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Our Ref. G10507 FEB169012

By e-mail to: CP-2012-5@eba.europa.eu

Brussels, 27/08/2012

Dear Madam,
Dear Sir,

Subject : Answer to EBA re CP on draft ITS on liquidity reporting. Your Ref. EBA/CP/2012/05.

First of all, Febelfin would like to share with you a few general considerations and an overall suggestion.

In the second part of our letter we are pleased to reply to the questions of the consultation paper.

1) General comments and overall suggestion

a) Present delay

Today, the banking industry is confronted with a lot of open issues in connection with – among other things- the liquidity risk requirements.

- First of all, the trilogue on the CRR appears not having been finalised yet, meaning that the time scheduling of the final vote is quite hazy. The only thing that is for sure at present is the manifest delay, while it is not clear in turn how long this suspension will last...
- There is in the meantime also a delay regarding the publication by EBA of the final ITS on supervisory reporting requirements (COREP and FINREP). Indeed, based upon EBA's press release of 31 July 2012, the finalisation and publication of the EBA draft ITS has been pushed back pending the adoption by the EU legislators of the CRR...

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Febelfin finds it fortifying to read in EBA's press release that on the one hand, as financial institutions may, due to the delay, face challenges to comply already as of 1 January 2013 with all the reporting requirements included in the ITS, **some flexibility will need to be given through phase-in provisions or on the implementation date of the new requirements**, and that on the other hand similar practical provisions for phase-in arrangements or elements of flexibility may be considered in the implementation of other technical standards on a case-by-case basis and depending on the final date of entry into force of the CRD IV/CRR package.

In this context Febelfin which represents 252 members or a very large sample of undertakings active in the Belgian financial industry (among its members are credit institutions, asset managers, investment funds, portfolio managers and investments advisers, stock brokers as well as lease companies, factoring companies, venture capital and private equity undertakings), would like to mention that it advocates respect for this diversity and is thus strongly in favour of the application of the Principle of Proportionality within the scope of regulation and supervision. However, Febelfin would like to repeat as well that there exists a genuine need for a framework defining and recognizing equivalent and proportionate measures. These equivalent and proportionate measures may thus not represent any preferential treatment of the institutions concerned or impede to reach the same prudential goals.

- In connection with the foregoing, Febelfin would like to stress that the **delay may in no event shorten the foreseen observation periods of both the LCR and NSFR**, considering their significant direct and indirect impact on the banking industry.

b) Consistency with QIS templates.

- We prefer EBA's **liquidity reporting templates to be consistent with the QIS templates of EBA and the Basel Committee for Banking Supervision** in order to avoid a duplication of reporting requirements for some of our members.

c) Extension of LCR reporting period due to reconciliation with finance data

- We would like to emphasize that supervisors and external auditors will always request the banks for a reconciliation between the LCR/NSFR which are derived from management data, and finance data. This observation is based on past experience when banks provided the QIS reporting to their supervisors. Consequently, the reporting period of the LCR/NSFR will be determined by the reporting period of finance reporting, which is generally much longer.
- In case of the **LCR**, the reconciliation with accounting is very **difficult due to the proposed reporting deadlines** but **also** due to LCR being a **'cashflow' measure based upon ALM data** versus accounting data looking at the full balance sheet (Finance Data).
- **We also wonder whether the COREP reporting, which is focused on capital adequacy, is the right platform for reporting on liquidity adequacy.**



d) **Still lack of definitions**

- Finally, whereas the present consultation aims to put in place a harmonized liquidity reporting as of 2013, **we notice today that there is still a lack of clarity in definitions** (e.g definition of highly liquid or extremely liquid assets; definition of the established relationship...). This may cause confusion and different understanding by preparers, and thus ultimately undermine the objective of creating a harmonized reporting

e) **Overall suggestion**

- For all these reasons mentioned here above, referring to EBA's press release of 31 July 2012 and considering the proposed reduction of the remittance period, we are deeply convinced of the **need for a further delay of the entry into force of the new liquidity reporting requirements until 2014**. This suspension seems to be totally justified and even indispensable in our view.

