Consultation on EBA-CP-2012-05 -
Supervisory reporting requirements
for liquidity coverage and stable funding.

Replies and comments by the EBA Banking Stakeholder Group

Question 1:
Are the proposed dates for first remittance of data, i.e. end of January and end of March 2013, feasible?

The proposed dates create a risk that the quality of the data provided may prove inadequate, leading to sub-optimal calibrations and unintended results. In fact, the rules underlying supervisory reporting on liquidity are still to be agreed upon, and some areas – e.g. the definition of "assets that are of high liquidity and credit quality" - show ample scope for changes in the final text of the Capital Requirements Regulation ("CRR"). It is now very likely that the CRR will be adopted only in the last quarter of 2012; this makes January 2013 an unrealistic application date.

We appreciate EBA's willingness to offset part of the delay experienced by the rule-making process through its own strong commitment to swiftly release all necessary technical standards. Nevertheless, we believe that there are risks in squeezing the time window between the CRR approval and the first data remittance.

Firstly, it is necessary to bear in mind that a process of accounts consolidation has to be set up to generate liquidity-related data items at group level. Such a process requires time, careful assessment of all possible alternatives, investments in IT infrastructures and the development of adequate, sound internal procedures. Also, the notion of "group" used for internal liquidity management may differ from the one adopted for prudential reporting (and/or from liquidity subgroups, an aspect which strongly needs further clarification); this adds an extra layer of complexity to the consolidation procedures required to report liquidity data to supervisors.

Secondly, liquidity reporting will be binding for all institutions, including smaller banks. The latter may find it especially challenging to implement all the technical steps leading to the production of integer and stable data flows.

All the above suggests that a transitional period should be introduced.

A delay of at least 6 months between the release of the final CRR and ITS texts and the reference date for the first data collection would make figures more reliable and ensure that reporting procedures developed by individual banks and groups are adequate to generate results which prove correct and robust over time.

A longer delay should be considered for smaller institutions. In fact:

- smaller institutions are less likely to pose systemic threats, also due to the fact that, when a bank's size is limited, deposit guarantee schemes represent a credible support and make the risk of a bank run more remote;

- as mentioned above, smaller institutions could face the most complex challenges, also in terms of IT investments, as they are more resource-constrained and less flexible in their accounting schemes (e.g. because accounting procedures are based on software updated by third parties, which may prove a serious bottleneck for an ordered deployment of the new reporting scheme);

- not having participated in the data collection exercises organised by supervisors during the last three years, smaller institutions are less prepared to face the technical implications of reporting liquidity-related items;

- it may also be that, as a fluent command of English is not widespread in small institutions, some banks have to wait until national supervisors (or banking associations) draft a local translation of the CRR and ITS, before they can grasp all the details required by actual implementation. This would add an extra layer to the process leading to the implementation of liquidity reporting procedures.[1]

Furthermore, to minimize unnecessary complications and the risk of inaccurate data flows, the EBA liquidity reporting templates should be made as consistent as possible with the Basel Committee's monitoring exercise on liquidity ratios, unless there is a clear rationale for changes. For the same reasons EBA may want to allow banks, during the observation period, to use Excel templates instead of integrating liquidity risk reporting into the COREP framework.

Regarding the NSFR, it is true that the CRR will probably ask for quarterly reporting once the ratio is actually implemented in 2018. Such a reporting frequency, however, might not be explicitly requested during the observation period. This would be consistent with the fact that the NSFR is a more stable measure than the LCR and therefore it is not expected to change significantly over short time horizons.. In fact, a half-yearly submission frequency for stable funding data may prove fully adequate during the observation period; this would help institutions focus on getting accurate LCR figures.

To conclude, it is worth recalling that the implementation schedule set out in the draft ITS is based on the assumption (see paragraph "Timing of ITS development and application date") that the "final legislative text should be available at a much earlier date" than November 2012. This implies that the final text of the CRR should be approved by no later than September if the deadlines set in the draft ITS are to be met. If this were not the case, a revision of the implementation/remittance dates indicated in the draft would be inescapable irrespective of the points made above.

