

Comments

EBA Consultation Paper on Draft Implementing Technical Standards on Supervisory reporting requirements for liquidity coverage and stable funding (EBA/CP/2012/05)

Contact:

Jens Hielscher

Telephone: +49 30 2021- 2215

Fax: +49 30 2021- 192200

E-Mail: j.hielscher@bvr.de

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Federführer:

Bundesverband der Deutschen

Volksbanken und Raiffeisenbanken e. V.

Schellingstraße 4 | 10785 Berlin

Telefon: +49 30 2021-0

Telefax: +49 30 2021-1900

www.die-deutsche-kreditwirtschaft.de

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I. General

First of all, we would like to propose using the introduction of an ITS on LCR and NSFR as an opportunity for standardisation of the different bank reports of these two ratios. At present, large banks report these ratios in the framework of the Basel Committee's so-called "Basel III Monitoring" (QIS). Beyond this, a larger group of banks takes part in the EBA's so-called "LCR Monitoring" during which also a so-called "LCR EU only Panel A" needs to be filled in along with the Basel reporting template on the LCR. In this Panel, further categories of liquid assets have to be reported. In order to avoid duplicate bank reports, these two templates should be wrapped into one in the forthcoming ITS so that as of 1 January 2013 it will only be necessary to file a single report on the liquidity ratios.

Furthermore, in our view, at the present point in time there is not yet any need for an integration of the reports on the two ratios into the COREP reporting framework. We would like to endorse the view expressed in the draft impact assessment, i.e. that one of the main advantages of an Excel template is that it can be adjusted to any potentially forthcoming requirements which may materialise at an international and at a European level. Due to changes in the final version of the CRR that is expected for autumn 2012 and as a result of the work at the level of the Basel Committee various adjustments will become necessary. On the other hand, the benefits of an integration into COREP listed in the impact assessment are unconvincing.

Hence, we would like to suggest implementing the reports in the framework of the ITS together with the "Basel III" monitoring and the EBA's LCR monitoring in the form of a stand-alone Excel template.

The data obtained in the form of the LCR and NSFR templates are of major interest not only for supervisors. Also for banks, these ratios constitute vital control parameters. Hence, the Excel templates should be designed in a way that allows automatic computation of the LCR and the NSFR which is in compliance with the Basel Committee's requirements. Furthermore, there should also be an LCR calculation that meets the requirements under the CRR. At this juncture, however, it will be necessary to specify certain requirements with regard to the liquid assets included in the calculation.

Reporting of liquid assets

In our understanding, reporting of liquid assets should take place by means of two reporting templates:

On the first reporting template, the assets should be collected based on the definition of Basel III monitoring as well as Annex III of the CRR. These are completely identical. This means, that a separate report of the assets pursuant Annex III is dispensable.

The second reporting template should be used for reporting those assets which can potentially be regarded as liquid assets. In this context, reporting of assets of high and extremely high liquidity and credit quality (Article 404(1) lit. b and d, CRR) takes on a special role. The EBA would like to limit reporting of these assets to those which need to be reported according to Annex III of the CRR. We strongly object to this. Such a proposal would - *ex ante* - narrow down the scope of potentially eligible assets to the securities listed thereunder.

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This is inconsistent with the CRR methodology pursuant to which the scope of assets with high and extremely high liquidity and credit quality is initially merely restricted by the requirements under Article 404(2) and (3) CRR as well as, if applicable, by Article 405 CRR. The rationale behind the so-called observation period consists in collecting information on a group of assets that is as large as possible. This data should subsequently allow preparing a recommendation for the items to be subsumed under the final term "liquid assets".

Based on the foregoing, we suggest a simple and uniform definition for assets of high and extremely high liquidity and credit quality during the observation period: Banks should report any assets with a rating of A- or greater which are recognised as collateral in a standardised repo market or (for countries in where such markets are not available) in a comparable market.

