Draft position paper on the EBA consultation paper (EBA/CP/2013/47) on "Draft guidelines on harmonised definitions and templates for funding plans of credit institutions under ESRB Recommendation 2012/02 A.4"

Submission from the EBA Banking Stakeholder Group

GENERAL COMMENTS

The Consultation Paper on "*Draft guidelines on harmonised definitions and templates for funding plans of credit institutions under ESRB Recommendation 2012/02 A.4" (consultation paper)* is based on the recommendation of the European Systemic Risk Board (ESRB) published in April 2013. The ESRB recommends to collect data on the development of new financial products and structures (such as, for example, collateral swaps and synthetic ETFs), which in times of stress in the financial markets can lead to uncertainty among investors with regard to both the instruments and the institution. According to the ESRB, products which are "similar to deposits" but are not covered by deposit guarantee schemes can show particular volatility, as experienced during the financial crisis.

The introduction of a standardized reporting format might prove especially beneficial in the case of less stable economies where funding plans rely on assumptions of great variability. The approach to confine the new requirements to information which is not already reported to the supervisory authorities on the basis of existing requirements appears appropriate. National supervisory authorities already receive comprehensive information on the subject of "funding planning" and "active funding events", which covers the information requirements with regard to the general (national) market: funding and liquidity situation and information requirements relating to the institution concerning funding, funding planning, market access and liquidity (in Germany for example, such information is provided to the Bundesbank in regular "liquidity-calls" with single banks). In addition, there is a regular exchange of up-to-date information on a monthly basis on funding events, prices, volumes, market access, market developments, terms and conditions strategy and further information. According to our observations, this information is intensively verified, evaluated and scrutinised by the supervisory authorities who, on the basis of these data, undertake an assessment of institutions' funding, financing risks, the funding mix, the dependence on specific sources or markets, and the feasibility of funding strategies. The BSG therefore commends the use of existing definitions wherever possible so as to limit the additional reporting burden.

As a general remark, the provision of the information requested in the consultation paper contributes only limited added value with regard to the intended objective of better ability to assess the financing risks and structures of credit institutions. The information content of the proposed template is only marginally better than the information that is already communicated. There persists an element of inconsistency between the requirements outlined in the Consultation Paper and the desired outcome according to the ESRB specifications. In addition, the requirements could cause an extra burden for institutions that are not IFRS-based and might prove difficult to implement due to planning processes and limited data availability. Furthermore, the needs of specialized credit institutions are not sufficiently addressed in the Consultation Paper.

We are not certain whether the requirements outlined in the Consultation Paper give an impression of the dynamics of lending to the real economy, as would be desirable according to the specifications of the ESRB. In our view, the following points argue against this:

(i) coverage of only 75% of the consolidated funding plans is achieved,
(ii) the off-balance-sheet financing instruments of the real economy (e.g. leasing, factoring, recourse to the capital market, shadow banking, direct financing through insurance or funding substitutes), and
(iii) the disregarding of the foreign influence (financing by foreign banks and borrowing from abroad).

By way of macro-prudential assessments based on funding planning and balance-sheet structure data, national supervisory authorities have the power to introduce further specific requirements which run counter to the harmonisation approach of the Consultation Paper. In the absence of harmonisation, the comparability of the data proves difficult. We consider this to be an inconsistency in the requirements of the consultation paper.

Furthermore, the reporting requirements envisaged in the Consultation Paper represent a major challenge for institutions which are not IFRS based and therefore also do not have to report any FINREP data. IFRS-based reporting would represent a considerable extra burden without generating even rudimentary control impetus for the institution.

As for specialised credit institutions such as federal- or state-owned promotional banks, the Consultation Paper does not take into account their particular features. Focusing on customer deposits and their pricing is not expedient for certain credit institutions, since these activities might not play a significant role in their funding. Furthermore, the information supplied by such institutions does not allow the supervisory authorities to derive any additional insights concerning the risk weighting of the banking sector on the macroeconomic stability of the respective home country.

