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## **FBF RESPONSE TO EBA'S CONSULTATION PAPER**

### **ON LCR DISCLOSURE EBA/CP/2016/06**

*The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.*

The FBF welcomes the opportunity to comment on the EBA's Consultation on LCR disclosure. The FBF has already been supportive to strengthen the liquidity framework and increase banks' resilience to liquidity shocks as well as enhancing the overall liquidity risk management. However, any decision of a LCR disclosure guidance should be taken very carefully. Indeed due to sensitivity of the data financial markets could unduly overreact with a significant risk for financial stability in case of mitigated or bad LCR disclosures.

Please find below our specific comments and our detailed responses to the questions raised in the consultation paper.

#### **I- Key messages**

- The FBF supports the over-arching objective of greater transparency but wishes to work with the EBA to ensure that such disclosure provides useful information rather than over-loading market participants with too much detail. The requirement to publicly disclose all components of the ratio is over-prescriptive as we think it is the role of competent authorities to judge whether the LCR is properly computed, and not the role of market participants.
- The disclosure of the LCR should be based on good quality data that has been audited. The disclosure of daily LCR calculations would not fulfil this criteria and would be very burdensome and operationally complex with little added value for end users. We suggest the LCR disclosure template to be based on averaged values over monthly observations, already reported to the supervisor. Should this proposal not be amended, there will be a huge operational difficulty of implementation, especially
  - if the implementation date will be 30 June 2017, with a first disclosure in April 2018;
  - for consolidated LCR purposes, as it will be very difficult to gather daily LCR computation of all sub-consolidated entities.
- There should be sufficient time for the transition to the new disclosure requirements.
- The scope of application of these guidelines should be aligned with the way banks manage their liquidity and be consistent with any waivers for liquidity reporting. The EBA should align its Guidelines with the Basel approach and allow respondents to provide their own qualitative inputs which will vary depending on their business model and degree of liquidity and funding risks to which they are exposed.

- Within the EU, requirements aiming at introducing market discipline can only be imposed by means of level 1 legislation. As a consequence, the proposed Guidelines should be addressed to competent authorities. It may be useful to highlight in this context that, competent authorities are only authorised to implement such disclosure guidelines provided they have received prior authorisation to do so by means of an Act of Parliament.

## II- Answer to questions related to the consultation

### **Question 1: Do respondents have any comment to the scope of application of the draft guidelines?**

The FBF does not agree with the requirement to disclose annually quarterly LCR based on an average of daily LCR calculations as these calculations are neither reconciled with accountancy nor audited by competent authorities. The FBF clearly sees no added value for end users to disclose such data.

The scope of application of these guidelines should be aligned with the BCBS Pillar III requirements, which are applied on the consolidated basis only. Indeed it is the most consistent with the way that banks manage their liquidity. Moreover the FBF supports an annual disclosure of quarterly LCR, which are computed on the basis of monthly LCR, in order to be aligned with the current LCR reporting.

The guidelines should clarify that they do not apply to all institutions but only to parent companies.

### **Question 2: As currently foreseen, the application date will be in June 2017. Do respondents find the date of application of the guidelines appropriate?**

The implementation date is not appropriate, especially if the undue operational complexity of consolidating daily LCR is maintained in the draft guidelines. The implementation date should be:

- Either sufficiently postponed to give time to institutions to comply with the guidelines;
- Either maintained if the guidelines are amended such that quarterly LCR is a monthly average LCR.

### **Question 3: Do respondents consider that the transitional period is sufficiently clear?**

At present, it is not clear whether firms would be expected to disclose information on the LCR from June 2017 or whether this might be the date from which the guidelines apply with disclosure envisaged from a later date. We would note in addition that in June 2017, under the LCR transitional arrangements firms will be required to meet 90% of their LCR requirements and that it might be clearer for users therefore if disclosure was to commence from 2018 when firms will have to meet their LCR requirements in entirety.

### **Question 4: Do respondents have any comment relative to the proposed LCR related items prone to rapid change?**

In accordance with CRR article 433, institutions shall pay particular attention to the need to disclose more frequently than annually items that can be prone to rapid change. However this provision seems particularly flawed and we do not see the interest to leave this flexibility which could potentially create level playing field issues.

Accordingly we are in favour of option B in the CP “not to make any consideration for a special attention”.

**Question 5: Do respondents have any comment relative to the content of the table in Annex I of the draft guidelines and the way to display it?**

This qualitative disclosure template departs significantly from the BCBS Pillar 3 Disclosure requirements with regards to the type of information required, the level of granularity and, unlike the Basel approach, does not give banks the flexibility to choose the relevant information to disclose. The EBA should align with the Basel approach and allow respondents to provide their own qualitative inputs which will vary depending on their business model and degree of liquidity and funding risks to which they are exposed. Requiring EU banks to provide additional, potentially highly sensitive material could distort the global level playing field and exacerbate any market confidence issues affecting credit institutions.

In addition we note that two of the qualitative requirements are remarkably similar to what is required by the European Central Bank as part of the ICAAP and ILAAP submission process. Such statements contain sensitive information and are duplicative requirements which would not provide any additional insight or value to market participants.

**Question 6: Do respondents have any comment on the content of the LCR disclosure template in Annex II?**

See our response to Q8.

**Question 7: Do respondents have any comment relative to the content of the template on qualitative information on LCR?**

The granularity level of disclosure required in this template is too stringent and could be irrelevant. We believe that it is important to leave banks more flexibility on giving qualitative information. The most relevant issues on the LCR could not be the same for different banks and categorising the information in so detailed items could lead to misunderstanding. We propose to remove this template from the disclosure requirements.