Provided these securities are not already reported on the first reporting template, initially, this report should cover the following securities' categories:

- Bonds issued by or guaranteed by central governments, central banks, regional governments and local authorities and other public sector entities; Bonds of supranational organisations such as e.g. the EU, European Financial Stability Facility bonds (EFSF);
- Covered bank bonds; Promotional bank bonds; Other bank bonds guaranteed by governments; Corporate bonds.

Furthermore, those asset categories should be added which were already queried during the EBA's LCR monitoring in the "LCR EU only Panel A" and which are not included in the EBA's draft reporting template:

- Financial corporate bonds, rated A- or greater;
- Own issuances, rated A- or greater;
- Unsecured bank issuances, rated A- or greater;

Furthermore, we suggest including without any further preconditions in the reports those categories which are equally contained in the "LCR EU only Panel A":

- Gold;
- Equities featured in major indices (incl. all non-EEA Central Bank eligible equities)

Contrary to LCR EU only Panel A which only provides for reporting of "RMBS with high quality prime mortgages as the underlying collateral" in terms of securitisations it should be possible to report any asset backed bonds featuring a similarly high degree of liquidity that do not constitute a resecuritisation. Due to the lower market liquidity of ABS we therefore suggest reporting securities rated AA- or greater.

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II. Specific comments based on the Consultation Paper's questions:

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

The reporting template provided in the framework of the ITS is extremely different from the reporting templates used to date in the framework of the Basel Committee's Basel III monitoring and the EBA's reporting templates for LCR monitoring. Since the current data definitions are based on the reporting templates, the switch to the present proposal will require a considerable amount of resources and time. Furthermore, the technical regulation standard's final version envisaged for November 2012 might be subject to considerable change. This would trigger a renewed extraordinary IT effort.

The implementation becomes even more difficult given that the data point model required for XBRL programming will only be made available for consultation in autumn 2012. As a result, the implementation time available will become even shorter.

In the ITS draft's Executive Summary, the EBA points out that "[s]ufficient time for implementing ITS requirements is essential to ensure data availability and quality in order for competent authorities to perform their tasks". Given that data quality during the implementation hinges on the pending publication of final reporting templates, application of the Implementing Technical Standard on the scheduled reporting date is virtually impossible. Once the final statutory rules are in place, banks would normally need at least one year lead time for the technical implementation. Therefore the monthly LCR reporting on the basis of the EU rules should not begin before 1 January 2014. 2013 should see a transitional continuation of the quarterly reporting in the framework of the ongoing Basel III monitoring and the EBA LCR monitoring. The same applies to NSFR reporting which should equally be postponed by at least one year. Notwithstanding the foregoing, it would be even better if this reporting only became mandatory once the LCR processes have been established.

From the point of view of the proportionality principle, we feel that this pragmatic approach is justified. This applies particularly in view of the fact that the EBA already receives large parts of the necessary data on the basis of the Basel III monitoring and the EBA's LCR monitoring.

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

The current proposals envisage a 5 percent threshold for reporting of items denominated in a currency where the bank has significant liquidity risk. In our view this value is appropriate for most currencies. However, currencies which are freely convertible and which see strong trading, i.e. USD, EUR, YEN, SFR and GBP feature no additional liquidity risk meaning that a 10% threshold would be appropriate.

Notwithstanding the foregoing, also at this juncture, it will not be feasible to establish the relevant processes by 1 January 2013. Alternatively, should our suggestion to postpone the deadlines for first-time reporting be unfeasible, banks should be granted an appropriate period of time in order to adjust to these reports.

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

The EBA proposes 15 calendar days as a remittance period. This is a challenge given that, first and foremost during the initial stages, populating the reporting templates will only feature a low degree of automation. Under the COREP framework, banks shall be granted a reporting deadline of 30 working days for the solvency reports as of 1 January 2013. Although this already appears ambitious, in our view this deadline should also apply to liquidity reporting. Furthermore, an incremental approach would be feasible: In stage one, this ought to take account of the phase-in of new processes. Stage two would see the introduction of incentives aimed at speeding up processes without overtaxing banks.