Promotional banks, guaranteed by federal or state governments, act on the basis of fulfilling a mandate of public interest. In order to fulfil this purpose, they must not only provide a high degree of creditworthiness, but also high flexibility to react at short notice to the offer- and supply-sides of capital markets. Refinancing of state guaranteed banks is part of public sector refinancing, based on their business model. The combination of long-term planning and adjusting of funding activities to market needs, will result in a lack of synchronization between planned values reported and the actual data. For promotional banks owned by the central government, the banking supervisors are unable to derive any control impetus at all from the planning of the funding activities. Considering these facts, and that no control-relevant insights are obtainable from this exercise, even though considerable costs and pooling of resources are to be expected, the added value of including central government guaranteed institutions is questionable. Thus, they should be exempt from the suggested obligations.

Regarding the model of centralized funding structures (where institutions serve as refinancing banks for savings banks or cooperative banks) they act as “liquidity-providers” for the primary level and as a result receive indirect retail funding, even though the counterparty is technically a financial institution. This indirect retail funding should be assigned to the category “households/residents”. In order not to obtain any erroneous reporting results, a corresponding adaptation would be necessary - possibly through the introduction of comments.

As in the case of other EBA Consultation Papers, the technical and organizational efforts needed for banks to fulfil the requirements outlined in the Consultation Paper are not negligible, and in some cases may be substantial. As a result, we recommend that the template request should be proportional for covering the original ESRB intention.

SPECIFIC COMMENTS

a) Funding planning (EXCEL-SHEET)

On the basis of the planned balance sheets, the supervisory authorities are to respond to the questions of feasibility, the funding match between assets and liabilities and, where appropriate, specific or systemic inconsistencies. The assumption that the information on the planned balance sheets is readily available is incorrect. On the contrary, considerable implementation effort would be required to transfer the present planning logic and the databases into the proposed format. Moreover, we have considerable doubts as to whether it will be possible to carry out a meaningful assessment of the questions on the aggregated presentation of the planned balance sheet.

b) Level of consolidation

The definition of the level of consolidation is unclear in the present Consultation Paper. On the one hand, reference is made to the use of the definition according to the ITS (page 7), but on the other hand the supervisory authorities are being given scope for interpretation. In our opinion, the inclusion of cross-border consolidated data reduces the information value of the current data requirements (intra-group funding and cross-border intra-group funding are not considered; foreign funding is included without further specification).

c) Implementation burden

We do not agree with the assessment stated in the Consultation Paper that the implementation of the data requirements entails only a low level of effort and expenditure. On the contrary, considerable investments would have to be made in the conversion of the planning logic (see point a) and the development of suitable databases.

d) Pricing

In our opinion, the information on the pricing of assets and liabilities involves a great deal of effort. In particular, the average inventory prices for assets and liabilities allow no reliable pronouncements to be made on the sensitivities in the event of an increase in refinancing costs, since this information is highly compressed and only part inquiries are involved (e.g. derivatives are missing, WP portfolio, equity assessment). Furthermore, no consideration is given to the drivers of change in the average inventory prices: e.g. possibilities to pass on increased refinancing costs, the dynamics of building up and reducing inventories, specific or systemic spread widening, etc. We see a risk here that incorrect conclusions will be drawn from this (rudimentary) information (including, for example, by extrapolation). In our opinion, this subject is already covered better by queries on the income statement stress tests and should therefore be deleted from the requirements of the Consultation Paper.

Due to these difficulties, there are some comparability issues as to whether all the information provided by banks will be comparable.

e) Timetable

In the consultation paper, it is not clearly stipulated when the first reporting date applies. The first binding application of the reporting requirements should be no earlier than in 2016.

