

EBA/ITS/2022/02

26 January 2022

Final report

Draft amending implementing technical standards

on currencies with constraints on the availability of liquid assets in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council

Contents

1. Executive summary	3
2. Background and rationale	4
3. Draft amending implementing standards	10
4. Accompanying documents	14
4.1 Cost-benefit analysis	14
4.2 Feedback on the public consultation	16

1. Executive summary

Article 419 of Regulation (EU) No 575/2013 of the European Parliament and of the Council ('CRR') specifies a number of derogations applicable to currencies with constraints on the availability of liquid assets for the purpose of calculating the liquidity coverage ratio (LCR). As part of the Risk Reduction Measures (RRM) package adopted by the European legislators, an additional derogation was added. The derogations of Article 419 of the CRR are intended to address the inherent difficulties that institutions would face in meeting their liquidity coverage requirements in such currencies where it is not possible to reduce, by sound liquidity management, the resultant need for liquid assets and the holdings of those assets by other market participants.

The EBA has been tasked with amending the existing regulatory technical standards (Commission Delegated Regulation (EU) 2016/709 of 26 January 2016) specifying the use of derogations and the conditions for their application following the addition of a new derogation, with a concomitant need to update the corresponding implementing technical standards (Commission Implementing Regulation (EU) 2015/2344 of 15 December 2015) on the effective list of currencies with constraints, which currently consists of a single currency, the Norwegian krone (NOK).

The draft implementing technical standards (ITS) propose amending Commission Implementing Regulation (EU) 2015/2344 of 15 December 2015 by removing the NOK from this list. The reason is the change in the supply of and demand for NOK-denominated liquid assets since the assessment underlying the existing ITS. Given that there is no longer a shortage in the supply of liquid assets in the NOK currency, the derogations are no longer deemed necessary.

To keep regulatory efforts in proportion to their impact, since it is proposed to have no currencies on the list, the EBA will not update the Commission Delegated Regulation (EU) 2016/709 that specifies the conditions for the application of the derogations. Such an update will be proposed if during a future assessment it is observed that a currency will have to be added to the list.

Next steps

The draft ITS will be submitted to the Commission for endorsement before being published in the Official Journal of the European Union. The technical standards will apply 20 days after their publication in the Official Journal of the European Union.

2. Background and rationale

1. Article 419 of the Capital Requirements Regulation (CRR – Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013) relates to currencies with constraints on the availability of liquid assets for the purpose of calculating the liquidity coverage ratio (LCR). This article has been amended as part of the RMM package (Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019) to introduce an additional derogation for the currencies concerned. There are three derogations available, namely to allow the use of liquid assets denominated in a foreign currency, the use of specific credit lines committed by the relevant central bank as liquid assets, and the use of additional level 2 liquid assets to meet the LCR. The derogations are intended to address the inherent difficulties that institutions would face in meeting their liquidity coverage requirement in such currencies where it is not possible to reduce, by sound liquidity management, the resultant need for liquid assets and the holdings of those assets by other market participants.
2. The implementing technical standards (ITS) of Article 419(4) of the CRR (Commission Implementing Regulation (EU) 2015/2344 of 15 December 2015) list currencies with constraints on the availability of liquid assets. For these currencies, the justified need for liquid assets in light of the liquidity coverage requirement in Article 412 of the CRR exceed the availability of those liquid assets in a currency. Currently, the list in the ITS, which is to be amended by the draft amending ITS, consists of one currency, the Norwegian krone (NOK). The list of currencies in the existing ITS has been specified on the basis of data gathered by the jurisdictions concerned and a set of assumptions that result in shortage estimates per currency.¹
3. The ITS are to be read together with regulatory technical standards (Commission Delegated Regulation (EU) 2016/709 of 26 January 2016) stemming from a mandate to the EBA in Article 419(5) of the CRR. The RTS specify the use of derogations and the conditions for their application. The EBA has been mandated to amend the existing RTS, specifying the use of derogations and the conditions for their application, with a concomitant need to update the corresponding ITS on the effective list of currencies with constraints.
4. In developing the work for both the RTS and the ITS, the EBA has come to the conclusion that the Norwegian krone can be removed from the existing list of the ITS, which would leave the list with no currencies exhibiting constraints on liquid assets. As a result, the need to amend the RTS on the basis of the additional derogation introduced in the CRR becomes void at this point in time, since the amended RTS would not have any application in practice.

