BNP Paribas' Response to EBA Consultation Paper on *Draft Implementing Technical Standards on Additional Liquidity Monitoring Metrics*

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BNP Paribas welcomes the opportunity to help the EBA with designing a robust and consistent regulatory framework for liquidity.

Please find below our general comments on the Consultation Paper (CP) on *Draft Implementing Technical Standards on Additional Liquidity Monitoring Metrics*.

Appendix A presents a summary of our proposal.

Appendix B contains our responses to the specific CP's questions.

We stand ready for any additional information.

- ***Strike the right balance between additional data and their value-added:***

First of all, we believe it is important to better explain the rationale for the suggested additional reports and how those reports will be useful for supervisors and banks.

As they are suggested, some of the additional reports are expected to have little added value for supervision. As illustration, as neither the Maturity Ladder nor the Behaviour Contractual Template are behaviorized they are useless for actual liquidity risk management. Similarly, the monthly report of a 10 year long business plan does not make economic sense.

It would be helpful that EBA explains the purpose and what the reported data will be used for.

- ***Report-based supervision vs. hands-on supervision:***

The proposal to add seven monthly reports at entity level, on top of the monthly Liquidity Coverage Requirement (LCR) report and the quarterly Stable Funding (SF)) report, **would basically multiply the number of liquidity reports by more than 6** (=(16+84)/16)!

For a Group with 50 entities, which with an assumed two significant currencies each, **this could lead** to **10,000 liquidity reports a year** compared to the eight reports a year that consolidated Groups have been delivering during the observation period so far. We actually did observe that only a very small fraction of the reports have actually been used, only few Quantitative Impact Studies (QIS) were published since 2010.

The overload of reports will actually be detrimental to liquidity risk management as it will lock resources, both in banks and in supervisory authorities, rather than actually analyzing and managing liquidity risk, giving a false sense of comfort to both banks and supervisors.

One of the lessons from the financial crisis was that hands-on supervision trumps report-based supervision.

The levies to strike a better balance is a combination of:

- **Reducing the number of envisaged reports:**
  We recommend deleting the reports 'behavior maturity ladder' as it is not a behavior maturity ladder, 'concentration of funding by product type' (as most of it is already reported in the LCR), 'prices for various lengths of funding', 'rollover of funding'. None of these reports were asked by the Basel Committee on Banking Supervision (BCBS) in its last proposal published 7th January 2013.

We recommend that additional reports are *not* subject to the significant currency break down.

- **Making the most of existing LCR/SF reports:**
  Rather than adding new liquidity reports, we believe it would be more efficient to analyze how the existing LCR/SF reports could be adapted to cover the desired objective.
- **Adopting a proportionate approach for entities or group of entities subject to those reports.**
- **Decreasing the frequency.**
- **Not subjecting additional liquidity reports to the breakdown requirement from Significant Currency or Significant Branch criteria**

- ***Proportionality Principle should be ensured:***

As for the threshold to determine to be subject to additional liquidity report requirements, it would be more consistent and relevant to use 5% rather than 1%, and to complement it with an absolute size amounts.

Finally, Article XX(3) should be:

> *As an exception from paragraphs 1and 2, institutions ~~may~~* **should** *report the information described therein ~~with a quarterly reporting frequency,~~ from the following year~~, where all of the following requirements are met: (i) the institution does not form part of a group with subsidiaries or parent institutions located in jurisdictions other than the one of its competent authority; (ii)~~* **when** *the ratio of the ~~individual~~ balance sheet total of an institution,* ***consolidated Group or Liquidity Sub Group*** *to the sum of individual balance sheet totals of all institutions under the supervision of its competent authority is below* **one of the two thresholds below:**
>
> *i. ~~1%,~~* **5%** *for two consecutive years preceding the year of reporting. Balance sheet total figures for calculating the ratio shall be based on year-end audited figures for the year before the year preceding the reporting reference date.* **The scope of the Single Supervisory Mechanism is considered as one competent authority.**
>
> **ii. Balance sheet greater than €50bn**

- ***Phase-in additional liquidity metrics reports:***

We believe it would be preferable to adopt a more progressive approach, and introduce additional reports to the extent they are needed, when they are needed.

