EBA EUROPEAN BANKING AUTHORITY

Public hearing

- **Guidelines on exemption criteria from liquidity requirements** (EBA/CP/2021/42)
- **Draft RTS on investment firms' specific liquidity requirements** (EBA/CP/2021/41)

EBA, Prudential Regulation and Supervisory Policy

18 January 2022, Paris

Contents

Liquidity requirements: background (1/2)

- Directive (EU) 2019/2034 (IFD) and Regulation (EU) 2019/2033 (IFR) introduce harmonised **liquidity** requirements for the investment firms at the EU level:
  - Liquidity requirements specify the **amount** of liquid assets which investment firms shall hold and its **composition**
  - Rules for **exempting** investment firms from liquidity requirements
  - Investment firms (other than 'small and non-interconnected' investment firms) shall have in place sound, effective and **comprehensive** arrangements, strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of liquid assets to cover risks
  - In addition to minimum liquidity requirements under the IFR, **specific** liquidity requirements may be imposed in accordance with the **outcome** of the supervisory review and evaluation process

Liquidity requirements: background (2/2)

- Amount of liquid assets
  - Investment firms shall hold an amount of liquid assets equivalent to at least **one third of their fixed overheads** requirements
  - Investment firms which provide **guarantees** to clients shall increase an amount of liquid assets by 1,6 % of the total guarantees provided to clients
  - Amount of liquid assets can be reduced only in **exceptional** circumstances in accordance with Article 44 of the IFR

- Composition of liquid assets
  - IFR contains an exhaustive list of liquid assets, set down in Article 43(1) of the IFR
  - Small and non-interconnected investment firms may include in their liquid assets trade receivables from trade debtors as well as fees or commissions receivable within 30 days

Liquidity requirement: EBA mandates

1. Mandate under Article 43(4) of the IFR:
   - Guidelines further specifying the **criteria** competent authorities may take into account when **exempting** from the liquidity requirements investment firms that meet the conditions for qualifying as **small and non-interconnected investment firms** set out in Article 12(1) of the IFR

2. Mandate under Article 42(6) of the IFD:
   - Article 42(1)(a) of the IFD: "the investment firm is exposed to liquidity risk or elements of liquidity risk that are **material** and are **not covered** or not sufficiently covered by the liquidity requirement set out in the IFR"
   - Draft RTS to specify: "how the **liquidity risk and elements** of liquidity risk referred to in Article 42(1)(a) are to be measured"

Guidelines to specify the exemption criteria

- Main elements of the guidelines
  - The exemption should be granted to a **limited number** of investment firms
  - The guidelines specify that an exemption should be granted based on investment firm's financial resources **needs for an orderly wind-down**
  - Investment firms which are subject to **specific** liquidity requirements should not be exempted
  - The guidelines provides a subset of investment firms eligible for the exemption **based on the services** the investment firm performs
  - Investment firms engaging in other activities which may give raise to liquidity risk **should not** be exempted
  - An exemption should be granted based on an investment firm's **request** and the competent authority should **withdraw** the exemption if the investment firm does not comply anymore with the criteria for the exemption

RTS on specific liquidity requirements

- Main elements

  - The draft RTS specify elements of liquidity risk which competent authorities shall **consider as material** and are not covered, or not sufficiently covered, by the liquidity requirements in the IFR
  - The draft RTS set factors of liquidity risk and its **elements** which competent authorities shall consider when **imposing specific liquidity requirements**
  - Competent authorities shall apply a risk-based approach and the assessment shall cover all-encompassing elements **for all investment firms** subject to the assessment
  - To ensure proportionality, small and non-interconnected investment firms shall be subject to a **limited subset** of the elements to be considered

Guidelines for SREP of investment firms: liquidity risk

- Title 8 Assessing risk to liquidity
  - Assessing liquidity risk
  - Evaluation of intraday liquidity risk
  - Evaluation of available liquid resources
  - Evaluation of funding
  - Organisational framework, policies and procedures
  - Liquidity risk internal control framework
- Title 9. Determination of the outcome of liquidity assessment
  - Overall assessment of liquidity risk
  - Determining the need for specific liquidity requirements

RTS on specific liquidity requirements

- Competent authorities shall assess the following:
  a) Trading activities or loss in income from portfolio management
  b) Access to funding sources
  c) External events affecting liquidity
  d) Operational risk affecting liquidity
  e) Reputational risk affecting liquidity
  f) Inadequate management and controls of liquidity risk
  g) Group structure
- For small and non-interconnected investment firms, the assessment should cover only points a), b) and g).

References

- The two consultation papers available here:
  - EBA consults on liquidity requirements for investment firms | European Banking Authority (europa.eu)
- Please note that the **deadline** for the submission of comments is **10 March 2022**.

Send your comments

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Thank you!

If you have a question,
please raise your hand

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