Question 2:
Do respondents agree with this proposal for defining significant currency?

Under the CRR, liquidity reporting should take place separately for each currency where an institution has "significant liquidity risk". The EBA is proposing to define a currency where an institution has significant liquidity risk as a currency which comprises more than 5% of the institution's liabilities[2].

[1] To some extent, this comment applies not only to small banks, but to all entities. In fact, there are a number of country-specific products and transactions that are deeply linked to national peculiarities, and for which some national guidance on EBA's data requests will be needed.
[2] Similar definitions are also used in draft texts currently being discussed with the Council and the European Parliament.

The proposal needs clarification on the following two aspects.

On one hand, EBA should clarify whether the 5% materiality threshold is to be applied also on a solo basis. Many institutions tend to operate in foreign jurisdictions through a local subsidiary. For such institutions, applying the rule on a solo basis is likely to lead to the result that all currencies of countries where the group has a local subsidiary are material. Conversely, an approach based on the consolidated level (possibly coupled with a second materiality threshold expressed in absolute terms), would prove more effective in getting rid of minor currencies which do not pose a threat to a group's liquidity position.

On the other hand, the reference to "liabilities" should be made more precise. As we understand it, liabilities in the EBA proposal do not include equity and off-balance sheet items and are not weighted by any outflow coefficient (that is, 100 million in stable retail deposits would count as 100, not as 5 or 10). This looks correct since, if the opposite were true, institutions would have to compute the LCR in all currencies before they know whether they are required to report it. It would be helpful if EBA were to clarify this point[3]. Furthermore, EBA may wish to clarify how FX derivatives (for example, derivatives hedging FX risk on future cash flows denominated in a foreign currency) would affect the classification of liabilities across currencies.

Finally, in order to help institutions focus on the most significant currencies and keep reporting processes at a manageable level, EBA may consider a cap on the total number of currencies in which separate reporting is required.

Question 3:
Is the proposed remittance period of 15 days feasible?

As mentioned under question 1, the data collection and reconciliation process leading to liquidity reporting is a complex architecture involving a number of sensitive steps and options. Accordingly, it might prove very challenging for many banks to get reliable figures, which are consistent with accounting data, within fifteen days. This would most especially be the case in the early stages of implementation.

We are not arguing that European banks do not have prompt access to information on their short-term liquidity position. Nevertheless, the data required by the ITS are quite wide-ranging and are likely to include a number of items that many individual banks do not currently use for internal liquidity reporting (for instance, some institutions do not include in their internal reports details on deposits covered by a deposit guarantee-scheme; also, retail deposits may be identified in a way which is not consistent with supervisory definitions). Furthermore, data used in internal processes can be fine-tuned if necessary, whenever further details are needed or accessible; conversely, data aimed at supervisory reporting is expected to be fully accurate from the start.

To appreciate the complexity of the data production process (and the delays it involves), it is also necessary to bear in mind that some items/notions do not even exist before the production of the regulatory reporting and/or before accounting consolidation (an example would be the notion of supervisory "own funds" or consolidated own funds)[4].

[3] Even so, however, discrepancies may arise due to different accounting standards (for example because of derivatives accounting).

[4] Additionally, some reporting requirements on LCR cash flows may prove hard to meet on a consolidated basis for banking groups (also due to the scope of consolidation). When setting the remittance period, EBA may want to consider these difficulties.

Concerning LCR, the ITS draft motivates the proposal of a 15-day remittance period by stating that the ratio “incorporates a 30 days forward looking stress scenario” and that “ideally remittance should occur before this period ends”. In other words, if we understand correctly, the estimates underlying the LCR are considered to be of limited use once the 30-day forecast period has expired.

In our opinion, though, the LCR data collected through the reporting scheme described in the ITS would remain quite useful also if remitted after more than 30 days.