Even for additional reports that EBA would elect to choose, it would be efficient to phase in the scope of application of those reports: with consolidated level first, then, if it makes sense, the most significant entities in the Group.

- ***Europe should be considered as one single jurisdiction:***

We recommend that EBA makes clear that the Europe should be considered as a *single country* and consequently:

- all European customers are considered 'resident' for a European institution;
- transactions between entities that are located in two Member States are not considered cross border transactions.

Equally, **the Single Supervisory Mechanism (SSM) should be considered as *one competent authority*** to apply the threshold test.

Finally, it should be made clear that the country of where the entity is incorporated is the driver to allocate a country to a transaction. In other words, a transaction between a branch in the UK of a

French entity and a branch in Germany of a Belgium entity is considered a transaction between France and Belgium.

- ***Avoid introducing new dimensions for each report:***

It is important to know that the introduction of any new dimension in a report requires modifying the entire data collection process in each institution. Indeed, our institution aims at collecting the same data to populate *all* the regulatory required reports, to ensure consistency between the different liquidity reports.

As those regulatory liquidity reports are *not* aligned in terms of definitions and dimensions, this requires collecting data for all the possible combinations of dimensions over all liquidity reports. This is definitively a very well known 'curse of dimension' as the required data increases exponentially with the number of dimensions.

Given the fact that the LCR and the SF reports are not consistent in their dimensions, **we urge the EBA to – at least - align the liquidity reports along the same dimensions, and to make the most of existing reports that could accommodate most of the desired additional data.**

As illustrations of new dimensions that we recommend not being introduced:

- Time band breakdown should be aligned with LCR and SF reports: ≤1m, 1m-3m, 3m-6m, 6m-9m, 9m-12m; then 1y-2y, 2y-5y, 5y-10y, 10y+;
- Hybrid bonds (1.1.2 in Maturity Ladder; 2.1.2 in Behaviour Template)
- Securitization (1.1.4 in Maturity Ladder; 2.1.4 in Behaviour Template)
- Short term paper (1.1.5 in Maturity Ladder; 2.1.5 in Behaviour Template)
- Resident / non-resident deposits (1.4.1 in Maturity Ladder)
- Domestic financial customers (1.6.1, 2.3.1, in Maturity Ladder; 1.8.1, 2.3.1, in Behavioural Template)
- Cross border financial customers (1.6.2, 2.3.2 in Maturity Ladder; 1.8.2, 2.3.2 in Behaviour Template)
- Intragroup (1.5.2.1, 1.6.1.1.1, 1.6.1.2.1, 1.6.2.1.1, 1.6.2.2.1, 1.6.3.1, 2.2.2.1, 2.2.4.1,, 2.3.1.1.1, 2.3.1.2.1, 2.3.2.1.1, 2.3.2.2.1 in Maturity Ladder; 1.2.1, 1.3.1, 1.8.1, 1.8.2.1, 2.2.2.1, 2.2.4.1,, 2.3.1.1.1, 2.3.1.2, 2.3.2.1.1, 2.3.2.2.1 in Behavioural Template; in Concentration of Funding by Product Type)
- Group and related parties (3.6.2 and 3.6.3 in Maturity Ladder)
- FX-Swaps (1.7, 2.4 Maturity Ladder; 1.4, 2.4 in Behaviour Template)
- The definition of SME loan is not aligned with the LCR since it applies a €1mm cap on deposit to classify a loan to an SME as a retail loan, which is a requirement that does not apply in LCR (2.2.1 Maturity Ladder)
- Marketable vs. non marketable assets (3.3.6.1, 3.3.6.2, 3.4.6.1 and 3.4.6.2 in Maturity Ladder)
- Sight deposits in Concentration of Funding by Product Type
- Fixed Term Deposits in Concentration of Funding by Product Type
- Savings in Concentration of Funding by Product Type

Moreover, the instructions to allocate cash flows by time band should be consistent across all reports.

- ***Precise definition of Intragroup:***

As the reports are designed for both individual report and consolidated report, the 'intragroup' should be left blank when reporting the consolidated level (ie: all the transactions that are between entities that are consolidated in the report are assumed not to exist).

