



The voice of banking
& financial services

20 August 2012

Cp-2012-05@eba.europa.eu
European Banking Authority

Dear Sirs,

Consultation paper on draft Implementing Technical Standards on supervisory reporting requirements for liquidity coverage and stable funding

The BBA is pleased to respond to the consultation.

Key messages

Although, dialogue (and hence the timetable and the final format of the reports) is beyond the control of the EBA, it would be helpful for the EBA to recognise that the timetable for reporting will give banks virtually no time to build robust IT systems to deliver the report requested, an approach that would be welcomed by our members to work done at Basel level too.

Limited feedback has been published by the authorities based on the QIS data supplied by large banks. It would be useful to understand what the data is telling regulators in respect of underlying calibration and definitions. It would also be helpful to know how this EBA consultation fits with the Basel process, especially this autumn's QIS, which will have a wider range of metrics. Provision of mapping between the two templates will provide industry greater clarity when developing IT systems. Will reporting to the EBA replace the Basel Committee's QIS? Or will the industry be expected to complete dual submission?

It is not clear how the supplementary sheets fit together.

The paper suggests that liquidity reporting should be aligned with COREP, which has just gone through a similar consultation exercise, but as data points have yet to be set, there will be a further need for banks to adjust underlying feeds from IT systems once clarified. It would be helpful for industry and the authorities to discuss how reconciliation can work given that liquidity reporting is based on cash positions not accounting figures.

There is an emphasis on the liquidity coverage ratio (LCR), but there are other indicators of liquidity risk, which deserve attention too. In addition, a bank may be able to meet its LCR and stable funding, formerly the Net Stable Funding Ratio (NSFR), obligations, i.e. over 1 month and 12 months, but hit trouble between months 1 and 12.

We believe that as many asset classes as possible should be eligible for the liquid asset buffer within the template. These include high quality retail mortgage backed securities (RMBS), index equities and precious metals. The observation period needs to allow for the testing of the market liquidity of a

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variety of such instruments in order to provide more contingency options in a stressed scenario, result in reduced concentrations and increase flexibility to allow banks to avoid using central bank liquidity facilities. How will the testing of liquidity be undertaken based on the completion of the templates?

Accounting and information technology systems will need further adaptation, which will require banks to deploy scarce IT programming resources, so the industry would welcome early finalisation of the liquidity reporting requirements.

How do the other issues not addressed in this consultation get an airing?

The implications of completing dialogue after the summer of 2012, and what happens between the EBA and European Commission between the 27 August deadline and the end of the year, i.e. compliance, should be addressed by the authorities. Banks are willing to work with the authorities to facilitate the collection of data.

Conclusion

The current lack of clarity, e.g. in definitions, and feedback from learning's gathered based on existing QIS submissions may lead to policies and rules that may not contribute to the safety and soundness of the financial system that the authorities, public and industry are aiming for, so we recommend a holistic approach as a better alternative to the piecemeal one being rolled out this summer.

Annex 1 to our letter contains our formal response to the consultation, and further specific observations and questions arising from the proposals.

We hope that you will find our comment useful. Please contact me by way of e-mail (irving.henry@bba.org.uk) or telephone on (00 44) 20 7216 8862 should you require further information.

Yours faithfully,



Irving Henry
Director, Prudential Capital and Risk

Annex 1

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

It appears that the first mandatory date for the LCR is as at end January 2013 and not, as expected 31 December 2012, as per the preamble. Article 4 makes it clear that reports have to be in by the 15th of the month following the 'as at' date, but can be later if the 15th falls on week-end or public holiday.

The first regular remittance date of January 2013 is challenging given the delays in CRD IV/CRR and the fact that the final reporting templates proposed in this consultation paper are unlikely to be published before November 2012.

Even though some large banks have already reported LCR and NSFR metrics in form of the QIS exercise to the Basel Committee, the implementation of the new reporting format will still require a thorough analysis and re-implementation of final templates so that sufficiently high quality of reporting is ensured. A transition period of at least six months (especially for those banks that have not yet participated in the QIS exercises) should be granted from the date of finalisation of reporting templates before the first remittance of data to allow institutions to establish reliable systems and approaches to gathering and verifying the required data. During that proposed transitional period institutions could be required to submit the Basel QIS on a more frequent basis, e.g. quarterly.

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

Within Article 2, the 5% of the institution's liabilities is too low a threshold. We would welcome clarity that if the 5% applies to a subsidiary that this does not then imply that the consolidated entity also has to report in that currency. Rather the 5% should apply to the consolidated entity separately.

It appears that the scope is at both consolidated and legal entity levels. Although the potential to create a defined liquidity group (DLG) is recognised, there is no explanation of how and when that can be approved. Article 1 merely refers back to the Regulation.

