

To: EBA

by e-mail: EBA-DP-2013-18@eba.europa.eu

14 August 2013

EBA Consultation Paper on Draft Implementing Technical Standards on Additional Liquidity Monitoring Metrics (CP/2013/18)

Dear Sir or Madam,

The Association of Danish Mortgage Banks (Realkreditrådet), The Danish Bankers Association (Finansrådet) and the Danish Mortgage Banks' Federation (Realkreditforeningen) appreciate the opportunity to comment on the draft on Draft Implementing Technical Standards on Additional Liquidity Monitoring Metrics (CP/2013/18).

General remarks

EBA states that it may consider the application date compared to the application date of other reporting requirements (in particular the LCR/NSFR). However, the application date needs to give institutions time to adapt their reporting/IT-systems to the finalized version of the templates. Thus the application date should be at least 6 months after the templates / final data point model have been adopted by the Commission in order to give the institutions time to develop the necessary reporting.

Answers to specific questions

Q01: Are the proposed remittance dates feasible? Does the specification in paragraph 2 give sufficient clarity on which flows are included and excluded for the purposes of this RTS? If not, please provide us with an alternative specification.

15 calendar days will for some months be difficult at best to complete these comprehensive templates, including approval processes through different committees and board of direc-

tors for the behavioural templates. At least 15 banking days will be needed for these purposes. Even though this will be difficult for the EBA to maintain due to different holidays in the different EU jurisdictions. That is however an effect of regulating a lot of jurisdictions.

Thus the reporting requirement should take into consideration holidays and be amended to 15 banking days.

Q02: Are the proposed frequency dates feasible? has the proportionality been adequately considered?

No comments.

Q03: 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?

No comments.

Q04. Are the reporting templates and instructions sufficiently clear? Shall some parts be clarified? Shall some rows/columns be added or deleted?

Maturity Ladder – Contractual template

It seems that this reporting is an extensive version of the LCR reporting. In fact the LCR reporting could be deducted from the Maturity Ladder (contractual template) with some adjustments. Because of the design of the contractual template it would also support a forecasting of LCR not covered in LCR template today.

In the outflow section it seems that outflow from “Own issuance due defined in ID 1.1” from bonds defined in Article 52(4) of Directive 2009/65/EC” is missing. We suggest adding it for instance in a new id 1.1.6 as “bonds as defined in Article 52(4) of Directive 2009/65/EC other than those reported to in item 1.1.3

The instructions refers to a 'stock' column for the counter balancing capacity (paragraph 55 and 100). Are the column missing in the consultation version of the template, or should the stock be included in the "open maturity" column?

The haircuts referred to in rows 3.7 and 3.8 are not defined anywhere in the template or the instructions. What are these haircuts? Will the EBA include formulas for these?

Securities with embedded options

In the instructions for completing the Maturity Ladder of annex I it is stated (page 2 point 8 (a)) that;

- a) Contractual outflows shall be reported at their first possible call date in the case of callable bonds/securities issued by the reporting institution.
- b) Contractual inflows shall be reported at their last possible callable date or maturity in case of callable bonds/securities held by the reporting institution.

This does not take the following two situations into consideration:

- 1) The contractual outflows and inflows due to embedded options might be directly linked if the reporting institution's business model is a pass-through financing model.
- 2) The reporting institution may own its own securities in which case any cash flow for the amount owned by the institution itself is eliminated (since outflows and inflows technically occurs simultaneously).

Ad 1) Since there is a match between cash outflows and inflows institutions using a pass-through financing model should not report outflows on the first possible call date if the callable bonds/securities are linked to loans with a matching embedded option through the pass-through financing model.

An example of a pass-through financing model is the Danish mortgage model. Danish specialized mortgage banks are tap issuing covered bonds on a daily basis simultaneously when granting new mortgage loans. Hence there is a direct link between the loan and the funding and the borrower knows which bonds are used to fund his loan. The proceeds from selling the bonds are transferred to the borrower (less a fee to the institution). The bor-

rower's current payments are transparent divided into the current principle and coupon payments to the bond holders plus the margin to the mortgage bank. Some of the loans have an embedded option which gives the borrower an option to prepay the loan at par – such loans are funded with bonds with the same embedded option to the issuing institution. Should the borrower decide to exercise his option to pay at par the mortgage bank will exercise its option for the exact amount of bonds funding that specific loan hence the pass-through financing model is upheld.

