A response to European Banking Authority's consultation on ITS on supervisory reporting with regard to the Liquidity Coverage Ratio.

February 2015

Introduction

The BBA is the leading trade association for the UK banking sector with more than 230 member banks headquartered in over 50 countries with operations in 180 jurisdictions worldwide. Eighty per cent of global systemically important banks are members of the BBA. As the representative of the world's largest international banking cluster the BBA is the voice of UK banking.

We have the largest and most comprehensive policy resources for banks in the UK and represent our members domestically, in Europe and on the global stage. Our network also includes over 80 of the world's leading financial and professional services organisations. Our members manage more than £7 trillion in UK banking assets, employ nearly half a million individuals nationally, contribute over £60 billion to the UK economy each year and lend over £150 billion to UK businesses.

Key message

At the EBA's public hearing on 15th January 2015, it was suggested there is currently a misalignment between the new LCR templates and the additional monitoring metrics templates due to be submitted from July 2015. We are concerned that firms will have implement both additional monitoring metrics and new LCR templates simultaneously, providing a significant logistical challenge.

We understand that the EBA does not intend to make any changes to the additional monitoring metrics templates at present but may seek to do this in the future. This will in effect become a second round of implementation, and would be an inefficient use of firms' resources. We recommend that the EBA takes its time to deliver one, final set of additional monitoring metrics, particularly given the aforementioned difficulty in implementing them concurrently with the LCR templates.

Otherwise, the BBA would like to highlight several key policy items that, while not part of the questions posed, are clearly highlighted by the EBA's Consultation Paper and the discussion during the public hearing. These also reflect areas of key concern for the industry.

The BBA would be happy to assist in any way we can on this matter.

Responsible executive

Robert Driver
t: +44(0)207 216 8813
e: robert.driver@bba.org.uk

Annex 1

Question 1: The EBA deems it appropriate to keep the remittance dates unchanged in a steady state regime. While the content of the templates is changed, the objective of the supervisory reporting keeps unchanged and the present ITS constitutes only an update of the current existing reporting requirements for the LCR. This means that, once the current ITS is adopted, and after a transition phase, credit institutions would have to remit the monthly reports on each following 15th calendar day as this will be the case starting 1 January 2015 under the existing ITS on reporting for the LCR. Nevertheless, the EBA deems it appropriate to introduce longer remittance dates for the first reference dates during the first months, to be limited to a period of six months. Do respondents have arguments to put forward a change on these aspects?

We understand the EBA has little scope to alter the 15th calendar day remittance date. However, we would urge the EBA to allow longer remittance dates for a period of 9 months rather than 6.

Firstly, this is in line with previous implementation periods.

Secondly, considered in the context of the overall increase in regulatory reporting, it would give firms a more reasonable period of implementation to ensure their reporting systems and control frameworks are ready to meeting their reporting obligations. It should also be noted that firms are reliance on the technical criteria and the data point model being available for a reasonable period in advance of the first reporting date in order to be prepared.

Question 2: Do respondents agree with longer remittance dates for the first reference dates for the new templates for the first six months?

Yes, and we have no further comments.

Question 3: Do respondents agree with the implementation period suggested?

We are not entirely sure of the EBA's perspective on the interim period between October and December until December or until 6 months after the adoption of the ITS. Our interpretation is that national supervisory authorities would be responsible for managing the process in their own jurisdictions. If this is correct, we would ask the EBA to provide, and make public, its guidance for the national supervisory authorities to ensure consistent implementation and a level playing field.

Question 4: Do respondents agree to the structure and content of the proposed new LCR templates added for credit institutions? Particularly comments from respondents on specific rows, columns or any other item would be very valuable and appreciated including comments on the treatment of secured transactions.

We have the following comments:

<u>Asymmetry of cash inflows and outflow on secured financing transactions on liquid assets</u>

Contrary to BCBS standard, the examples provided on pages 19 and 20 of the consultation paper highlight asymmetric treatment between repo outflows (Cash Amount * Collateral Haircut) versus reverse repo inflows (Cash Amount – Collateral Amount * Collateral Haircut). Under the Basel standard, both the inflow and outflow were based on the cash amount multiplied by the appropriate Liquid Asset haircut. We seek clarification as to the reasons for this asymmetry and whether this is the intention of the EBA and European Commission.