It would be helpful to obtain clarity on the scope of application, consolidated, Defined Liquidity Group (DLG) or individual, or all three levels. Absent clarity on this point, some firms will have to apply the relevant reporting requirements on an individual entity basis irrespective of the significance of each individual entity in the group and of that entity's location. At the very least we propose that entities within the same jurisdiction can be assumed to be in the same liquidity sub group providing the national regulator agrees.

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

There is a trade off between the shorter remittance period and the quality of data reported, and as such, a balance between those two will need to be struck. Such a short remittance period would not imply that sufficient time – certainly initially - is given to quality assurance and further to align the data reported in these templates to the data used for a firm's financial reporting which in case of most European firms have significantly later disclosure dates.

We also note that a further paper will emerge setting reporting regulations for the other metrics. This will be in the autumn of 2012 and we presume first reports will also be required beginning in January 2013.

As many internationally active EU banks will also be contributing to the Quantitative Impact Study (QIS) it would be helpful for the EBA to liaise with its peers outside the EU in order to align submission deadlines.

If our recommendation is not accepted, it must be recognised that there is a trade off between a shorter remittance period and the quality of data reported, and as such, a balance between those two will need to be struck. Such a short remittance period would imply that sufficient time – certainly initially - is given to quality assurance and further to align the data reported in these templates to the data used for a bank’s financial reporting which in case of most European banks have significantly later disclosure dates (please see quarterly and annual statements under IFRS).

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 reported?

The basis of the LCR report is the QIS which means that it continues to fail to capture the timing of flows during the 1 month stress horizon. In addition, the QIS is based on information from a small number of banks. It is a big jump to make rules based on that limited sample for a bigger range of banks.

Guidance and the basis of the calculations would be helpful, especially where the EU differs from Basel III. Also, the treatment of assets that are not levels 1 and 2 is not clear.

CRD IV has yet to be finalised, including the definitions of SMEs (Articles 148 and 400, and the EUR 1m threshold), operational balances, wholesale and stable retail deposits, and established relationships.

Granularity of templates

The proposed templates show significant differences from the Basel QIS template. These are detailed below. We believe that the granularity of the current QIS exercise should serve as a basis to define the final EBA reporting templates on LCR and stable funding. This will allow European regulators to continue to work closely with the Basel Committee where further changes are contemplated during the observation period. Further it will allow European banks to produce just one set of LCR figures as the EBA’s report can be used to complete the Basel QIS.

Examples of deviations from the current Basel QIS (as per the year ending 2011 QIS) are as follows:

1. The granularity has increased substantially for the reporting of secured funding run-off as well as reverse repo by underlying type. In the QIS, the split of underlying information by levels 1, 2 and 3 was sufficient. What is the rationale for this change?
2. The structure for reporting of deposits outflows, e.g. SMEs, is now included in the retail category. The QIS requires separate reporting for SMEs.
3. The collateral swaps section is missing from the proposed reporting template, but is a separate section in the current QIS. The same applies for contingent funding obligations such as guarantees, letters of credit and potential debt buy backs.

Outflows template:

There is no separate position for outstanding debt issuances maturing within the LCR horizon of 30 days. We assume that this outflow is to be reported under the “other liabilities” position 1.2.8 of the proposed template. We also recommend the inclusion of a separate position on this outflow for better transparency.

We welcome clarification on where outflows related to collateral swaps transactions should be reported. There is a separate section on this type of inflow and outflow in the current Basel QIS for the LCR.

Inflows template:

There is no “other inflows” category in the inflows section of the LCR. This would be helpful to capture any inflows different from those explicitly defined, but still relevant for LCR reporting and would as well be symmetrical to the outflows presentation in the template (please see position 128 for other outflows). In addition, we have not found any separate position for the inflows as defined under CRR Article 413.7.

We welcome confirmation on whether inflows which are to be received in third countries where there are transfer restrictions or which are denominated in non-convertible currencies will be included in the final reporting template for inflows in the future. We believe that this merits a separate reporting cell.

Further some further clarification is also needed as to where inflows related to collateral swaps transactions should be reported. There is a separate section on this type of in and outflows in the current QIS structure for the LCR. We believe that this merits a separate section as in the QIS.

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 G20 and Basel Committee working group on liquidity are unlikely to issue any revised calibrations or amendments before the end of the year. How will any of their recommendations be incorporated into the EBA’s deliberations?

We believe that as many asset classes eligible for the liquid asset buffer should be included in the buffer reporting template as possible. These include RMBS, index equities and precious metals. The observation period needs to allow for the testing of the liquidity and inclusion of a variety of instruments in order to provide more contingency options in a stressed scenario, resulting in reduced concentrations and increased flexibility to allow banks to avoid using central banks. The split of the EBA-specific template provided in the last QIS for the LCR as per year ending 2011 could be a good start for defining such additional asset classes.

