

# EBA Banking Stakeholder Group

EBA Consultation Papers  
on Draft Implementing Technical Standards on:

Additional Liquidity Monitoring Metrics  
under Article 403(2) of the draft Capital Requirements Regulation (CRR)  
EBA-CP-2012-18 – deadline: 14.08.2013

and

Additional Liquidity Outflows corresponding to Collateral Needs  
resulting from the impact of an adverse market scenario on the institution's  
derivatives transactions, financing transactions and other contracts for liquidity  
reporting under Article 411(3) of the Draft Capital Requirements Regulation (CRR)  
EBA-CP-2013-19 – deadline : 14.08.2013

Comments and answers to listed questions

*August 13, 2013*

## Introduction

The EBA Banking Stakeholder Group (“BSG”) welcomes the opportunity to comment on the Consultation Papers EBA-CP-2013-18 (on Additional Liquidity Monitoring Metrics) and EBA-CP-2013-19 (on Additional Liquidity Outflows corresponding to Collateral Needs resulting from the impact of an adverse market scenario on the institution’s derivatives transactions, financing transactions and other contracts).

These consultation papers were presented and briefly discussed at the BSG June 2013 meeting. This response has been prepared on the basis of comments circulated and shared among the BSG members and the BSG’s Working Group on Liquidity.

As in the past, the BSG supports an initiative that aims at harmonizing computation and reporting of liquidity metrics across Europe in order to ensure fair conditions of competition between institutions and more efficiency for cross-border groups. The BSG also expects these initiatives (including, most significantly, the one on Liquidity Monitoring Metrics) to facilitate data sharing between European supervisors and avoid reporting duplications for banks. BSG regards these as important considerations.

However, the BSG identifies a number of issues which, unless properly addressed, could lead to unintended results.

The detailed answers to some questions indicated in the CPs are presented in the document attached. In the remainder of this cover letter, we wish to emphasise a number of background issues that lie behind many of the specific issues covered in the two Consultation Papers.

Regarding the Additional Liquidity Monitoring Metrics, it should be noted that reporting requirements are very granular and detailed (most especially in the light of the fact that reports need to be filed separately per individual institution and currency). Leaving aside any cost/benefit issues, it is clear that the level of granularity generates complexity both for the institutions to retrieve and cross-check the required information, and for the supervisor to correctly interpret the data. Institutions should be allowed sufficient time to implement these new reporting requirements, which come in addition to the LCR and NSFR reporting. Therefore, provided that the CRR leaves enough flexibility to EBA to set a looser implementation schedule, the additional liquidity monitoring metrics might be phased at a later date than January 2014 (e.g., six months later).

It is well known that liquidity reporting requirements in the CRR apply to all institutions and investment firms on an individual basis, unless a waiver is reached by the competent authorities, that allows data collection to be performed on a consolidated (or “liquidity subgroup”) basis. While we understand that EBA cannot, by itself, impose such waivers to local supervisors, we recommend that such an outcome is actively pursued and that, even when information pertaining to LCR and NSFR is filed locally, data flows aimed at Additional Liquidity Monitoring Metrics should, as a general rule, be performed only at the group level.

We understand that the CRR will initially allow for national reporting requirements to remain in place, in order to monitor the compliance with national liquidity standards. However, to avoid placing an undue burden on banks (which may prove detrimental to the quality of the data provided, as well as to the speed of the data flows) EBA should promote convergence among national supervisors to facilitate the early demise of national reporting requirements which significantly overlap with the new EU-wide additional liquidity monitoring metrics covered in the ITS, or which do not follow from specific national liquidity standards.

As regards the additional template presented in Appendix 1, arguments which could be developed against its inclusion in the final text relate mainly to the additional costs required to produce, validate and update the information included in the table. This notwithstanding, the template may add value to the information flows concerning additional liquidity metrics, since it may signal undue concentrations in the banks' HQLAs, e.g. in the area of Government securities. Information on the average time to maturity could also be collected, to ensure that supervisors can monitor the risk that banks hold a disproportionately high share of their HQLAs in debt securities with an unusually high duration.

Concerning the Additional Liquidity Outflows corresponding to Collateral Needs, the Consultative Paper relies on three different methodologies – simplified, standard and advanced – and provides that each methodology be exclusive (meaning that an institution is expected to apply the same method for all its trades). Several rules are set out, aimed at avoiding cherry picking: e.g. the simplified approach is limited to institutions for which additional outflows do not exceed 5% of the liquid assets, the standard approach sets conservative outflow rates encouraging institutions to use advanced methods whenever possible.

The three approaches proposed in the CP do not include the “historical look back approach” proposed by the Basel Committee on Banking Supervision in January 2013<sup>1</sup>, where collateral outflows are estimated by looking at the maximum amount of collateral outflows observed during the preceding 24 months. We judge that such an approach has a number of desirable properties, including simplicity, objectivity and readability. Accordingly, its use along side other approaches (possibly as the default approach) should be carefully evaluated. A number of measures could be considered to make “look back” more robust against changes in the size/structure of a bank's derivatives portfolio, as well as against the dangers of a prolonged benign phase in market volatility, that would drive down the estimates based on historical stress tests (while leading to sudden peaks in instances of market turmoil).

We agree that collateral inflows, in order to be offset against outflows, must be unilaterally and immediately available to cover outflows to any other counterparty. Furthermore, one may wonder whether banks should also be allowed to take into account any significant effect that shifts in market factors may have on the value of their liquidity buffer: e.g., a drop in interest rates may trigger collateral outflows for a bank paying fixed in interest rate swaps, but may also increase the market value of the debt securities included in the numerator of the LCR<sup>2</sup>.

Finally, EBA may wish to carefully evaluate whether the new rules on Additional Collateral Needs are consistent with a tool (LCR) that is mainly aimed at limiting the consequences of system-wide liquidity shocks (and in this sense can be seen as a macro-prudential tool). Consider, for example, two banks having in place a plain vanilla interest rate swap: one of them is required to assess the collateral needs following from an interest rate surge, while the other one will have to focus on an interest rate drop. As both scenarios cannot occur at the same time, the total amount of required liquidity buffers in the system will be too high. This may not represent a desirable outcome, inasmuch as it leads to increased costs for the banking sector and potential competitive disadvantages for European lenders.

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<sup>1</sup> See § 123 of the report entitled “Basel III The Liquidity Coverage Ratio and liquidity risk monitoring tools”

<sup>2</sup> Additionally, as collateral inflows may consist of securities eligible as liquid assets for the LCR numerator, the ITS may state how banks are expected to deal with this situation, in order to avoid potential double counting.

The attached document is submitted on behalf of David T. Llewellyn and Christian Lajoie, respectively Chair and Vice Chair of the BSG, in my capacity as Head of the BSG Working Group on Liquidity.

Best regards,

A handwritten signature in black ink, appearing to read "Andrea Resti", with a horizontal line underneath.

(Andrea Resti)

August 13, 2013