Deutsche Bank

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Dear Mr. Farkas

DB's response to the European Banking Authority's consultation Consultation on draft ITS on additional liquidity monitoring metrics (EBA/CP/2013/18).

Deutsche Bank (DB) welcomes the opportunity to respond to the EBA's consultation paper (CP) on additional liquidity monitoring metrics. We support EBA's objective of ensuring supervisors can obtain homogenous data across European peers, in keeping with the harmonization objective set out in the CRR. The requirements should ensure that the data is meaningful and permits comparison without becoming overly burdensome for firms to complete.

Our response includes some general comments followed by responses to the specific questions in the consultation. As always, we are happy to discuss any of the points raised in our response.

Yours sincerely,

Andrew Procter
Global Head of Government and
Regulatory Affairs

General comments:

DB fully agrees with the need for supervisors to obtain homogenous data across European peers, in keeping with the harmonization objective of the CRR. The design should ensure that the data is meaningful and permits comparison without becoming overly burdensome for firms to complete. Given the baseline requirements of the CRR (i.e. single legal entity reporting) coupled with the total volume and complexity of the proposed templates, that is a difficult balance to achieve.

The “behavioural” maturity ladder template, in particular, looks problematic as it seeks to compare data which will ultimately employ unique and differing assumptions between institutions. Supervisory validation of such data would be a difficult task and we question in what context this might be useful for assessing the liquidity risk of an institution. If the intention of this template is to collect information on banks funding plans, we suggest this be achieved via supervisory dialogue and pillar 2 liquidity adequacy assessments instead.

Although we appreciate the underlying regulatory concern which leads to the need for information on pricing and roll-over of funding, we identify potential risks for interpretation. For example blending together a number of underlying factors, such as product type, transaction history, collateral quality and currency will not make these tools meaningful for supervisors (as it will inevitably hide the underlying liquidity risk characteristics of the liabilities). We suggest that, instead of attempting to collect this data through a uniform template, it would be advantageous to take a principals-based approach to assessing a bank’s funding costs and transaction volumes.

When considering how to implement these tools, it is vital that the EBA give banks sufficient lead time to implement reporting standards. We suggest these reports should be collected no earlier than 1st January 2015 to ensure smooth implementation.

We believe that, the proposed level of application which applies to monitoring tools under the finalised CRR legislation (at a legal entity level) will lead to overly burdensome outcomes, with little benefit gained for supervisors in collecting solo-level data which is not a true reflection of the liquidity risk taken by a multi-entity group such as DB. To this point, we suggest that the EBA utilise the waiver process provided for within Article 9 of the CRR, which permits wavers “in full or in part”. Segregating this process, for the purpose of the liquidity monitoring tools specifically, would avoid delays in competent authority decisions resulting from the in-depth nature of cross-border waiver discussions relating to LCR compliance.

Finally, we do not believe that the collection of these templates should be extended to i) multiple significant currencies or ii) the currencies of a significant branch, as this would be an unnecessary level of granularity when the LCR and NSFR is required to be collected on this basis and allows supervisors to adequately assess cross-currency risks on this basis. The EBA should give due consideration to the sheer volume of reporting being requested under the CRR (see Annex 1) and take care to ensure that unnecessary layers of granularity are excluded under the scope of this ITS.

Responses to consultation questions:

Q1. Are the proposed remittance dates feasible?

The CP states that the frequency for reporting monitoring tools will be in line with that proposed for LCR and NSFR reporting, that is 30 days for an initial one year period reducing to 15 days after that. The EBA should note that an ultimate remittance period of 15 days will not give large international banks, such as DB, sufficient time to prepare monitoring tools on a consolidated basis.

We instead suggest that this should be 30 days on an ongoing basis as there is no rationale for aligning the LCR and NSFR remittance dates given this is not a pillar one metric, but a complementary suite of reports. Furthermore, data collection should not begin until 1 Jan 2015 at the earliest, to allow both banks and supervisors to design the required systems to collect and analyse the required data.

Q2. Are the proposed frequency dates feasible? has the proportionality been adequately considered?

A monthly reporting frequency makes sense, provided it is applied at the consolidated level, otherwise the proposed frequency is overly burdensome for smaller legal entities within wider groups.

Legal Entity application is likely to be extremely onerous and unnecessary when weighed against the value provided to supervisors on this basis. The CP argues that less complex subsidiaries will not feel the burden because there is in effect less information to report, but in actual fact, the same processes must be applied to each entity, in order to produce the data and there is no reduction in the burden for smaller entities. The provisions made for a reduced reporting frequency, that is, quarterly, for less-integral subsidiaries within a group are not sufficient as they do not recognise the cross border nature of large complex European banking groups.