The delivery deadlines to report the data at the balance sheet date of 28 February each year are too tight, especially since the balance sheet is usually drawn up only at a later point in time, e.g. 15 March each year. Probably 30 April is a more realistic deadline for deliverables.

f) Reporting timeframe

A two-month reporting timeframe is too short when banks might only finalize their year-end results at the end of February. In addition, some banks undertake their forecasting in the mid-year and not with January as starting point. As a result, the forecast might have a six months lag or longer. For other banks, the funding plan process is normally performed during the 4th quarter of the year using data as of end September. Final accounting figures are in general not available at the end of February. As a result, EBA should give more flexibility and try to bear in mind banks´ internal processes.

g) Forecasting

It is quite awkward to have to look forward for three years. Even for one year is almost impossible to forecast prices as it depends on developments in the market environment, business development, competition, customer behaviour, and measures taken by regulators and supervisors which are even more difficult to predict. As such, it might be more realistic to provide qualitative assessment of expected market direction rather than quantitative information.

Finally, there is a risk that funding plan and forecast pricing data might become treated as fact by markets. Therefore, it would be desirable to limit the reporting of funding plans to supervisors and to avoid any form of public disclosure of these plans. In any case, we would stress the need to limit the quantitative information to be provided.

h) Scope of application

Though reporting is by most European banks thought to be on a consolidated level, national regulators on their own discretion may ask for a plan at the legal entity level. We strongly recommend that funding plan reporting should only be required on a consolidated level with flexibility left for banks to opt for funding plan reporting at Euro individual level.

f) Questions:

Q01. Are the proposed templates feasible in terms of completion?

No comments.

Q02. Are the reporting templates and instructions sufficiently clear? Should some parts be clarified? Should some rows/columns be added or deleted?

Concerning Tables 1A and 1B:
For certain securities issues, especially on the sale of bearer bonds and commercial papers, the marketing is usually undertaken with the involvement of a syndicate or a dealer group. As a result, it is not possible to identify the actual end customer, i.e. he cannot be assigned exclusively to a customer segment. The possibility to make comments should be introduced for clarification.

Separate planning of derivatives is not usual. Rather, the assets-side business and its refinancing are planned and it is determined on this basis which derivatives are to hedge it. Furthermore, derivatives are recorded in the accounts on the basis of market value. Inferences from planned derivative volumes are not possible on the basis of balance-sheet dates, since most derivatives show a carrying amount on the balance sheet at the conclusion of the transaction of zero or nearly zero. Rows 070 and 380 (derivatives) should therefore be included in rows 080 and 400 (other assets, other liabilities). Furthermore, derivatives are also needed for the retail transactions which are hedged with regard to market risk and to this extent are transitory items. These customer-induced transactions are not subject to balance-sheet planning.

In addition to this, there are other potential changes to the templates such as:

- In section 1 1A Assets, the item “other assets” should be split into high-quality liquid assets, other investment bond positions and other assets. The current setup in the template would not allow supervisors to adequately assess the position of banks.
- In table 1B central bank funding should be reported as a separated item

Concerning Table 1C:
The background to the request for the actual and planned values of the NSFR and LCR ratios is not transparent, since:

- The LCR becomes partially mandatory only from 2015 and the NFSR from 2018.
- The LCR relates to a regulatory period of 30 days. Planning of this ratio for a period of up to 3 years does not seem appropriate.
- The ratios requested here are linked to reference dates, but have to be complied with on an ongoing basis, which calls into question the relevance of the time horizon provided for here.
- These ratios are each determined and reported separately.

Concerning Table 2A1:

We understood the table to mean that only deposits of retail customers are to be recorded. Row 030 should be clarified accordingly, since here the specification of the group of customers is lacking.

Concerning Tables 2B1 and 2B2:
We interpret the requested basis points for capital market products and loan assets as net margin contribution by customers (margin above/below the swap rate) and for deposit liabilities as the spread above/below the swap rate. In the environment close to the money market, we refer to absolute spreads/coupons respectively above/below Eonia.

"Innovative unsecured funding instruments / uninsured deposit-like instruments sold to retail customers" should be defined more clearly. What do these categories cover?

Concerning Table 2C

- Guidance on how to treat FX forward and XCS swaps. How is the supervisor to assess the mismatches without having any maturity information in the template?
- Does row 220 include derivatives, cash and FX?
- No separate disclosure of public sector funding?
- Rows 206 and 270 should be reported as per original or remaining maturity

Concerning Table 2D
- Are assets and liabilities in this section supposed to be included in template 1A and 1B? Are they reported separately in section 2D additionally?
- What is meant by asset/liability acquisitions?