2.1 Methodology applied for the existing ITS

¹ <https://www.eba.europa.eu/regulation-and-policy/liquidity-risk/draft-technical-standards-ts-on-currencies-with-constraints-on-the-availability-of-liquid-assets>

5. In the course of 2013 and 2014, to determine the supply of liquid assets the EBA collected data from the jurisdictions using the Basel definition of high-quality liquid assets (HQLA), as laid down in the standard of the Basel Committee on Banking Supervision of 7 January 2013 regarding the liquidity coverage requirement ('BCBS standards'). The incorporation of the Basel definition was deemed necessary as a definition of liquid assets was not yet established within the context of the CRR.
6. On the demand side, the jurisdictions concerned reported the estimated demand for liquid assets from institutions regulated by the CRR as the weighted net cash outflows over the next 30 days, taking into account the cap on inflows. In the absence of a formal mandatory reporting requirement prior to the application of the CRDIV/CRR, estimated demand was based on information reported in the EBA's voluntary reporting exercise and/or in the quantitative impact study of the Bank for International Settlements (BIS). The latest reported information available during the assessment process was dated September 2012, so estimated demand did not reflect the changes in the BCBS standards of January 2013 or any possible behavioural effects. For countries that did not participate in the BIS quantitative impact study, the reporting of demand was based on other available sources.
7. To assess the amount of liquid assets locked up by investors not regulated by the CRR, the jurisdictions concerned reported holdings of liquid assets by these entities and provided evidence that these holdings were price inelastic but stable. To ensure the robustness of the results, a sensitivity analysis was conducted to account for uncertainties in the supply and demand figures. The analysis estimated, inter alia, the impact of potential deviations from the Basel definition of liquid assets and of scenarios in which the supply of government debt would grow. These analyses helped inform the EBA in its view that the abovementioned approach leads to appropriately robust results.
8. It should be noted that Article 7 of the Commission Delegated Regulation (EU) 2016/709 specifying the conditions for the application of the derogations concerning currencies with constraints on the availability of liquid assets contains a limit on the total use of the derogations by institutions equal to the relevant shortfall percentage in the annex of the ITS. This percentage (63% for the NOK) indicates the estimated aggregate shortfall compared to the aggregate demand generated by the liquidity coverage requirement for each currency on the list. The idea is that the aggregate estimated shortfall in liquid assets can be offset by allowing each institution to cover its individual net outflows by means of the derogation up to the aforementioned percentage. In this way, the use of derogations is inversely proportional to the availability of liquid assets as defined in Delegated Regulation (EU) 2015/61. This restriction is in addition to the general requirement to take all reasonable steps to fulfil the LCR requirement before applying the derogation.

2.2 Update regarding the NOK

9. The update regarding the NOK is warranted given the period of time since the initial assessment and the improved availability of data on the demand for liquid assets resulting from the liquidity

coverage requirement. Data availability improved following the implementation of common reporting on the liquidity coverage requirement in the supervisory reporting framework (this amendment to the Commission Implementing Regulation (EU) No 680/2014 was implemented by end-2016).

10. Just as for the assessment underlying the existing draft ITS, the new proposal for an (empty) list of currencies has been specified on the basis of a comprehensive data analysis. Specifically, the Norwegian FSA has provided data on the following:

- 1) Supply of liquid assets (size of the market). This is provided per type of liquid asset and level. For example, the amount of outstanding level 1: central government assets. The source of the data is mostly the Norwegian Central Securities Depository as observed at the start of April 2021. In the case of withdrawable central bank reserves, it is Norges Bank (average amount regarding 2021 up to the start of April) and in the case of coins and banknotes it is LCR reporting (end of February 2021 reference date).

