

2019.05.05

FBF RESPONSE TO EBA CONSULTATION PAPER ON HARMONIZED DEFINITION AND TEMPLATES FOR FUNDING PLANS (EBA/CP/2019/02)

I- General comment

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorised as banks and doing business in France, i.e. more than 340 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 340,000 people in France and around the world, and serve 48 million customers.

The FBF welcomes the opportunity to comment on the EBA's Consultation on harmonised definitions and templates for funding plans (EBA/CP/2019/02)¹. Please find our main comments below and our detailed feedback within our answers to the EBA's questions.

We ask for a deep revision of the Funding Plan templates:

- ✓ First, we urge the EBA to provide further explanation on the purpose of these Funding Plan reports and the use it will be done. Indeed, based on the changes made to the Funding Plan, and especially on the even more significant alignment on FINREP concepts and breakdowns, as well as on the introduction of a new template on statement of profit or loss, we are wondering if these reporting are still part of Liquidity reports: the requested data are more suited to a 3-years-forward balance sheet given budget assumptions or to a resolution plan than to the way institutions manage their liquidity. It is very complicated to reconcile Funding plan reports with Liquidity reporting definitions and breakdowns², which data are yet to be used to complete the templates and which scope and methodologies are different.
- ✓ Apart from this general comment, we have remarks and questions on specific templates:
 - In the Consultation Paper (paragraph 10) the EBA mentions that a forecast on the main contributors to the LCR and NSFR are requested (please see template "1B-Liquidity ratios"):
 - How do you define "main contributors" notably regarding the fact that the FINREP and Liquidity scopes are not equivalent: are they Entities subject to LCR/NSFR?

¹ Please see : https://eba.europa.eu/news-press/calendar?p_p_id=8&_struts_action=%2Fcalendar%2Fview_event&_8_eventId=2627135

² Please see Part six of Regulation (EU) 575/2013, Delegated Regulations (EU) 2015/61 and Delegated Regulation (EU) 2018/1620

- What is the meaning of the report notably as we understand that it is based on the contributive view?
- ✓ As a consequence, due to the multiplication of the sources, the updated framework will generate a high burden to operational teams and potential shortcuts detrimental to give a clear and correct view of the Funding sources and projections of institutions. We ask for :
 - An alignment between Liquidity reporting and Funding Plan reporting;
 - The remittance date (31st of March) remain the same, at least for the 1st remittance in 2021. Indeed, it is proposed to shorten the remittance date by a month.

II- Answer to questions related to the consultation

Question 1 (on template P01.02)

1.1 Do respondents agree with the proposed breakdown of “Total long-term unsecured (original maturity ≥ 1 year)”?

FBF answer: The FBF supports the proposed breakdown of “total long-term unsecured (original maturity ≥ 1 year)” (rows 190 to 210 on template P01.02).

Other comments:

- Row 010 of P01.02: in order to be consistent with row 020 in P01.01, change “Repurchase agreements” into “Repurchase borrowings”;
- Row 070 of P01.02: insured loans (i.e. loans which performance is guaranteed by a dedicated counterparty, which is the most widespread model in France) should be added;
- Row 150 of P01.02: a maturity of 1 year should be considered short term (i.e. long term being > 1 year and not ≥ 1 year);
- In template P01.02, borrowings should be splitted between “secured” and “unsecured” ones (as per issued securities);

As mentioned in our answer to question 1.2, for some rows (i.e. “domestic activities”, “other EEA countries activities” and “non-EEA countries activities”), credit institutions do not make forecasts at the level of detail that is requested by the template. For these rows, we would apply the forecast variation rate of the larger aggregate.

Question 1 (on template P01.02)

1.2 Otherwise, which breakdown would you suggest?

FBF answer: In a general way, we ask the EBA to clarify the purpose of the funding plan reporting. In our understanding, these reporting aim at assessing the viability of the institutions funding plans.