In fact, the liquidity data that EBA is to collect in 2013-4 will be used in the calibration of the LCR, enabling the Authority and the European Commission to assess the impact that the new liquidity ratio (and any possible amendments) will have on European banks and other related stakeholders. If this is true, then data referring to, say, 40 or 60 days before will be far from useless. Actually, it could well be that a longer time lag is fully outweighed by the benefits of better quality data.

Additionally, an institution (especially a small one) is unlikely to change its business model in a few weeks; accordingly, the LCR would still provide a measure of the institution’s vulnerability to liquidity shortages, even if the remittance period were to be extended.

Finally, as potential inflows and outflows in the LCR are based on estimates, a longer remittance period would not prevent EBA from using the data on recent weeks to back-test the assumptions used by individual banks and national supervisors.

In light of the above, we suggest that EBA sets a longer remittance period (e.g., one or two months[5]), at least for the first monthly data flows. A shorter window may be gradually enacted as the data production processes implemented by individual institutions become smoother and more robust.

As noted above, the challenge of producing good quality data within a short time window might prove especially hard for smaller institutions. In fact, article 403.3 of the draft CRR currently states that: “the reporting formats and frequencies shall be proportionate to the nature, scale and complexity of the different activities of the Institutions”. In our view, this should apply also to remittance periods. Accordingly, a longer remittance period for small institutions should be carefully evaluated by EBA.

As concerns reporting on stable funding, the forecast horizon implied in the NSFR ratio extends to one year; accordingly, there would be no need to have a remittance period which is shorter than 30 days, irrespective of the points made above.

Additionally, as the constituents of the NSFR draw on an institution’s whole balance sheet, we suggest that reporting dates be aligned, as far as possible, with those for submission of other supervisory data, COREP tables or, as it may be the case, FINREP tables.

Question 4:
Are there additional sub-categories of inflows and outflows that are consistent with the specification of the liquidity coverage requirement in the CRR and would inform policy options that should be reported?

A number of additional items could be considered for inclusion:

[5] For institutions submitting LCR on a voluntary basis, the remittance period is currently 90 days. A two-month remittance period would therefore entail an initial reduction of 30 days, which seems reasonable.

- in the “outflows” template, there seems to be no separate detail in line 1.2.4 (“deposits maintained by the depositor”) for deposits related to correspondent banking and prime brokerage services. As the latter may prove significantly more stable than other generic deposits, it may be useful to record them separately (as in the Basel 3 monitoring exercise);

- some information is still missing for collateral swaps, for which a distinction could be made regarding the nature of the exchanged securities (as requested by the Basel 3 monitoring exercise). As collateral swaps are increasingly used, in some countries, as a liquidity management tool, EBA might wish to have such transactions recorded separately from other capital market-driven transactions;

- in case of legal entities belonging to financial groups/networks for which the liquidity sub-group treatment does not apply in full, details on cash flows to and from unconsolidated subsidiaries or other network members (including intra-group or intra-network liquidity lines) should be reported separately, since the reporting entity can be expected to have a stronger control on them than for generic flows to and from third parties;

- article 413(7) of the CRR deals with liquidity inflows which are to be received in third countries where there are transfer restrictions, or which are denominated in non-convertible currencies. Such inflows have to be taken into account only to the extent that they match outflows in the same third country or currency. When significant (for instance, subject to a materiality threshold), such adjustments could be given separate evidence in the reporting template;

- the treatment of off-balance-sheet commitments structured as multi-currency facilities should be clarified, ensuring that undrawn multi-currency lines are not double-counted in each currency;

- the current template does not mention products and services for which the bank may have to provide liquidity, although it has no contractual commitment to do so. Accordingly, EBA might wish to clarify how it is going to address the requirement set out in article 408.2 of the CRR (concerning products or services, which are not captured in Articles 410 to 412 and which the institutions offer or sponsor) where it states that “institutions shall report to the competent authorities not less than yearly”;

- overall, outflows and inflows may include further items (e.g., trade finance) for which LCR rules can be expected to undergo further calibration during the observation period.

