

A response by the British Bankers' Association to the EBA's consultation paper on:

## **Draft Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013**

*August 2016*

*The BBA is the leading association for UK banking and financial services representing members on the full range of UK and international banking issues. We have over 200 banking members active in the UK, which are headquartered in 50 countries and have operations in 180 countries worldwide. Eighty per cent of global systemically important banks are members of the BBA, so as the representative of the world's largest international banking cluster the BBA is the voice of UK banking.*

*All the major banking groups in the UK are members of our association as are large international EU banks, US and Canadian banks operating in the UK, as well as a range of other banks from Asia, including China, the Middle East, Africa and South America. The integrated nature of banking means that our members are engaged in activities ranging widely across the financial spectrum from deposit taking and other more conventional forms of retail and commercial banking to products and services as diverse as trade and infrastructure finance, primary and secondary securities trading, insurance, investment banking and wealth management.*

*Our members manage more than £7 trillion in UK banking assets, employ nearly half a million individuals nationally, contribute over £60 billion to the UK economy each year and lend over £150 billion to UK businesses.*

### **Introduction**

The BBA is pleased to respond to the European Banking Authority's consultation paper on draft guidelines on LCR disclosure to complement the disclosure of liquidity risk management<sup>1</sup>.

### **Key Messages**

We support the objective of increasing transparency for investors and other interested parties about a financial institutions' liquidity risk. Furthermore, we understand the need of increasing comparability of banks' LCR information by means of a harmonised disclosure framework. Nevertheless, we believe that such a framework should rely on providing relevant, not over granular

---

<sup>1</sup> <http://www.eba.europa.eu/documents/10180/1460976/EBA-CP-2016-06+%28CP+on+GL+on+LCR+disclosure%29.pdf>

information to market participants. We are concerned that some of the information requirements under the templates proposed in this CP reach a level of granularity that will not be relevant to stakeholders, but are rather likely to result in increased complexity for our members in complying with the disclosure framework.

We are particularly concerned with the requirement to disclose LCR based on an average of daily LCR calculations, as the quality of data disclosed would not be reconcilable with accounting data. Monitoring LCR data on a daily basis to ensure limit compliance purposes is a different proposition to making external disclosures based on daily data. A daily LCR calculation is already performed by banks, albeit not to the same granularity as proposed in this CP. A calculation to the same level of detail as proposed in this CP would be burdensome to produce, with little or no added value for the recipients of this data. As such, we support a simplified LCR disclosure framework based on averaged values over monthly observations. In addition, we recommend that the EBA aligns these requirements with the Basel approach, and allow for the disclosure of own qualitative inputs from the different respondents, in order to accommodate and explain differences across business models, which may result in varying degrees of liquidity risks to which different entities are exposed.

Lastly, our members note that the introduction of the new requirements as they currently stand would be technically and operationally burdensome to implement and hence the EBA should allow for a sufficient transition period. Our recommendation is that the requirements are introduced in January 2018, to coincide with the full phasing in of the LCR.

## **Responses to consultation questions**

### **Question 1: Do respondents have any comment to the scope of application of the draft guidelines?**

Our understanding is that the LCR disclosure guidelines are applicable to credit institutions that are not part of a group and to EU parent institutions on a Domestic Liquidity Sub group level. Clarification on this aspect would be welcome.

Furthermore, clarity would also be welcomed about whether credit institutions that are not required to comply with the LCR would neither be required to make liquidity disclosure requirements.

### **Question 2: As currently foreseen, the application date will be in June 2017. Do respondents find the date of application of the guidelines appropriate?**

As noted earlier, we support an application date of January 2018, aligned with the full phasing in of the LCR. Furthermore, if the EBA maintains the requirement of LCR disclosures based on an average of daily LCR calculations, we believe further time should be provided beyond this date for banks to be fully compliant.

### **Question 3: Do respondents consider that the transitional period is sufficiently clear?**

There is a lack of clarity around the calculation of averages for the first disclosure on June 2017; although banks are to disclose daily averages for four quarters at Q2 2017, the current templates are expected in Q3 2016. As such, there is a need for clearer direction on in which quarter the first average calculations should be disclosed.

**Question 4: Do respondents have any comment relative to the proposed LCR related items prone to rapid change?**

We expect this will be a matter of definition. Supervisors should have the flexibility to recognise that some elements are likely to be impacted by rapid change which may then lead to confidentiality issues and adapt the required disclosure approach accordingly.

**Question 5: Do respondents have any comment relative to the content of the table in Annex I of the draft guidelines and the way to display it?**

As mentioned earlier, we support the view that the qualitative disclosure table should allow some flexibility for respondents to provide information they believe to be relevant to disclose. This is important mainly because different respondents will have different business models and face varying levels of liquidity risk.

It is also questionable whether presenting these disclosures in a rigid tabular format would add much value. Depending on the location of the disclosures, this might create information duplication. For instance some banks already disclose some of this information in other sections of their annual reports.

Furthermore, our members note that some of the information required under this template overlaps with the requirements under the ILAAP. The EBA should seek to minimise duplication of work by respondents, and ensure that information requested is relevant to its intended recipients.

**Question 6: Do respondents have any comment on the content of the LCR disclosure template in Annex II?**

We are concerned about the level of granularity proposed within these guidelines. We believe that the detail required as part of these proposals will not add value to investors and other market participants. Furthermore, such, in our view excessive, granularity may create some confusion across the audiences of the disclosures, thus hindering the objective of enhancing transparency of institutions' liquidity risk.