However, we consider that the funding plans could not be assessed properly with the retained breakdown. Indeed:

- From a liquidity perspective, there is no segregation between stable resources and others, among deposits for instance. Secured/unsecured debt (excl. securities) are not isolated from the “other liabilities”;
- On the assets side, no breakdown of the securities held in portfolio is envisaged, HQLA³ securities are all mixed up within the debt and equity securities, while in terms of funding plans the liquid assets do not require the same amount of stable funding.

The breakdown between “domestic activities”, “other EEA countries activities” and “non-EEA countries activities” (rows 030, 051, 052, 070, 111, 115, 131, 132, 133, 141, 142, 143 on template P01.02 and rows 040, 091, 096, 110, 161, 167, 181, 182, 183, 190, 191, 192, 193 on template P01.01) is burdensome and we request not to introduce it. It doesn’t reflect the way institutions manage their liquidity on a prospective basis. Even if the funding plan will be aligned with the FINREP, there will be an issue for the projections.

It should be specified if the requirement between domestic, other EEA and non-EEA activities apply to the country of residence of the counterparty or to the booking country of the transaction.

On template P01.02, the breakdown related to the accumulated impairment of non-performing loans should be removed because it doesn’t reflect the way institutions manage their liquidity on a prospective basis.

Moreover, we ask for more details on the way transactions with Multilateral and National Development Banks should considered in the template P01.02.

³ HQLA : High Quality Liquid Assets

Question 2 (on template P02.02)

Template P02.02 has been expanded to include additional public sector and Central Bank sources of funding. Do respondent believe that now this template covers all forms of public sector and central bank sources of funding or should additional forms of sources be included?

FBF answer:

In the headers, we ask to change “price” into “yield”.

We understand figures are requested after interest rate hedging. Could you confirm and state it explicitly (i.e. same thing as mentioned for template P02.04, in the instructions section “5. Section 2B: Pricing”, paragraph “5.1. General remarks”, 21.a?

Question 3 (on template P02.06)

3.1 Do respondents agree that information on currency breakdown after hedging (template P02.06) will provide effective insight into possible currency mismatches?

FBF answer: FINREP templates do not hold currency breakdown. As a consequence, to complete column 010 (“actual current position”) on template P02.06, institutions apply short-cuts to the data extracted from their liquidity management calculation engines.

Moreover, institutions are not able to allocate the FX swaps per the requested sub-categories. These necessary shortcuts will give an incorrect view of the requested information.

Question 3 (on template P02.06)

3.2 Does the information reflect banks’ FX management approach or do you see the need to request more information to better reflect banks’ FX management?

FBF answer: The template P02.06 should be aligned with Liquidity reporting.

The currently applicable template (before hedging) is more relevant than the proposed one, from a strategic view since hedges are not generally performed on a granular basis.

Question 3 (on template P02.06)

3.3 Are the instructions are clear enough?

FBF answer: Please see our answer to question 3.1.

Question 3 (on template P02.06)

3.4 If the instructions are not clear please indicate how they could be improved.

FBF answer: Could you please define “largest material currency”: is it the same meaning as “significant currency” defined in the liquidity regulation (i.e. Article 415(1) of Regulation (UE) 575/2013 and Article 3 of Delegated Regulation (UE) 2015/61)? If yes, we ask for an alignment of the wording.

Moreover, the effect of FX hedging should not be taken into account in each line item of template P02.06. It would be more relevant to present all rows without the effect of FX hedging and a row “FX hedging”. In fact, FX hedging is not generally performed transaction by transaction but based on the overall FX exposure (macro-hedge).

Question 4 (on template P05.00)

Do respondents agree with the possibility to have “retained issuance” for each of the instruments included in template P05.00?

If not, could you please indicate which ones should be maintained and which ones should not and the reasons for it?

FBF answer: If the breakdown between “retained” and “non-retained” issuances makes sense for secured liabilities (rows 220 to 330 of P05.00), it seems less relevant for unsecured liabilities (rows 010 to 210 of P05.00).