Additionally, it should be made clear whether ‘intragroup’ should be considered balance sheet-wise or prudential scope-wise. As an illustration, an insurance company in the Group is not part of the prudential scope whereas it is part of the consolidated balance sheet: we recommend adopting the prudential scope approach, to be consistent with the prudential role of the envisaged reports.

- ***Sufficient implementation time:***

Once additional reports are finalized, a 1 year period should be given to reporting institutions to implement those reports.

Appendix A - Summary of our Proposal

Report	In BCBS ?	Our Proposal ✓ Keep Modify ✗ Delete	Comments	Mg[t] data only[1]	Frequency Q: Quarterly Y: Yearly	If reports are retained Exemption Clauses Criterion #1	Criterion #2
Maturity Ladder	✓	**to derive from SF report**	Suffice is to add time bands to the SF report beyond 1 year horizon		**Q**	<5% of the entities in the scope of the supervisor (with SSM being considered one supervisor) OR <€50bn balance sheet	
Behaviour Ladder	✗	**if behavior-oriented, to derive from SF report**	Duplicate *Maturity Ladder*-enriched SF report and fill in with expected behaviourized amounts rather than contractual amounts		**Q**		If business-plan oriented and the entity is funded 95% by intragroup.
	✗	**✗ if business plan oriented**	Duplicate *Maturity Ladder*-enriched SF report and fill in with expected *dynamic* amounts rather than contractual amounts		Y		
Funding Concentration	✓	✓	Scope to be focused on main unsecured wholesale funding sources. 10% should be used as a threshold rather than 1%	✓	**Q**		If the entity is funded for more than 95% by intra-group or non-wholesale funding.
Product Concentration	✓	**✗ to derive from LCR**	The breakdown of retail funding sources is un-necessary. Suffice is to consider aggregated amount from LCR report		**Q**		
Funding Prices	✗	✗	If retained, scope to be focused on main unsecured wholesale funding sources	✓	**Q**		
Funding Roll over	✗	✗		✓	**Q**		
Buffer Concentration	✗	✗		✓	**Q**		Buffer < €10bn

Additional Liquidity Reports should not be subject to the Significant Currency / Significant Branch breakdown.

[1] Reports derived from Data from Liquidity Risk Management Systems (ie: no accounting system)

Remittance period should all be 30 day.

Appendix B
Detailed Responses to Consultation Paper's Questions

Responses to Specific Questions

Q 1. Are the proposed remittance dates feasible?

Concentrating all the regulatory liquidity reports in the same remittance period would be detrimental to the data quality since the controls, for each report as well as for the combination of all reports (cross consistency checks) will *not* be possible in so tight remittance period.

As for the other liquidity reports, **we suggest that the remittance period for report is 30 day *after* the as of date.**

Q 2. Are the proposed frequency dates feasible? Has the proportionality been adequately considered?

Are the proposed frequency dates feasible?

As *additional* liquidity monitoring metrics, **the frequency of the reports should be at most a quarterly, and even yearly for any business plan-like report (if any)**.

As an illustration, the contractual Maturity Ladder can't be more frequent than the Stable Funding report as both are highly related.

Has the proportionality been adequately considered?

The proportionality has definitively *not* been even considered in terms of:

- Scope of application of the additional liquidity report requirements since basically all entities of a Group will be subject to all of those requirements, even if quarterly for some exceptional cases.

  In particular, Article XX(3)(i) entails that *all* entities of Group are subject to additional liquidity metric report requirement if they are part of a Group whose all subsidiaries are not in only one supervised perimeter. In other words, entities are penalized for being part of a Group.

  We suggest deleting Article XX(3)(i):

  ~~*(i) the institution does not form part of a group with subsidiaries or parent institutions located in jurisdictions other than the one of its competent authority;*~~

  It should be made clear that:
  - the scope of supervision of the Single Supervisory Mechanism (SSM) should be considered as *one* single competent authority;
  - Article XX(3) applies at individual and consolidated level (be it Group consolidated level, or liquidity sub Group)

  As for the threshold to determine to be subject to additional liquidity report requirements, it would be more consistent and relevant to use 5% rather than 1%, and to complement it with an absolute size amounts.

