The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the EBA’s recent discussion paper on its draft methodology for the assessment of liquidity and funding risk under SREP. 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.


AFME is listed on the EU Register of Interest Representatives, registration number 65110063986-76.

We summarise below our over-arching response to the discussion paper, which is followed by a section with more detailed thinking around some of the main topics and questions asked.

**Over-arching Comments**

AFME and its members welcome and are supportive of the EBA’s work to establish a common methodology and process for assessing liquidity and funding risk. We have considered for some time that while the LCR and NSFR could serve as two of a wider set of indications of possible liquidity risk, these measures should form a monitoring overlay to a more comprehensive and firm specific assessment of the nature and extent of liquidity risks based around cashflow analysis, robust stress and scenario testing and supervisory challenge.

We consider that in addition to facilitating the management of liquidity at firms, the approach set out is likely to be valuable for supervisors in understanding more fully the nature and extent of liquidity risks that are being run by institutions and their constituent business lines.
More detailed considerations/responses to questions

Overall Liquidity SREP score
We have noted that it is intended that the outcomes of the liquidity risk assessment, funding risk assessment, and liquidity and funding risk management assessment will converge into an overall liquidity SREP score. It is not clear from the discussion paper though how the score will be used and in particular the forms of disclosure of scores that might occur and whether these could become available to investors and other market participants. There is a potential concern also that the assignment of overall scores for liquidity risk might present an over-simplification of a range of complex and diverse risks and obscure the views of the possible nature and extent of their connectedness.

Stress Testing
Our members have considered and noted over recent years that assumptions on banks’ behaviour regarding the roll-over of funding in a crisis situation cannot be pre-fixed and should be monitored under a Pillar 2 approach. It is encouraging therefore to note that the EBA’s draft methodology includes an assessment of the adequacy of firms’ ILAAs and we understand that supervisory stress testing will also be undertaken.

In relation to the latter, it will important that supervisory stress tests are designed and implemented well with an appropriate level of clarity, quality and consistency. In particular, there will be a need for a consistency of approaches across different jurisdictions and that there is sufficient communication between supervisors and the industry to facilitate the necessary exchange of information and the implementation of relevant and meaningful stress tests.

Proportionality and Home/Host Coordination
We have noted that the EBA has stated that its methodology should be applied by competent authorities taking into account the principle of proportionality and that additional elements and examples are provided within the discussion paper for the purpose of providing supervisors with guidance in this area. The application of proportionality will be of particular relevance to the assessment of liquidity and funding risk at small subsidiaries and branches of much larger international groups and/or where the nature and scope of a business undertaken is relatively straight-forward or not material to the group more widely.

To the extent that the application of the framework is aligned between supervisors, timeframes and data requests might be aligned also in order to avoid multiple and duplicative processes.