Institutions don’t have long term forecasts (i.e. columns 030 and 040, “planned year 2” and “planned year 3”) and proactive strategy of “retained” vs. “non-retained” debt securities amounts.

Question 5 (on template P05.00)

5.1 Which methodology do you apply to calculate carrying amounts for future issuances (please describe as detailed as possible and highlight any problem with that calculation)?

FBF answer: Liquidity management teams use carrying amount for their current position (column 010 on template P05.00) and ensure the accounting consistency of their forecasted data but they forecast nominal amount instead of carrying amount.

Question 5 (on template P05.00)

5.2 Are you of the opinion that reporting maturing and new issuance volumes (as defined in P 05.00) as nominal amounts would better reflect your planning procedure and approach and do you believe that this alternative is preferable?

FBF answer: Nominal amounts would be better to report maturing and new issuance volumes.

Question 6 (on template P05.00)

6.1 Do respondents believe that these movements could occur too often or be big enough so that including them as inflows or outflows as explained above and in the instructions may distort the analysis of the information?

FBF answer: No comment.

Question 6 (on template P05.00)

6.2 If the answer to the 6.1 is positive, which would be the best way for the respondents to report this information?

FBF answer: No comment.

Question 7 (on alignment with FINREP as regards assets and liabilities)

7.1 Do respondents agree with amending the templates to align definitions with FINREP? Are there other definitions that could be further aligned with other parts of the EBA supervisory reporting framework?

FBF answer: We ask for a deep revision of Funding plan templates (i.e. templates P01.01 to P05.00) aiming at relying the requirement of “actual current position” on data extracted from asset and liability management engines (i.e. like for the NSFR and the LCR ratios) and not on accounting engines (FINREP).

The use of FINREP data as a reference to complete Funding plan templates oblige institutions to dedicate people to the completion of the Funding plan template, whereas Funding plan templates are considered as disconnected from risk management figures and not reused for the management of institutions. In order to better assess the institutions’ funding plans, we suggest to review the funding plan reporting to better align its components with definitions actually used by operational teams within the institutions to steer the funding plans and more largely the liquidity position on a prospective basis.

The breakdown of assets and liabilities should be aligned with liquidity definitions of the LCR, NSFR or ALMM (contractual maturity ladder template for instance). It is for us, the best solution to make that the institutions take ownership of these Funding plan regulatory templates within their internal management policy.

In the Consultation Paper (paragraph 10) the EBA mentions that a forecast on the main contributors to the LCR and NSFR are requested (please see template “1B-Liquidity ratios”). How do you define “main contributors” notably regarding the fact that the FINREP and Liquidity scopes are not equivalent: are they Entities subject to LCR/NSFR? In the template P01.01 the various rows dedicated to “accumulated impairment” (i.e. rows 037, 041, 092, 097, 107, 111, 162, 168) are not aligned with the way institutions manage their liquidity. We ask for their removal.

In the template P01.01, rows 205 (“debt securities”) and 207 (“equity instruments”) should be amended and defined as “liquid assets” and “other assets” as specified in the LCR Delegated Regulation (EU) 2015/61.

Question 7 (on alignment with FINREP as regards assets and liabilities)

7.2 Do respondents agree that alignment of definitions will facilitate reporting production process?

FBF answer: We do not agree that an alignment with FINREP definitions will facilitate reporting production process for the forecasts and we ask for a clarification of the purpose of the Funding Plan templates.

At least, the EBA should organize a workshop with institutions to understand the way institutions complete Funding plan templates.

Question 7 (on alignment with FINREP as regards assets and liabilities)

7.3 Are there other aspects in the template design or further integration with FINREP reporting technical package that could help in data production process?

FBF answer: The remittance date (31st of March) should remain the same, at least for the 1st remittance in 2021. Indeed, it is proposed to shorten the remittance date by a month.