  Finally, Article XX(3) should be:

As an exception from paragraphs 1and 2, institutions ~~may~~ **<u>should</u>** *report the information described therein ~~with a quarterly reporting frequency,~~ from the following year, ~~where all of the following requirements are met: (i) the institution does not form part of a group with subsidiaries or parent institutions located in jurisdictions other than the one of its competent authority; (ii)~~* **<u>when</u>** *the ratio of the ~~individual~~ balance sheet total of an institution***<u>*, consolidated Group or Liquidity Sub Group*</u>** *to the sum of individual balance sheet totals of all institutions under the supervision of its competent authority is below* **<u>one of the two thresholds below:</u>**

i. *~~1%,~~* **<u>5%</u>** *for two consecutive years preceding the year of reporting. Balance sheet total figures for calculating the ratio shall be based on year-end audited figures for the year before the year preceding the reporting reference date.* **<u>The scope of the Single Supervisory Mechanism is considered as one competent authority.</u>**

ii. <u>Balance sheet greater than €50bn</u>

- Frequencies and remittance periods are suggested to be similar for *all* reports and *all* entities. As mentioned above:

  The frequency of the reports should be quarterly at most, and even yearly for business plan-like reports (if any). As an illustration, the contractual Maturity Ladder can't be more frequent than the *Stable Funding* report as both are highly related.

Q 3. Is the above size threshold of 1% of total assets suitable to determine a higher reporting frequency? Should such threshold be substituted or complemented by a liquidity-risk-based threshold or other quantitative criteria? If so, by which?

Please refer to our response to Question #2.

We suggest the 1% threshold is substituted by a 5% threshold, and that SSM is clarified as being considered as *one* competent authority.

Please refer to *Appendix A* for our proposal.

Q 4. Are the reporting templates and instructions sufficiently clear? Shall some parts be clarified? Shall some rows/columns be added or deleted?

It would be helpful that EBA rationalizes the purpose of the reports and how they will be useful.

As a general principle, the cash flows, time-band and time band allocation should be similar between LCR, SF and any other liquidity reports. As such, there should be no specific instructions for potential additional liquidity metrics reports.

Similarly, there should not be dimensions specific to additional liquidity metrics that are not part of the LCR and SF reports: intragroup, domestic/cross border/group of related parties, resident/non-resident, FX swap specific, specific breakdown of debt (short term paper, hybrid bond, securitization), Marketable/non marketable assets, break down of deposits into sight deposit, savings and fixed term deposits should not be introduced. There is no reason to introduce those dimensions since the liquidity risk are already captured in LCR/SF reports.

As a few examples:

- the cash flows from short term paper will simply show up in the appropriate time-band!
- If resident / non resident is a dimension to consider in liquidity risk for deposits, they will be isolated as such in LCR-higher retail outflows.
- The marketable/non marketable dimension is already captured in LCR/SF reports.

1. ***Maturity Ladder:***

The Maturity Ladder is very similar to the SF report. As such, we recommend not creating an additional report and to complement the existing SF report with additional time bands beyond 1 year without modifying the existing time-bands below 1 year: ≤1m, 1m-3m, 3m-6m, 6m-9m, 9m-1y, 1y-2y, 2y-5y, 5y-10y, 10y+.

As the Maturity Ladder is not aligned with SF report, the encumbrance dimension is not covered in Maturity Ladder. For liquidity risk measurement, it would be inconsistent.

The instruction for reporting cash flows from derivatives is inconsistent with options: the expected cash flows should be allocated to the time band they are expected to occur, whatever the type of reports.

Note that for Maturity Ladder, as for LCR/SF, it is unclear how to report cash flows from derivatives when they are of a currency different from the collateralizing currency.

The instruction "2.2.1 of which are retail" is inconsistent with LCR/SF reports: the CRR €1mm threshold applies only for deposits from SME. An SME with more than €1mm deposits remains a SME: its loans and off balance sheet commitments are reported as such, whereas its deposits are considered as corporate deposits. The instructions should be adapted accordingly.

2. ***Behaviour Maturity Ladder:***

The report is quite unclear, notably to determine its articulation with the Maturity Ladder.