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

Article 10’s consolidated reporting differs from liquidity reporting.

The inclusion of COREP presents challenges as the rules won’t be ready until late 2012. In addition, the interaction with IFRS 9 needs resolution.

Clarification on whether the full amount for particular categories is to be reported or the amount after applying the relevant haircut as defined under the CRR would be helpful. A separate column on haircuts as well as additional position for the LCR calculation result would be welcome for greater transparency. Furthermore, the proposed template does not contain a section on reporting inflows and outflows related to the collateral swaps, hence clarification as to where those items are expected to be reported would be welcome.

Required and available stable funding

We agree that all assets and liabilities from the institution’s balance sheet should be included in the stable funding reporting. However, due to different consolidation rules applied for IFRS and stable funding reporting (which scopes in a regulated banking group at consolidation level) purposes as well as due to different netting rules applied for secured funding transactions and derivatives contracts the total of assets and liabilities under IFRS may differ from the total of assets and liabilities reported under stable funding reporting requirements. In addition, own funds are to be reported here under stable funding sources and not the IFRS shareholders’ equity which leads to

more differences. These differences need to be taken into account while reconciling with the bank's balance sheet.

Outflows template:

- Position 1.2. Under CRR Article 410.1 - Liabilities resulting from operating expenses are weighted with 0% and are thus irrelevant for the LCR calculations. Therefore, we propose to exclude this category from the template.
- Position 1.2.5. refers to itself. We believe that the right reference would be to position 1.2.3. Please advise.

Required Stable Funding template:

- Positions in the section 1.1. do not seem to be in line with the instructions provided with the templates. Please advise and amend the template accordingly.

Providing stable funding template:

- Position 1.2.2. - Is the reference to CRR Article 410.3 correct or is it meant for Article 410.4 meant? Please advise.
- Position 1.2.3 – We believe that “liabilities” rather than “deposits” are more appropriate under this position as well.
- There is no separate position on funding resulting from derivatives contracts listed in Annex II, which would be analogous to position 1.8. on the required stable funding template. Where are these derivatives payables to be reported? Would it be position 1.2.3. or 1.2.7? We believe that a separate position is appropriate as it is the case for derivatives receivables in the required stable funding template.
- Instructions - Position 1.2.1.2. is included in the instructions, but cannot be found in the template itself. Please advise.

With regard to the sourcing data for the LCR template in respect of derivative receivables and payables (LCR inflows template line 1.1.7 and outflows template line 1.2.6), please confirm:

1. What constitutes a derivative for these purposes?

a) In both cases the instructions refer to cash flows arising on the contracts listed on Annex II of the CRR. It is not clear whether Annex II includes credit derivatives – in a number of articles across the CRR (predominantly within the Leverage Ratio rules) credit derivatives are mentioned separately as distinct from those covered by Annex II, e.g.

- Article 293 (1)
- Article 295 (1) (a)
- Article 416 (5) (a), 6, 8 & 9
- Article 482 (2) (c)

Can the EBA confirm that derivatives for the context of lines 1.1.7 and 1.2.6 does or does not include credit derivatives?

b) Similarly, whilst Annex II lists interest rate and foreign exchange “futures” as derivative product types, banks seek confirmation that the LCR lines 1.1.7 and 1.2.6 should explicitly disclose cash flows relating to exchange traded derivatives (ETDs)?

2. Where the instructions for lines 1.1.7 and 1.2.6 require banks not to use mark-to-market value because, amongst other factors, such values include “estimates for contingent inflows and outflows” is the EBA able to be more specific as to what you consider to be a “contingent” flow. For instance, presumably a fixed contractual interest payment due in the next 30 days on a derivative with a remaining tenor of 2 years would not be contingent. But would the cash flow on a derivative instrument whose value depends on the value of an index in 7 days be a contingent flow?

Is the EBA able to give a representative list of cash flows that it considers to be contingent so that banks are able to make an accurate delineation for the purposes of LCR reporting from next year?

Annex 2

The British Bankers' Association (“BBA”) is the leading association for UK banking and financial services representing members on the full range of UK and international banking issues. It represents over 230 banking members active in the UK, which are headquartered in 60 countries and have operations in 180 countries worldwide. All the major banking groups in the UK are members of our association as are large international EU banks, US and Canadian banks operating in the UK as well as a range of other banks from Asia, including China, the Middle East, Africa and South America. The integrated nature of banking means that our members are engaged in activities ranging widely across the financial spectrum from deposit taking and other more conventional forms of retail and commercial banking to products and services as diverse as trade and project finance, primary and secondary securities trading, insurance, investment banking and wealth management. Members include banks headquartered in the UK, as well as UK subsidiaries and branches of foreign banks all of which are likely to be impacted by this consultation, to which the BBA is pleased to respond.