

Launched in 1960, the European Banking Federation is the voice of the European banking sector from the European Union and European Free Trade Association countries. The EBF represents the interests of almost 5000 banks, large and small, wholesale and retail, local and cross-border financial institutions. Together, these banks account for over 80% of the total assets and deposits and some 80% of all bank loans in the EU only.

The EBF is committed to supporting EU policies to promote the single market in financial services in general and in banking activities in particular. It advocates free and fair competition in the EU and world markets and supports the banks' efforts to increase their efficiency and competitiveness.

EBF Response to EBA consultation Paper Draft Implementing Technical Standards on Supervisory reporting requirements for liquidity coverage and stable funding

(EBA/CP/2012/05)

The EBF welcomes the opportunity to comment on the EBA consultation paper *Draft Implementing Technical Standards on Supervisory reporting requirements for liquidity coverage and stable funding*. The EBF recognises the immense time pressures and the constraints the EBA are working under especially since the overarching EU legislative text in the CRD 4 package is yet to be finalised and the international rules for the liquidity standards for the LCR and NSFR are yet to be fully calibrated by the Basel Committee. We summarise below our key messages with regard to the consultation, which is followed by some overarching comments in relation to the supervisory reporting framework and some further general remarks with regard to this consultation. The EBF Responses to the consultation questions are provided in Annex 1.

Key Issues

Timing of Implementation: The EBF proposes 1 January 2014 as an appropriate implementation date in respect of the liquidity reporting requirements as the final technical standards are not likely to be available before January 2013. It is unreasonable to expect banks to design, develop and test systems solutions before the final technical standards and the final legal text of CRR/CRD 4 are available. Reporting up to 1 January 2014 could be run quarterly using the 2012 EBA Voluntary QIS template and having 2012 end of year as the first reference date.

Remittance Dates: Remittance at D+15 is not feasible, and is not desirable as it would be detrimental to the data quality. EBF and its members would also recommend a phased liquidity reporting approach of allowing more time at the beginning, such as 60 days, then falling to 45 days and finally 25 working days. Otherwise, if data is provided before institutions are able to finalise their systems and controls, the data may not be of the desired quality.

Proportionality: Whilst CRR/CRD 4 does not allow the EBA to apply the principle of proportionality to the application of the reports this will potentially lead to very small legal entities having to complete the new reports. We do not believe this to be in the interest of

either the EBA or the banks and would ask the EBA and the Commission to take this problem up in the Trialogue. We strongly urge that QIS reporting up to 1 January 2014 will not be extended to small banks (not used to running the QIS templates) or at least be limited to only a small sample of small and medium sized banks on a voluntary basis.

Reference with COREP: EBF Members are surprised that the EBA draft ITS on liquidity reporting include a reference to COREP taking into account (i) that COREP refers to the asset-side of the balance sheet only and, moreover, (ii) that it only concerns risk data. The EBF therefore questions the reference made to COREP. The 18 July EBA Hearing suggested that the reference was more on the XBRL format used in the COREP report. The EBF would welcome clarifications on this reference.

Overarching Comments in relation to the Supervisory Reporting Framework within which the proposed ITS will be integrated

We note that CP 2012/05 is meant to supplement the EBA Consultation Paper CP50 on supervisory reporting for institutions, published on 20 December 2011.

Liquidity Coverage and Stable Funding reporting will be implemented along with COREP and FINREP and other reporting streams, such as Large Exposures Reporting and Leverage Ratio, which will need to be coordinated and analysed to avoid unintended consequences, duplications and where possible to exploit any synergies in data mining and management.

The EBF would, therefore, like to refer to the comments that they have jointly submitted to respond to CP50 as several of those comments are also relevant within the context of CP 2012/05

- As we strongly support the European Commission's aim to achieve a Single rulebook, we welcome the proposals made in CP 2012/05 for aiming at introducing uniform requirements.
- As firms will implement the proposals made in CP 2012/05 together with those made concerning the other reporting work streams mentioned above, the comments made as to the magnitude of the proposed new framework are also relevant within the context of CP 2012/05: from a practical point of view, the timing which is being proposed in CP50 is unrealistic. Even if firms had unlimited resources to try and make the proposed overhaul happen, this cannot possibly be implemented as planned by the authorities as introducing the required changes inevitably takes time. It is a strong possibility that data quality could suffer if such ambitious timelines are adhered to.
- As a consequence, the date of the first-time application of the Framework which is being proposed in CP50 needs to be postponed until 1 January 2014, at the very least. In this regard the EBF welcomes the announcement by EBA on 31 July 2012 that the finalisation and publication of the EBA draft Implementing Technical Standards (ITS) on supervisory reporting requirements for institutions has been pushed back pending the adoption by the EU legislators of the Capital Requirements Regulation (CRR) and the acknowledgement that some flexibility will need to be given through phase-in provisions or on the implementation date of the new requirements.
- Our comments below provide additional arguments explaining in particular why implementing the proposed Liquidity Coverage and Stable Funding Reporting prior to 1 January 2014 cannot possibly be envisaged.

