

## Consultation response

### **EBA Consultation on Draft Implementing technical standards amending Implementing Regulation (EU) No 680/2014 with regard to additional monitoring metrics for liquidity reporting**

21<sup>st</sup> December 2016

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The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the European Banking Authority's (EBA's) consultation on Draft implementing technical standards amending Implementation (EU) No 680/2014 with regard to additional monitoring metrics for liquidity reporting. 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 overarching comments on the consultation, which is followed by answers to the individual questions raised.

#### **Overarching comments**

Overall, AFME and its members welcome the alignment of the data items of the maturity ladder with the definitions of liquid assets under the Delegated Act for the LCR.

We would note, however, that the aim of the maturity ladder was to consider mismatches in a normal contractual environment rather than to project LCR calculations. Extending the scope of the report beyond the collection of information on contractual maturity, which may permit the calculation of a LCR low point, causes uncertainty and a lack of clarity concerning the regulatory intent for obtaining this information. Reporting in relation to collateral received appears in particular to overlap with the EBA's separate reporting requirements on asset encumbrance, although the scope of consolidation of the reports differs. In particular, reporting on the maturity ladder would follow the regulatory scope of consolidation while reporting on asset encumbrance reflects the FINREP basis of consolidation. In view of this, if it is decided to proceed with reporting on asset encumbrance, further clarification on the cross-validations between the two templates, and more specifically, the memorandum items of C66.00 would be needed.

From an operational perspective, the maturity buckets established in systems gathering data for other regulatory reports (FINREP/COREP) are different to those suggested in the maturity ladder template. This will result in the need for further IT development and operating inefficiencies. The number of buckets and their associated columns in the template may also compromise the legibility and usefulness of the report.

We would welcome further clarification in the reporting instructions in a number of areas, including the reporting of derivatives which do not align with treatments under the LCR and which we believe should

be amended, which are discussed in our answers to the questions posed below. We would welcome confirmation also as to whether it is calendar or business days that need to be considered for reporting purposes.

## Questions

***Question 1: Do respondents agree to the structure and content of the maturity ladder template as proposed in Annexes XXIV and XXV, with in particular the items in the contingency section and memorandum items section? If not, would respondents have substantiated reasons for not amending or not including a particular data item?***

We would note the following observations on the proposed structure and content of the maturity ladder template:

- We have noted that the template seeks to collect data on HQLA with reference to credit quality steps. We do not think that this fully aligns with the Delegated Act on the LCR and the extent to which the additional information sought will be useful is not clear. We would expect similar categories as those used in the Delegated Act.
- We would propose adding a column where open trades could be reported. As the template is currently structured, these would be reported as overnight. The rationale of the reporting these separately is that contractually these transactions are different and behaviourally may not be the same. We would propose that the reporting of these amounts be aligned across all reports.
- At present, it is not clear whether market values reported should be clean or dirty, and subsequent to this, how coupon payments should be accounted for – especially when the following coupon period reset rate is unknown. Similarly, guidance would be welcome on how amortising bonds held should be reflected when future payments are not known, for example in the case of CMBS/RMBS.
- We would appreciate clarification on the treatment of forward starting transactions if this is expected to be different from the general treatment set out in the ITS.
- Further clarification is sought on the definition that should be used for ‘non-maturing deposits’ (annex XXV 1.1.12c) and whether the term is intended to include open-maturity deposits (as specified in 1.1.12d).
- It is not clear what the concept of ‘regulated covered bonds’ refers to in line 30 and clarification would be appreciated.
- The reporting instructions are unclear as to whether any netting of fx derivatives should be undertaken (line 350) and whether netting should be undertaken in line with the LCR Delegated Act. In particular, foreign exchange derivatives may be reported on a net basis, where there is a full exchange of principal on a simultaneous (or same day) basis, regardless of whether the transactions are covered by a bilateral netting agreement. We would propose that a similar approach is adopted for this report.
- More widely in relation to derivatives, the reporting instructions mention that stock received as collateral should be excluded from the counterbalancing capacity, which does not appear to reflect treatments where there are rehypothecation rights. Clarification is needed also on what constitutes ‘partial collateralisation’ and for example whether initial and CSA margin be



## Memorandum items

### LCR components

- The provision of a methodology for the calculation of the intra-30 day LCR would be useful if ultimately this will be used as part of the supervisory process. Under the current proposed reporting format, the time buckets in the maturity ladder do not fully match the LCR timeframe and there is data included which would not be part of LCR, such as operational outflows.

