

Consultation Paper Response

Draft guidelines proposing harmonised definitions and templates for funding plans of credit institutions (EBA/CP/2013/47)

20 March 2014

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the EBA's recent consultation paper on draft guidelines proposing harmonised definitions and templates for funding plans of credit institutions. 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 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.

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

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

Over-arching Comments

AFME and its members consider that it is in principle feasible to complete the proposed reporting templates. There are, however, a number of practical observations that we set out in more detail below together with some of our thinking in relation to the use of the reports.

In the meantime, the ESRB recommends the collection of data covering at least 75 percent of the banking system's total consolidated assets. However, the competent authorities in each country will be required to determine the level and scope of information gathered from institutions operating in any given jurisdiction. Furthermore, there is an expectation that reporting may not apply to institutions receiving a waiver from CRR liquidity requirements. In order for this proposal to meet its intended objectives, it will be important for the reporting criteria applied across jurisdictions to be (1) consistent; (2) proportional; and (3) equally transparent among institutions and their regulators. Failure to achieve any of these three points will result in vastly inconsistent submissions across different institutions and countries in the EU.

We would note also at this stage that it is not clear how and for what purposes the EBA and national regulators intend to use the data and, for instance, whether the data would be expected to facilitate bilateral discussions between regulators and firms on funding plans.

More detailed considerations/responses to questions

Question 1: Are the proposed templates feasible in terms of completion?

As mentioned, AFME and its members consider that it is in principle feasible to complete the proposed reporting templates. Firms already undertake detailed funding planning which forms the basis for liquidity projections and stress and scenario analysis performed in conjunction with annual ILAA and ICAAP process. Nevertheless, there remain practical limitations to long-term liquidity planning. As with all elements of planning it is not possible to precisely forecast market conditions and therefore activities relating to repos and reverse repos, securities trading, and derivatives collateral flows will be driven by prevailing market developments rather than longer term plans. It will be important for users of the reports to be mindful of various near-terms aspects in managing liquidity and funding risk and avoid rigid regulatory back-testing of actual against projected liquidity and funding positions.

Question 2: Are the reporting templates and instructions sufficiently clear? Should some parts be clarified? Should some rows/columns be added or deleted?

The reporting templates and instructions are for the most part clear. We recognise that some innovative products might not yet have been defined and that discussion with supervisors might therefore be needed in this area. It will of course be important though that sufficient consistency is maintained across different firms and jurisdictions.

In the meantime, we understand from the EBA's Public Hearing that further guidance will be provided by way of a data point model ('DPM'), although it is not clear whether this would form part of the Supervisory Reporting DPM or a separate and stand-alone model.

Question 3: 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?

Members have noted that it is difficult to forecast pricing for the medium term owing to the interaction of a wide range of factors and interacting variables including, for example, market conditions, central bank interventions and the regulatory environment. The EBA might wish to consider the inclusion of a text box in the reports to allow firms to disclose any qualitative information or explanations that might facilitate the regulators' use of the reports and interaction with the industry.

Question 4: 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?

A currency breakdown would offer little practical value to any long-term liquidity and funding forecasts, particularly for larger multinational firms. Consistent with what is noted in the response to Question 1 above, the currency composition of the balance sheet and funding sources will often be a functions of (1) market conditions; and (2) customer demand – both factors of which would be

difficult to predict over a multi-year time horizon. For this reason, the accuracy of any granular forecast would be significantly challenged and we would note that the breakdown does not consider the fungibility of the currencies concerned.

In addition, it is not clear from the consultation paper whether materiality thresholds might be set around the need to provide information on currency breakdowns – for example, if the second and third major currencies form only a small percentage of the balance sheet would providing this data still be considered meaningful?

Question 7: 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)?

We consider that the annual submission of the template is appropriate but would note that firms are usually reporting their annual results at around the end of February, allowing little time for the agreement and submission of updated plans by 28 February. A flexible submission schedule would be more desirable, as this would accommodate institutions' different planning periods. Because an objective of this proposal is to ensure standardised forecasts over a three year period, the actual timing of a submission during a given calendar year should be less significant. A possible approach may be for national regulators to require the template at or around the completion of an annual capital or liquidity assessment, such as an ILAA. Finally, we would recommend the EBA consider implementing this requirement on a phased basis, beginning with only Section 1 template materials in 2015, and introducing Section 2 in 2016 or sometime thereafter. In particular, the pricing section of the report might be postponed until at least the time when firms start to report pricing information as part of the 'Additional Liquidity Monitoring Metrics.'