In a Behaviour Maturity Ladder, there should be two components compared to the contractual Maturity Ladder:

- the behaviourized cash flows from existing transactions: expected prepayment, early withdrawal/rollover;
- cash flows from future expected transactions.

It is unclear whether the suggested Behaviour Maturity Ladder attempts to cover: one of those above? Both of those above?

In terms of actual liquidity risk management, both components should be considered.

We suggest that:

- the Behaviour Maturity Ladder template is aligned on the Maturity Ladder,
- the time bands are limited to 1 year as it is unreasonable to include expectation of future business up to a 10 year horizon.
- the cash flows to report combined: expected cash flows from existing transactions and expected cash flows from expected future transactions

The difference between cash flows reported in Behaviour Maturity Ladder template and in the Maturity Ladder template will correspond to expected cash flows net of contractual cash flows.

3. ***Funding Concentration:***

This report makes only sense if the reporting entity's funding is materially dependent on non-intragroup unsecured wholesale entities.

It should be clarified whether the 1% threshold applies to each individual funding source or to the 10 largest funding sources for their combined funding. Ten entities providing funding for 0.2% would not be reported in the former approach, and would have to be reported in the latter approach.

The 1% threshold should be substituted with a 10% threshold to identify potential concentration, as there can't be any concentration identified on entities providing 1% funding!

The product breakdown is unnecessary when it is not aligned with LCR/SF template: there is no reason to breakdown RSD (retail sight deposit), RFTDWP (retail fixed term deposits greater than 30 days with a penalty for early withdrawal significantly greater than the loss of interest), RFTDNP (retail fixed term deposits greater than 30 days with no penalty for early withdrawal significantly greater than the loss of interest), RSWNP (retail savings accounts with a notice period for withdrawal greater than 30 days) or RSWNNP (retail savings accounts with no notice period for withdrawal greater than 30 days); all of which should be aligned with LCR/SF reports' breakdown for retail deposits. Besides, we question the relevance of such a detail on retail deposits to measure funding concentration, while banks top funders are wholesale and not retail counterparties.

The sector breakdown should be aligned with the LCR/SF definitions to ensure consistency across liquidity reports.

Scope of application:

It makes no sense to consider secured and unsecured funding in the same category: we suggest that the scope of application is limited to unsecured funding.

For marketable debt instrument, the reporting institution doesn't and can't determine the debt holder: marketable debt instrument should be excluded from the scope of application of this report.

4. ***Product Concentration:***

This report is unnecessary since the product concentration can be directly derived from the LCR/SF reports.

The product breakdown is unnecessary when it is not aligned with LCR/SF template: there is no reason to breakdown RSD (retail sight deposit), RFTDWP (retail fixed term deposits greater than 30 days with a penalty for early withdrawal significantly greater than the loss of interest), RFTDNP (retail fixed term deposits greater than 30 days with no penalty for early withdrawal significantly greater than the loss of interest), RSWNP (retail savings accounts with a notice period for withdrawal greater than 30 days) or RSWNNP (retail savings accounts with no notice period for withdrawal greater than 30 days); all of which should be aligned with LCR/SF reports' breakdown for retail deposits.

5. ***Funding Prices:***

The time bands should be aligned with LCR/SF reports: ≤1m, 1m-3m, 3m-6m, 6m-9m, 9m-1y, 1y-2y, 2y-5y, 5y-10y, 10y+

The funding sources should be aligned with LCR/SF which is not the case (ex: Asset backed securities including ABCP is not aligned with LCR/SF (A VERIFIER)).

The scope should be limited to unsecured wholesale funding sources (i.e. retail deposits and repo should not be covered by this report).

With a quarterly report, monthly *average* over the last 3 months would make sense.

6. ***Funding Roll over:***

The time bands should be aligned with LCR/SF reports: ≤1m, 1m-3m, 3m-6m, 6m-9m, 9m-1y, 1y-2y, 2y-5y, 5y-10y, 10y+

The funding sources should be aligned with LCR/SF which is not the case (ex: Asset backed securities including ABCP is not aligned with LCR/SF (A VERIFIER)).

The scope should be limited to unsecured wholesale funding sources (i.e. retail deposits and repo should not be covered by this report).

