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Your ref., Your message of Our ref., person in charge Extension Date

BSBV 115/Dr.Egger 3137 20 December2013

**EBA Consultation on**

* **Draft ITS on currencies for which the justified demand for liquid assets exceeds the availability of those assets under Art. 419 (4) of the CRR (EBA CP 2013 38),**

**and on**

* **Draft RTS on derogations for currencies with constraints on the availability of liquid assets under Article 419(5) of the CRR (EBA CP 2013 39)**

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as representative of the entire Austrian banking industry, appreciates the possibility to comment on the above cited consultation papers and would like to submit the following position:

**Background**

1. Art. 419 (4) and 419 (5) of the CRR acknowledge that there may be currencies for which the demand for liquid assets exceeds the availability of such liquid assets. For these currencies, two derogations from the CRR are foreseen:

a. Derogation A: the denomination by currency of the liquid assets may be inconsistent with the distribution by currency of liquidity net outflows

b. Derogation B: for EU currencies or 3rd country currencies, required liquid assets may be substituted by committed credit lines from the central bank of that country, provided they are fairly priced

2. The purpose of the ITS and RTS discussion papers is to

a. Define for which currencies there exists a shortage of liquid assets (ITS)

b. Define the rules that banks will be subject to in order to make use of the derogations listed above

**Methodology**

1. In order to define the currencies for which the demand for liquid assets exceeds the availability of liquid assets, the EBA has conducted a data gathering exercise encompassing all EU Member States.

2. The demand for liquid assets was estimated based on the weighted net cash outflows over the next 30 days for CRR regulated institutions, taking into account the cap on inflows.

3. The supply of liquid assets was based

a. on the Basel classification of liquid assets (as they are not yet specified in the CRR), i.e. level 1, level 2a, level 2b

b. on an assessment from the national authorities about the part of each asset that was traded in large, deep and active repo markets. Thereby, highly liquid assets that were locked-up by investors, which have a buy-and-hold behavior, i.e. pension funds, insurance companies, central banks, etc. has been taken into account

4. Formally, a shortage of liquid assets is given, when A < D + B, where A is the available amount of liquid assets, D is the demand for liquid assets and B is a buffer – an excess supply of available liquid assets needed for markets to stay liquid after the introduction of the CRR. The B has been set to 25% of the total demand (D). In addition D is set set in a way, such that the assumed targeted LCR ratio by banks is 110% (while the minimum requirement is 100%)

**Results**

1. The ITS published by EBA identify only 2 currencies, for which the availability of liquid assets is assessed to be lower than the demand of liquid assets, namely the NOK (Norwegian Krone) and the DKK (Danish Krone).

2. In addition, for those two currencies the following shortage of liquid assets are estimated, including the buffer of 25% of estimated demand:

a. DKK – 27%

b. NOK – 63%

3. As a consequence, banks based in Denmark and Norway will be able to make use of the 2 derogations specified under 1) above, however subject to additional conditions:

a. The amount which will be allowable under both derogation alternatives shall be proportional to the shortage percentages above

b. Derogation A: an additional 8% haircut on the posted collateral

c. Derogation B: the price for the committed credit line shall bring no economical advantage of the bank, i.e. shall be equal to the yield difference between the pledged assets to secure the CCL and the opportunity cost of a liquid asset portfolio in the domestic currency

d. Other (reporting) requirements, including a proof from the respective bank that it is managin the inflow cap efficiently and that it strives to aquire as much as possible liquid assets denominated in the domestic currency

4. Other currencies have not been analysed due to lack of supplied data by the local authorities, mostly because of insufficiency of available domestic currency liquid assets

**Commentary**

1. We deem the ITS methodology for determining the list of currencies for which the demand of liquid assets exceeds their availability and the shortage percentage as appropriate.

2. The RTS specifies additional conditions which the banks which would like to make use of one of the 2 derogations shall comply with. In our view, those conditions are also acceptable.

3. We see it a critical fact of the ITS that the assessment has been performed for 2 currencies only. From our point of view it is important that the EBA makes an additional effort to gather data and perform a thorough assessment for all CESEE currencies.

4. Our expectation is that liquid assets denominated in some of the CESEE currencies will also turn out to be short of the estimated demand.

5. Firstly, this can be due to the fact that the local CESEE debt and equity markets are rather undeveloped, i.e. are not „deep” and the traded volume is very low.

6. Secondly, the volume of domestic currency denominated government bonds in these countries is rather low

7. Thirdly, due to the pension system reform in most CESEE countries, a great part of the locally issued government bonds is bought by local pension funds, which means that it is locked-up

8. Generally, we see that banks in Denmark and Norway will gain advantage compared to banks operating in other jurisdictions like most of the CEE and SEE countries, where the demand for liquid assets is expected to exceed the supply of liquid assets in domestic currency.

9. Therefore, we highly appeal that EBA invests much effort in additional surveys to cover all EU currencies, especially all CESEE currencies in its ITS in order to ensure a „level playing field” to all banks within EU which have to cope with the problem of liquid asset shortage. We want to remind EBA that ensuring a „level playing field” is one of the key functions and initial reasons for its foundation and ongoing existence.

Please take our remarks into due consideration.

Yours faithfully,

Dr. Franz Rudorfer

Managing Director

Division Bank and Insurance