13 May 2013

European Banking Authority

Dear Sirs,

BBA response to EBA Consultation paper for Data Point Models for liquidity coverage, stable funding, and leverage ratio

Introduction

The British Bankers' Association ("BBA") is the leading association for UK banking and financial services for the UK banking and financial services sector, speaking for over 220 banking members from 60 countries on the full range of the UK and international banking issues. All the major banking players in the UK are members of our association as are the large international EU banks, the US banks operating in the UK and financial entities from around the world. The integrated nature of banking means that our members are engaged in activities ranging widely across the financial spectrum encompassing services and products as diverse as primary and secondary securities trading, insurance, investment banking and wealth management, as well as deposit taking and other conventional forms of banking.

The BBA is pleased to respond to this consultation.

Key messages

Divergence from Basel Committee QIS

The EBA template is significantly different from that produced the Basel Committee QIS template. While we can understand the EBA has its own approach and priorities, and wants to produce a template that meets these objectives, it is not ideal for firms to have two templates which ask for broadly similar information in a different format. Producing similar data sets that are cut in a different format will be very expensive for firms, and will arguably provide minimal additional benefit to supervisors. It would be most helpful if the EBA could explain why they have moved away from BCBS template, so firms could better understand the EBA's objectives and how it plans to use the data.

Timing of the final DPM

There is concern from our members that the Data Point Model (DPM) is likely to change in line with the finalisation of the COREP templates. For example, as the DPM has been issued before the finalisation of the CRR, there will be a number of issues which will need to be approached in a different way, for example, rules concerning trade finance.

While we understand this is to some extent beyond the control of the EBA , it does nevertheless put firms in a potentially difficult position, as they will spend the next couple of months working with the current DPM in mind, only for it to change again in the near future. Bearing this in mind, it would be most helpful if the EBA could confirm when the final DPM will be released. We would encourage it to be as soon as possible to provide firms with sufficient time to implement any changes, especially if reporting begins in January 2014. Based on this, it would helpful if the EBA confirm the dates for publication of the final version of the COREP & Leverage DPM, ITS (including Templates) & XBRL Taxonomy.

For example, if the EBA ITS is issued in Q3 of 2013, with final DPM specifications coming shortly thereafter, there may only be four months for firms to complete the development and testing of the model to ensure it is operational in time for the first set of submissions, which will be due no later than February 15, 2014 for month-end data as of the end of January. This would leave firms with very little time to develop their submission procedures.

It would be helpful if the EBA should confirm that COREP Reporting will be for a Quarterly Period (and not monthly). Furthermore, significant development will likely be required to implement other changes in CRD IV, which in many instances will require additional time and effort from the same IT resources, and systems and developments from the same upstream systems. We would ask the EBA to take into account these significant practical challenges in ant future policy decisions regarding the DPM.

Submission of the DPM

Firms are unsure as how the DPMs will be reported to the EBA; for example, should the 3 DPMs (i.e. liquidity, leverage ratio and the other COREP templates) be reported simultaneously or individually. We do not have any particular preference as to which approach the EBA adapts, but it will make a difference to how firms develop their frameworks, so it would be very helpful to have some clarity on this at the earliest available opportunity.

Based on this, the EBA needs to confirm if the DPMs data (e.g., COREP, Leverage Ratio, FINREP, Liquidity Coverage Ratio) will be submitted separately (i.e., as discrete data transmissions), and whether the EBA also confirm that there are no inter-dependencies (e.g., due to cross DPM validations, shared data points) between any of the DPM's. The EBA should also clearly highlight (should there be any) cross validations (or any other inter-dependencies).

Furthermore, although the topic of remittance periods is not the focus of this consultation, we would urge the EBA to consider a practical approach for adopting the DPM during the early days of the monitoring period. One potential approach could be implementing the specified model in phases may be a more desirable way of ensuring a high quality end product that can provide reporting with minimal errors.

Granularity

A key concern for our members is the level of granularity that might be required in the future (i.e. whether more detailed analysis will be requested in the future). The EBA communicated in a workshop conducted in September 2012 (through the EBA workshop slides) that the DPM does not involve submission of more granular data than which exists on the templates. It would be very beneficial for firms is the EBA could confirm that this remains to be the case for the Leverage Ratio DPM, and this principle (i.e., the granularity of data is identical between the templates and the DPM) also applies to the other DPMs (for example, COREP).

Conclusion

The BBA is fully supportive of the goals of the DPM and the EBA's objective of achieving reporting consistency. However, we are concerned that firms will not be afforded sufficient time to enable them to report the data in a timely and accurate fashion. We strongly urge the EBA to take this into consideration when thinking about their timelines and requirements over the coming months.

Annex 1 to this letter contains our technical queries on the liquidity and leverage DPMs. The BBA would be pleased to further assist the EBA in relation to the above.

Yours sincerely

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Annex 1

<u>All templates</u>

- There are a number of inconsistencies between what is defied in the dictionary and what is used in the DPM. For example, the Dictionary appears to cover a wider scope of fields compared to what is actually utilised by the DPM. It would be helpful if the EBA could advise whether it is only necessary to focus on the DPM Dimensions/Members for purposes of developing the specifications for liquidity reporting.

- There are a number of unused or undefined fields across the DPM hierarchies. For example, the Dictionary shows 1,469 Members associated with 36 Domains, although there are a total of 40 Domains. Similarly, there appear to be 93 Dimensions associated with 38 Domains – implying there are two yet to be defined Domains for given Dimensions.   It would also be desirable to add a Dimension column to the "Members" tab of the Dictionary, making it possible to see the full mapping across Domains, Dimensions, and Members. Could the EBA clarify the thinking behind these fields?

