



FEDERATION  
BANCAIRE  
FRANCAISE

2015.02.10

**FBF RESPONSE TO EBA CONSULTATION PAPER ON DRAFT ITS AMENDING  
COMMISSION ITS ON SUPERVISORY REPORTING WITH REGARD TO LCR  
(EBA/CP/2014/45)**

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

The French Banking Federation welcomes the opportunity to comment on the EBA's Consultation on draft ITS amending ITS on supervisory reporting on Liquidity Coverage Ratio. The main comments we would like to share are listed below and are detailed within EBA's specific questions:

- Need for an alignment of starting dates of LCR-ITS and LCR-Delegated Act;
- Need for clarification concerning the level 1 eligibility of PSE assets issued in third countries;
- Removal of the asymmetrical treatment between inflows and outflows on repos transactions;
- Removal of the inconsistency between CRR and the draft ITS on recognition of the liquidity value of an asset underlying a repo respecting all conditions of eligibility in the buffer, including operational requirements.

**Q1: The EBA deems it appropriate to keep the remittance dates unchanged in a steady state regime. While the content of the templates is changed, the objective of the supervisory reporting keeps unchanged and the present ITS constitutes only an update of the current existing reporting requirements for the LCR. This means that, once the current ITS is adopted, and after a transition phase, credit institutions would have to remit the monthly reports on each following 15th calendar day as this will be the case starting 1 January 2015 under the existing ITS on reporting for the LCR. Nevertheless, the EBA deems it appropriate to introduce longer remittance dates for the first reference dates during the first months, to be limited to a period of six months. Do respondents have arguments to put forward a change on these aspects?**

The FBF agrees with the proposal.

Moreover as the LCR-delegated act will applied from October 2015, and the ITS at December 2015 at the earliest, the FBF would welcome an alignment of these two dates, or at least a clarification on how the DA-LCR will be supervised in this meantime.

**Q2: Do respondents agree with longer remittance dates for the first reference dates for the new templates for the first six months?**

The FBF supports the proposal for a 30-day remittance period as well for the first months of remittance as under normal circumstances (i.e. beyond the transition period).

**Q3: Do respondents agree with the implementation period suggested?**

The FBF agrees with the proposal.

**Q4: Do respondents agree to the structure and content of the proposed new LCR templates added for credit institutions? Particularly comments from respondents on specific rows, columns or any other item would be very valuable and appreciated including comments on the treatment of secured transactions.**

The FBF would like to share with the EBA these followings comments on the proposed new LCR templates:

**Templates on liquid assets, cash outflows and cash inflows have:**

- Pre-filled "Standard weight" rows, taking the discount rates of the DA (these weights given for information are not included in the calculation).
- "Applicable weight" rows to be filled in by institutions based on the current applied rates. These "applicable weights" may represent the weighted average of different rates on a same line.

The instructions suggest the weights of the DA are minima and that higher weights may apply to HQLA Valuations. We recommend discounts should be set at the level defined in the DA. Otherwise clarifications would be needed under what circumstances higher weights could be applied.

**Q5: Do respondents find the new LCR instructions for credit institutions clear? Particularly comments from respondents on specific rows, columns or any other item would be very valuable and appreciated.**

The FBF would like to share with the EBA these followings comments on the proposed new LCR templates:

**Template 72: Liquid assets**

**Row 090: 1.1.1.6 - Public Sector Entity assets**

Clarifications are needed concerning the level 1 eligibility of PSE assets in third countries (non-EU members). These entities are eligible under the same conditions as PSE of member states (On this point, third countries are not explicitly mentioned in the Delegated Act).

**Row 100: 1.1.1.7 - Recognizable domestic and foreign currency central government and central bank assets**

In our understanding, the article 10(1)(d) of the DA allow including in the level 1, assets issued or guaranteed by the sovereign or assimilated of a third country which is not assigned a credit quality step 1 provided that:

- the asset is denominated in the local currency of the third country and it covers stressed outflows in the same currency;
- the asset is not denominated in the local currency of the third country and it covers stressed outflows in that foreign currency in that third country (for example: sovereign bond in japan issued in USD covering USD outflows in Japan).

