Europäische Bausparkassenvereinigung
Fédération Européenne d'Epargne et de Crédit pour le Logement
European Federation of Building Societies

Brussels, 25 July 2013

Comments on the Consultation Paper on "Draft Implementing Technical Standards on Additional Liquidity Monitoring Metrics under Article 403(2) of the draft Capital Requirements Regulation (CRR)"

The European Federation of Building Societies (EFBS) is pleased to use this opportunity to make comments on the **"Consultation Paper on Draft Implementing Technical Standards on Additional Liquidity Monitoring Metrics under Article 403(2) of the draft Capital Requirements Regulation (CRR)"**.

The EFBS is an association of credit institutions and organisations that assist in and support the financing of home ownership. Its purpose is to encourage the idea of acquiring home ownership in today's Europe, which is converging both politically and economically. Building societies grant loans secured by residential property to finance home ownership as a bulk business. In addition to this building-society business in the stricter sense, building societies are also allowed to make investments, however only in particularly safe investment vehicles.

Building societies use the deposits made by their savers to finance home-building loans. Today, building society contracts provide savers with a wide range of options - primarily in terms of the savings plans, the amounts borrowed and the timing, the repayment of the loans and the switching of rates under a contract. Because of the high flexibility provided by building society contracts, customers can affect the cash flow of building societies in many respects. In some cases, the utilisation of these options by customers may be influenced by capital market interest rates; in other cases, it may solely depend on the customers' individual needs.

Because of the large number of options available to customers, it is very important for building societies to manage the liquidity and interest-rate risks. For the protection their liquidity, building societies have developed specific management tools. These include in particular internal simulation models which are designed to predict the development of the portfolio of building society contracts and the development of cash flows, based on the portfolio of building society contracts. The simulation models include a large number of parameters to cover all the options available to customers.

The simulation models are subjected to periodic quality reviews and certification by auditors. Their suitability is validated by the supervisory authority. The findings obtained by means of the liquidity models are analysed both in terms of the present value (e.g. value-at-risk approach) and from a periodic perspective (income statement).

The building societies' internal liquidity management is complemented by specific liquidity requirements laid down in the national Building Societies Acts, including special reporting requirements with high reporting frequency. In addition, building societies have to comply with the general liquidity rules laid down by the supervisory authority for banks.

The cash flows of the building society business are generally not contractually agreed. For liquidity reasons, building societies are in fact prohibited under the national Building Societies Acts from

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agreeing to pay out the contract sum on a certain date. For this reason, it will not be possible to provide data on contractual cash inflows and outflows of building society contracts.

We would therefore like to ask you to make an exception with regard to the building societies' business by not obliging building societies to report the Contract Flow Maturity in the context of their maturity ladder reporting.

Furthermore, we would like to submit the following comments with reference to the questions raised in the Consultation Paper:

Q01. Are the proposed remittance dates feasible? Does the specification in paragraph 2 give sufficient clarity on which flows are included and excluded for the purposes of this RTS? If not, please provide us with an alternative specification.

Our members are not in a position to meet the deadline of only 15 calendar days after the end of a month for reporting the LCR, the NSFR and the additional liquidity monitoring metrics. Various data required for the reports, such as collateral data or market values, will not be available until a few days after the end of a given month. The data needed for the reports cannot yet be processed with the desired technical support.

In our opinion, it will therefore be necessary to allow at least 30 days for reporting the data. As a general rule, we believe that it would make sense to report all liquidity monitoring metrics on a single date.

While many of the data required are already available in the systems today, in many cases they are not available in systems that are connected to the reporting systems, or they are not available in the form needed. Initially, reporting the data will still involve a great deal of manual processing. To minimise the amount of manual work and the associated potential errors and to provide full technical connectivity, a large number of interfaces will have to be adapted.

The functional and technical specifications cannot be completed before the finalisation of the standards, and only then will it be possible to adapt and test the systems. Having said this, we assume that the final standards will soon be available.

With reference to the time needed by our members to implement the standards, we urge you not to oblige institutions to submit their first reports of the additional liquidity monitoring metrics before 1 January 2015. In our opinion, the reporting deadline could be reduced to less than 30 days as of 1 January 2016.

Q02. Are the proposed frequency dates feasible? Has the proportionality been adequately considered?

The large number of new regulatory requirements – not least in the field of liquidity – poses major challenges for the institutions, in terms of both functional operations and processes. Considerable efforts will therefore have to be made to implement the requirements, initially involving substantial manual work because technical support will not yet be sufficient. We therefore urge you to start with a general reporting frequency of three months for the additional liquidity monitoring metrics.

In our opinion, a monthly reporting frequency could be introduced for certain institutions or groups as of 1 January 2016, in conformity with the principle of proportionality.

Q03. Is the above size threshold of 1% of total assets suitable to determine a higher reporting frequency? Should such threshold be substituted or complemented by a liquidity-risk-based threshold or other quantitative criteria? If so, by which?

In our opinion, the method applied to determine the threshold beyond which a higher reporting frequency will be imposed should be simple. A percentage, as proposed by the EBA, seems appropriate.

However, a liquidity-risk-based threshold does not appear to be suitable because the institutions would have to establish a regular monitoring mechanism for this purpose.

Q04. Are the reporting templates and instructions sufficiently clear? Shall some parts be clarified? Shall some rows/columns be added or deleted?

It is unclear how the COF Product template (concentration of funding by product type) will be applied to building societies. As explained above, it will not be possible, due to the lack of contractual agreements, to provide information on average maturities for deposits under building society contracts, which we would define as saving accounts.

Q06. For institutions, could you indicate which type of costs (A1, A2, A3) are you more likely to incur? Could you explain what exactly drives these costs and give us an indication of their expected scale?

The highest costs will be incurred by A1 (data collection, record keeping and monitoring systems) and A2 (IT infrastructure), not least because of the associated one-off personnel expenses for the establishment of an automated process.

In this context, a major cost driver will be the reporting on expected cash flows required as part of the new liquidity monitoring metrics. To this end, the internal liquidity management models will have to be connected with the reporting system, both functionally and technically. Reporting data on prices of funding and roll-over of funding will also require considerable implementation efforts.

Q07. Do you agree with our analysis of the impact of the proposals in this CP? If not, can you provide any evidence or data that would explain why you disagree or might further inform our analysis of the likely impacts of the proposals?

In our opinion, assuming that the requirement to report prices for various lengths of funding will have a "low" impact on institutions means underestimating the efforts that will have to be made. While the data on refinancing costs are generally available in the systems, they will have to be aggregated in a certain way, so that they can be reported in the required structure with average maturities and maturity bands. Furthermore, as a rule there is no technical connection with the regulatory reporting system.

In our opinion, assuming that the requirements will have a "low impact" on personnel expenses also underestimates the efforts that will have to be made. Automating the provision of data, establishing the technical connection to the reporting system and performing the necessary tests will tie up significant human resources for several months.