General remarks

Timing and aligning liquidity reporting seems premature with not yet finalised legislation

The delay in finalising CRD 4/CRR texts puts European Banking Authority (EBA), European Supervisors and banks under extreme pressure to abide by calendars that are expected to be set by those texts. Although the trialogue is beyond the control of the EBA, it would be helpful for EBA to modify its approach once the common text is agreed, and to engage with the industry about the differences that emerge between the final text and this consultation.

Furthermore, the implications of completing trialogue after the summer of 2012 should be addressed by the authorities. As of August 2012, the trialogue is still ongoing while the reporting requirements are expected to start early 2013, less than 6 months (and most probably less than 3 months), after the final texts are known. Furthermore we understand from the public hearing that the EBA will present its final liquidity reporting technical standard to the EU Commission no earlier than November 2012 and that the EU Commission has until January 2013 to make changes thereto. This implies that banks would have only one month to develop systems solutions to deliver high quality reports. This is clearly inadequate.

As a general principle, the EBF believes that there should be at least a one year period between a regulatory text on additional reporting and its implementation in the official reporting templates, in order to enable banks and supervisors to adapt the processes and develop the necessary IT infrastructure. It has to be considered also the impact that may derive from EBA technical standards expected to be released by mid-2013 as stated in the CRD 4 package. However, it is well understood that reports could be made available to supervisors in the meantime based for example on the EBA Voluntary QIS exercise already run in 2012 by some banks so that an actual reporting IT infrastructure can be implemented with sufficient lead-in time.

Definition of liquid assets and outflow factors

The delay of final rules will shorten significantly the actual observation period of CRD 4/CRR, and the quality of the reports will be lessened. This is all the more unfortunate as CRD 4/CRR will have significant impact on the European banking industry and on the whole economy. In light of the above, the introduction of non-accurately calibrated/defined new liquidity requirements, which may negatively affect the real economy, should be avoided.

With regard to the definition of liquid asset, we agree with two particular amendments introduced by the European Parliament ECON text:

- i. the inclusion in the liquidity buffer of “Credit facilities granted by central banks within the scope of monetary policy”;
- ii. the qualitative criteria that should be met for their inclusion (“Institutions shall only report as liquid assets that fulfill the conditions in point (a) and at least two of points (b), (c), (d) and (e)).

In any case, careful attention should be given to enlarge and align the definition of liquid assets banks are required to hold in the “buffer” of assets that banks can effectively use, even under market stressed conditions, for Central Bank refinancing activity (e.g. including securitised products (both placed with investors and those retained on a banks’ balance

sheet), bonds issued by financial institutions, self issued bonds, bonds issued by another entity of the group, central bank's credit facilities, equities).

Similarly, with regard to the in- and outflow factors the framework should avoid penalisation of certain asset classes such as:

- sight assets (main source of short term funding for SMEs within several EU Countries, are currently not recognised by the new rules thereby creating disincentives for banks in engaging in similar products once the rules are in place);
- or corporate deposits [current 75% outflows weight seems to represent a too restrictive requirement considering experiences during market crisis. A 50% factor for unstable part (also in line with retail approach: unstable outflow = 2 x stable outflow) is conservative enough].

EBA-templates should be consistent with EBA and BCBS QIS templates

Cross-border groups facing liquidity regulatory reporting obligations inside and outside the EU are concerned that the lack of symmetry between the EBA and Basel III QIS templates will undermine comparability, disclosure and effective supervisory review by the supervisory colleges. Consequently, risk may not be properly managed as results might be interpreted and reported differently to regulators and amongst regulators. Misaligned templates also increase the risk of internal error, misinterpretation, and create needless inefficiencies that will strain efforts to meet Basel III reporting timetables, not to mention the more aggressive timetables proposed by the EBA.

We understand from the public hearing that the introduction of the monthly liquidity report will supersede any need for QIS reports to the EBA. However, we also understand that many banks will need to continue the half yearly QIS reports for the Basel Committee. We strongly suggest that the EBA's liquidity reports contain sufficient detail to complete the QIS information required by Basel given that both the Basel Committee and the EBA are both trying to calibrate the same ratios.

Taking advantage of the observation period

Only limited feedback has been published by the authorities from the QIS data supplied by firms. It would be useful to know what the data is telling regulators. It would also be helpful to know how this EBA consultation fits with the Basel process

So far, only two out of five EBA reports have been made public on collected annual data: on December 2009 data and on December 2010 data (estimating a €1.00tn and €1.15tn Liquidity Coverage shortfall, respectively).¹ Those reports are valuable for their gross data disclosures. However, none of those reports have made sense of the data in terms of structure of balance sheet, potential shortage of liquid assets, necessary changes to the definition of liquid assets, necessary changes to runoff/rollover/drawdown assumptions and, above all, on the effects of the intended liquidity requirements on the banking industry and the whole economy.

