

POSITION PAPER



ESBG Response to the EBA's consultation paper on Draft Implementing Technical Standards on supervisory reporting requirements for liquidity coverage and stable funding.

ESBG (European Savings Banks Group)
Rue Marie-Thérèse, 11 - B-1000 Brussels
ESBG Register ID 8765978796-80

August 2012



I. **General observations**

The European Savings Banks Group (ESBG) welcomes the opportunity to make comments on the EBA's consultation paper on Draft Implementing Technical Standards on supervisory reporting requirements for liquidity coverage and stable funding.

First of all, the ESBG is of the opinion that the introduction of an ITS on LCR and NSFR should serve as an opportunity for standardisation of the different bank reports of these two ratios. Currently, large and smaller banks (Group I and II) report these ratios in the framework of the Basel Committee's "Basel III Monitoring" (QIS). Besides, a larger group of banks takes part in the EBA's "LCR Monitoring" during which also a "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 merged 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.

Additionally, the ESBG considers that intra-group transactions should be treated more favorable according to the latest Danish Presidency compromise.

Furthermore, in our view, at this stage 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 the changes in the final version of the CRR that is expected for autumn 2012, and as a result of the work at international level carried out by the Basel Committee, various adjustments will become necessary. On the other hand, the benefits of an eventual integration into COREP referred to in the impact assessment are not clear to us.

Therefore, 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.



Considerations regarding the EBA template:

The new EBA template contains no assumptions/percentages for each sub-category. Furthermore, there is no final LCR or NSFR ratio. In that matter the ESBG has major concerns, given that the final outcome of the ratios could become eventually a black box for the bank itself. Even if financial institutions are provided with a description of the percentages that will have to be applied for each single category, there remains the risk that the ratio the bank calculates will differ from the official one provided by the national bank.

We would like to suggest adding the calculation for the ratios in the template similar as in the current QIS template. Given that the selection of the format is related to the observation period, we consider that the option number one (following an approach chosen for the QIS based on a stand-alone Excel template) would be more appropriate, in order to allow flexibility for financial institutions to adapt to future modifications.

Considerations regarding the 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 not necessary and should be dismissed.
- 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. The ESBG strongly opposes this, given that this proposal would - ex ante - narrow down the scope of potentially eligible assets to the securities listed there under.

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 observation period consists in collecting information on a group of assets that is as large as possible. These data should subsequently allow preparing a recommendation for the items to be subsumed under the final term 'liquid assets'.

Against this background, the ESBG would like to 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 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 the EU, or European Financial Stability Facility bonds (EFSF);
- Covered bank bonds;
- Promotional bank bonds;
- Other bank bonds guaranteed by governments;
- Corporate bonds;
- ECB loan agreements;
- High quality loans such as credit claims
- Liquid assets in the trading book

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.

Finally, 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)

Including the ITS as an Annex to the COREP reporting standards.



II. Specific comments

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

Regarding the feasibility of the suggested dates for first remittance of data (January and end of March 2013) the ESBG considers that it implies a short period of time to institutions to make the necessary developments in order to fulfil reporting requirements. Furthermore, the possibility that the CRD IV implementation is postponed until January 2014 has to be considered.

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 the LCR monitoring. Since the current data definitions are based on the reporting templates, the switch to the present proposal would 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 changes. 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, the 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 on-going Basel III monitoring and the EBA LCR monitoring. The same applies to the 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% 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.

Nevertheless, 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.

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

Regarding the feasibility of the proposed remittance period of 15 working days, the ESBG considers that this is a very short period for institutions to comply with. Usually the remittance period of information set up by the ESAs at national level vary from 20 to 30 days after the reporting reference date, depending on the complexity of the information. The ESBG is of the opinion that 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 to speed up the reporting period once the institutions become familiar with the new standards could be considered.

Furthermore, banks submitting unaudited figures (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 working days would 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. Nevertheless, 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.

- 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 items 2 to 12 and 15 of the CRD IV. Furthermore, for the sake of transparency, regarding 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) of the 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 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”). While 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.

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?

The ESBG is of the opinion that the data needed to fulfil the criteria listed as proposed in Article 481 of the CRR draft is hardly available. Especially, for those securities listed or coming from Eastern European countries or any securities with lower volume it will be challenging to get the required information. Besides, the appropriate levels to distinguish between highly and extremely highly liquid assets are totally unclear.

The ESBG would have very much appreciated an introduction of an ISIN list of highly and extremely highly liquid assets, similar to the current publication of ECB eligible securities. For those securities listed no further analysis should be required. If an institution wants to declare any other assets as highly and/or extremely highly liquid assets they would need just to fulfil the criteria previously set.

As a provisional criterion until the EBA publishes the final criteria set some financial institutions will treat former HLA1 (High liquid Assets, level 1) securities as extremely high liquid assets and former HLA2 (High liquid Assets, level 2) assets as high liquid ones. The better the quality of the securities the more liquid the securities will be. For local government securities this separation is anyhow not required according to the EBA draft.

Regarding the additional assets that should the ITS collect, it is necessary to take into account the assets included in the amendments to the Regulation because of its high liquidity, in order to show it. In any case it is clear that more assets should be collected on the basis of the reporting templates. Please see also our general comments above. Those assets are: covered bonds, government guaranteed bank debt, corporate debt issued by institutions, listed securities, securitization and ECB loan agreements.

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 staff 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.

High quality loans such as credit claims should be added to the HLA. It should be made clear that qualifying liquid assets in the trading book are part of HLA. After all, they could be accessed in a liquidity crisis the same way than any other HLA in the banking book.

Generally, the ESBG considers that highly and extremely highly liquid assets should be comparable to central bank eligible assets. A security eligible for a central bank should pass the criteria of highly and extremely highly liquid assets and vice versa.

Moreover, it is not entirely clear how collective investment undertakings (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 institutions which are members of the same institutional protection scheme referred to in 108(7)(b) CRR, reporting of investments is compulsory. 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 financial group.

The ESBG would like to 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-

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



The ESBG considers that it is too soon to start to report on stable funding, as well as according to BIS III accord the NSFR will start to be applied from 2018, and could be still subject to several changes.

Furthermore, 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).



About ESBG (European Savings Banks Group)

ESBG – The European Voice of Savings and Retail Banking

ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising of approximately one-third of the retail banking market in Europe, with total assets of over €7,470 billion, non-bank deposits of €3,400 billion and non-bank loans of €4,000 billion (31 December 2010). It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

ESBG members are typically savings and retail banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their region. ESBG member banks have reinvested responsibly in their region for many decades and are a distinct benchmark for corporate social responsibility activities throughout Europe and the world.



ESBG - Association internationale sans but lucratif/Internationale vereniging zonder instoogmerk/
International not-for-profit association

Rue Marie-Thérèse, 11 ■ B-1000 Brussels ■ Tel: +32 2 211 11 11 ■ Fax: +32 2 211 11 99
info@savings-banks.eu ■ www.savings-banks.eu

Published by the ESBG, August 2012