<u>Liquidity templates</u>

- Can the EBA confirm whether it will be amending the LCR/NSFR templates to reflect changes in the CRR document occurring subsequent to the issue of this Consultation Paper? Specifically, in the version of the CRR document approved by the European Parliament in April 2013, many article numbers have changed so that the "legal references" provided by the EBA in the LCR/NSFR templates have also changed. We would assume the EBA will be amending the templates to reflect the revised references.

- Could the EBA confirm if banks will be submitting the templates only, or the full array of data points included in the liquidity DPM? Or both the data points and the templates?

- Could the EBA confirm whether the final template included the calculation of the LCR / NSFR? Or their purpose is to gather information only? If the purpose of the template is to gather information, will the EBA release a spreadsheet that will include the calculations (once the templates submitted are added to it)?

- Can the EBA confirm whether the LCR / NSFR calculations will be implemented for branch and subsidiaries, especially those outside the EU? How should intra-group transactions be treated?

- Regarding the currency view, will the banks be required to submit LCR/NSFR data by legal entity and by currency? Or will the legal entity view be on a combined currency basis?

- Could the EBA confirm the scope of the liquidity DPM? Our understanding is that the scope of this DPM is restricted to data items sourced for LCR and NSFR reporting templates. However, it would be useful to understand whether there may be a broader array of reporting requirements covered by this model.

- The DPM specifications are very precise and, as a result, may require significant development work: The DPM is based on a cross-dimensional framework with a hierarchy of data fields such that Domains - Dimensions - Members, the latter representing over 2,500 specific data points feeding into reports. The definitions for these fields are very precise; we recommend that the EBA develop rules and logic for sourcing and reporting each item across the entire hierarchy.

- Will the EBA be reconfirming or verifying the formulas for some of the Validation Rules?   For example, with one Validation Rule reads {LCR21; r080;*} < = {NSFR2; r100;*}, although it appears the meaning of the two sides is the same. Should the relationship be "=" instead of "< ="?

- Could the EBA clarify a number of dimension-values needed to define the business rules for mapping different data attributes? Currently, there are inadequate explanations provided in both the CRR and data point dictionary on many dimension values. For example, Risk Type has a value called "Credit Risk and Free Deliveries". However, no explanation is provided for "Free Deliveries". A clear explanation on all values is required to ensure rules are correctly defined.

- Does the EBA have any guidance on the sourcing of static dimensions such as industry codes? Doe example, would there be an issue if Bloomberg – rather than another source or vendor – were used to define industry codes?

- Outflows lines 1.1.4.1 to 1.1.4.4, deposits subject to higher outflows, Deposits subject to higher outflows than specified in Article 409.1 or 409.2. These rows refer to bandings of band 1 – medium, band 2 – high, band 3 – very high and derogation. Can the EBA confirm what criteria should be used to define these bandings?

- Can the EBA confirm whether clean or dirty market values are to be reported in the valuation of assets?

LCR

- The guidance makes a number of references to references to articles in the CRR, but provides little additional information to supplement these references. It would be very helpful if the EBA could supplement these references with further details and colour on the dimensions and facts in each case. This would enable firms to better understand exactly what information the EBA is asking for and why, which will make sure the data that is submitted is accurate and meets the desired requirements.

- Could the EBA provide a clear and detailed definition of what constitutes "high" and "extremely high"? Could it also provide further illustrations and guidelines as to the definition of an "adverse market scenario"?

- Could the EBA clarify what kind of code is being used for the "Currency of Exposure" Dimension? Currently this field only contains a Key Value. Should this be an ISO2 or 3 CCY code? Or, is it correct to assume the same standard of CCY code used in other Basel 2/2.5/3 reporting?

- Will firms be required to transmit even the closed (pre-populated) dimensions of DPM along with the LCR templates? In other words, when a dimension has already been pre-populated by the EBA, will this still need to be fed into the LCR template, or will this be effectively "hard coded" in the first instance?

- DPM uses fair value and market value indistinctively. In some regulations, these are treated differently.

- Certain definitions are inconsistent with the LCR QIS guidelines (for instance, corporates issued by financial institutions are included as part of the asset section of the LCR, but excluded in the QIS submission). Are the guidelines for these LCR calculations going to be consistent? There is a risk of having multiple LCR calculations depending on the regulator requesting them.

- Point 1.2.2.12 (LCR – Outflows) makes reference to "Residential mortgage backed securities rated AAA" but subsequently request for different credit quality steps (1/2/3). AAA rating should be cover by credit quality step 1 (level 2 and 3 are inconsistent with the "AAA" definition and should be reported as blank).

- Point 1.2.3.3 (LCR – Outflows) appears to be missing in the LCR template. Are there sections that are still work in progress? Or this a "typo" error?

- Point 1.4.6 (LCR – Outflows) "maximum amount that can be drawn from all other contingent liabilities") is not clear. Under which circumstances should we calculate maximum amounts? Which other contingent liabilities?

- Point 1.1.7 (LCR – Inflows) "payments due on liquid assets not reflected in the market value of the asset". It is not clear what this means. Is this making reference to interest accrued or dividend due but not included in the price?

NSFR

- In a situation where a firm has a covered bond with a different life span to the asset, could the EBA confirm how this should be reported on the DPM?

- Is it the EBA's intention that firms should be reconciling the data in the DPM with that from their balance sheet?

Leverage Ratio 1

- It is not entirely clear as to what Method 3 is trying to achieve, and what data is being requested. Could the EBA please provide some further explanation surrounding this requirement?