Based on the foregoing, we view the envisaged remittance period of 15 days as a particular challenge which is due to the fact that group level reporting requires incorporating latest data from each and any subsidiary covered by the prudential consolidation scope. However, in terms of logistics (i.e. due to the organisational workflows) it will frequently only be possible to integrate this data at a later point in time. One feasible alternative to this would be reverting to data from previous months for subsidiaries which are deemed insignificant.

Furthermore, banks submitting unaudited figures which are figures that have not been assessed by external auditors have to correct any errors in the submitted reports by submitting the necessary revisions as soon as possible once the figures have been audited. Usually, an assessment by external auditors takes place on an annual or, at most, on a semi-annual basis. As a consequence, banks would have to submit revision reports for the reporting dates of 31 December and 30 June. We are against such an approach because it would make the logistics of data processing extremely complex and error prone. Every revision report would trigger retroactive duplication of work concerning the reporting date. For instance, this would be virtually impossible when it comes to the submission of data on cash flows. This is due to the fact that this would make the source systems generate new cash flows.

The proposed remittance period of 15 days will be feasible as soon as the reporting templates and the data have been specified in sufficient detail and as soon as an automated submission of the report is possible. Notwithstanding the foregoing, potential ambiguities in the reporting templates or in the data definitions might significantly impair the report's data quality.

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 included in the template and accordingly reported?

Contrary to the existing reporting templates in the framework of the Basel III monitoring or of the EBA's LCR monitoring, the inflows and outflows should be reported in a highly aggregated form. As a result, it is not always clear at which point the current data definitions are supposed to be integrated.

For the purposes of liquidity reporting, mixed activity holding companies Article 4(71) CRR should not be viewed as "financial customers" (Article 400(1) (g) CRR). Due to the fact that the new concept clarification is only introduced in the definition part but not used in the subsequent regulatory wording,

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there is a potential danger that the consequences associated with treatment as a "financial institution" will not be taken into account. We suggest covering business activities in this client category by introducing a new reporting "line item" in the template. This will facilitate a better understanding of the implications of this requirement.

We are concerned that the treatment of the so-called mixed holding companies will create disproportionate disadvantages for large corporate clients when it comes to trade finance (e.g. recognition of credit lines that have been granted). For instance, as soon as a group subsidiary is a bank (for instance VW, Siemens), every credit facilities to groups would have to be treated like a facilities to a bank (LCR outflow rate 100%). As a consequence, this credit facilities would have to be priced accordingly and would incur higher costs for the entity or – where competition does not allow passing on these higher costs – would no longer be made available.

Liquidity inflows

In the field of inflows, the question arises in which position the inflows of financial institutions would have to be integrated if these financial institutions engage not only in one but in several of the activities listed in Annex I item 2 to 12 and 15 of the CRDD IV. Furthermore, for the sake of transparency, as regards inflows from intra-group exposures (Article 108(6) CRR) and within an institutional protection scheme (Article 108(7) CRR) which are exempt from the capped liquidity inflows (i.e. liquidity inflows limited to 75% of liquidity outflows) pursuant to Article 413(1) CRR, we suggest including sub-items in the category "monies due from financial customers".

Inflows within the meaning of Article 413(2) CRR

Article 413(2) CRR defines specific requirements for inflows. Whenever these requirements are met the inflows are eligible for full recognition. Article 413(2) (a) to (c) CRR specify exemptions from this rule. The LCR reporting template also contains separate lines for these exceptions. However, there is no line for the "standard case". For instance, this would be contractual inflows of monies due from securities as well as any other contractual inflows of means of payments which meet all requirements for inflows of means of payments and which have not yet been recognised elsewhere in the LCR reporting template (for instance payments from securities which are not regarded as level 1 or level 2 assets). In our view, an additional line should be added to the EBA reporting template in order to accommodate said liquidity inflows. Otherwise, the result could be an unjustified discrimination during the LCR calculation.