The illustrations contained on pages 19&20 of the CP introduce the concept of Asymmetry between the treatment of repo and reverse repo cash flows. We seek clarification on the rationale for what appear to be an additional haircut over and above the 75% inflow cap.

Secured funding transactions liabilities on liquid assets

Per the Delegated Act (Article 28(3)(g)), secured funding transaction liabilities that are collateralised by liquid assets that do not meet the operational requirements (included under Title II) result in a 100% outflow. This is contrary to the BCBS standard and CRR text, where the operational requirements only apply to the Liquidity Buffer (i.e. LCR numerator). We would wish to clarify that was not the intention and confirm that the existing understanding applies, i.e. that Article 8 only applies to the Liquidity Buffer.

Additional Collateral Outflows on Derivatives Transactions – Use of the Historical Look Back Approach

The proposed Historical Look Back Approach for calculating the additional outflows on derivative transactions corresponding to collateral needs from the impact of an adverse market scenario (EBA/RTS/2014/05) is open to various interpretations and specifically deviates from the BCBS standard. Specifically it is not obvious what is meant by 'the largest difference in collateral posted within consecutive periods of 30 days during two preceding years'. Due to various references in the RTS, to both 'collateral posted' and 'cumulative flows', it is unclear how the maximum and minimum should be defined in order to arrive at the largest difference. Consequently, it would be extremely helpful if the EBA could provide more detailed reporting instructions and worked examples to facilitate and achieve clear and consistent treatment.

Netting of foreign currency transactions in the LCR for both reporting currency and individual significant currency reporting

For LCR calculations in the reporting currency of a credit institution, the example illustrated in section 5.2 of the EBA Consultation Paper does not fully net the principal amounts which would be expected to be exchanged on an individual business day. This not the current understanding of the industry and will potentially bring into the scope of the LCR calculation significant additional flows, given the volume of transactions relating to foreign exchange that are traded. We urge the EBA to clarify the treatment of foreign exchange which is a key product for both customers and credit institutions.

For an LCR by significant currency calculation, the treatment of foreign currency transactions has a very significant impact on this reporting. We urge the EBA to consult with the banking industry using the results of the existing EBA LCR monitoring before developing further policy on the monitoring of individual currency mismatches that may arise.

Template 72

- We request the EBA provide a definition of "central institution". This is open to interpretation and a working definition would help ensure a consistent application across firms.

- (Row 72): We request the EBA provide a list of Public Sector Entities that are eligible for Level 1 Liquid Assets. This would lead to a consistent application of the Delegated Acts.

- (Row 450): Can the EBA provide clarity on “deposits by network member with central institution”.

Template 73

- FX outflows: the template suggests there will be no netting of inflows/outflows in one currency. This could have the unhelpful effect of grossing up outflows and capping inflows.

- Operational deposits: the definition “for clearing, custody and cash management” is very broad. Can the EBA clarify it is satisfied for firms to apply their own interpretation?

- (Row 130): Can the EBA provide further details on what Deposit Guarantee Schemes would qualify under Art 27.3?

Sleeper collateral

Could the EBA confirm whether the calculation of sleeper collateral should include the contractual collateral in transit which is being settled but is not due? An example would be where on day 0 there’s a MTM of 100 and collateral is 100 so sleeper collateral is 0. Then on T+1 MTM changes to 110 but collateral will only be settled on T+2. In the case should the 10 collateral in transit from T+1 to T+2 be included in the sleeper collateral calculation?

We would also ask the EBA to provide a clear definition of what constitutes sleeper collateral, preferably with examples for illustration.

Question 5: Do respondents find the new LCR instructions for credit institutions clear? Particularly comments from respondents on specific rows, columns or any other item would be very valuable and appreciated.

Our members found the examples provided in the CP (5.2 "Additional clarifying examples") to be very useful. Are there any plans for further examples? If so, we could provide a list of areas which would be beneficial. It would also be useful to know whether there are any plans to embed these examples in the appropriate sections of the instructions (or as an annex to them).