Specifically, we would note that for reconciliation purposes with the LCR, the maturity ladder template does not provide a 30 day horizon, instead there is granularity to five weeks. In addition, maturity buckets across the monitoring metric reports are different, therefore cross-validations across reports is more complicated. We would propose the alignment of the time buckets with the LCR, and as part of this daily buckets for the first five week period could be beneficial.

It is also useful to note that the LCR is a short term ratio which often depends highly on the rollover of treasury operations and that this rollover is not taken into account in the C66 template. The forecasting of possible LCR metrics from this return may not therefore be meaningful.

As a further observation, some of the information used to calculate the LCR can not be obtained from the maturity ladder. This includes the ability for institutions to exclude from the calculation of outflows certain categories of retail deposits (Article 25.4 of the LCR Delegated Act) or indeed the requirement for the application of higher run-off rates to retail deposits (Article 25.3). Other information not available from the report needed for the calculation of LCR includes for example the impact of an adverse market scenario on derivatives, financing transactions and other contracts.

- As mentioned previously, reporting in relation to collateral received overlaps with the EBA's separate reporting requirements on asset encumbrance and we would recommend therefore that the requirement to report lines 1250 and 1260 is removed.
- It is not clear whether LCR secured inflows and outflows (lines 1160-1170) should be reported on a net or gross basis. It would be useful for explicit confirmation that the LCR reporting guidelines apply to lines 1160 to 1190.

### Behavioural items

- There will also be operational challenges for firms in seeking to report inflows and outflows on a behavioural basis. It is noted also that behavioural inflows and outflows should be included on a 'going concern basis' and guidance on what this would entail is needed.

Behavioural elements are also highly dependent on firms' internal approaches and models, and are not therefore comparable from one institution to another. Accordingly, it would need to be considered that data reported on behavioural items would not lead to any ability for regulators to draw meaningful comparisons using the reporting template.

### Contingencies

- The concept of 'tradeable' has not been defined by the ITS, which might be useful to ensure consistent reporting across institutions. Further clarification is sought also on the distinction (if

any) between the terms 'tradeable' and 'non-tradeable' and the terms 'marketable' and 'non-marketable' which are used by the ECB.

- Lines 920-990 – Supervisors explicitly request the reporting of own issued senior unsecured ABS/RMS securities and covered bonds. These securities are, however, excluded in the reporting instructions. Securities eligible as collateral could be provide valuable information.
- 1140 - Outflows due to downgrade triggers: The maturity ladder is a contractual template, however outflows from downgrade triggers is a stressed metric. We would therefore question why this outflow has been included (other additional LCR outflows have not been included). If the EBA requires banks to report these, additional guidance would be requested and in particular setting out under which time bucket these should be reported. The instructions as they currently stand are not sufficiently detailed.

***Question 2: Do respondents agree to the structure and content of the proposed revisions to the templates and instructions of the non-maturity ladder templates Annex XVIII to Annex XXI of Implementing Regulation 680/2014? If not, would respondents have substantiated reasons for not amending of further amending a particular paragraph or cell description?***

As a general point, we have noted that total funding is defined as all financial liabilities other than derivatives and short positions. However, the 1% reporting threshold for the C67 and C68 returns is measured against total liabilities. We would question whether the inconsistency is intended.

In addition, the concept 'groups of connected clients' is used for both C67 and C71 (annex XIX, 1.2.3 annex XX 1.5), however no explicit reference is made in this ITS to additional guidance already provided in this respect in the context of Large exposures. We would appreciate clarification.

Our other more specific observations on the reporting templates are as follows:

C67 – Concentration of funding by counterparty:

- Column 050 Repo product type defined against CRR: We would propose amending this category to SFT and allow for easier alignment to the updated CRR once it has been finalised.
- All Other Liabilities and the totals of sections 1 and 2 now specifically reference 'funding' and 'total funding' and it is stated that this represents 'financial liabilities other than derivatives and short positions'. It would be useful for clarification of the extent of the exclusion of derivatives, for instance whether this means the exclusion of derivatives collateral/margin.

C68 – Concentration of funding by product type:

- It is not clear whether reporting should be limited to loans and deposits or whether line 90 would include broader amounts.
- The reporting lines for 'Total Unsecured Wholesale funding' have been ungreyed so that items which have not been allocated to sub-items can now be included. It would be useful if the EBA could provide examples of the types of products or balances that might attract this treatment.