**Question 8: What information from Annex II, if any, would respondents consider irrelevant for LCR disclosure purposes?**

We believe the requirement to publicly disclose all components of the ratio, including unweighted and weighted ones, additionally to the split between operational and non-operational deposits, stable and less stable deposits is over-prescriptive as we think it is the role of competent authorities to judge whether the LCR is properly computed, and not the role of market participants.

Information required in Annex II implies that users of financial statements are very familiar with the detailed LCR rules and definitions and could lead to misunderstanding. We strongly believe that providing the LCR in percentage, or at most the data on inflows, outflows and total HQLA on a gross basis would be largely sufficient.

**Question 9: What information would respondents like to see added to the LCR disclosure requirements?**

We do not see any other item to be added to the LCR disclosure template.

**Question 10: Do respondents find the general instructions in Annex III sufficiently clear for the development of the disclosure templates?**

We do not have any comments.

**Question 11: In accordance with Article 4 of Commission Delegated Regulation (EU) 2015/61, the LCR needs to be met at any time whereas Article 15(1) of Commission Implementing Regulation (EU) No 680/2014 requires a monthly frequency of LCR reporting. The suggested approach for the LCR disclosure template is based on averaged values over daily observations based on the reporting templates.**

**Particularly considering that the most recent data needed would be from the quarter prior to the disclosure date, do respondents consider that this approach is, from a practical point of view, operationally feasible meaning that the accuracy of the daily reporting observations for the calculation of the averages can be ensured? Do respondents consider that this operational feasibility could depend on the size of the credit institution or could be different in the case of solo or consolidated data?**

The FBF does not agree with the suggested approach which is based on averaged values over daily observations based on the reporting templates. The EBA rightly points out the problem of operational feasibility which is a high concern for our members. In order to have the best data quality as possible, a significant part of the data for the LCR is extracted from accounting systems and is produced only monthly. The calculation of a daily LCR will then necessary be based on proxies. Moreover these daily calculations are neither reconciled with accountancy nor audited by competent authorities. We strongly believe the disclosure requirement should be based on the best data quality possible and not on proxies.

If the average daily calculation aims at demonstrating that banks comply with LCR at any time instead of window dressing at end of month, banks can use additional monitoring tools (roll of the funding, funding gaps) to attest that their LCR is managed on a way that is fully compliant each day. Moreover we believe that daily calculation has no added value for end users.

All prudential ratios (capital, liquidity, leverage) should be met at any time by institutions. This does not mean that, for public disclosure purposes, they should be requested to be calculated on a daily basis.

The FBF supports the policy option 3B, and a disclosure of the average of the monthly LCR, which is already reported to the supervisor.

**Question 12: Do respondents find the specific instructions in Annex III sufficiently clear for the development of the LCR disclosure template and the template on qualitative information on LCR in Annex II?**

We do not have any comments.

**Question 13: In the elaboration of this CP, the EBA has considered several policy options under three main areas: a proportionality approach in the scope of application, items for a higher disclosure frequency and methodology for the calculation of the disclosures. Do respondents have any particular view on the assessment conducted on these policy options?**

As already said before, the FBF supports policy options:

- Option 1B: a single disclosure template for all institutions, provided that it applies only to consolidating entities ;
- Option 2B: see our response to Q4 ;
- Option 3B: to rely upon metrics based on monthly reporting observations, which are reconciled with accountancy and audited by the supervisor.

In addition the FBF does not share the view of the EBA that additional costs incurred in producing the disclosed data is expected to be limited as the disclosure data can be directly extracted from the ITS on liquidity supervisory reporting. This statement can only be accurate if LCR disclosure will rely on monthly averages, which are already reported to supervisors.

**Question 14: The provisions of Regulation (EU) 575/2013, including the disclosure requirements in its Part Eight, respect the principle of proportionality having regard, in particular, to the diversity in size and scale of operations and to the range of activities of institutions. A less complex, low risk institution will have to disclose less than a more complex, higher risk institution. In addition, specific waivers for disclosure exist in case of non-materiality of information, and the EBA has issued Guidelines to specify the cases where such waivers are used. The EBA intends to conduct further work on the application of the principle of proportionality to regulatory requirements, including the disclosure requirements. As a result, should a specific approach be needed as regards the implementation of the Guidelines on liquidity disclosures in a proportionate manner, this approach will be consistent with the EBA general approach as regards proportionality. In the meantime, users are invited to express their views on the following questions, whose answers will inform the future work of the EBA. Any potential solution suggested by respondents will have its feasibility assessed considering the applicable disclosure framework.**

**Do respondents think that the opportunity of having a simplified disclosure template for smaller credit institutions should be assessed? This simplified LCR disclosure template could comprise for example the ratio itself, the numerator and the denominator as key ratios and figures of the LCR, in the sense of Article 435 (1) (f) CRR. What arguments could respondents provide to justify that the LCR ratio itself, its numerator and its denominator are the only key ratios and figures of the LCR which are required to be disclosed by smaller credit institutions?**

**More generally please provide any argument in favour or against a simplified template, and if you believe a simplified template for LCR disclosures is relevant, please indicate which type of information you would like to have disclosed in that template.**

**What specific criteria would respondents suggest to identify those smaller institutions for which a simplified disclosure template could potentially be disclosed?**

As already said above, the FBF does not agree to apply disclosure requirement at solo level. LCR disclosure requirement should be aligned with BCBS general Pillar III disclosure requirement that apply at the consolidated level only.