Liquidity inflows which are not eligible for recognition under Article 413(2)(c) CRR

Pursuant to Article 413(2)(c) CRR "(c) monies due that the institution owing those monies treats according to Article 410(4)" and "any other commitments received shall not be taken into account" under inflows. In our view, the reporting requirement for this item could be deleted. After all, this makes no difference for the LCR level.

Furthermore, it is worth noting that the LCR reporting template shall only include the categories "monies due that the institution owing those monies treats according to Article 410(4)" as well as "any other

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commitments received". The LCR reporting template includes no line for "any undrawn credit or liquidity facilities". The EBA should at least clarify the approach for dealing with the latter items.

Contingent payment flows from derivatives

Under Article 410(6) (net amounts payable from derivatives transactions) and Article 413(3) (net amounts receivable from derivative transactions), the CRR regulates how payments from derivative transactions shall be taken into account. Both sections call for consideration of "payables and receivables expected over the 30 day horizon". With regard to the aforementioned categories, the instructions of the EBA reporting templates are largely identical with the CRR requirements. Part of the requirements in the EBA instructions for these categories set out that the payment flows which need to be taken into account must not correspond to the market value. This is due to the fact that the latter also includes estimates on payment inflows and outflows subject to the manifestation of certain conditions as well as estimates on payments which occur beyond the 30-day period. („...not be the marked-to-market value, since the marked-to market value also includes estimates for contingent inflows and outflows and may include cash flows that occur beyond the 30-day horizon.") The same sentence can be found in the current version of the instructions on the QIS. However, the sentence in the QIS instructions specifies the Basel III-requirement further and stipulates that only known payments from derivatives shall be taken into account ("any known (i.e. non-contingent) cash flows"). Whilst in the Basel III context such a provision makes sense, the CRR requirement (recognition of expected payment flows) does not stipulate a general ban on recognition of contingent payment flows. The EBA should clarify in how far contingent payment flows can be taken into account in the derivative categories.

Liquidity outflows

Operational deposits as well as deposits maintained within an institutional protection scheme with and without deposit protection

Article 410(4)(a) CRR describes the requirements concerning liabilities resulting from deposits that have to be maintained: "by the depositor in order to obtain clearing, custody or cash management services". These "operational" deposits should be multiplied by 5% if and when they are covered by a deposit protection scheme as specified under Directive 94/19/EC or an equivalent deposit protection scheme in a third country. Otherwise, they ought to be covered by 25%. To this end, the two following categories have to be reported separately:

"Operational" deposits covered by a deposit guarantee scheme

"Operational" deposits not covered by a deposit guarantee scheme

However, in the EBA's LCR reporting template outflows from these categories (Article 410(4) (a)) can only be captured under line 1.2.4.1. In our view, an additional line should be added to the EBA reporting template.

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By way of analogy, the same applies to line 1.2.4.2 which serves for reporting liabilities resulting from deposits that have to be maintained in the context of common task sharing within an institutional protection scheme. Under Article 410(4) (b) CRR) provided they are covered by a deposit guarantee scheme) these are eligible for recognition with an outflow factor of 5%.

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?

Clearly more assets should be collected on the basis of the reporting templates. Please see also our general comments above.

Furthermore, it is worth noting that the asset categories listed in the draft reporting template are structured in a different way than those in the Basel III monitoring reporting template and the EBA's LCR monitoring reporting template which means that data structures which were prepared on the basis of the existing templates would have to be reorganised. This requires personnel resources, time and money for the IT implementation. For the further implementation process it would be helpful to know if and to which extent further adjustments will become necessary in November.