- Wholesale funding from central banks has been excluded from unsecured wholesale funding although the reason for this is not clear.
- It is not clear whether items reported under wholesale funding 'intra-group entities' sub categories (2.1.3 and 2.2.4) should also be reported in the corresponding sub categories (2.1.1-2 and 2.2.1-3), e.g. intra-group unsecured wholesale funding could also be reported as loans and deposits from financial customers.
- It is not clear whether instruction 'Wholesale funding from intra-group entities for rows 2.1.3 and 2.2.4 shall only be reported on a solo basis' should also be applied on the sub-consolidated level where intra-group transactions may also take place.

#### C69 – Prices for various lengths of funding:

- The reporting guidance requires that for funding that has rolled-over during the reporting period the highest spread that has applied to this funding during the reporting period shall be used. It would be useful if this could be illustrated with a worked example that covers trade rolling on a number of occasions within a month. In the meantime, we would note that the reporting instructions have not been amended to provide clarity on which benchmarks should be used to calculate the applicable spread.
- The guidance mentions that 'funding that rolled-over and is still there at the end of the reporting period shall be considered to represent new funding. Again, clarification would be appreciated through a worked example which covers trades rolling on a number of occasions within the month.
- It is not clear why 'average transaction volumes and prices' have been replaced with 'transaction volume and prices'.
- Carrying amount (annex XIX 1.4.7) for FX spot transactions and Repo transactions often represent Net amount for the accounting purposes (as reported in FINREP F08.01). We would appreciate clarification as to whether Net or Gross amounts should be reported. Similarly, further clarification is also sought on the reporting of the FX transactions in the context of significant currency reporting.

Across the C67.00, C68.00 and C69.00 templates there is reference to 'carrying value' although it is not clear what this means.

#### C70 – Roll-over of funding

- Additional clarification is also sought on reporting the volumes, spreads and reference rates in the weekends and holidays (annex XIX 1.5.12). For the large cross-border groups leaving these empty would result in abnormal movements in the C70 cause by the differences across countries, which do not correspond to informative value intended to be collected in the

template. Alternative approach would constitute reporting volumes remaining with the bank before the weekend/ holiday as the 'rolled-over' funds.

C71 – Concentration of counterbalancing capacity by counterparty:

- We have noted that product types are not defined for column 050. Furthermore, no specific definition of central bank eligibility is provided for the completion of column 090. We would propose that central bank eligibility, in line with other terms not defined in the Regulation, be interpreted according to the general meaning of the term and on the basis of internal practices taking into considerations relevant and operational considerations.
- We are interested to understand the reason for the removal of the term 'issuer' and whether if a firm has received a security through a reverse repo, it should report the counterparty to the reverse repo or the issuer of the underlying security.
- As mentioned earlier, supervisors currently request the reporting of own issued senior unsecured ABS/RMS securities. These securities are excluded in the instructions for the C66.00. Clarification is sought on the reporting of these securities in the C71.00 template.

**Question 3: Do respondents agree to the proposed clarification to the treatment of transactions that have rolled-over during the reporting period in paragraph 8 of the instructions to template C69.00 (as in annex XIX), or would it be preferable to have daily averaging of volumes and spreads as one alternative or end of month spreads as another (and why)?**

A month end snap shot would be preferred to the treatment suggested and would align with the approaches taken in the C67 and C68 templates. Accordingly, we would propose taking into account all roll overs that have occurred during the reporting period and that are still live at the reporting data, each at their actual month end volume and spread (not with the highest spread that has applied to the funding during the reporting period, nor with a daily averaging of volumes and spreads.

**Question 4: Do respondents agree to the proposed clarification to the treatment of sight deposits in paragraph 9 of the instructions to template C69.00 (as in annex XIX), to focus only on those deposits that are new for the applicable reporting period, or would it be preferable to align the treatment with that of items that have rolled over?**

The rationale for the approach suggested is not clear and there seems little or no difference in customers placing new deposits as distinct from those rolling over balances. Further guidance would also be useful on the treatment of evergreen balances.

Separately, we would propose that examples are provided on the treatment of extendable trades as well and how these impact the C69.00 and C70.00 returns.

**Question 5: Would respondents have substantiated arguments for an implementation period different from the above-mentioned March 2018 application date?**

AFME and its members would consider a March 2018 application date feasible, providing the ITS has been fully agreed by March 2017 thereby leaving twelve months for implementation.

As an additional point, under the current Pillar III reporting the previous C66.00 template is disclosed. Clarification from EBA would be appreciated as from which date this would be phased out and confirmation that the updated report would not be phased in ahead of March 2018 application date. More fundamentally though, AFME and its members consider that the ALMM templates are regulatory templates and therefore contain material and sensitive information that is not appropriate in the public domain.

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