¹ The Basel Committee also published results of the Basel III monitoring exercise as of 30 June 2011 – a semi-annual monitoring framework: <http://www.bis.org/publ/bcbs217.htm>.

There is no assurance that the upcoming observation period will be modified to reach that level of data analysis. The EBF is concerned that the envisaged monthly remittance frequency, combined with the too short remittance delay that will call for having not only one but potentially two reports by period end, will overwhelm both banks and EBA with data that will be impossible to analyse between two monthly reports.

We urge EBA to allow for a more dynamic analysis during the monitoring process by complementing the quantitative reports with:

- voluntary quarterly qualitative exchanges between regulators and banks, based for example of regular bilateral hearings with each bank
- hearings of non-banking industry stakeholders to evaluate the impact on the real economy;
- quarterly feedback from regulators, with remittance within the next quarter of the quarter end reports, on the collected data not only limited to factual quantitative liquidity reports but on the effects on the banks' strategies and the impacts on the whole economy.

COREP and liquidity reporting cannot be reconciled

We strongly suggest that Liquidity Reporting should not be aligned with COREP. Indeed, doing so would lead to combining the COREP category breakdown (and then FINREP category breakdown) with LC/SF category breakdown. When combining all possible categories, it leads to an explosive number of categories that is very difficult to manage (production process and control process).

We seek clarity of how and to what extent the liquidity reports (particularly the LC) need to be reconciled with accounting reports. At the public hearing the EBA stated that it was recognised that the LCR relied on cash positions and not accounting numbers. There is a difference e.g. cleared and uncleared balances, netting, accruals etc. This needs to be recognised. We understand the Data Point Model will make the extent of reconciliation clear. A reasonable interpretation of reconciliation seems to be that institutions need to ensure the adequate quality of their regulatory liquidity reporting by means of a well-structured process to govern completeness, correctness and timelines. As Accounting/Finance are familiar with long-standing checks and balances-processes also for LC/SF it will be beneficial to have references to Accounting/FINREP. This would not be a full scope quarterly reconciliation on balance sheet-item level; instead, banks should be able to demonstrate that LC/SF include all major entities and assets and liabilities in an adequate way. This will be of help to banks themselves as well as to supervisors, recognising that in many banks liquidity reporting is managerial info-systems related.

Additional Metrics

We note that a further paper will emerge setting reporting regulations for other liquidity metrics. This will be in the autumn of 2012 and first reports will be required beginning of January 2013. Again the EBF would strongly challenge the proposed implementation date 1 January 2013 as EBA has also explained in CP 2012/05 that only in autumn 2012 it intends to launch a separate consultation on these thus far unknown additional metrics.

Numerous issues should be clarified before a regulatory return is required:

The lack of clarity in definitions, amongst other things, and the non-existence of any feedback from the authorities may lead to policies and rules that may not achieve the purposes nor the soundness that the authorities, public and industry are aiming for.

Important issues that the ITS is silent on need to also be addressed by EBA before the first reporting date:

- The perimeters should be clarified:
 - As we understand the texts that are being discussed, all credit institutions and some investment firms will be subject to LCR requirements and reporting on an individual basis. Moreover, EU parent institutions are subject to LCR requirements and reporting on a consolidated basis, and subsidiaries that are owned by EU parent institution are *not* subject to reporting requirement. Could EBA confirm that this describes correctly the upcoming reporting scope?
 - What is the articulation of the waiver process described in Articles 7 and 19 and the observation period? Could a waiver be applied for during the observation period so that the reporting requirement applies at a liquidity sub-group level?
 - Which entities should be included in reports?
 - It is not clear how to treat sub-groups given that the supervisory approval/waiver process for European defined liquidity groups and sub-groups is not yet available. Considering that within large cross-border banking groups not all legal entities are “liquidity relevant” we believe that the perimeter shall be formally agreed with competent authorities identifying major group legal entities which may negatively affect the EU banking system in case of lack of financial stability. Particular attention should be given to SSPEs for which we kindly ask EBA for a common consolidation standard within LC/SF.
 - It is very important to know as soon as possible the reporting perimeter that will be required, as it has structural impacts on the reporting IT systems that have to be built to meet the numerous EBA requirements.
- The consultation paper mentions the requirements addressed by EBA to elaborate the definition of liquid assets, with the possibility given to ‘competent authorities’ to articulate guidance. The governance of the EBA’s and competent authorities’ processes for the guidance on liquid assets should be clarified. As an example, could a competent authority issue guidance for liquidity reporting in its jurisdiction? In such a case, should this guidance be considered binding when building the liquidity reports for the rolled out version at group or sub-group consolidated levels? How does this relate to the single rule book and level playing field in the application of such reporting?
- Which accounting standard should the liquidity reports be consistent with? It should be noted that this may have consequences on comparability between different jurisdictions that would use different accounting standards (notably US GAAP that are more netting-prone than IFRS, notably on repos). This subject is particularly important for the NSFR in which we understand that accounting amounts should be reported.
- We fully support maximum harmonisation across the EU. Reporting and monitoring standards should be the same for all countries in order to decrease administrative burdens and foster a level playing field.
- The treatment of minimum reserve should be clarified such that minimum reserve shall constitute a liquid asset item without necessity to refill the minimum reserve within 30 days.