Q3. Is the above size threshold of 1% of total assets suitable to determine a higher reporting frequency? Should such threshold be substituted or complemented by a liquidity-risk-based threshold or other quantitative criteria? If so, by which?

Liquidity monitoring tools should be designed to report on a group wide consolidated basis. Individual entity level of application does not make sense in this context as it will not fully capture the true liquidity risk of the wider group.

The CP states that waivers are to be made available to alleviate the legal entity level of application for larger groups. Unfortunately as the EBA will be aware this process has not been started with sufficient lead time to grant waivers in advance of commencement of reporting. It is important to note: liquidity waivers may be made available “in full or in part” in accordance with Article 7 of the CRR. Should supervisors and/or the EBA decide that certain legal entity level information is unlikely to be useful for monitoring tools, the lengthy and complex process of negotiating waivers on the applicability of the LCR as a pillar one ratio should not become intertwined with the availability of waivers for monitoring tools. We therefore request that the EBA establish separate processes for both so as to avoid delay.

If a waiver process cannot be established on time, we agree with the use of a threshold measure for those entities which are immaterial for the purpose of liquidity reporting. We propose that threshold be set at circa 5% of the total assets of the entire consolidated group and the criteria for an entity to "not form part of a group with subsidiaries or parent institutions located in jurisdictions other than the one of its competent authority;" is unnecessarily stringent. For large, cross-border groups such as DB, this will not alleviate the reporting burden.

Q4. Are the reporting templates and instructions sufficiently clear? Shall some parts be clarified? Shall some rows/columns be added or deleted?

1. Maturity ladder:

- We have no objection to the design or granularity of the contractual maturity ladder template, and agree with the alignment with the LCR data fields for ease and continuity.
- We consider the behavioural maturity ladder template to be a suboptimal attempt to make banks report their internal stress models in a "one size fits all" format, which will be neither practical nor productive for a number of reasons. First, this information is already made available to supervisors in the normal course of regulatory interaction with the banks they supervise. There should be no barrier to sharing this information between regulators in supervisory colleges. Secondly, the approach would not generate meaningful or comparative data. Instead a bank's own formats, which will be a far more constructive basis for discussion, should be used. Thirdly, the template appears to directly contradict the 'harmonization' objective stated in the CP and we believe it should be deleted. Finally, it is worth nothing that the Basel Committee's January publication only recommends a contractual approach to monitoring the maturity gap; we do not see additional value in the EBA going beyond this.
- Should a behavioural template be collected, it is important that corresponding categories between the two are not double counted in any analysis undertaken by the competent authority. For example the behavioural template outflows should not be added to the contractual template outflows as an addition.
- The calculation of the difference between total outflows and total inflows should not be referred to as a "net funding gap". This implies that the gap must in some way be filled, which is contrary to the basic function that banks serve – to perform maturity transformation. The Basel Committee's January text refers instead to a "maturity gap" which is more representative of the calculation.
- We do not see additional value in information on the concentration of counter-balancing capacity by issuer type. The LCR, as a pillar one ratio, sets out what is and is not permissible in a bank's liquidity buffer and requires appropriate diversification to be monitored by supervisors.
- Technical comments:

    1. Line 33 – non-resident retail deposits. The definition given for "non-resident" within the instructions does not seem to be entirely clear. It

appears to suggest a non-resident is a depositor not in "a country". Should this not be "within the same country"?

2. Line 40 – is the intention for this to capture both line 35 and line 37 relevant entries?

3. Line 42 and 47 what is the difference between "domestic"/"cross-border" used in these categories and the "resident"/"non-resident" concept used in line 33? This comment also applies to inflows where the same distinction has been made.

4. The counterbalancing capacity is missing a "stock" column (which should replace the open maturity column as this makes little sense from a buffer standpoint). If the idea is to report movements within the CBC as a result of secured funding and collateral swap trades, the negative (outflow of collateral) and positive (inflow of collateral) will need to be reported against current day 1 buffer amounts in a "box projection" style.

2. <u>Concentration of funding by counterparty:</u>

- The template may be read as implying that a single interbank counterparty would be withdrawing all funding at once in liquidity stress. In reality, however, transactions would be closed out on a business unit basis and therefore additional consideration should be given to the "functionality" of the underlying deposit e.g. the largest exposure might be for clearing purposes and the second largest an unsecured overnight deposit. In this scenario the largest exposure is not the most risky in a stress. Additional product splits should therefore be incorporated.

- The "amount outstanding", for the purpose of calculating the concentration of funding metric, should be netted against exposures <u>to</u> the counterparty and not just from funding obtained. Bank A may be the single largest gross exposure but netting could reduce this to <1% or beneath the top ten. The net exposure therefore, gives a more realistic picture of the liquidity risk likely to materialize.