**Question 7: Do respondents have any comment relative to the content of the template on qualitative information on LCR?**

As in the case of the table in Annex I, some requirements appear to be very similar to information disclosed by institutions as part of their ILAAP submission. Apart from the fact that such cases may lead to duplicated work from banks, there is also an issue of information sensitivity. This applies to statements "*Concentration of funding and liquidity sources*" and "*A description of the degree of centralisation of liquidity management and interaction between the group's units*". Care should be taken in mandating the disclosure of such information which in a business as usual environment maybe relatively innocuous but could rapidly become highly sensitive in times of liquidity stress.

**Question 8: What information from Annex II, if any, would respondents consider irrelevant for LCR disclosure purposes?**

As stated earlier, we believe that the level of granularity required as part of these guidelines would not offer a meaningful additional insight to market participants than a simplified disclosure of the

ratio. Therefore, we would deem items 19a and b, as well as 20 a, b and c as being superfluous in relation to the extra information they provide and recommend that they be deleted.

**Question 9: What information would respondents like to see added to the LCR disclosure requirements?**

It would be helpful to clarify the data points for the rows for intragroup funding, collateral swaps and securities funding.

**Question 10: Do respondents find the general instructions in Annex III sufficiently clear for the development of the disclosure template?**

Yes.

**Question 11: In accordance with Article 4 of Commission Delegated Regulation (EU) 2015/61, the LCR needs to be met at any time whereas Article 15(1) of Commission Implementing Regulation (EU) No 680/2014 requires a monthly frequency of LCR reporting. The suggested approach for the LCR disclosure template is based on averaged values over daily observations based on the reporting templates. Particularly considering that the most recent data needed would be from the quarter prior to the disclosure date, do respondents consider that this approach is, from a practical point of view, operationally feasible meaning that the accuracy of the daily reporting observations for the calculation of the averages can be ensured? Do respondents consider that this operational feasibility could depend on the size of the credit institution or could be different in the case of solo or consolidated data?**

In our view, the calculation of the LCR with the granularity proposed in this CP on a daily basis will be very costly to implement; such an approach would require significant investment in IT and process enhancements, and will create a lot of work on the back end. It may not present useful extra information to market participants.

An approach whereby the disclosure template is based on averaged values over sequential daily observations will be characterised by data intensive requirements as well as excessive work required reconciling financial information with accounting numbers. Therefore, the accuracy of daily observations may suffer.

**Question 12: Do respondents find the specific instructions in Annex III sufficiently clear for the development of the LCR disclosure template and the template on qualitative information on LCR in Annex II?**

The requirement to disclose an average LCR based on daily observations lacks consistency with the principle of proportionality. In our view the increased frequency of daily reporting reference dates vs a monthly average adds little value. It is operationally complex and may create a disclosure (and audit) requirement for a daily risk metric which is designed primarily to monitor ongoing limit compliance, rather than act as an external disclosure process.

This concern could be alleviated by locating the disclosure template and ITS template in one spreadsheet with validation would ensure firms do not have to undertake this effort

**Question 13: In the elaboration of this CP, the EBA has considered several policy options under three main areas: a proportionality approach in the scope of application, items for a higher disclosure frequency and methodology for the calculation of the disclosures. Do respondents have any particular view on the assessment conducted on these policy options?**

Option 3B is preferred vs Option 3A, due to complexities involved in relying on a daily risk metric for external disclosures, as noted above.

**Question 14: The provisions of Regulation (EU) 575/2013, including the disclosure requirements in its Part Eight, respect the principle of proportionality having regard, in particular, to the diversity in size and scale of operations and to the range of activities of institutions. A less complex, low risk institution will have to disclose less than a more complex, higher risk institution. In addition, specific waivers for disclosure exist in case of non-materiality of information, and the EBA has issued Guidelines to specify the cases where such waivers are used. The EBA intends to conduct further work on the application of the principle of proportionality to regulatory requirements, including the disclosure requirements. As a result, should a specific approach be needed as regards the implementation of the Guidelines on liquidity disclosures in a proportionate manner, this approach will be consistent with the EBA general approach as regards proportionality. In the meantime, users are invited to express their views on the following questions, whose answers will inform the future work of the EBA. Any potential solution suggested by respondents will have its feasibility assessed considering the applicable disclosure framework.**

**Do respondents think that the opportunity of having a simplified disclosure template for smaller credit institutions should be assessed? This simplified LCR disclosure template could comprise for example the ratio itself, the numerator and the denominator as key ratios and figures of the LCR, in the sense of Article 435 (1) (f) CRR. What arguments could respondents provide to justify that the LCR ratio itself, its numerator and its denominator are the only key ratios and figures of the LCR which are required to be disclosed by smaller credit institutions?**

**More generally please provide any argument in favour or against a simplified template, and if you believe a simplified template for LCR disclosures is relevant, please indicate which type of information you would like to have disclosed in that template.**

**What specific criteria would respondents suggest to identify those smaller institutions for which a simplified disclosure template could potentially be disclosed?**

As mentioned earlier in our response, we are generally in favour of a simplified disclosure template that could be applied proportionately. So special consideration should be applied in the case of disclosure requirements for smaller institutions. Our members suggest that the granularity and frequency requirements included in the guidelines may be overly burdensome to implement and that smaller institutions may be particularly affected by such requirements. As such, the EBA should ensure that the principle of proportionality is applied in these guidelines.

We are at the EBA's disposal for discussing this response and clarifying any points included within if required.

**Responsible executive**  
Simon Hills  
British Bankers Association  
☎ +44 (0) 207 216 8861  
✉ [simon.hills@bba.org.uk](mailto:simon.hills@bba.org.uk)