



The voice of banking
& financial services

European Banking Authority
Tower 42 (Level 18)
25 Old Broad Street
London EC2N 1EX

14 August 2013

Dear Sirs,

BBA response to EBA RTS Additional Liquidity Monitoring Metrics

Introduction

The British Bankers' Association ("BBA") is the leading association for UK banking and financial services for the UK banking and financial services sector, speaking for over 220 banking members from 60 countries on the full range of the UK and international banking issues. All the major banking players in the UK are members of our association as are the large international EU banks, the US banks operating in the UK and financial entities from around the world. The integrated nature of banking means that our members are engaged in activities ranging widely across the financial spectrum encompassing services and products as diverse as primary and secondary securities trading, insurance, investment banking and wealth management, as well as deposit taking and other conventional forms of banking. The BBA is pleased to respond to this consultation.

Key messages

Implementation date

The ITS acknowledges that the EBA is consulting on additional metrics after the other reporting requirements. As a result, these rules will be implemented after the aforementioned reporting requirements (i.e. later than 1st January 2014). While we agree common EU liquidity reporting has the potential to yield significant benefits to the single market and cross-border supervisory cooperation, we are concerned that a rushed implementation, combined with unclear definitions, will result in these benefits not being realised.

Banks will need significant time (post-publication of the final templates) to complete systems changes. The implementation should also be viewed in the context of the competing pressure on resources from other regulatory reporting projects, most of which will be tackled by similar personnel within firms. The end result of early implementation will be a significant costs (manual processes, diversion of resources) that is disproportionate to any corresponding benefit.

We strongly believe that given this significant increase in the reporting burden, combined with the relatively late release of this consultation paper, means that the liquidity monitoring metrics should not be implemented until 1st January 2015. This would still leave 3 years before the LCR is fully implemented and the existing regulatory reporting is switched off, and would ensure implementation will be smooth within firms, and deliver the regulators the accurate data they need.

Frequency of Reporting

The frequency of data collection should not result in the inefficient use of the resources of institutions and supervisors. We would ask the EBA to clarify its expectations of any increased frequency in a crisis, so that institutions can build system processes accordingly.

DPM consistency

The EBA needs to ensure there is consistency across the DPM for liquidity issues. This is particularly relevant for the monitoring metrics LCR and NSFR. At present there remains inconsistency in the interrelationship of the mapping rules concerning the DPM. We would also note that the classification of trades under the contractual maturity ladder is very similar to that of the LCR. The EBA needs to ensure there is cross validation between both the columns and rows of the DPM in order to ensure consistent and accurate reporting.

Harmonisation of liquidity reporting

Although the BBA appreciates that both Basel and the EBA, via the direction given within the CRR, have differing standards which require monitoring on an ongoing basis, prior to final implementation, the use of two separate templates will result in a large regulatory reporting burden for EU firms. It is important therefore that, wherever possible, the Basel QIS remains strictly on a consolidated quarterly "best-efforts basis", and that the EBA roll-out a waiver process ASAP to facilitate the elimination of unnecessary levels of granularity in EU liquidity reporting.

Secondly, it is very important that, where achievable, firms in all jurisdictions report the same data on the same templates. This will have the dual benefit of ensuring a level playing field, and will also be of tangible benefit to supervisors by allowing them a consistent approach when undertaking data assessment. While we appreciate the EBA does not have control over other jurisdictions, we do believe this is an important point that should bear consideration.

Conclusion

The BBA supports the EBA objectives to improve the ability of supervisors to assess the liquidity risk of institutions. However, this objective will only be achieved if the banking industry works to a realistic timetable. Annex 1 details our comments on the questions laid out in the CP, while Annex II contains further comments which do not naturally fall into any of the set question.

Yours sincerely

Robert Driver

A handwritten signature in black ink, appearing to read 'R Driver', with a long horizontal flourish extending to the right.

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Annex I

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.

The paper states that monthly reporting is to be 15 calendar days after the reporting reference date. This time period is far too short for firms to be able to realistically report their returns on a consolidated basis to the required degree of accuracy. We strongly recommend that the EBA extend this to 30 calendar days after the reporting reference date.

The remittance dates put forward in the draft ITS are based on calendar days. However, the remittance dates for the rest of COREP are based on business days. We cannot see any benefit in the divergence and it would require firms to undertake a great deal more work for no apparent benefit. We strongly suggest the EBA changes this to business days to bring it in line with the rest of COREP.

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

As stated above, we believe the frequency of the data collection should be efficient, and the EBA should clarify its expectations of any increased frequency in a crisis. Based on this, we would make the following suggestions:

- A lower frequency (for example, on a quarterly basis) for the concentration of funding metrics given these are unlikely to be volatile (even in a stress,) on a month-by-month basis.
- A lower frequency for the behavioural template. We are unclear as to the purpose and usefulness of the behavioural template. If the purpose is to assess the funding plans of the institution then it should be aligned with the planning process (which for most banks would be annual or semi-annual). If the purpose is to compare the behavioural assumptions of individual banks, then again most banks would not update these assumptions on a monthly basis. Therefore we recommend a lower frequency (semi-annual at most) for this. If it is intended to assess the funding plans of an institution the frequency could be aligned with the ILAAP.
- The EBA should survey its members as to the frequency and the expected purpose of this template. We note that large regulators such as the UK, US do not collect behavioural information through regulatory returns.

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?