This has led to the following overview of the (gross) supply of liquid assets as follows (all in NOK bn):

Level 1: Central government assets	536.0
Level 1: Coins and banknotes	1.4
Level 1: Covered Bonds	596.8
Level 1: PSE, Regional, Multilateral development bank and international organisations as	288.1
Level 1: Withdrawable central bank reserves	15.0
Level 2A: Covered Bonds	96.8
Level 2A: Regional government / local authorities assets / PSE (RW20%)	152.7
Level 2B: Corporate debt securities (CQS2/3)	36.6
Level 2B: Shares (major stock index)	1,048.8

- 2) Estimated demand from non-CRR institutions. This is provided per type of liquid asset and level on the basis of data from the Norwegian Central Securities Depository. The categories include a) domestic insurance, government funds, pension funds, mutual funds owned by insurance; b) foreign investors (non-CRR); c) other demand from Norwegian long-term investors (non-CRR) (for example including municipalities).
- 3) Estimated demand from CRR institutions (domestic and foreign) on the basis of LCR reporting, as measured by total net outflows in May 2020 (the reference date on which the maximum amount was observed between December 2019 and February 2021).

11. The shortfall calculation, in line with the analysis in 2013, should generally be performed in five steps:

- Step 1: deduction of demand from non-CRR institutions from supply for each level (level 1 without covered bonds, level 1 covered bonds, level 2a, level 2b). The general assumption is

that holdings by non-CRR institutions are stable/locked-up (also based on regulation for these sectors). This step yields the following results (all in NOK bn):

	Supply (gross)	(-) Demand: Domestic insurance, govt.fund, pension funds, mutual funds owned by insurance (Non-CRR)	(-) Demand: Foreign investors (Non-CRR). Only 50% is represented as this is proxy for share of Non-CRR institutions)	(-) Demand from other Norwegian long term investors (Non-CRR)	Supply (available to CRR institutions)
Level 1 (non covered bonds)	840.5	58.9	165.2	79.2	537.2
Level 1 (covered bonds)	596.8	62.4	40.7	2.5	491.3
Level 2A	249.5	101.0	17.6	4.5	126.4
Level 2B	1,085.4	30.8	207.5	289.1	557.9

- Step 2: application of the haircuts and caps to each level, leading to the amounts of liquid assets that could be used if all banks were using their caps optimally. This step results in the following amounts (all in NOK bn):

	Supply (available to CRR institutions) after haircuts	Supply (available to CRR institutions) after application of the caps
Level 1 (non covered bonds)	537.2	537.2
Level 1 (covered bonds)	456.9	456.9
Level 2A	107.4	107.4
Level 2B	279.0	194.4
Total supply:		1,295.9

- Step 3: multiplication of CRR institutions' net outflow by 110%, assuming they would target a 110% LCR, which results in the following amounts:

	Demand CRR institutions (100% LCR)	Demand CRR institutions (110% LCR)
From Norwegian credit institutions	467.9	514.7
From foreign credit institutions	390.3	429.3
From all credit institutions	858.2	944.1

- Step 4: comparison of the total demand in the previous step with the amount of capped liquid assets (the difference is the shortage).
- Step 5: addition of +25% to the shortage percentage of the previous step. This is an estimate of the amount of free-floating assets required for a market to remain liquid.

The combination of step 4 and 5 leads to the following:

Shortage (surplus if -) assuming 110% LCR (NOK bn)	-351.79
Shortage (surplus if -) compared to 110% LCR needs	-37.3%
Shortage (surplus if -) after addition of 25% (to keep markets liquid)	-12.3%