- Considering that in 2013 a monitoring phase aimed at calibrating ratios will start, particular attention should be given to the data quality – reconciliation process (audited data), allowing data comparability across the banking industry (assuring level playing field principle), and coherence with already disclosed official bank data (Balance Sheet and Regulatory Reporting flows), having a different remittance date according to national regulations.
- The supervisory information reported to the national authority must be official and not preliminary. Therefore, it seems that the guidelines provided by some regulators in this respect are not in line with the one proposed by EBA. Hence, from that perspective, an exchange of views and an alignment among national and supra-national regulators would be highly welcome.
- Should the contribution of an entity consolidated from another jurisdiction than the EU parent entity be based on CRD 4/CRR application of Basel III or on its jurisdiction's application of Basel III? This applies notably to the limitations to the transferability of liquidity coverage excess that may be jurisdiction interpretation-dependent. Implementation of different templates within a cross-border Group would further considerably negatively affect cross-border groups, increasing their implementation costs and implying the need to reconcile different templates within the same group and/or implement multiple approaches within the same legal entity. The template defined by the banking group's parent company regulator should be applied to any subsidiary/branch included in the reporting perimeter.
- As the reporting requirements apply at sub-group and consolidated level, the treatment of intra-group transactions (i.e.: runoff, rollover, drawdown assumptions) should be clarified (this issue has neither been dealt with by the BCBS nor by CRD 4/CRR levels). Intra-group transactions should receive a favourable treatment, as banking groups cannot be forced to fund themselves on the market in order to meet the minimum requirements at consolidated level, in case the gap is also determined by intra-group positions.
- We would welcome detailed instructions for the definitions utilised in the template (e.g.: definition of credit facilities, commitments received, non renewable loans, treatments of private banking trusts, special purpose asset-financing vehicles).
- Can the EBA confirm that LCR can be calculated with calendar month instead of 30 days cash flows? In our opinion, one calendar month makes sense because it is already the norm used for ALM and accounting purposes in most institutions. It is also the norm used for similar one-month ratios currently applied in some European jurisdictions. Moreover, it is consistent with market practices: EUR1M for example means the interest rate applied on one calendar month. Changing this norm could be costly for institutions without any value-added for the regulator.

Annex 1 - EBF Responses to Consultation Questions

Q1: Are the proposed dates for first remittance of data, i.e. end of January and end of March 2013 feasible?

See comments in general remarks. The proposed dates are not feasible, considering the very short timeframe left to banks (only a few months) once the final CRD 4/CRR will be published. The timeframe is reduced to two months for the LCR and to five months for the NSFR, if the draft ITS is endorsed by the EU Commission in November 2012. EBF Members believe that it will be difficult to integrate the liquidity risk reporting within such a short timeframe proposed by the EBA, i.e. from 1 January 2013 onwards. Requiring the remittance to be in XBRL would make the proposed timetable for implementation even more unfeasible.

Additionally, some degree of flexibility is necessary during the observation period with regards to the future amendments to the LC and SF. Therefore the EBF recommends postponing the first reporting date to 1 January 2014 for the LC and the SF. Reporting up to 1 January 2014 could be run quarterly using the 2012 EBA Voluntary QIS template and having 2012 end of year as a first reference date.

To keep operational efforts to banks manageable, it is imperative that data requirements from EBA and Basel are consistent (different breakdowns, different definition of counterparty or assets classes etc) so that banks can use the template to calculate and report to the regulators.

Finally, we note that EBA will have to produce technical standards once the final CRD 4/CRR has been signed off. Without those technical standards the reporting cannot be undertaken or will be liable to be based on banks' own interpretations.

Q2: Do respondents agree with this proposal for defining significant currency?

The one-size-fits-all 5% percentage threshold criterion is unlikely to capture what a significant currency is for all institutions. For instance, a currency may represent more than 5% of a small subsidiary' liabilities but can be insignificant in terms of liquidity risk for both the subsidiary and its parent institution.

