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Directorate-General for Financial Stability, Financial Services and Capital Markets Union

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Mr. Andrea ENRIA
Chairperson
European Banking Authority
One Canada Square (Floor 46)
Canary Wharf
London E14 5AA
United Kingdom

SUBJECT: EBA REPORT ON NET STABLE FUNDING REQUIREMENTS (NSFR) UNDER ARTICLE 510 OF THE CRR

Dear Mr Enria,

Dear Andrea,

Thank you for your letter dated 15 December 2015 accompanying the European Banking Authority (EBA) Report on the Net Stable Funding Requirements (NSFR)¹ and the comments of the European Systemic Risk Board (ESRB) on this report. The EBA Report also responds to the Commission's Call for Advice submitted to the EBA in June 2015.

The EBA Report concludes that the NSFR standard developed by the Basel Committee on Banking Supervision fits well with the European banking framework but also flags some European specificities. I would like to congratulate and thank the EBA for a comprehensive report with solid, good and helpful analysis.

As you are aware, by the end of 2016 the Commission shall, if appropriate, submit a legislative proposal on the NSFR to the European Parliament and the Council. We shall need to assess the provisions of the Basel NSFR standard to ensure that a possible NSFR proposal does not hinder the financing of the real economy. The EBA Report will therefore be very valuable to the Commission when examining, whether and how to ensure that institutions use stable sources of funding and the impact of such a requirement.

In your letter you indicate that the EBA stands ready to provide further technical advice on derivatives. Furthermore, although the report does not provide arguments to exempt any bank from being subject to the NSFR, the EBA also stands ready to conduct further work on the possible metrics for an effective application of the principle of proportionality. I strongly welcome this offer and would therefore invite the EBA to provide additional input on two areas.

The first regards the treatment of derivatives in the NSFR. Whilst we note that the EBA is monitoring possible developments at international level, we would welcome more a specific analysis on two points which seem to only partly be addressed by these

¹ adopted under the mandate given to the EBA by Article 510 of Regulation No 575/2013 of 26 June 2013 (Capital Requirements Regulation – CRR)

developments. These concern the 20% RSF factor applied to gross derivatives liabilities and the recognition of (initial and variation) margin received as compared to margin posted. These issues are key, but do not seem to have been comprehensively analysed, nor subjected to extensive public consultation, at the international level. It would therefore be vital for the Commission to have more background and evidence on the empirical basis and prudential justification of these two elements of the calibration as compared to the Basel framework. In addition, the EBA should suggest possible alternative, more risk-sensitive, policy options to the Commission and should provide its views on those options. This should be complemented by an assessment of the impact of these provisions that is currently missing. If this is possible, this analysis should be extended to the whole treatment and calibration of derivatives.

The second area concerns effective application of the principle of "proportionality". Whilst we clearly recognise the value of the NSFR from a prudential perspective, the Commission will also need to weigh this against the importance of our agenda to promote 'jobs and growth', the diversity of the EU banking sector and the substantial financing of the EU economy by banks (around 75% of financing is provided by banks). Our deliberations would be enriched by the EBA's views on specific alternative policy proposals to implement this principle. In particular, the EBA could assess lower and less frequent reporting requirements and the introduction of another metric such as a core stable funding ratio for institutions having a low funding risk profile.

Given our own timetable for a possible legislative proposal, it would be very helpful if the EBA could provide this analysis by July 2016 rather than waiting, as suggested, for an update of the implementing technical standard on NSFR reporting.

As a last remark, the analysis performed by the EBA shows a global stable funding shortfall of EUR 595 billion for the sample of banks (representing 75% of total assets in the EU). However, the report concludes that the introduction of the NSFR would not have a detrimental effect on bank lending and would not result in significant distortions in financial assets markets or trading book positions in banks, but it recognises that it could lead to significant and difficult adjustments for a small fraction of banks on which the shortfall is concentrated. It would be helpful for us to have a breakdown of the shortfall by type of activity and more elements on the plausible scenarii for adjustments and on any expected impact on the economy as a result of this material shortfall.

I thank you in advance for your cooperation and for the additional technical analysis requested, which will be of immense value to the Commission as it progresses its thinking this year on the NSFR.

Yours sincerely,

Marie DREVAL
(e-signed)

Signed

Olivier GUERSENT

Cc: Nathalie de Basaldua, Mette Toftdal Grolleman (CAB-HILL),
Olivier Guersent, Felicia Stanescu, John Berrigan, Mario Nava, Klaus Wiedner, Kai Gereon Spitzer, Dominique Thienpont, Marie Dréval (DG FISMA)

Contact: Marie Dréval, Tel. +32-2-296.25.33, marie.dreval@ec.europa.eu