- The tentative conclusion from this calculation is that the NOK no longer warrants its place on the list.
- There are several sensitivities that can be tested, particularly where a part in the calculation could be subject to debate. One such aspect is the assumption about the share of the amount of liquid assets held by foreign institutions that is non-CRR. In the above calculation it is assumed, in line with the observation in 2013 regarding domestic institutions, that 50% of these foreign institutions are non-CRR (at least regarding government bonds). Currently, taking a more detailed proxy we observe that this percentage is 60% regarding government bonds, 27% regarding covered bonds, and 99.5% regarding stocks. This means that slightly more government bonds may be assumed to be locked up and slightly less stocks (compared to the earlier rough assumption of 50%). This potentially implies a slight overestimation of available government bonds and stocks and slight underestimation of available covered bonds. However, the effects do not appear to be significant.
- Another aspect that can be tested is the stability of the available securities over time, comparing the figures of available securities used with those before the COVID-19 pandemic. During the pandemic the Norwegian Central Bank (Norges Bank) offered extraordinary F-loans and relaxed the guidelines for pledging collateral to ensure that the policy rate is passed through to money market rates. Norwegian banks issued a significant amount of retained covered bonds to be pledged as collateral in response. In this respect, a sensitivity analysis can be conducted to analyse the impact if part of the increased issuance did not represent increases in the long run.
- It has been observed that the increased outstanding amount of covered bonds remains stable. It has also been observed that a higher amount of covered bonds is being retained compared with before the COVID-19 pandemic, but that the amount not retained is also higher. It is expected that some of the increased amount of retained covered bonds will mature without new covered bonds being issued. Making the assumption that the increased amount of retained covered bonds will not be renewed does not alter the conclusions. It should also be noted that during 2020 real estate prices in Norway increased substantially, paving the way for more loans eligible for the covered bonds' pools. Further, it should be noted that the outstanding amount of government debt is on an upward path.

16. After testing sensitivities against a broad range of assumptions as mentioned above, no potential shortage is perceived. As a result, a place on the list for the NOK no longer seems to be warranted.

3. Draft amending implementing standards

COMMISSION IMPLEMENTING REGULATION (EU) .../...

of **XXX**

amending the implementing technical standards laid down in Implementing Regulation 2015/2344 with regard to currencies with constraints on the availability of liquid assets in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012², and in Article 419(4), third subparagraph, thereof

Whereas:

- (1) Commission Implementing Regulation (EU) 2015/2344, which is amended by this Regulation, was based on the identification of the Norwegian krone (NOK) by the European Banking Authority as a currency with constraints on the availability of liquid assets. This identification was made before the entry into force of Commission Delegated Regulation (EU) 2015/61, where the European Banking Authority assessed the availability of liquid assets in accordance with the international standards adopted by the Basel Committee on Banking Supervision.
- (2) On the basis that justified needs for liquid assets and the availability of liquid assets have evolved since the European Banking Authority's first assessment, as well as to account for the the fact that the Commission Delegated Regulation (EU) 2015/61 establishes a broader range of liquid assets in

² OJ L 176, 27.6.2013, p. 1.

particular in relation to covered bonds, the European Banking Authority has performed an updated assessment.

- (3) As for the first assessment, the reassessment examined the amounts of liquid assets not required by entities which are not subject to Regulation (EU) No 575/2013 and compared this to the needs of institutions, based on their estimated weighted net cash outflows over the following 30 days, taking into account the cap on inflows, factors likely to affect the shortage of liquid assets over a three to five-year period and a target of 110% for the liquidity coverage requirement.
- (4) In contrast to the first assessment, the updated European Banking Authority assessment concluded that the justified needs for liquid assets no longer exceed the availability of liquid assets in NOK. While the supply of Norwegian government debt is still relatively constrained because of the favourable budgetary position, the supply of covered bonds, which can be recognised as level 1 liquid assets, is relative large.
- (5) Commission Implementing Regulation (EU) 2015/2344 should therefore be amended accordingly.
- (6) This Regulation is based on the draft implementing technical standards submitted to the Commission by the the European Banking Authority.
- (7) The European Banking Authority has conducted open public consultations on the draft implementing technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the advice of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council³.

HAS ADOPTED THIS REGULATION:

Article 1

Amendments to Commission Delegated Regulation (EU) No 2015/2344

Commission Implementing Regulation (EU) No 2015/2344 is amended as follows:

- (1) The Annex containing the list of currencies with constraints on the availability of liquid assets is replaced by the following:

³ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12)

ANNEX
List of currencies with constraints on the availability of liquid assets

No.	Currency	Amount by which justified needs for liquid assets exceed availability
-	-	-

Article 2

Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission
The President

On behalf of the President

[Position]

4. Accompanying documents

4.1 Cost-benefit analysis

1. Article 15(1) of the EBA Regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council) specifies that when any draft implementing technical standards developed by the EBA are submitted to the European Commission for adoption, they shall be accompanied by an analysis of ‘the potential related costs and benefits’. This analysis should provide an overview of the findings regarding the problem to be dealt with, the solutions proposed and the potential impact of these options.