In any case, the EBF believes that the threshold should apply at at the consolidated level and that if a legal entity has to report currency x because it is over x% of its balance sheet that should not mean that the consolidated Group / sub-group of liquidity has to produce a report in that currency if it represents less than x% of the consolidated / sub-group of liquidity balance sheet.

In this respect, it would be helpful to get clarity on the scope of application, consolidated, sub-group of liquidity, individual or combinations of. Some firms will apply the requirements and relevant reporting requirements on an individual entity basis unless they applied for a liquidity group, in which case they would apply the requirements at the consolidated liquidity group level, but not at the individual entity level as well. It is not clear from the EBA paper and the CRR proposals if firms would have to do both, but prudential consolidation and liquidity consolidation are not necessarily the same. This is important for firms that do not manage liquidity on a group basis.

Although the potential to create a defined liquidity group (DLG) is recognised, there is no explanation of how and when that can be approved. Article 1 merely refers back to the Regulation.

Based on the overarching materiality principle, we suggest determining the significant criterion as “a currency for which liabilities, netted out of foreign exchange hedging transactions representing more than:

- 10% of total balance sheet liabilities
- AND
- €2bn”

Q3: Is the proposed remittance period of 15 days feasible?

The remittance period of 15 calendar days is problematic for the individual and consolidated reporting, and the EBA should consider extending it to 60-45 days during the monitoring phase and gradually reducing it to 25 working days from 1 January 2015. This will allow for the automation of the reporting process over time as definitions and regulation become clearer.

It should be noted however, that the appropriate remittance dates depend very much on what precisely banks would be expected to deliver. If the requirement is to reconcile the data with FINREP data, the remittance date could not possibly be set at a date prior to the remittance deadline for FINREP reporting. The remittance period of the NSFR should, in particular, take into account the fact that own funds should be reported. Hence, an alignment of the remittance period of the NSFR with the one of the COREP report would make sense.

Some banks are concerned about data quality during the monitoring phase distorting the calibration of the liquidity standards. Therefore a balance must be determined between data quality and time at which the data can duly be analysed during the observation phase and the final onset of regulatory reporting.

Moreover, regarding the supervisory discretion according to Article 5(2), such discretion should be applied based on the individual situation of a credit institution and taking into account the nature, scale and complexity of the institution's activities.

Q4: 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?

Further guidance and the basis of the calculations would be helpful, especially where the EU differs from Basel III. The EBF template does not allow an LCR calculation to be undertaken. With the current QIS, you can compare any movement between each submission and understand what is driving a change in the ratio. Also, the treatment of assets that are level 1 and 2 is not clear.

We note that Basel III and CRD 4/CRR have yet to be finalised, which includes the definitions of SMEs (Articles 148 and 400, and the EUR 1m threshold), operational balances, wholesale deposits and established relationships.

In quantifying inflows some additional guidance would be helpful in the context of a) loans without contractual maturities (i.e. overdrafts, credit cards, repayable on demand term loans) and b) renewable versus non-renewable bank facilities.

CRD 4/CRR defines a new counterparty class ‘mixed-activity holding company’ where it is suggested to apply the same treatment as for financial institutions.² Since this specific counterparty type is not mentioned going forward in the rules text, but subsumed under the superior category ‘financial institution’ it may be easily overlooked without taking into account the consequences such a treatment could have. We suggest to report the exposure to ‘mixed-activity holding companies’ as a sub-item to ‘financial institutions’ to be able to estimate the impact on business done with such counterparties. We are concerned that the inclusion of mixed-activity holding companies as currently phrased would lead to disproportionate treatment for those companies that include a bank within their group structure. For example, all transactions with many large EU corporates (e.g. car makers) would be penalised as transactions with a financial counterpart because they have a bank dealing with trade finance within their structure.

For secured business it would be meaningful to differentiate between repo/reverse repo done with a central counterpart and bilateral repo.

Please find below our remarks on the suggested template:

- Some categories are missing:
 - As a ramification of the missing categories in the liquid assets (cf answer to Q#5), outflows from secured funding are missing for the categories:
 - transferable assets that are of extremely high liquidity and credit quality (Art.404(1)(b))
 - transferable assets that are of high liquidity and credit quality (Art.404(1)(d))
 - transferable securities other than those referred to in point (3) representing claims on or claims guaranteed by sovereigns or central banks issued in domestic currencies by the sovereign or central bank in the currency and country in which the liquidity risk is being taken or issued in foreign currencies, to the extent that holding of such debt matches the liquidity needs of the bank’s operations in that third country (Annex III);
 - gold (Art.481 being discussed in the trialogue)
 - other than gold liquid commodities (Art.481 being discussed in the trialogue)
 - major index-linked equity instrument (Art.481 being discussed in the trialogue)
 - guaranteed bonds (Art.481 being discussed in the trialogue)
 - unsecured bank issuances and non-financial corporate bonds as asked in the current EBA reporting template
 - covered bonds or other securities backed by retail mortgages (Art.481 being discussed in the trialogue)
 - other asset backed instruments of the highest credit quality as established by EBA (article 404 being discussed in the trialogue)