As concerns the structure of the reporting template, we would suggest that full details be collected on run-off factors, draw-down factors and inflow rates applied to individual items. Also, data should allow for a prompt identification of the impact due to caps on cash inflows.

Question 5:
For the purposes of providing guidance as to transferrable securities of high and extremely high credit and liquidity quality, what additional assets, if any, should the ITS collect?

The draft ITS mentions that the final CRR text might include equities, gold, high-quality residential mortgage-backed securities or state-guaranteed bank debt as additional liquid assets[6]; accordingly, such asset classes might be included in the reporting template on liquid assets. The BSG welcomes this proposal. In fact, liquidity reporting should cover all assets eligible at ECB and other central banks (e.g. ABS and RMBS), as well as assets with a high level of liquidity even if they are not currently eligible (e.g. equity, securities issued by financial institutions, UCITS)[7].

Apparently, the data collection template in Annex III does not request information on securities which fall into the categories to be reported (e.g. covered bonds) but do not qualify as assets of (extra) high liquidity and credit quality, based on a bank's internal criteria and/or the guidance issued by national supervisors. Such information (e.g. on covered bonds which are held by the bank but are not considered of high liquidity and credit quality) should be collected in order to allow EBA to verify whether individual banks or jurisdictions are using different levels of conservativeness in defining assets of (extra) high liquidity and credit quality.

As article 405.a of the draft CRR requires that institutions "only report as liquid assets those holdings of liquid assets that […] are appropriately diversified", EBA should clarify whether it believes that the proposed reporting template allows for this diversification requirement to be effectively checked.

Furthermore, article 405.e of the draft CRR requires that a portion of assets of high liquidity and credit quality is periodically and at least annually liquidated via outright sale or repurchase agreements. EBA might wish to clarify how this requirement will be checked in practice.

Question 6
Do respondents agree that the template captures the requirement of the draft CRR on reporting of stable funding?

The scope of application for stable funding reporting is the same as for the liquidity coverage ratio. Therefore, as indicated in our reply to Question 4, we suggest that assets and liabilities towards group or network members (which are not included in the reporting entity) be given separate detail in the template, because intra-group/intra-network ties may increase the stability of such items.

Further edits to the template and the accompanying materials would be useful. In fact, the two documents released for consultation (Annex II in MS Excel and Annex VI in MS Word) are not consistent with each other for approximately 20 lines, which relate to the breakdown of liquid assets. Additionally, some cross references to CRR may need further checks (see e.g. line 1.2.2. for "items representing stable funding").

Some more lines appear to have been added (compared to the Basel 3 QIS), which pose an additional burden on institutions, without providing any clear rationale for their inclusion. This is the case, e.g., of line 1.8. concerning "derivatives receivables" in the section on "items requiring stable funding": while in the QIS data required regarding on derivatives receivables were on a net basis and only for maturities above 1 year, the draft ITS requires data for

[6] E.g., the securities indicated by art. 404.3b in the text agreed last May by the Council include "other non-central bank eligible but tradable assets such as equities and gold."
[7] In principle, this should include all instruments that may allow banks to consolidate their role as lenders (in the sense of acting as a delegated monitor, e.g. covered bonds). This would allow the supervisor to gauge whether or not banks will be able to comply with the liquidity ratios in times of stress, without too much prejudice to the provision of liquidity and loans to the rest of the economy.

derivatives receivables of different maturities (below 3 months, between 3 and 6 months, between 6 and 9 months, between 9 and 12 months, above one year).

Finally, although we understand that the accounting value of liquid assets may differ from that recorded for LCR purposes (so that separate reporting for NFSR is needed), one may wonder whether a distinction between extremely high-quality and high-quality liquid assets is necessary in the reporting template on stable funding.