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Our response to EBA consultation paper on regulatory technical standards for additional liquidity outflows

Introduction

The Building Societies Association represents mutual lenders and deposit takers in the UK including all 45 UK building societies. Mutual lenders and deposit takers have total assets of nearly £380 billion and, together with their subsidiaries, hold residential mortgages of over £250 billion, 20% of the total outstanding in the UK. They hold nearly £260 billion of retail deposits, accounting for 21% of all such deposits in the UK. Mutual deposit takers account for 30% of cash ISA balances. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.

Background

The proposed draft regulatory technical standards aim at developing methods to determine additional collateral outflows stemming from the impact of an adverse market scenario on an institution's derivatives positions, financing transactions and other contracts.

Four methods to determine these additional collateral outflows are discussed. These are a standard method, *a simplified method*, an internal model based method and an historical look back approach. We are pleased to see the EBA has proposed a proportionate *simplified* method for mainly smaller institutions with very small derivative portfolios. This should be of considerable help to our members.

It is worth pointing out that building societies' use of derivatives is limited by law. All society transactions are own account dealing. There is no trading in securities and all derivative transactions are for the statutory purpose of hedging risk only. The simplified method is therefore potentially of interest to building societies. It requires a simplified estimate of collateral outflows where notional amounts of transactions and contracts are multiplied by specified outflow factors. But we are aware that the consultation does not take into account the use of margining[1], in the sense that all derivatives are to be accounted for, whether or not they are already subject to margining. The problem with this approach is that it overestimates the level of risk the derivatives pose to the institution in any given scenario. There is surely an element of double counting where, for instance, either initial or variation margin has already been posted *(see below)*.

General

Not unsurprisingly, engagement with members on this issue has been limited. They are interested, of course, but lack the resources to examine all the permutations in

[1] Issue identified by the British Bankers' Association

detail. This means we are unable to comment on the content of the RTS but are able to reflect high level concerns.

Our members, like other firms in the UK and beyond are under considerable pressure to implement a wide variety of regulatory changes. Not only are there significant changes to liquidity reporting on both a European and global level, but there is also a wide variety of reporting requirements that need to be incorporated into current systems (for example, COREP) which tie closely to liquidity. And our members will also be moving to central clearing of derivatives contracts (as mandated by EMIR) with the accompanying requirements for regular margining. All require considerable amount of overlapping human and systems resources.

Like other trade bodies, we therefore suggest to the EBA that it gives institutions a long implementation/ transitional period to implement these changes. This will help ensure that the information provide will be accurate and useful to all.

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