Other comments

- Funding plans may be done mostly based on managerial data rather than accounting information
- Multi-year plans may not be undertaken annually in most banks: an annual funding plan with a one-year horizon will be the standard.

Q03. Do you agree that the information to be gathered on the pricing of assets and liabilities (Section 2B) would provide effective insight into the expected development of funding costs within the broader scope of medium-term strategic planning? If not, do you have concrete suggestions as to what other information would be more suitable?

See comments under question 2 on 2B1 and 2B2.

Q04. Do you agree that information on currency breakdown (Section 2C) will provide effective insight into possible currency mismatches? If so, will such information be easily available, and can it be reliably projected by credit institutions to the required horizon?

No: amongst other things, the effect of gap-reducing derivatives is not considered. It would be better if, in addition to the underlying transactions, corresponding derivatives for foreign currency control were also considered. It should be sufficient for the data to be indicated in the corresponding foreign currency otherwise the data collection will be duplicated.

Furthermore, it should be borne in mind that the gathering of information is burdensome and a projection is difficult. Not all institutions have firm funding planning in individual foreign currencies. The structure of such planning would represent a disproportionate effort and would not comply with the principle of proportionality.

Q05. Are all the main drivers of costs and benefits identified in this CP? Are there any other costs or benefits missing? If yes, please specify which ones.

Materiality thresholds: The supervisory authorities should request the data from the credit institutions with combined assets accounting for at least 75% of the banking system. The data are collected in EUR million. Not all institutions which have to prepare relevant data on account of their balance-sheet total operate in all areas considered in the individual sections of the templates to an extent which would have a significant impact on the overall economy. Materiality thresholds should therefore be introduced for individual sections for which this is appropriate. Such materiality thresholds could for example be EUR 1 billion or a percentage of the balance-sheet total.

Scope of consolidation: In the opinion of the EBA, the relevant supervisor should assess which scope of consolidation it considers appropriate for the collection of the plan data. The size of the scope of consolidation for which the plan data are to be collected should correspond to the scope that is used as a basis in the planning process of the bank. A departure from this may represent a considerable burden for the reporting institutions and distort the information value of the plan data. The credit institution itself may propose which scope of consolidation provides the greatest informative value.

Q06. Do you agree with our analysis of the impact of the proposals in this CP? If not, please provide any evidence or data that would explain why you disagree or which might further inform our analysis of the likely impacts of the proposals.

No comments.

Q07. Will firms subject to this template be able to report the data by 28 February for a reporting date of 31 December previous? Should the EBA explore other options, such as a split submission date (different deadlines for different parts of the template)?

The guideline provides that banks draw up their three-yearly planning of their lending business and its financing on 31 December of the previous year and submit this to the ECB on 28 February of the current year. Banks usually draw up planning in the second half of the current year for the following three years from the start of the following year and thereby focus on an up-to-date reference date (e.g. 30 June). For example, the planning for the years 2015 to 2017 takes place in autumn 2014 and is adopted before the end of the year so that the plan values are established before the start of 2015. Under this process, first of all the planning of the lending business takes place, which in addition to the traditional credit business also includes all other activities of the bank. The refinancing planning is then reconciled with the planning of the lending business. The conversion of the planning process to the timetable required in the guideline is cumbersome. On the one hand, the banks would not have the relevant plan data available in time. On the other hand, the necessary figures from the annual accounts would in general be available only in March, so carrying out the complex planning process by the end of February would not be possible. Since the planning process covers not only the lending business and its refinancing, isolated reprogramming in accordance with the deadlines provided for in the guideline would be neither feasible nor of informative value. In our opinion, the customary planning process of banks, which is adopted towards the end of a year for the coming three years, should therefore serve as a basis. Since the planning periods are geared to annual and not six-monthly planning, it is to be assumed that the data supplied by 30 June each year will not be of informative value. We therefore recommend foregoing this interim deadline. We consider a split deadline not to be helpful.

Submitted on behalf of the Banking Stakeholder Group

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