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Dear Sir/Madam,

Coventry Building Society response to EBA consultation on Draft Implementing Technical Standards on Supervisory reporting requirements for liquidity coverage and stable funding (EBA/CP/2012/05)

Coventry Building Society welcomes the opportunity to comment on the proposals set out in EBA/CP/2012/05. We have also responded to consultation EBA/CP/2012/06 separately, but have repeated the background and general comments here for your convenience. If you would like any further information on any of our responses or any other matter, please contact us via the details above.

Background to Coventry Building Society

Coventry Building Society is a mortgage lender and deposit taker, established in 1884, that is mutually owned by its customers. It is the third largest building society in the UK with mortgage assets of £21.0 billion (€26.0 billion) and retail savings balances of £19.3 billion (€23.9 billion). As a building society, Coventry is required to raise at least 50% of its funding from retail deposits and hold at least 75% of its assets (excluding liquid assets and fixed assets) in loans fully secured on residential property. It is prohibited from trading in currencies or commodities or entering into derivatives other than for the purpose of hedging.

Gross mortgage lending in the first half of 2012 was £2.5 billion (€3.1 billion), which represented 3.8% of new mortgages in the UK and 18% of lending by building societies and mutual banks. Retail savings have grown by over £11.0 billion (€13.4 billion) since the financial crisis began in 2007.

In addition to retail savings, the Society has issued £1.7 billion (€2.1 billion) of mortgage-backed covered bonds since 2011 and raised £800 million (€1.0 billion) in its inaugural Residential

Mortgage Backed Securitisation programme in May 2012. This follows successful issuances of long term unsecured wholesale funding in 2009 and 2010 totalling £750 million (€0.9 billion).

At 21.9%, the Society's Core Tier 1 capital ratio remains the highest reported by any UK building society, illustrating the high quality of assets. Coventry continues to be one of the most highly rated banks or building societies in the UK, being 'A' rated by both Fitch (A) and Moody's (A3). In fact, Coventry is now the only UK high street bank or building society not to have been downgraded by either of these agencies over the last three years.

With a cost to mean assets ratio of 0.37%, Coventry is the UK's most cost-efficient building society. Improved income, low costs and low impairment charges combined to produce a profit before tax in the first half of 2012 of £52.8 million. (€65.5 million)

Reflecting our focus on treating our members fairly, Coventry is the largest high street bank or building society never to appear in the UK's Financial Ombudsman Service (FOS) tables of complaints. Over £6.7 million (€8.3 million) has been raised for the Royal British Legion's Poppy Appeal since October 2008. Coventry has been awarded Gold status by Investors in People, just one of two large banks or building societies in the UK to have reached this standard.

General Comments

The Society is generally supportive of efforts to introduce global standards of liquidity for deposit takers and appreciates the need of regulators for accurate, comparable, relevant and timely information to enable them to supervise and monitor risks. Liquidity is a key risk that is managed by the Society. Regulatory requirements are a key pillar of our liquidity risk management process, alongside our internal tolerance, maintenance of public confidence and operational effectiveness.

We understand the emergence of the European Banking Authority as a key rule-writer, with the transfer of some authority from the UK Financial Services Authority and other national regulators. We are keen to engage with the EBA to ensure that our business is understood, in particular our low-risk business model and mutual ownership structure. We are keen to help the EBA achieve their expressed aim of a common rulebook but where rules are proportionate to different financial institutions.

Regulatory reporting is a key process in ensuring that our regulators, both national and at the European level, retain confidence in our risk management processes and are a fundamental element of doing business in our sector. However, we are also aware of the significant costs involved and recognise that these costs are ultimately borne by our members, the mortgage borrowers and depositors who are our customers. We are therefore keen to avoid incurring unnecessary on-going expenses where this is inappropriate or is disproportionate to the nature of the business that we undertake.

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

No.

This timetable has been overtaken by events since the release of this consultation paper. The implementation of these Technical Standards is reliant on the mandate contained within the CRD IV package and there have been delays in the adoption of this by the European Parliament, Commission and Council. We understand that there has been no new timetable issued by the trialogue or Commission. We note the decision of the EBA to delay implementation of the FINREP reporting package to 1 January 2014[1], and the phase-in of other data requirements. We also note the FSA's recent statement[2] stating that they considered that the original implementation date of 1 January 2013 was no longer feasible. However, we also understand that the EBA is unable to amend the timetable unilaterally as this is stated in the text of the legal acts themselves.

The express purpose of these regulatory reporting requirements during the monitoring period is to undertake an economic impact assessment of the liquidity requirements as set out in CRD IV. There seems to be little value in undertaking such an assessment before the CRD IV rules have been finalised and firms have had the time to fully understand these rules and to revise their operations and, if necessary, data systems, in response. Given the minimum standards will not be introduced as binding limits until 2015 for LCR and 2018 for NSFR, we suggest allowing an implementation period of three months would be reasonable.

Given that we have participated in the QIS we would be able to turn around the implementation of final CRD IV rules relatively quickly, assuming that there are no major new areas of disclosure. However, if a shorter implementation time was imposed, we would ask the EBA to consider allowing firms additional time to complete the returns and to complete on a "best endeavours" basis.

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

Our retail operations occur exclusively in the UK and in GBP. However, we raise some term wholesale funding – in particular senior unsecured and covered bonds – in EUR. Where bond issuances are fully hedged through the use of cross-currency swaps it does not produce any significant liquidity risk in those currencies.

Whilst we would currently fall underneath the 5% exemption, the threshold as it is would provide a disincentive for further cross-border financing. This could have an impact on the efficiency of the single market.

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[1] Update on the finalisation and implementation of the standards on supervisory reporting, 31 January 2012, http://www.eba.europa.eu/News--Communications/Year/2012/Update-on-the-finalisation-and-implementation-of-t.aspx

[2] FSA statement regarding CRD IV implementation, 1 August 2012 http://www.fsa.gov.uk/library/communication/statements/2012/crd-iv.shtml

Therefore, we propose that liabilities that are fully hedged using cross-currency swaps are excluded for the purpose of this rule.

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

The consultation paper constructs an argument for 15 days based on the LCR time horizon of 30 days and therefore a perceived need for reporting to take place within such a period. We are concerned about the validity of this argument.

In an actual stress period, we would expect more intensive supervisory contact and more frequent reporting. However, we understand the purpose of this regulatory reporting is to monitor the liquidity risk being adopted by firms in their normal periods rather than form part of "real time" reporting. On that basis, 15 days seems an excessively short period and we would suggest 30 days as a more suitable timeframe. This 30 day reporting time frame would also be more aligned with the current four to six weeks granted to Coventry Building Society to complete the QIS templates.

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?***

We are not aware of any further categories that should be included.

We note that the category "Liabilities resulting from the institution's own operating expenses" is new compared to the QIS templates. In many cases this line would not be material for the regulators, but may be onerous to calculate, requiring additional systems changes. It would useful for firms if the EBA could incorporate a general principle allowing firms not to populate fields that are clearly immaterial or allowing them to adopt a simplifying calculation where the difference would not be material. This would support the EBA's aim of limiting the reporting burden for institutions.

Q5: ***For the purposes of providing guidance as to transferable securities of high and extremely high credit and liquidity quality, what additional assets, if any, should the ITS collect?***

None.

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

Yes.