**French Banking Federation response to 3 EBA consultation papers relative to liquid assets**

**These consultation papers relate to:**

* Currencies with an extremely narrow definition of central bank eligibility under Article 416(5) of CRR (EBA/CP/2013/37) ;
* Currencies for which the justified demand for liquid assets exceeds the availability of those assets under Article 419(4) of CRR (EBA/CP/2013/38) ;
* Derogations for currencies with constraints on the availability of liquid assets under Article 419(5) of CRR (EBA/CP/2013/39).

**General comments**

We have concerns on the CP39 “derogations for currencies with constraints on the availability of liquid assets”:

* The identification of these currencies is based on the Basel definition of the liquid assets (HQLA level1, level 2a and 2b) until an established definition in the context of CRR. As a matter of fact, we see the EBA analysis as a useful preliminary study. However we consider that the shortage percentage resulting from this preliminary analysis should not be used at this stage to constraint the use of waivers by the institutions ;
* Regarding the conditions of the application of waivers, we fully agree that the use of waiver should not be advantageous for the banks that resort to it. However we are concerned that the **EBA specifies the price conditions of Central Bank facilities to banks**, as well as the haircuts to be applied by the Central Bank to the collateral. This seems beyond its mandate.

These credit facilities will be part of the tools available for the Central Bank to implement the monetary policy; hence the pricing conditions should remain its prerogative. If the EBA retains a pricing formula of these credit lines in its final RTS, we draw its attention on the fact that the resulting commitment fee should not be too high, or else the banks will not resort to these facilities, favouring an arbitrage between the fee of these credit lines and the cost of term borrowings from the Central Bank placed on an overnight basis at the Central Bank.

Regarding the scope of analysis:

* The decision to rely on local jurisdictions to evaluate the currencies outside EEA makes sense. However it should be noted that it introduces uncertainties for European banks since CRR-LCR will be binding before those analyses are completed;
* The currencies for which the justified demand for liquid assets exceeds the availability of those assets: we regret that the analysis has not been conducted on other currencies because data to complete the analysis could not be obtained by the EBA. **Notably we are particularly concerned by the absence of analysis on the EUR currency.**

**Annex 1: Specific answer to questions raised in EBA/CP/2013/37:**

**Q1: Do you agree with the general approach and its results?**

Yes, we agree.

**Q2: Do you agree with the above analysis of the cost and benefit impact of the proposals?**

Yes, we agree.

**Annex 2: Specific answer to questions raised in EBA/CP/2013/38:**

**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.**

Yes, we agree.

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

Yes, we agree.

**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.**

Yes, we agree.

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

Yes, we agree.

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

We do not agree with point 9 in the draft cost-benefit analysis.

**Annex 3: Specific answer to questions raised in EBA/CP/2013/39:**

**Q1: Do you agree with the proposed notification mechanism, its contents and timelines? If not, why not, and what should be altered?**

We agree with the proposed mechanism of notification as it ensures a level playing field. However, the timing of notification may not be appropriate because of market changes. The updating of the notification should not be done annually, but be at a shorter interval.

It should be noted that the calculation of the commitment fee according to the pricing formula envisaged by the EBA is potentially challenging from an operational point of view, especially when the assets kept to secure the credit lines are non-marketable assets. Depending on the hypothesis and the quality of the data retained for the analysis, the results of the fee valuation may differ significantly between the banks; which will not provide a level playing field. Therefore, we favour a fee that could be valued based on management data provided by the banks, but that would be identical for all institutions using the derogation B.

**Q2: Are the steps to prevent the unnecessary use of a derogation clearly described? Do you see these steps as appropriate? If not, why not, and what should be altered? Are there any additional specifications that could clarify the assessments under paragraphs 1 and 2 of Article 3?**

Yes, we agree.

**Q3: Are the workings and conditions of derogation A clearly described? Do you see these steps as appropriate? If not, why not, and what should be altered?**

Yes, we agree.

**Q4: What criteria would you regard as useful for evaluating the historical evidence as mentioned in paragraph (4a) of Article 4?**

For currencies not actively traded in global foreign exchange markets we find 10 years is a very long period, 5 years would be more appropriate.

**Q5: Is the additional 8% haircut on foreign-currency-denominated assets held under derogation A appropriate? If not, why not, and what alternative treatment would you propose?**

Yes, we agree.

**Q6: Are the workings and conditions of derogation B clearly described? Do you see these steps as appropriate? If not, why not, and what should be altered?**

We agree that the use of waiver should not be advantageous; however we are worried that the EBA specifies the price conditions of Central Bank facilities to banks, as well as the haircuts to be applied by the Central Bank to the collateral. This seems beyond its mandate. These credit facilities will be part of the tools available for the Central Bank to implement the monetary policy; hence the pricing conditions should remain its prerogative. Moreover, depending on the hypothesis and the quality of the data retained for the analysis, the results of the commitment fee valuation may differ significantly between the banks; which is not participating to assure a level playing field.

If the EBA retains a pricing formula of these credit lines in its final RTS, we draw its attention on the fact that the resulting fee should not be too high, or else the banks will not resort to these facilities, favouring an arbitrage between the fee of these credit lines and the cost of term borrowings from the Central Bank placed on an overnight basis at the Central Bank.

**Q7: Is the proposal to limit the total use of the derogations by an institution to the relevant shortage percentage in the annex of the draft ITS containing a list of currencies with constraints on the availability of liquid assets under Article 419(4) CRR clearly described? If not, why not, and what further matters should be included? Do you see these stipulations as appropriate? If not, why not, and what should be altered?**

The use of waivers is already strictly framed since firstly the banks have to demonstrate they have made all the possible efforts to reduce their need for these waivers and moreover there are specific haircut and pricing conditions to offset any economic incentive to use these derogations. Consequently, there is no need to add another constraint such as this quantitative cap. If this cap is retained, the percentage of use of the derogations should also take into account a LCR target at 110% in order to be consistent with the methodology used to define the shortage percentage of liquid assets.

**Q8: Do you agree with the above analysis of the cost and benefit impact of the proposals?**

We do not agree with point 14 in the cost-benefit analysis.

**Q9: Please provide any evidence or data that would further inform the analysis of the likely cost and benefit impacts of the proposals.**

NA.