In the latter case, the EBA instructions seem to indicate that the asset denominated in foreign currency may cover outflow in a foreign currency which is not the same as the one of the asset. **Therefore, clarifications would be welcome.**

**Row 380: 1.2.2.7 - Shares (major stock index)**

We would welcome some clarifications on the following *“in the jurisdiction where the liquidity risk is taken”*.

Template 73 : Outflows

**1.1. General remarks. 3:** clarification is needed about « liabilities in the reporting currency ». This reporting requirement is mentioned only for this template, and for the Template 74 - Inflows (in which no liabilities are reported).

**1.1.1. Specific remarks regarding settlement and forward starting transactions:** We understand from the instructions that a repo contractually agreed but not yet settled at the reporting date should be reported as follow:

- If the settlement date is below 30 days and the maturity above 30 days: one outflow for the collateral leg in the template “outflows” row “other outflows” and one inflow for the cash leg in the template “inflows”, row “other inflows”.
- There is no reason for the breaking up of the repo, this treatment unduly makes the cap on inflow more binding. It should be well noted that the cap on inflows is made to ensure that firms do not rely excessively on inflows to cover their outflows because the inflows can dry up. In the case of a single repo, applying such a cap does not make any sense: outflows and inflows occur simultaneously (the risk that the value of the collateral decrease is already taken into account in the LCR).

**An alternative would be to handle unsettled repos as maturing reverse repos and unsettled reverse repos as maturing repos, which could allow not breaking cash vs collateral legs of the transaction, by applying the same treatment as for maturing transactions.**

**Such approach could be applied to all unsettled transactions.**

**Repo: Row 920 - Outflows from secured lending and capital market driven transactions**

The instructions require not to recognize the liquidity value of an asset underlying a repo transaction if this asset does not respect all the conditions of eligibility to the liquidity buffer (TITLE II), including operational requirements. We believe this requirement is the result of a typo in the Delegated Act which refers to the title II instead of chapter II.

We believe it is not intended, otherwise this requirement will not be aligned with CRR which requires considering as non-liquid assets underlying repos, the assets which do not respect the conditions of article 416 of CRR (there is no reference to the article 417 in which are stated the operational requirements). Moreover, we would not understand the rationale of this requirement. Indeed, it is not because an OAT bond (for instance) is not held by the treasury department that its liquidity value is equal to 0. Let's say that a trading desk owing an OAT, is entering in a repo which underlying is an OAT and with a residual maturity below 30 days, to fund it. Considering the instructions:

- The OAT does not count in the buffer.
- When the repo ends, a 100% outflow should be taken into account: this means the liquid value of the OAT is considered as being equal to 0 which questions the internal consistency of the LCR. Indeed, the liquidity value depends on the desk where it is held (100% of the market price or 0).

**The same remark also applies to reverse repo and collateral swaps.**

**Row 310: 1.1.4.4 - Additional outflows due to the impact of an adverse market scenario on derivatives, financing transactions and other contracts:**

Until now, the RTS of the EBA has not yet been adopted by the Commission. Pending this adoption and considering the industry already expressed its difficulty to interpret on a homogenous way the HLBA described by the EBA in its final draft standard; we believe that the Basel HLBA methodology should be required for the LCR purpose. Moreover, the instructions provided by the EBA tend to suggest that the AMAO methodology is mandatory for the institutions having an approved IMM. This is not our understanding of the final draft published by the EBA, in which the AMAO approach was described as optional. This constitutes another source of interpretation which pleads to keep the Basel HLBA approach, pending necessary clarifications on this matter.

**Row 430: 1.1.4.10.2 - Financing facilities**

In the instructions, the reference to item "1.1.9.1 " seems wrong.

**Row 720: 1.1.6 - Other products and services**

- The instructions to fill in (and in fact the DA Art.23(1)) the additional liquidity outflows in rows 720 to 870, are unclear. The articulation with the other LCR assumptions should be made clear as it seems to us as a double counting process. FBF is also very concerned on the discrepancies that this could lead to between different jurisdictions exercising their national discretions;
- In row 790, what does the comment 'only balances of new loans shall be reported, no roll-overs' refer to, especially in reference to Article 32-3(a) (reference seems incorrect) which relates to inflows;
- Section "Legal references and instructions" ends with an incomplete sentence "in accordance with...".