2) Responses to the questions of the consultation paper

- **Q1: Are the proposed dates for first remittance of data, i.e. end of January and end of March 2013 feasible?**

a) See 1) General comments and suggestion.

No. The proposed dates for first remittance of data, are not feasible in our opinion. Indeed, as long as the final specification of the reporting requirements remain unknown, banks cannot provide functional specification to their IT departments in order to enable them to start building a reliable and fast reporting process. Consequently, the quality of reporting would not match the degree of reliability that is necessary during the observation period.

This is most unfortunate as the CRD IV and CRR will have a significant impact on the European (including Belgian) banking industry and the whole economy.

We therefore consider that **it is not feasible to comply with the reporting requirements and proposed first remittance dates, given the very short time span** between the expected final vote of the regulation and the proposed start of the reporting period.

Therefore, we strongly recommend a further delay of the entry into force of the new reporting requirements and we are also in favour of a phased-in approach.

b) Finally, we want EBA to organize the **observation periods** in such a way and with respect of a duration **that would ensure the effectiveness of the monitoring processes**. We are of the opinion that the envisaged monthly remittance frequency will overwhelm both banks and EBA with data and will not allow to analyse in-depth the collected data.

The reporting burden will even increase due to the reporting required henceforth at the solo level (compared to the reporting at consolidated level as is) and due to the multiplication of significant currencies.



Therefore, **we suggest to complement the quantitative reports with quarterly qualitative exchanges between regulators and banks.**

- **Q2: Do respondents agree with this proposal for defining significant currency?**

We recommend to apply the significant currency rule **on a consolidated basis**. Indeed, a currency might be significant for a subsidiary, but not significant for the group to which it belongs.

- **Q3: Is the proposed remittance period of 15 days feasible?**

The proposed remittance date of 15 calendar days after period end, represents a major concern for the Belgian banking industry.

First of all, we would like to outline that the suggested remittance delay is not based upon any CRR or CRD IV requirement and is not consistent with existing General Ledger (GL) processes either for the observation period or for the binding period.

Secondly, it should be made clear that a remittance period shorter than the GL completion process (i.e. shorter than 30 days) or a remittance/ on period ends that does not meet the GL closely, will lead to liquidity reports that will be based on management data without ensuring that the liquidity report ties to the GL.

In other words:

- a 15 days remittance delay: is not feasible in 2013;
- is not desirable as it would require liquidity reports to be based on management data for month ends without any possibility to reconcile with the GL.
- would be detrimental to the observation period since the data would not be reliable.

However, the Belgian banking industry is willing to consider (provided the case should arise) to report on the LCR during

- the « interim period » until 2014 (at least) [=period before entry into force of ITS and thus also before the start of the observation period]
 - by making use of the QIS templates
 - based upon management information
 - remittance period : 30 business days
 - the « observation period » (to last at least 1 year for the LCR)
 - by making use of the new templates
 - in XBRL
 - remittance period : 30 business days
 - the « binding period » (to start after the observation period)
 - by making use of the new templates
 - in XBRL
 - remittance period : 30 calendar (based on management information) or 30 business days.
- **Q4. Are there additional sub-categories of inflows and outflows that are consistent with the specification of the liquidity coverage requirement in the CRR and would inform policy options that should be reported?**



We would like to propose to EBA to create outflow lines for Letters of Credit (L/Cs) and Guarantees of Credit (G/Cs), as EBA has to draft technical standards for other potential outflows (including contingent liabilities arising from Trade Finance) through Articles 408 §2 and §3.).

Within this scope, it is very important for EBA to be adequately informed about the volumes of L/Cs and G/Cs and the related liquidity risk profile.