2. This note outlines the assessment of the impact of the draft amending ITS regarding currencies for which the justified demand for liquid assets exceeds the availability of those assets. The draft ITS are a result of the requirement set out in Article 419(4) of the CRR.

A. Problem identification

Issues addressed by the European Commission (EC) regarding liquidity management

3. In its impact assessment of the CRD IV framework, the European Commission noted that the existing liquidity risk management approaches and supervisory regimes inadequately captured risks inherent in the underlying market practices and trends. These shortcomings contributed to the failure of several institutions and greatly undermined the financial health of many others, threatening financial stability and resulting in unprecedented levels of central bank liquidity and government support.

4. The CRR establishes two minimum standards for funding liquidity to address this issue: one with a short-term horizon (the liquidity coverage ratio – LCR) and one with a mid-term horizon (the net stable funding ratio – NSFR). The LCR is intended to ensure that an institution has sufficient high-quality liquid assets (HQLA) to survive an acute stress scenario lasting for 30 days.

5. To meet the liquidity coverage requirement, institutions must hold a stock of HQLA to cover their total net cash outflows over a 30-day period. These assets should be liquid in markets during a time of stress and, in most cases, be eligible for use in central bank operations. However, the Regulation considers the possibility that in some jurisdictions there are not enough HQLA available: Article 419 of the CRR allows institutions to derogate from the liquidity coverage requirement in the event of constraints on the availability of liquid assets denominated in a given currency in previous years, and based on the data available at the time the EBA was able to identify such constraints as regards the assets denominated in NOK. The EBA recently reviewed this analysis, also leveraging more robust data stemming from regulatory data collections.

Issues addressed by the technical standards

6. The CRR mandates the EBA to develop draft ITS listing the currencies with constraints on the availability of liquid assets. For all the currencies listed, the derogations from the liquidity coverage requirement set out in Article 419(2) of the CRR shall apply.

Methodology used and technical option chosen

7. The EBA has developed a methodology based on a comparison of the estimated demand for and supply of liquid assets to establish the currencies in which a shortfall in liquid assets may exist. The EBA has also assumed that a buffer of free-floating assets of 25% of the estimated HQLA demand would be appropriate to maintain a sufficient level of liquidity in the financial markets under analysis. The methodology assumes that institutions target a liquidity coverage requirement of 110%, reflecting the fact that institutions may aim to hold liquid assets in excess of the minimum required.

8. When the estimated demand for HQLA, incorporating the buffer of free-floating assets and the excess holding of liquid assets, exceeds the estimated supply of HQLA, the derogations from the liquidity coverage requirement set out in Article 419(2) of the CRR shall apply.

B. Impact

Costs

9. The process of determining the eligibility of currencies is based on data available at the national supervisory authorities and will not cause additional costs for institutions.

10. Based on previous analysis, the EBA identified only one EU currency for which the availability of liquid assets was insufficient to cover the potential demand – the NOK. Updating this analysis, the EBA concluded that such constraints no longer applied. In particular, also under the hypothesis that the target coverage ratio is higher than the regulatory minimum, the EBA estimated an excess (supply higher than demand) of assets equal to NOK 350 bn. For this reason, it is now proposed to remove the derogation provided by Article 419 CRR for this currency too.

Benefits

11. The pre-set methodology by which these ITS have been determined will ensure that currencies with a shortfall in liquid assets are identified on a consistent basis. It will also ensure that institutions operating in these currencies may use the derogations from the liquidity coverage requirement to meet their liquidity requirements, where appropriate. The methodology includes the assumption that a buffer of free-floating assets of 25% is necessary to avoid the liquidity coverage requirement impeding the liquidity of the financial markets in which those institutions operate.