- It is not clear which scope of counterparties this report is intended to capture. Within the instruction table for column D, it states within the first paragraph "the name of those counterparties for which funding obtained exceeds 1%..." and then the second paragraph begins "the name of the counterparties from which **<u>unsecured wholesale funding</u>** obtained is greater than 1%...". Furthermore the instruction table for column F says that a possible counterparty classification is households – suggesting the report captures retail clients and the instruction table for column H specifies different types of retail deposits. It is not therefore clear which counterparties should be reported given the initial statement on unsecured wholesale funding.

3. <u>Concentration of funding by product type:</u>

- Product specifications appear too narrow i.e. where does capital market issuance or equity notes get reported?

- Would reporting of ABCP issuance operate on an accounting or regulatory consolidation basis?

The tools discussed under points 4 and 5 below seek to collect institution specific data. DB believes that much of this information is already available through other channels e.g. CDS, secondary market prices etc and therefore question the necessity of these templates in their entirety.

4. **Pricing of funding:**

- We fundamentally disagree with this tool on the basis that the price a bank has paid for funding in one particular month is not on its own a robust indicator of an idiosyncratic liquidity stress. For instance, Northern Rock or Lehman Brothers did not experience a sustained pricing out of the market over a one month period; instead, funding dried up for the institutions overnight.

- It is not clear what the underlying population of funding is intended to be for this report. However, providing a blended picture of **all types of funding** across multiple currencies, will not make for a meaningful indicator of the liquidity environment a bank faces for example a bank may issue an instrument with increase optionality for which it has paid up; this would not be an indicator of stress. Where a bank chooses to fund at is instead a result of being opportunistic in order to meet its overall funding objectives.

- The pricing of cash deposits should only apply to unsecured wholesale funding. Retail should be excluded (as is the case with the FSA 052 report) due to account level variance which would create irrelevant noise.

- Secured funding is priced through asset haircuts and therefore dependent on the underlying asset quality – an apparent 50bps increase in spread may result from swapping into lower quality collateral.

- The instructions only discuss raising Euro, GBP or USD funding and swapping these into EURIBOR or LIBOR. The intention is unlikely to be to ignore all other currencies, therefore which benchmark should be used? For instance, using GBP LIBOR to assess the cost of funds for JPY would not be an appropriate mark of comparison.

- Some products may include an element on optionality or conditionality which affects the pricing of the instrument (for example extendables or ever-green structures. It is not clear how this is meant to be reflected in the reporting.

5. **Roll-over of funding:**

- Collecting data on daily contractual maturities over a one month time horizon is akin to substantially expanding the maturity ladder template. It is difficult to see how useful it could be to track daily movements, when a maturity ladder is already being reported with transaction volumes reported.

- As with the pricing, the tool blends product types and currencies, the net of which is unlikely to be a meaningful indicator of the bank's liquidity profile. In particular, blending the volumes raised through secured or unsecured channels is inappropriate.

- The wording in paragraph three of the instructions for this tool specify that the "agreed roll over" should be reported in the central column. This implies that the rollover of funding would only count if it was with the same counterparty which cannot be the intention (otherwise the data would not provide a complete picture). We suggest this reference should be deleted.

- Is the template intended to incorporate FX flows?
- How would multiple stage products be reported?
- Presumably weekends do not need to be reported – if so this should be specified within the instructions.

Q5. Could you indicate whether all the main drivers of costs and benefits have been identified in the table above? Are there any other costs or benefits missing? If yes, could you specify which ones?

We agree with the list of proposed costs and benefits highlighted, however we again refer to the need for the reporting to be waived at the individual legal entity level.

Q6. For institutions, could you indicate which type of costs (A1, A2, A3) are you more likely to incur? Could you explain what exactly drives these costs and give us an indication of their expected scale?

It is not possible to disaggregate the cost of implementing the liquidity monitoring tools from the wider impact of FINREP/COREP reporting. However, we envisage that the incremental cost to implement these data items, outside of the existing LCR and NSFR preparations, will be reasonably high.

Q7. Do you agree with our analysis of the impact of the proposals in this CP? If not, can you provide any evidence or data that would explain why you disagree or might further inform our analysis of the likely impacts of the proposals?
N/A

Annex 1:

Volume of liquidity reports:

Proposals for liquidity reporting under the CRR now incorporate a minimum of ten templates per legal entity covering the following:

1. The LCR
2. The NSFR (quarterly)
3. The LCR by significant currency and significant branch currency
4. The NSFR by significant currency and significant branch currency (quarterly)
5. The Contractual Maturity Ladder
6. The Behavioural Maturity ladder
7. Concentration of Funding by Counterparty
8. Concentration of Funding by Product Type
9. Prices for Various Lengths of Funding
10. Roll-over of Funding

**Reports 5 – 10 could potentially be subject to the significant currency/ significant branch requirement too, in accordance with the CRR drafting.*