Due to the pressures with regards to time and cost firms will face as outlined above, institutions will need certainty about any waiver decision of the supervisor in good time before the requirements enter into force. It is worth noting that, within the finalised CRR, there is the scope for waivers to be granted “in full or in part”. We therefore see no cause for delay in implementing a waiver process specific for the liquidity monitoring tools.

Regardless of the availability of a waiver process pursuant to Article 8 of the CRR, we would recommend that there should also be a threshold for reporting a legal entity, based on whether its liquidity risk is material for the parent company, and if the size of the entity (e.g. balance sheet) is below a specified absolute amount.

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

We are concerned that as the instructions are unclear and open to differing interpretations, the benefit of comparable information is lost. We would raise the following issues:

Behavioural maturity ladder

The maturity ladder reporting templates (contractual and behavioural) are extremely detailed and complex. Sourcing this data will require significant development of infrastructure.

We would ask the EBA to confirm that the behavioural maturity ladder is based on a “business as usual scenario”, and also to provide further clarification as to how estimated, planned and expected cash flows interact for one trade as it is not clear from the current guidance.

We would also note that all collateral according to CRR 416(1), i.e. including 416(1)(d) (high liquidity and credit quality), should be recognised as additional inflows outside of margining sets. This is consistent with the calculation of the inflows from derivatives (Article 425(3)).

We recommend that these queries would not only benefit from further explanation, but if the EBA could also provide examples this would be of great help to firms.

There is also a proportionality aspect to be considered. For example, where a firm has small Investment Bank arm, and a weighted average tenure of trades of 4 months, it not entirely clear how they would show estimated, planned and expected cash flows for a 10 year time horizon. Furthermore, it is not immediately apparent how this return would be useful to the regulator or a firm in such a position.

The EBA needs to restate its purpose behind the behavioural template, because at the moment it is unclear. If firms can understand the EBA’s thinking behind the design, it will help them provide more useful data. The EBA should also provide further details as to how it sees the template being a useful supervisory tool for monitoring liquidity risk.

Concentration of funding by counterparty /product type

The paper identifies potential situations where a counterparty has more than one product or currency that need to be reported separately. The EBA needs to confirm how this information is to be reported, and provide some background on the rationale for this approach. We would ask the EBA to consider if it would be possible to update the template to collect all of the relevant information in one collection.

If liquidity monitoring tools are to be reported on a “significant” currency basis as well as one combined report, the provision of additional information will be surplus to requirements. In any case, banks should only have to make one report in one combined currency, as multiple currencies will result in a very large reporting burden.

It is very difficult to assess meaningfully concentrations by counterparty in relation to securities issuance owing to the very significant role of the secondary market.

Prices for various lengths of funding

The EBA needs to clarify whether this report should include retail deposits and, if so, how these are to be reported. It should be noted that mixing the reporting of retail and wholesale funding pricing would not give a clear perspective.

Rollover of funding

The EBA needs to provide further clarification on the reporting requirements, and also provide some background as to why the EBA has requested this report. We assume that the time buckets here represent the original maturity of funding maturing/raised on a particular day, but this is not immediately apparent from the reporting instructions.

Q05. Could you indicate whether all the main drivers of costs and benefits have been identified in the table above? Are there any other costs or benefits missing? If yes, could you specify which ones?

The BBA has no comments.

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?

This is a question that will vary from firm to firm, and based on this the BBA cannot give a definitive answer. However, from our discussions with members it would seem that A1 (IT infrastructure) and A2 (record keeping and monitoring systems) are of concern across the industry generally.

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?

The BBA has no comments.

Annex II

Contractual Flow

- 1.2.7.1 Gold: Gold listed on a recognised exchange seems to be a duplication from row 28.

Behaviour Flow

- 1.5/2.5 Derivative: the text does not state “from new Derivative contracts”.
- 1.5/2.5 Derivative: margin call is requested but for new Derivative contracts this would be unknown (i.e. null – or should this be the initial margin that would be posted/received)?
- 1.6 Own investment request: can the EBA confirm what approach firms should take where a firm is proposing to increase their trading portfolio?
- 1.8 Monies due to financial customers: the 2nd and 3rd paragraph is actually for inflow and not outflows, and it refers to contractual flows.
- 2.2 Monies expected from non-financial customers: inflows should be reported at the latest contractual date for repayment. This is not in line with what Behaviour Flow is trying to achieve (i.e. use base case).
- With regards to the maturity ladder, if the outflows are to be represented under a stressed scenario, could the EBA provide guidance as to what type of stress should be modelled (e.g. specific, systemic)?

Concentration of Funding by Counterparty

- J. Amount Received - references to “I” and “H” should be replaced with “J” and “I” respectively.
- K. Weighted Average Initial Maturity: references to “I” and “J” should be replaced with “J” and “K” respectively.
- L. Weighted Average Residual Maturity: references to “H”, “I” and “K” should be replaced with “J”, “D” and “L” respectively.
- The guidance states: “Total Liabilities measured using the Balance Sheet”. Can the EBA clarify to what Balance Sheet the guidance referring to (i.e. IFRS; UK GAAP or Balance Sheet used for Liquidity Reporting)?
- With regards to borrowing type, can be the EBA clarify why there is no “Stock Borrow and Lending” product type, and confirm under which category should related companies be reported?
- Can the EBA confirm whether the amounts should be reported in one single currency or in the currency listed under the “currency” column?

Concentration of funding by product type

- Column E Total amount received: Column E indicates that “total amount received” should be reported in one combined reporting currency. Could the EBA confirm in what currency this is to be reported?