² See CRR Art 400 (1g) together with CRR Art 4 (71)

- central bank eligible securities and loans (Art.481 being discussed in the trialogue)
 - Committed facilities (in line with Basel III where a distinction is made between committed and uncommitted facilities);
 - Inflows from trade finance;
 - Inflows from Collateral Swap
 - Inflows: an 'other' category
 - Inflows from PSE's, local authorities and regional governments (perhaps this is included in 1.1.1.5 other counterparties?)
 - Outflows: a new category for natural person, with established relationship or that have a transactional account (stable deposits), where the aggregate liability to such clients is more than 1 million EUR, in order to individuate a not too much penalising run off factor for this category
 - Outflows: a category for corporate deposits with established relationship
 - Outflows: the 'insured' breakdown for non-retail deposits
 - Outflows: a category for secured lending from Central Banks, PSE's (shown in "1.3.1 (-) the lender is the central bank or another public sector entity of the Member State in which the credit institution was authorised")
 - Outflows: breakdown by 'non-financial customers' and 'financial customers'
 - Liabilities resulting from deposits by PSE's, local authorities and regional governments
- Attention should be paid to the classification of bonds issued by other financial institutions and state guaranteed bonds issued by other financial institutions. The two categories receive a different treatment. In assessing the treatment of these bonds, the ultimate counterparty should be considered - which in case of a state guarantee is the state.
 - The CRD 4/CRR Amendments as proposed by ECON are more aligned with a coherent interpretation of a more realistic (although stressed) financial stability situation (e.g. inclusion of 50% sight assets relevant for many EU countries supporting SME financing activities Article 413).
 - Outflows: the EBA template should be consistent with the Basel III QIS instructions which distinguish between deposits from a natural person (regardless of size) and an SME with aggregate deposits less than €1mm. SME cluster should be better defined. A process for clustering clients on liability side that are not classified on asset side following Basel II approach should be provided by EBA assuring higher data comparability / consistency.
 - The numbering is wrong: '1.2.4' is after '1.3.1'
 - What is the definition of "reduced amount" of inflows: 413 (2a)?
 - What type of operations shall be reported in "other commitment received" other than credit facilities received: 413(2c)?
 - Securities borrowing / lending without cash collateral are not specified in the instructions.
 - Operational costs have to be reported whereas they are excluded from the calculation: we propose not reporting this item.
 - We would welcome a template file that shows totals and sub-totals in order to check consistency.
 - Are "insured non-transactional and non-operation" deposits to be reported in 1.1.2?
 - Stable funding: Is item 1.2.1.1 a sub-limit of 1.2.1?
 - Intra-group items should be split as proposed in panel F of EBA QIS.
 - Maturing reverse repos that cover short positions shall be reported as other maturing reverse repos but short positions shall be increased?

- More particularly, we ask EBA to create outflow lines for Letters of Credit (L/C's) and Guarantees of Credit (G/C's), of which the outflows are reported by banks on a voluntary basis.

Specific Trade Finance Concerns

A) The EBA is required to draft technical standards for other potential outflows. This will include contingent liabilities arising from Trade Finance products such as Letters of Credit (L/Cs) and guarantees and the EBA needs to be adequately informed about their volumes and related liquidity risk profile. We therefore recommend including in the outflows section of the template specific lines for covering these off-balance sheet Trade Finance activities.

Since there is a very low level of failures and a low liquidity impact in this business, not all banks are organised to produce statistical material in the short run. For this we propose these lines be completed on a voluntary basis during the observation period or perhaps by a supplementary template for completion highlighting total numbers, rather than specific outflow percentages.

B) Description of the context for this proposal.

Some of the issues raised by Trade Finance stakeholders since the release of the first Basel III proposals in December 2009 have been taken over by Rapporteur Othmar Karas in his December 2011 draft report on CRD 4 proposals (proposal related to article 413 on inflows). Equally, other MEPs raised the need to take into consideration the impact on the trade finance in their proposals of amendment to the European Parliament.

These proposed amendments only deal with the treatment of cash inflows from loans coming to maturity, while the Trade Finance business also comprises a number of off-balance sheet instruments such as Letters of Credit (L/C's) and Letters of Guarantees (L/G's) which have in practice an extremely low liquidity profile.

