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EBA

Consultation Paper on currencies for which the justified demand for liquid assets exceeds the availability of those assets under article 419(4) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR)

General Comments

The Swedish Bankers' Association believes that the purpose of this consultation is extremely hard for EBA to achieve. There is no clear definition of HQLA and therefore it should be impossible to investigate which currencies will face a lack of HQLA and which will not. For this fundamental reason we cannot really understand the value of the investigations which have still been made. We find it hard to understand why the authority waste time on this while the definition of which assets will be allowed in the liquidity reserve is not decided.

The way the empirical investigation has been done is questionable. The research is based on the regulation from Basel this year but with data usage from QIS's that has been made with figures relating to the old definition. Nothing of this is related to the regulation that will be in place in the EU. We have noticed that the changes in these definitions will lead to large differences in LCR. But more important in this respect is the fact that nothing has been done which relates to dynamic responses in the market. This relates to very large changes in demand of HQLA and it would have been interesting to see some sort of scenarios which shows the demand and response from market participants.

We believe the empirical investigation, although it has its weaknesses, shows the importance of allowing assets with high credit quality and good liquidity in the liquidity reserve. Because of this and the strange results which came out in Denmark it is important to investigate the liquidity in separate markets thoroughly. We would like to say it is important to establish Swedish covered bonds, as well as the Danish, as assets with extremely high liquidity and credit quality. The reason behind this is the domestic extremely liquid markets for covered bonds but also the extremely high credit quality that the issuers have presented for a long time and through at least



one domestic serious financial crisis (the nineties) and one global crisis (2008). It would be negative if these assets weren't recognized as assets with extremely high liquidity and credit quality and it would lead to needs to use the derogations identified in this consultation paper more often.

Specific Comments

Q1: Do you agree with the method for estimating the level of free-floating assets required for a market to remain liquid? If not, what alternative methodology would you suggest and what percentage would you deem to be appropriate? Please substantiate your response.

We question the way that EBA is trying to find the true equilibrium for the market of HQLA. We have a strong opinion that the way that the "free float" will be decided is wrong in many aspects. First of all, we are not sure that it is possible to decide a free float which could always be right for any market. To estimate this kind of threshold will lead to problems in markets. It will be wrong for many markets. Secondly it is wrong to say that the free float should depend on the total demand, at least as long as the market is not defined. We believe that, if a free float should be decided, it should depend on the supply in submarkets. In that way there must be a free float for submarkets like benchmarks, PP's, index linked, and that kind of characteristics that can be seen as a single market with certain characteristics and certain investors. Not on markets in general and not viewed from the demand-side.

We question the whole idea of identifying the right level of free float. If it still should be identified it must be done on every single aspect of a market so there could continue to be a liquid market. If a threshold is required it must be based on some relevant empirical proof. We think it is very important that this regulation will not destroy liquid markets. The risk for this is more important in small currency areas because of their more fragile market structures.

Q2: Are the assumptions regarding locked-up assets reasonable and, if not, what alternative assumptions should be made? Please substantiate your response.

We can agree with the idea that there are certain amounts of locked-up assets in these markets. We would suggest that EBA could do some investigation and prove what could be seen as the proper locked-up level. We assume that there are different levels in different markets in Europe.

Q3: Is 110% a reasonable assumption for an institution's target liquidity coverage requirement? If not, please outline what you deem to be a reasonable assumption regarding an institution's target liquidity coverage requirement. Please substantiate your response.

Because of the volatility in the LCR-measure for many banks we assume that they will need to have a target LCR that is substantially higher than 100%. The reason for



a higher target is also underlined by banks reputation and the need to withstand requirements from the market and rating institutions. We are of the opinion that banks overall needs to have a higher level of LCR. We also believe that banks with a questionable reputation or weak credit worthiness will needs an even higher LCR to be able to fund themselves. At this moment the situation is a bit extreme because of the crisis in southern Europe and those banks will probably need really high levels of LCR to prove themselves worthy of the trust from the market.

We believe that it would be positive if EBA should conduct a study of which LCR levels would please investors. From that kind of investigation a more reliant level of LCR-target could be established.

We believe that 110 percent is a bit to low if today's situation for European banks should be considered.

Q4: Do you agree with the general approach and its results?

As we have emphasized above – we would like empirical proof for the levels and suggestion that EBA is promoting. The empirical test that has been done cannot be seen as a serious one. We cannot understand if the lack of response is because those local authorities have not been able to conclude the investigation or if they have not done it all. We are also wondering if the demand for HQLA includes demands from:

- Institutions, inside EEA, that needs HQLA for their LCR but who are not overseen by the local authority that has been reporting. As an example you could see a Swedish Bank, controlled in Sweden, which has net cash flow in NoK and therefore needs HQLA in NoK. Is that demand included?
- Institutions, outside EEA, that needs HQLA for their LCR in some EU currency. Is that demand included in the calculation?
- Other requirements for HQLA. As an example of other requirements we can use the Board of International Organization of Securities Commissions for Margin Requirements for non cleared derivatives. Is that included?

Because of these uncertainties and the fact that the requirements for HQLA cannot be measured until the definition of HQLA is decided it is not possible to really understand the value of the empirical investigation.

Q5: Do you agree with the above analysis of the cost and benefit impact of the proposals?

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