Ad 2) An institution owning its own securities would theoretically have to account a cash outflow at first possible call date, but could not offset the corresponding cash inflow before final redemption regardless it is the same security and there is no liquidity risk what so ever. An institution owning its own securities with an embedded call option should be able to account only the net cash outflow corresponding to the actual liquidity risk of the institution.

To conclude, we suggest the instructions to be amended to the following:

- a) Contractual outflows shall be reported at their first possible call date in the case of callable bonds/securities issued by the reporting institution except for securities funding loans with a corresponding option (pass-through financing model).
- b) Contractual inflows shall be reported at their last possible callable date or maturity in case of callable bonds/securities held by the reporting institution. Contractual inflows from holdings of securities issued by the institution itself should be netted when accounting the corresponding contractual outflows.

Maturity Ladder – Behavioural template

Modelling behavioural cash flow at an indefinite time horizon is not feasible. Indeed, any estimates above 3 years will be vague at best. In the column 'Greater than 10 years' we would all have to write 'infinity', if we expect the institution to survive.

In general, the behavioural template will be very burdensome for the reporting institutions, as these will need to based on approval from boards and include budget assumptions for considerable future periods (essentially forever).

The behavioural template will furthermore be polluted by data, if, for example a loan to a customer has a contractual maturity, whereby it will be included as a cash inflow in the contractual template at a given time bucket, but past experience provides evidence that these types of loans typically are repaid at an earlier date. Then these amounts will have to be included in an earlier time bucket in the behavioural template, whereby you no longer can 'aggregate' the templates to find an institutions expected survival horizon, as this will count some inflows several times (likewise for loans granted to the institutions).

Another example of a situation where a behavioural template does not make sense is institutions with a pass-through financing model. Loans are granted on final terms corresponding to the terms of the funding by simultaneously tap issuing and selling new bonds. Expected new loans granted would therefore be offset by new bonds issued. Loans with embedded option where the borrower has the option to call at par would under the pass-through financing model be offset by a call of the institution of the exact amount of bonds funding that specific loan and therefore not contribute to the net funding gap.

Therefore, we suggest to delete the behavioural template from the Maturity Ladder template.

COF – Counterparty

In general Danish institutions do not have access to information regarding the buyers of their debt issuances, e.g. ownership of bonds, hence it will be difficult, if not impossible, to include debt issuances in the concentration of funding by counterparty. Concentration of funding by counterparty through large deposits etc. will be possible though.

Prices for various funding

The calculations needed to report these in spreads to different market prices will be immense – and in some cases even irrelevant. First you need to classify each deposit, debt issuance etc., giving it the correct reference rate. Then you need to find the reference rate at the time of issuance, agreement with the customer etc., then you need to calculate the spread at the time, and then you have to aggregate these values in different time buckets.

For computational reasons it will be much more feasible to report these in weighted interest rates.

For purposes of monitoring if institutions are paying up for their funding (experiencing rising prices in the market), the weighted interest rates will be just as useful as the spreads. Since institutions already pay different prices for their funding, the spreads will not allow a comparison between institutions anyway, and thus will reporting of interest rates be less burdensome for the institutions, and be just as useful to the authorities as the calculated spreads.

In some cases reporting prices for various funding is even irrelevant. The final terms of loans granted in a pass-through financing model corresponds directly to the price of the funding and thus the borrower or investor bears all market risk. We do not see any reason to report prices for bonds used in a pass-through financing model as the institution is not subject to any market risk.

Roll-over of funding

It needs to be clarified if the roll-over of funding is what is experienced in the last month, or what is expected in the coming month. The first is feasible, whereas the latter will be difficult to attain at best.

Q05. 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?

Has the EBA considered the accumulated costs with all of the new regulation? Only a finite number of IT resources are available in some jurisdictions, and the resources required by all new the regulation that has to be finalized in a short time span drives up the cost of the required IT investments.

Q06. 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?

No comments.

Q07. 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?

No comments.

Yours sincerely

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