We therefore recommend to integrate in the outflows section of the template specific lines for covering the off-balance sheet activities of Trade Finance.

Since the very low level of defaults and liquidity impact in this business, not all banks are organized to produce statistical material in the short run.

Therefore, we propose to leave those lines open for reporting on Trade Finance during the observation period and on a voluntary basis.

Arguments for our proposal, are found in the report from Rapporteur Othmar Karas of December 2011 related to Article 413 CRR on inflows and the proposed amendments by other MEPs that take into consideration the impact on the trade finance. However, the proposed amendments only deal with the treatment of cash inflows from loans coming to maturity, while the Trade Finance business also comprises a number of off-balance sheet instruments such as L/Cs and G/Cs, which have in practice an extremely low liquidity profile. The current treatment in the EC's proposal of CRR (Article 408 §2 & §3) does not allow banks to assess the liquidity impact of L/Cs and G/Cs that are granted to their customers and to verify whether the low liquidity risk profile will indeed be acknowledged through the regulatory percentage parameters.

This is not consistent with the economic significance of Trade Finance (including on-balance and off-balance business).

Indeed, Article 408 (2) and (3), describing the procedure to assess the liquidity outflows, including outflows L/C's and G/C's, states:

"2. Institutions shall regularly assess the likelihood and potential volume of liquidity outflows during the next 30 days as far as products or services are concerned, which are not captured in Articles 410 to 412 and which these institutions offer or sponsor or which potential purchasers would consider to be associated with these institutions, including any contractual arrangements such as other off balance sheet and contingent funding obligations. These outflows shall be assessed under the assumption of a combined idiosyncratic and market-wide stress scenario. For this assessment, institutions shall take particular account of material reputational damage that could result from them not providing liquidity support to such products or services. Institutions shall report products and services the likelihood and volume referred to in the first subparagraph is material to the competent authorities not less than yearly and the competent authorities shall determine the outflows to be assigned. The competent authorities shall at least annually report to EBA the types of products or services for which they have determined outflows on the basis of the reports from institutions. They shall in this report also explain the methodology applied to determine the outflows.

3. EBA shall develop draft regulatory technical standards specifying the treatment of products and services referred to in paragraph 2, identifying products or services that shall be covered for these purposes and the appropriate methods to determine the outflows to be assigned. EBA shall submit those draft regulatory technical standards to the Commission by 30 June 2014. Power is delegated to the Commission to adopt the



regulatory technical standards referred to in the first subparagraph in accordance with the procedure laid down in Articles 10 to 14 of Regulation (EU) No 1093/2010."

Such approach will lead to diverging methodologies from which it will be difficult to derive an adequate liquidity risk assessment. This will certainly be true shortly after the entry into force of the CRR, where existing national regulation will be used as a benchmark.

- **Q5 For the purposes of providing guidance as to transferrable securities of high and extremely high credit and liquidity quality, what additional assets, if any, should the ITS collect?**

EBA stated itself that *"the most significant amendments to the CRR in respect of liquidity reporting proposed by the co-decision bodies are to include equities, gold, high quality RMBS or state guaranteed bank debt"*.

Both the Parliament's and Council's compromise indicated that the EBA reporting has to be broadened in order to include equities, gold and Central Bank eligible assets.

In other words, the current reporting should take these items on board, with sub-breakdown for the latter (RMBS, high quality loans, other securitization assets, others...). However, the template does not cover the entire Art.404 CRR and does not take into account additional assets that should be considered in the observation period as defined in Art.481 CRR. As is, this template would deprive EBA from actually using the observation period to determine the assets that should be considered as liquid assets, even though it is one of the most important issues to be dealt with during the observation period.

Consequently, **the report on liquid assets is too restrictive and should therefore be modified.**

We sincerely hope that this letter with its comments and suggestions can assist you in the further development of the ITS.

Yours faithfully,

Michel Vermaerke
Chief Executive Officer

Daniel Mareels
General Manager