4.2 Feedback on the public consultation

The EBA publicly consulted on the draft proposal contained in this paper.

The consultation period lasted for three months and ended on 16 October 2021. Two responses were received, both of which were published on the EBA website.

This paper presents a summary of the key points and other comments arising from the consultation and the analysis and discussion triggered by these comments. It should be noted that this has not led to a change in the legal content of the draft amending the ITS.

Summary of key issues and the EBA's response

The main feedback, while not opposed to the removal of the NOK from the list, questioned the size of the surplus in liquid assets that underlies the decision. One argument was that the timing of the observations (April 2021) may imply a temporary high in covered bonds outstanding subject to the pandemic-related measures of the Norwegian Central Bank (Norges Bank). The respondent suggested that the market conditions during the pandemic and the abovementioned liquidity management measures by Norges Bank led to the issuance of a significant volume of retained covered bonds by Norwegian banks.

The EBA observes that the increased outstanding amount of covered bonds remains stable. While a higher amount of covered bonds is retained compared with before the COVID-19 pandemic, there is also a higher amount that is not retained. Although some of the increased amount of retained covered bonds may mature without new covered bonds being issued, the EBA's response emphasises that, even assuming that the increased amount of retained covered bonds will not be renewed, the conclusions would not change.

In addition, it is noted that during 2020 real estate prices in Norway increased substantially, paving the way for more loans becoming eligible for the covered bonds pools. Further, it should be noted that the outstanding amount of government debt is on an upward path.

Other feedback suggested that the calculation should consider how some government debt may not be available to institutions due to the use of repurchase agreements in relation to primary dealer activities in the government bond market. Also, it was suggested that shorter-dated government debt should be seen as a more volatile source of supply. On this point, the EBA would like to remind readers that the shortage calculation methodology already assumes that liquidity demand is 25% of institutions' actual demand to take into account the need to keep markets liquid. These primary dealer activities can be considered part of such activities. Regarding short-dated government debt, it should be noted that HQLA meeting the general and operational requirements and maturing within 30 calendar days should be computed as HQLA and not as inflows.

Regarding a respondent's question on the amount of shares actually used in the liquidity buffer and the amount of liquid assets locked up by foreign non-CRR institutions, the EBA finds it is worth noting that sensitivity analysis on these points does not generally affect results significantly.

Summary of responses to the consultation and the EBA’s analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Responses to questions in consultation paper EBA/CP/2021/29			
Question 1. Are the proposed amendments appropriate and sufficiently clear?	<p>The need to update the ITS stems from the EBA being tasked with amending the existing regulatory technical standards specifying the use of derogations from the LCR for currencies with constraints. The Norwegian krone (NOK) is currently the only currency on this list.</p> <p>The EBA’s proposal is supported not to update the RTS given that the list in the ITS does not contain any items. However, a comment is made on the data used for the calculation of the aggregate shortage/surplus. In the respondent’s opinion, the conclusion (aggregate surplus) is correct, but the surplus in the calculation is at a level that is too high.</p> <p>Supply</p> <p>The respondent’s comments mainly relate to the data used in the calculation of supply.</p> <p>The data points for calculating the total supply of liquid assets are mostly from the Norwegian Central Securities Depository and are based on observations made at the start of April 2021. During the Covid-19 pandemic the Norwegian Central Bank (Norges Bank) implemented a number of liquidity management measures, including extraordinary F-loans (fixed-rate loans) and a relaxation in the</p>	<p>One aspect tested is the stability of the available securities over time, comparing the figures for available securities used with those from before the COVID-19 pandemic, which appears to have led to some increase in issuance in response to potentially greater funding needs. In this respect, sensitivity analysis can be conducted to analyse the impact if part of the higher issuance did not represent increases in the long run.</p>	None