The current treatment in the Commission proposal of CRR (article 408 §2 & § 3) does not allow banks to assess, at this moment, what will be the liquidity impact of L/C's and L/G's that are granted to their customers and to verify whether the low liquidity risk profile will indeed be acknowledged through the regulatory percentage parameters. This is not consistent with the economic importance of Trade Finance (including on-balance and off-balance business)

Indeed, article 408 (2) and (3), describing the procedure to assess the liquidity outflows, including outflows L/C's and G/C's, states:

2. Institutions shall regularly assess the likelihood and potential volume of liquidity outflows during the next 30 days as far as products or services are concerned, which are not captured in Articles 410 to 412 and which these institutions offer or sponsor or which potential purchasers would consider to be associated with these institutions, including any contractual arrangements such as other off balance sheet and contingent funding obligations. These outflows shall be assessed under the assumption of a combined idiosyncratic and market-wide stress scenario. For this assessment, institutions shall take particular account of material reputational damages that could result from them not providing liquidity support to such products

or services. Institutions shall report products and services the likelihood and volume referred to in the first subparagraph is material to the competent authorities not less than yearly and the competent authorities shall determine the outflows to be assigned. The competent authorities shall at least annually report to EBA the types of products or services for which they have determined outflows on the basis of the reports from institutions. They shall in this report also explain the methodology applied to determine the outflows.

3. EBA shall develop draft regulatory technical standards specifying the treatment of products and services referred to in paragraph 2, identifying products or services that shall be covered for these purposes and the appropriate methods to determine the outflows to be assigned. EBA shall submit those draft regulatory technical standards to the Commission by 30 June 2014. Power is delegated to the Commission to adopt the regulatory technical standards referred to in the first subparagraph in accordance with the procedure laid down in Articles 10 to 14 of Regulation (EU) No 1093/2010.

Such approach will lead to diverging methodologies from which it will be difficult to derive an adequate liquidity risk assessment. This will certainly be in the beginning where existing national regulation will be used as a benchmark.

Q5: 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?

It would be helpful to see what the G20 and Basel Committee issue during the later part of 2012, and factor those into the EBA’s deliberations. The EBF and its members are keen to assist the EBA in its final analysis.

The template should further consider other assets eligible as collateral at central banks split between those that have been prepositioned and those which have not.

At the very least, the EBA template should comprise the specific supplemental information required in quarterly QIS's' that is currently required by EBA in the current QIS’s, as illustrated in the table below:

	B	C	D	E
275	EBA - further information on banks' current holding of assets to assess the impact of transitioning to the new standard			
276		Market Value		
277		Owned outright	Borrowed in secured transactions	Avg CB haircuts applied
278				
279	Other central bank eligible collateral, not being classified as Level 1 or Level 2 above, and not being reported as inflows:			
280	Covered bonds, not self-issued, rated A- up to A+, accepted as Category II instruments by the ECB or equivalent by national central bank			
281	Non-financial corporate bonds, rated A- up to A+			
282	Financial corporate bonds, rated A- or greater			
283	Own issuances, rated A- or greater			
284	Unsecured bank issuances, rated A- or greater			
285	RMBS rated AAA, with high quality prime mortgages as the underlying collateral			
286	Assets, not reported in section A, issued by a credit institution which has been set up and is sponsored by a Member State central or regional government and the asset is guaranteed by that government and used to fund promotional loans granted on a non-competitive, not for profit basis in order to promote its public policy objectives			
287	Other Central Bank eligible unencumbered assets not included in the previous categories			
288				
289	Other collateral:			
290	Gold			
291	Equities featured in major indices (incl. all non-EEA Central Bank eligible equities)			
292				
293	Shares or units in CIUs:			
294	of which the underlying asset is 'Level 1' as per the type reported in lines 6-15			
295	of which the underlying asset is 'Level 2' as per the type reported in lines 27-36			
296				
297	Information on assets reported in Panel A):			
298	Of the amount in lines 11-15			
299	Of the amount in lines 20-21			
300	Of the amount in lines 28-32			
301	Of the amount in line 35			
302	Of the amount in line 36			

EBA states that “the most significant amendments to the CRR in respect of liquidity reporting proposed by the co-decision bodies are to include equities, gold, high quality RMBS and state guaranteed bank debt”.

In the Council Presidency compromise text dated 27 April 2012 the following is proposed regarding the treatment of Irish NAMA bonds: "In that regard the Commission should report together with, when appropriate, a legislative proposal taking into account that institutions calculating the Liquidity Requirements in accordance with Part 6 should be permitted to include NAMA senior bonds as assets of extremely high liquidity and credit quality until December 2019." EBF Members believe that government guaranteed bonds issued to credit institutions as part of government support measures and with EU state aid approval should be shown separately as a component of Liquid Assets in the CRR.

In terms of data on additional assets it is recommended to capture data on assets that are central bank eligible but that do not meet the definition of a liquid asset under the current draft of the regulation split between those that have been prepositioned and those which have not.