It is not entirely clear how CIUs are supposed to be reported in the reporting template on liquid assets. Line 1.4 requires reporting any shares or units in CIUs with underlying assets specified in Article 404. These CIUs shall be broken down on the basis of the categories specified under Article 406(2)(a) to (c) CRR and have to be reported in lines 1.4.1 to 1.4.3. To this end, the template related instructions should include a clarification: In the above-mentioned subcategories there should be a breakdown. Any assets underlying the funds reported in line 1.4 should be broken down into the categories specified under Article 406(2)(a) to (c) CRR. Under the current wording in the template related instructions, only those funds would have to be reported which feature a 100% investment into the respective category.

For financial network groups, reporting of investments into an institutional deposit protection scheme pursuant to Article(108)(7) CRR is compulsory (cf. also the proposal by the EU Parliament/ECON for the ongoing tri-partite talks; cf. also Annex). If these items will not be included in the reporting template (cf. proposal), for the purposes of interest representation, this data should at least be collected internally, i.e. inside the network.

We suggest introducing a new item under 1.10 and 1.11

1.10	(-) Deposits within institutional deposit protection schemes pursuant to Article 108(7) CRR, which serve financial network liquidity (due to the fact that otherwise they are already covered in the denominator of the LCR under inflows, assets should have a residual term to maturity of > 30 days)
1.10.1	(-) Of which in the form of marketable securities
1.11	(-) Other financials (unless already recognised under the above-mentioned item 1.10/1.10.1)
1.11.1	(-) Rating of AA- or greater
1.11.2	(-) Rating between A- to AA-

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Q6: Do respondents agree that the template captures the requirement of the draft CRR on reporting of stable funding?

The NSFR reporting template corresponds to the individual items mentioned in Article 414 and 415 CRR. Whilst this means that the data fields are defined, a specification of the data content which goes beyond the draft legislation would be helpful in the accompanying explanatory documentation. This should also include cross references to other reporting templates in which the individual items have already been clearly defined (for instance the own funds reference measure in COREP, stable retail client deposits in LCR).

Call rights for "items requiring stable funding" (RSF)

With the exception of a provision on "items providing stable funding" (ASF) the CRR does not contain any further provisions on treatment of call rights ("the closer of their maturity date and the earliest date at which they can contractually be called" (Article 414(2) CRR). Article 415 CRR specifies the requirements concerning "items requiring stable funding" (RSF). Under Article 415(2) CRR, all items (if applicable) have to be assigned to one of the buckets described in Article 414(2) CRR. Article 415(2) CRR does not address the recognition of call rights ("Where applicable, all items shall be presented in the five buckets described in Article 414(2)"). Contrary to this, the EBA's NSFR template related instructions also requests an allocation of the items on the basis of their term to maturity and the earliest point at which they can be called under the provisions of the respective contract also for the RSF ("... assets for which the closer of their maturity date and the earliest date at which they can contractually be called..."). There should be a clarification how call rights should be recognised when it comes to RSF items.

Up to now, in terms of the RSF, the QIS granted residential mortgages loans preferential treatment. Now, however, there is no differentiation based on the type of collateral (table on Required Funding under 1.7) Is this a deliberate decision?

Editorial Comments

In the NSFR template related instructions, lines are described which are not included in the NSFR reporting template:

RSF: Lines 1.1.1.1 to 1.1.1.7 (including all sub-lines),

RSF: Lines 1.1.2.1 to 1.1.2.4 (including all sub-lines),

ASF: Line 1.2.1.2.

The following lines are included in the NSFR reporting template but are not described in the template related instructions:

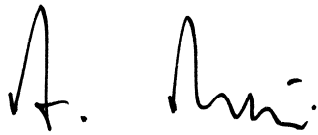
Lines 1.1.1.1 and 1.1.1.2,

Lines 1.1.2.1 and 1.1.2.2.

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Yours sincerely,

on behalf of the German Banking Industry Committee
National Association of German Cooperative Banks



Dr. Andreas Martin



Dr. Ruben Lanzerath