on Banking Supervision (BCBS).[1]

As a result, securities issued by both the ESM and EFSF will be included in the list of entities receiving a 0% risk weighting under Basel II.[2]

“We are pleased the bonds issued by the ESM and EFSF have been recognised in this way by the Basel Committee on Banking Supervision,” said Christophe Frankel, Deputy Managing Director and CFO of the ESM.

“The BCBS ruling confirms to investors that our securities meet the highest standards for liquidity,” he said.

The revised definition of the Liquidity Coverage Ratio (LCR) sets out the liquidity needs for the banking sector and the BCBS established additional specific conditions for issuers, such as a large, deep and active repo or cash market, and a proven record as a reliable source of liquidity in the markets even during stressed market conditions

The BCBS requires these and other additional conditions must be met to receive the designation Level 1 High Quality Liquid Assets.

This announcement follows a separate recommendation in December by the European Banking Authority (EBA) that ESM and EFSF notes should be considered transferable assets of extremely high liquidity and credit quality.[3]

[1] BCBS recognises ESM and EFSF securities as Level 1 High Quality Liquid Assets (HQLA) in the revised definition of the Liquidity Coverage Ratio (LCR) under Basel III (paragraph 50(c) http://www.bis.org/publ/bcbs238.pdf

[2] BCBS also recognises ESM and EFSF securities as High Quality Liquid Assets under the Standardised Approach for credit risk in the Basel II framework, that also includes sovereigns and their Central Banks rated AAA to AA-, the Bank for International Settlements, the International Monetary Fund and the European Central Bank (paragraph 56 of Basel II http://www.bis.org/publ/bcbs128.pdf

[3] The EBA recommended that ESM and EFSF notes should be considered transferable assets of extremely high liquidity and credit quality structure for the purpose of LCR buffers under the European regulation on Capital Requirement (CRD IV / CRR I).

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