Both the EU Parliament and Council compromise indicate that EBA reporting shall be broadened in order to include equities, gold and Central Bank eligible assets. The current reporting should take these items on board, with sub breakdown for the latter. Thus, last category should allow the opportunity to report the following assets:

- Corporate and covered bonds with rating from A+ to A-
- transferable assets that are of extremely high liquidity and credit quality (Art.404(1)(b))
- transferable assets that are of high liquidity and credit quality (Art.404(1)(d))
- transferable securities other than those referred to in point (3) representing claims on or claims guaranteed by sovereigns or central banks issued in domestic currencies by the sovereign or central bank in the currency and country in which the liquidity risk is being taken or issued in foreign currencies, to the extent that holding of such debt matches the liquidity needs of the bank's operations in that third country (Annex III);
- gold (Art.481 being discussed in the trialogue)
- other than gold liquid commodities (Art.481 being discussed in the trialogue)
- major index-linked equity instrument (Art.481 being discussed in the trialogue)
- guaranteed bonds (Art.481 being discussed in the trialogue)
- unsecured bank issuances and non-financial corporate bonds as asked in the current EBA reporting template
- covered bonds or other securities backed by retail mortgages (Art.481 being discussed in the trialogue)
- other asset backed instruments of the highest credit quality as established by EBA (article 404 being discussed in the trialogue)
- central bank eligible securities and loans (Art.481 being discussed in the trialogue)
- self issued bonds
- bonds issued by another entity of the group
- high quality RMBS (both retained on the banks' balance sheet as well as externally placed RMBS)
- high quality SME securitisations,
- credit facilities granted by central banks within the scope of monetary policy
- state-guaranteed bank debt,
- unsecured bank issuances split out into a category with a rating of AA- or better and with a rating between A- and A+,
- credit claims to or guaranteed by PSE's, local authorities and regional governments,
- other ECB eligible assets. (in line with additional requested information from EBA in the latest QIS or the Tremosa Amendment: "assets eligible for collateral purposes under central bank credit facilities within the scope of monetary policy")

Finally, the EBF template should also capture any additional data requested by Basel as they issue revised templates on a semi-annual basis. The mapping between the Basel QIS template and the EBA template is essential.

Q6: Do respondents agree that the template captures the requirement of the draft CRR on reporting of stable funding?

We would like to provide the following comments on the suggested stable funding report:

- Lack of the template's calculation rules does not allow full assessment of the proposal. On the other hand considering that the overall framework has not been already formally defined, and that SF is going to be introduced as a minimum requirement in 2018, we would recommend to postpone its definition and systematic quarterly reporting after the finalisation/calibration of the LCR framework. Another topic to be considered suggesting possible postponement is the interdependency for some key dimensions with the leverage ratio.
- The requirements contained in the draft CRR are not in line with the Basel III standards, specifically:
 - The reporting template does not contain BIS II 35% Risk Weighted assets. Both the CRR text as well as EBAs draft BTS do not follow the approach set out by the Basel Committee. As a consequence, 35% risk weighted assets would not be assigned an RSF factor of 65% but would be assigned to 100%.
 - Corporate and covered bonds with a rating from A+ to A- are excluded from the required stable funding section.
 - Due to the specific Basel III treatment (50% weighting for non-maturity or residual maturity < 1 yr) for funding provided by sovereigns, central banks, multilateral developments banks and PSEs, local authorities and regional governments, this category should be reported as a separate category.
 - Local authorities and regional governments should be included in 1.7.2 as borrowers in the Items Requiring Stable Funding.
- Article 10's consolidated reporting differs from liquidity reporting.
- Operational deposits and deposits within Institutional Protection Scheme as defined in article 410(4) are missing from the template.
- Should "own funds" relate to Basel III?
- Securities borrowing / lending without cash collateral should be specified in the instructions.
- What does "non-renewable loans" mean (template item 1.7)?
- In the template "Items providing stable funding", the line 1.2.2 "deposits that qualify for the treatment in Article 410.3" refers to article 414.1(b) (iii) of the CRR. We think that a typing error occurred in art. 414.1(b) (iii): the reference to art. 410.3 must be replaced by a reference to article 410.4, which encompasses the operational deposits received in the framework of clearing, custody or cash management services (art. 410.4(a)) and the deposits received in the context of common task sharing within an institutional protection scheme (art. 410.4(b)). The reference to article 410.3 (i.e. secured funding transactions) is meaningless in the context of article 414.1(b) (iii) of the CRR. This error would have dramatic consequences, because it would prevent from assessing the eligibility to the stable funding of the deposits mentioned in art. 410.4.
- We note that instructions are not always in line with the excel sheet. This is particularly true for the required stable funding sheet. Instructions are given for row 1.1.1.1 t/m 1.1.1.7, while the excel sheet only contains row 1.1.1.1 and 1.1.1.2.