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BANCAIRE
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*Banking supervision
And Accounting issues Unit
The Director*

Paris, August 14th 2013

French Banking Federation comments on the European Banking Authority's Consultation on draft RTS on additional liquidity outflows (CP/2013/19).

Dear Madam,

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

FBF appreciates the opportunity to comment on this consultation paper on additional liquidity outflows. We share the aim to address additional collateral outflows resulting from the impact of an adverse market scenario on institutions' derivatives transactions, financing transactions and other contracts if material. Especially, on the capture of adverse changes in market valuation of derivatives and similar transactions and contracts that contractually require collateral in such case.

Nevertheless, we would like to highlight some points. French banks strongly support a specific consolidated calculation excluding intra-group transactions that would make sense economically and then strengthen the liquidity risk management.

We vigorously advocate more flexibility in the choice of the methods to determine additional collateral outflows. Moreover, a harmonization of the outflow factors to be applied to liquid assets, collateral other than liquid assets already posted and collateralized derivatives, is necessary in order to capture all the collateral outflows in a consistent manner.

On the simplified method, we don't plead for restricting its use only to the entities for which the calculated additional outflows do not exceed 5% of the liquid assets reported by the entity.

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Concerning the standard method, there are two main methodological concerns. Firstly the scenario for the FX risk factor requires some clarifications on the way it should apply. Secondly, for the credit risk factor, we are not in favor of shocks based on hypothesis of a rating downgrade of the reference entities, to apply to the single name and basket transactions, because it is difficult to predict the impact of such a downgrade on the credit spread and hence on the valuation of credit derivatives. A direct shock on the credit spreads would be much simpler and straightforward.

For the internal model method, we consider too conservative the scenario that corresponds to the 99% confidence interval and advocate the percentile of 80%.

From a general point of view we strongly advocate for a consistency of this proposal with the LCR framework.

We urge EBA to use the LCR observation period to conduct Quantitative Impact Studies on the proposed methodology. Without those QIS's, EBA could not estimate the cost/benefit analysis of its proposal.

You will find in the appendix attached our answers and comments to the questions raised in the consultation paper.

We thank for your consideration and remain at your disposal for any question or additional information you might have.

Yours sincerely,

P.O 

Jean-Paul Caudal