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>guidelines for pledging collateral for loans from Norges Bank (banks could pledge 100% of the issue's volume outstanding).</p> <p>The market conditions during the pandemic and the abovementioned liquidity management measures from Norges Bank led to the issuance of a significant volume of retained covered bonds by Norwegian banks. These covered bonds were still outstanding at the point when the data was collected for the EBA's assessment of the aggregate shortfall/surplus.</p> <p>In addition to the above pandemic-linked factor, the data in the consultation paper do not seem to take into consideration the volume of government debt that cannot be included in liquidity portfolios due to its use in repurchase agreements in relation to primary dealer activities on the government bond market. This volume amounted to approximately 15% of outstanding NOK government debt at the time of the data collection. A second factor that does not seem to have been considered is the distribution of tenors for the government debt and the resulting volatility in supply stemming from the shorter-dated instruments.</p> <p>The contribution from shares is not insignificant in the EBA's calculation of the aggregate shortfall/surplus. Although the regulations permit the inclusion of shares in the LCR, this is not encouraged by the Norwegian authorities.</p>	<p>In addition, it has been observed that the increased outstanding amount of covered bonds remains stable, indicating that the funding needs that have led to the issuance of covered bonds are likely to remain in place. Further, it should be noted that the outstanding amount of government debt is on an upward path.</p> <p>The shortage calculation methodology assumes that liquidity demand is 25% of institutions' actual demand to take into account the need to keep markets liquid. These primary dealer activities can be considered to be part of such activities.</p> <p>Regarding short-dated government debt, it should be noted that Q&A 2013_154 recognises that HQLA meeting the general and operational requirements and maturing within 30 calendar days should be computed as HQLA and not as inflows. This implies that the short-datedness should not be a concern for the available amount of HQLA, particularly against the backdrop of NOK-denominated government debt being on an upward path.</p>	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>All of the above items seem to exaggerate the ‘steady state’ supply of operationally viable high-quality liquid assets in NOK.</p> <p>Sensitivities</p> <p>Regarding sensitivities, the consultation report lists deviations between observations and assumptions in the calculation. The assumption about the share of liquid assets held by foreign non-CRR institutions is specifically mentioned, and the assumptions used seem to exaggerate the aggregate surplus somewhat.</p> <p>Conclusion</p> <p>The respondent concludes that the effect of the factors mentioned above in the calculation of the aggregate shortfall/surplus is that the aggregate surplus resulting from the EBA calculation is significantly higher than our assessment. The respondent understands that the above will not alter the conclusion at this point in time, but it is important that these factors are incorporated into future assessments of the NOK aggregate shortfall/surplus.</p>	<p>As mentioned above, the main calculation which assumes 50% ownership by foreign non-CRR institutions does not seem to have a large impact. As mentioned in the consultation paper, when using a more detailed proxy we observe that this percentage is 60% regarding government bonds, 27% regarding covered bonds, and 99.5% regarding stocks. This potentially implies a slight overestimation of available government bonds and stocks and a slight underestimation of available covered bonds. However, these effects do not appear to be significant.</p>	
	<p>The respondent would like to comment on the EBA’s underlying analysis with regard to the availability of level 1 assets issued by international institutions and multinational development banks. In the Regulation 2015/2344 in force, it is stated in recital 7 that these types of issues are predominantly private placements held by overseas</p>	<p>It needs to be taken into account that at the time of the analysis underpinning Regulation 2015/2344, the definition of liquid assets was not yet fully confirmed. The updated analysis reflects the fact that debt securities issued by 0% risk-weighted international organisations and multilateral development banks can be recognised as liquid assets. Analysis of</p>	None

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	<p>investors and were therefore not considered by the EBA as liquid and available for institutions. On page 7 of the consultation paper, there is an overview of the (gross) supply of liquid assets. It seems from this overview (and from the first table on page 8) that level 1 assets issued by international institutions and multinational development banks are now fully included in the supply of level 1 assets. The respondent would encourage the EBA to ensure that the evidence from the markets supports a change of stance on this issue and, if supported by the evidence, explain the basis for the change of view on the availability for institutions of these types of issues. If increased availability cannot be supported, removing NOK from the regulation may not be merited. In any case, the respondent believes it is important that the underlying analysis for updating the regulation is accurate.</p>	<p>common reporting data on the LCR indicates that institutions recognise significant volumes of these debt securities as liquid assets.</p>	