We have also noted some inconsistencies in line references and line naming between LCR templates and instructions, and inconsistences between the LCR outflows template and the LCR calculation tool. These include:

Inconsistencies noted

Line references and line naming

Ref	Per LCR templates	Per LCR instructions
C 72 Liquid Assets	420 1.2.2.11 Qualifying CIU shares/units: underlying is corporate debt securities (CQS2/3), shares (major stock index) or non-interest bearing assets (held by credit institutions for religious reasons) (CQS3-5)	420 1.2.2.11 Qualifying CIU shares/units: underlying is High Quality covered bonds (RW35%)
C 72 Liquid Assets	440 1.*2.2.13 Qualifying CIU shares/units: underlying is corporate debt securities (CQS2/3) or shares (major stock index)*	440 1.2.2.13 *Qualifying CIU shares/units: underlying is corporate debt securities (CQS2/3), shares (major stock index) or non-interest bearing assets (held by credit institutions for religious reasons) (CQS3-5)*
C 72 Liquid Assets	Memo items are labelled 1.3.1 to 1.3.14	Memo items are labelled 1.3.1 then 1.3.6 to 1.3.18 (i.e. no 1.3.2 - 1.3.5 reference)
C73 Outflows	570 1.1.5.1.7 to other financial customers	570 1.1.5.1.6.2 to other financial customers
C73 Outflows	710 1.1.5.2.8 to other financial customers	710 1.1.5.2.7.2 to other financial customers
C73 Outflows	1000 1.2.1.7 other Level 2B assets collateral	1000 1.2.1.6 other Level 2B assets collateral
C73 Outflows	1010 1.2.1.8 non-liquid assets collateral	1010 1.2.1.7 non-liquid assets collateral
C73 Outflows	1090 1.2.2.7 other level 2B assets collateral	1090 1.2.2.6 other level 2B assets collateral
C73 Outflows	1100 1.2.2.8 non-liquid assets collateral	1100 1.2.2.7 non-liquid assets collateral
C73 Outflows	1110 1.2.2.8.1 counterparty is central govt, PSE<=RW20%, MDB	1110 1.2.2.7.1 counterparty is central govt, PSE<=RW20%, MDB
C73 Outflows	1120 1.2.2.8.2 other counterparty	1120 1.2.2.7.2 other counterparty
C73 Outflows	1390 14 ADDITIONAL BALANCES REQUIRED TO BE INSTALLED IN CENTRAL BANK RESERVES	1430 14 ADDITIONAL BALANCES REQUIRED TO BE INSTALLED IN CENTRAL BANK RESERVES
C75 Collateral swaps	550 1.6.8 non-liquid assets	550 1.7 non-liquid assets
C76 Calculations	040-290 1.2 Numerator calculations	040-290 1.1.3 Numerator calculations

Calculation tool vs underlying templates

	Per LCR templates	Per LCR calculation tool
C73 Outflows	Memo items title not labelled and no ROW ref	Memo items title labelled 2 and ROW 1140
C73 Outflows	Memo items are labelled 2 to 14. ROWS 1140 - 1390	Memo items are labelled 2.1 to 2.13. ROWS 1150 - 1430

We would also draw the EBA's attention to incorrect Delegated Act references in the outflows instructions (in particular those relating to Article 31). For example, Row 640 1.1.5.2.4.2 other: the annex refers to Article 31 (7)(b) (which does not exist) rather than 31 (8)(b).

Question 6: Do respondents consider that the "LCR calculation tool" appropriately translates the use of the different templates for informative purposes?

- Collateral swaps (C73 Row1130 column 060 Total outflows): the number that picked up from the C75 template is the sum of all the rows from I12 to I18 including subtotals, whereas C74 Row410 columns 140,150,160 Total inflows from collateral swaps picks up from the C75 template column J10, K10, L10 as appropriate which represents the total number. Can the EBA confirm that we believe C73 should pick up I10 in C75 template.

- C73: there appears to be an incorrect summation on row 1130 "total outflows from collateral swaps" (as the formula includes both underlying lines and subtotals from the C75 return).

- C76: whilst a line has been included for the Pillar 2 add-on it does not appear to impact the ratio calculated. Can the EBA confirm whether this included for memorandum purposes only? Should there be a second LCR ratio post Pillar 2 add-on?