Consultation response

EBA consultation on draft Implementing Technical Standards ('ITS') on supervisory reporting with respect to Additional Liquidity Monitoring Metrics ('ALMM')

July 2021

The Association for Financial Markets in Europe (AFME[1]) welcomes the opportunity to respond to the EBA's consultation on draft ITS on ALMM.

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors, and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

Summary

AFME and its members understand that the consultation is concerned mainly with changes for small and non-complex institutions. We have, however, highlighted a couple of items below that we suggest are considered.

Observations and Comments

Annex 22: AMM Maturity Ladder:

- **New row "Outflows from uncommitted funding facilities"** has been added. This gives more insight on timeline when these kind of facilities could be withdrawn at the earliest, i.e. Overnight, 2 weeks or beyond 30 days.

  These are cashflows that are contingent/ uncommitted and accordingly the outflows are determined by banks' analysis of various factors, including for example market expectations and its own assessment. Having this kind of assessment go across all maturity buckets in the maturity ladder does not appear to be a realistic cash flow assessment. In light of the Delegated Act, in which Article 23 limits items to 30 days horizon in the LCR, we believe the same balances should be reported in the ALMM. If, however, the regulator would like to extend maturity profile from the LCR's 30 day, then we would recommend that this should at a maximum be up to 1 year.

- **Derivative Collateral Flows:** Currently, the reporting requirements suggest that for fully collateralised derivatives any return of collateral received/posted shall not be reported on the counterbalancing capacity section. However, it would be useful to investigate further the possibility that a validation rule in the template might only be satisfied if the return of the collateral is also reported with the opposite sign so the initial stock plus counterbalancing capacity adds up to zero. It

[1] AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

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would be useful if the EBA could indicate whether it is planning to look into this area in more detail and maintain contact with the industry on any intended changes.

Template C 69.00 – Price of funding calculation.

- The current guidance that requires firms to report the spread over benchmark indices has been replaced with an effective interest rate ('EIR') per IFRS 9/IAS 39 or of the correspondent national GAAP based on BAD. The consultation paper notes that changes have been proposed owing to the difficulty firms may have with building swap curves in some currencies, and more generally inconsistencies in swap curve methodologies that do not allow a reliable comparison across firms.

  We would recommend that changes are not made to the current C 69.00 pricing methodology, other than to remove the references in the C69.00 instructions to LIBOR and Euribor which are expected to be decommissioned over time. A sensible update to this policy would be to require the calculation to be performed relative to an appropriate benchmark and/or a benchmark specified by the EBA for the major currencies.

  The changes proposed in the consultation paper appear disproportionate and will result in significant implementation changes and associated costs when compared to the current spread methodology, owing to the granularity and availability of booking and records data used for accounting purposes in comparison to risk systems that include deal level data / spread information.

  The population of trades where the EIR would vary significantly from the deal rate is small and to implement this broad change seems, as mentioned, disproportionate. The changes appear contrary to the EBA's 'study of the cost of compliance with supervisory reporting requirement' whose recommendations are aimed at reducing costs, particularly important for supplemental reporting which does not result in a binding regulatory constraint.

  The proposed changes would also result in unclear results for consolidated reporting i.e., once data is averaged and consolidated into the reporting currency the resulting cross currency average rates are not comparable to market rates.

  A simpler update to the rule would be to use nominal rates for instruments, with no attempt to account for fees/discounts/premia. Whilst this would not reflect the full economic cost of funding, it would be a more straight-forward approach and should generally result in outcomes that are not materially different to those proposed by the EBA.

  If deemed necessary, then any EIR application could be restricted to trades where the EIR may materially differ from the current deal rate. The characteristics of trades where that may be case are: fixed long term funding i.e. greater than 1 year, funding with a material premium / discount / fee, and trades carried at amortized cost (not fair value). Further information is needed on how EIR should be calculated for floating debt or debt carried at market value as it is not clear how the proposed changes would address methodology inconsistencies; The proposed restriction would reduce implementation costs and ensure funding costs are consistently incorporated into C69.00 reporting. The approach is also consistent with draft IFRS 9 guidance in which floating term funding requires an end of period rather than EIR rate, which for short term (fixed or floating) funding is not materially different.

We would welcome the opportunity to discuss the points made in our response with the EBA further, if this would be helpful.

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