With a quarterly report, monthly average rather than daily report over the last 3 months would be more appropriate.

7. ***Buffer Concentration:***

The information reported in LCR/SF report is quite detailed in breaking down the liquidity buffer, including standby credit facilities from central banks. There is no need for an additional report.

Should it be retained, the instrument breakdown should be align on LCR/SF reports.

Q 5. Could you indicate whether all the main drivers of costs and benefits have been identified in the table above? Are there any other costs or benefits missing? If yes, could you specify which ones?

The implementation costs are far underestimated in the Consultation Paper, not only one-off but also running costs should be considered. Implementation and running costs could be marginal if the concepts and dimensions were fully aligned with LCR/SF. However introducing new categories requires changing all systems along the reporting chain (from business legacies until reporting tools) to carry out the new nomenclature. Besides, it generates additional ongoing cross-checks to make sure that data which are similar (but not equal) are consistent to each other.

Maturity Ladder One-off :	New maturity buckets	Limited impact, although all systems are not designed to report exactly on the buckets requested by this reporting

A1 (data collection) : high especially on behavioral maturity *A2 (IT infrastructure) : medium* *A3 (staff costs) : medium* Ongoing *B1 : medium (especially on behavioral maturity)* *B2 : low* *B3 : high (behavioral)*	Resident / non resident & domestic / cross-border	Medium impact : New data to be reported with all the required axes (type of counterparty, maturity bucket,…)
	Product type	Limited impact : mapping will be necessary between existing product type and the suggested product breakdown.
	Behavioral maturity ladder	High impact : internal business plans need to be reshaped to meet this requirement. Currently, they are not designed : • on the same granularity. • on such a long term horizon, • on a monthly frequency for all Group activities Gathering this information would require to change not only IT systems but also to involve all businesses (not only reporting teams) to produce the information with higher detail and frequency.
Concentration by counterparty *A1 : medium* *A2 : low* *A3 : low* *B1 : medium* *B2 : low* *B3 : medium*	Counterparty sector	Existing treasury systems are aligned on LCR/SF definitions. Requiring FINREP sectors would imply tools to manage a double referential and reporting teams to perform consistency checks
Funding prices and funding roll-over *From low to high impacts depending on the scope*		The information is available at Group level on the wholesale funding. However, funding prices and roll-over are managed locally for retail activities and are not reported with such level of detail at Group level. If the reporting is to cover retail funding, the implementation cost is major.

Q 6. For institutions, could you indicate which type of costs (A1, A2, A3) are you more likely to incur? Could you explain what exactly drives these costs and give us an indication of their expected scale?

Collecting data (A1) will generate the highest costs, as it supposes to change each business or local system to provide the data in the requested format, timeline and frequency. In a group as diversified as BNP Paribas, the changes have to be duplicated in the different business lines (retail banking, wealth management, corporate banking, capital market, security services, etc…).

It should be noted that the collection cost is exponential when the additional requested data has to be broken down into all the analytical axes (by type of counterparty, by maturity bucket, by country – domestic or cross-border, etc.), it multiples the volume and the complexity to validate the data.

Regarding IT infrastructure costs (A2), we expect to leverage on the existing architecture for LCR/SF reporting to produce the templates which are closely linked to SF (maturity ladder, funding by product type) and on current treasury systems (concentration by counterparty, prices and roll-over). However if the EBA requests to report funding prices and roll-over not only on wholesale but also on retail funding, we would need to build a dedicated IT infrastructure to collect the data centrally at Group level, which will be extremely costly.

We also expect high ongoing staff costs (B3) involved in data collection and validation.

Q 7. Do you agree with our analysis of the impact of the proposals in this CP? If not, can you provide any evidence or data that would explain why you disagree or might further inform our analysis of the likely impacts of the proposals?

The suggested additional liquidity monitoring liquidity metrics go beyond those proposed by the Basel Committee on Banking Supervision (BCBS), for no clear value added.

The draft report does not rationalize the value added compared to the workload (in run mode).

We call for simplifying and reducing the reporting workload, notably by making the most of existing LCR/SF reports, by potentially marginally complementing them, as illustrated above with the Maturity Ladder.