**Memorandum Items:** There are some discrepancies in the numbering in the report and in the instructions.

**Row 1290: 2.7 - Funding Commitments to non-financial customers**

Instruction indicates that only contractual commitment not recognized as liquidity outflows shall be reported in this row. It is not clear what information is required in coordination in what has already been required in 1.1.6.6.1 Excess of Funding to Non-Financial Customers reported above.

It seems to us that to determine 1.1.6.6.1 all contractual commitments to non-financial customers has already been taken in account

**Row 1320: 2.10 - IG or IPS Flow**

We understand that data here are to be provided at Group Level (i.e. including all locations of the intercos, and not only within EU as seemed to be required by previous reporting).

Template 74: Inflows

**Reverse repos:** we have the same comment as for repos in the previous section "template 73: Outflows".

**Row 100: 1.1.2 - monies due from financial customers:**

Could you clarify what does the "relevant section" mean in the sentence "Monies due from financial customers not corresponding to principal repayment shall be reported about in the relevant section"?

**Row 200: 1.1.6 - monies due from assets with an undefined contractual end date:**

Could you clarify what does the "minimum payments" mean in the sentence "Credit institutions shall consider the outstanding amount of monies due to be inclusive of interest and minimum payments"? Furthermore, why interests should not to be reported separately in the provision "Credit institutions shall not separately report interest"?

**Row 360 1.2.1.8 - collateral is used to cover a short position:**

Does this item apply to liquid assets or to all assets?

**Example 4 (p.19 of the CP) - "Monies due from non-financial customers when contractual commitments to these customers exceed the monies due"**

This illustration is not fully clear. In particular, we would like the EBA to clarify:

- How this example articulates with the treatment for credit and liquidity facilities. Does it mean the credit and liquidity facilities (as per article 31) are not included in 'contractual commitments to extend funding' (as per article 32-3);
- What are the 'customer group' 1, 2, 3 etc. listed in row. Our understanding, based on EBA Q&A answer ref. 2014\_897, was that this calculation was not to be made on a client by client basis;
- That column B "contractual commitment to extend funding' is the total amount of the commitment and not solely the unused part ;
- That the amount calculated in column D is already weighted (as per DA article 32) (as it is not correctly implemented in the LCR calculator provided, where it is further weighted at 50% in contradiction with the Delegated Act);
- Row references which seem incorrect.

Template 75 – Collateral swaps

Instructions for Collateralised Derivatives are very unclear: collateral on derivative agreements is generally either given or received, not exchanged. While "lent" collateral can be reported in the row corresponding to the asset liquidity level, we cannot see on which row "borrowed" collateral can be reported when it is not exchanged against another asset.

The instructions (1.1.7) mention “collateralised derivatives flows” to be reported on columns 090 to 120, which is not adequate in that these columns report also market values. In addition, no definition is given for these “collateralised derivatives flows” ; how do they relate to derivatives expected inflows and outflows as defined in Article 21 of the Delegated Act (which are already reported in specific rows of the Inflows and Outflows templates) ?

**Considering all this, this portion of the template does not seem relevant.**

Template 76: Calculations

**Calculation of caps:**

The instructions do take into account maturity of collateralised derivatives for calculating caps, in addition to repos. Derivatives are mentioned neither in Basel text nor in Article 17 of the DA. Are they included in the calculation of cap?

Finally, in line with the Delegated Act (DA), these revised templates replace the previous CRR-based templates only for credit institutions. Therefore, banking groups with both Credit Institutions and Investment Firms will have to maintain two different sets of ITS’s. Indeed, Investment firms will be required to report under both templates: CRR based ITS at the individual level and DA-based ITS for group consolidation purpose. This is source of unnecessary operational burden for the industry. Indeed, we believe that the DA-based ITS could be easily adapted to be both compliant with the CRR requirements on investment firms and aligned with the DA-based templates which apply to credit institutions.

**Q6: Do respondents consider that the “LCR calculation tool” appropriately translates the use of the different templates for informative purposes?**

No comment.