

## Consultation Paper Response

### **Draft Implementing Technical Standards on Additional Liquidity Monitoring Metrics under Article 403(2) of the draft Capital Requirements Regulation**

14 August 2013

---

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the EBA's recent consultation paper on Draft Implementing Technical Standards on Additional Liquidity Monitoring Metrics under Article 403(2) of the draft Capital Requirements Regulation ('CRR'). 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.

#### Overarching Comments

Common EU liquidity reporting has the potential to yield significant advantages to the single market and to cross-border supervisory cooperation. However, a rushed implementation and unclear reporting definitions are likely to reduce any of these potential benefits. More widely, information should be collected only as frequently as necessary and when there is a clear purpose.

#### Observations and responses to questions

##### Scope and Basis of Reporting

- AFME and its Members would appreciate clarification as to the scope of reporting that is required and in particular how any consolidated requirements will be applied and the timescales surrounding the waiver of liquidity reporting requirements on an individual

entity basis. AFME continues to reiterate that its members are unclear as to the supervisory benefit to be gained from the liquidity consolidation requirement of CRR Article 11(3) when CRR Article 8 provides for a more realistic consolidation at a sub-group level and that it is important that the EBA sets up processes to facilitate the waiver of reporting requirements by legal entities on an individual basis well in advance of the implementation date.

- In addition, the proportionality criteria relating to the scope and frequency of reporting should be reconsidered. Specific points to note are as follows:
  - The proposed size threshold based on 1% of total assets attempts to equate group size with liquidity risk levels when this relationship may, in fact, not exist.
  - The proposed proportionality criteria (proportionality allowed for entities which “do not form part of a group with subsidiaries or parent institutions located in jurisdictions other than the one of its competent authority”) appears to deny international banking groups the possibility for less frequent reporting, although it is unclear as to why domestic banking groups would necessarily be less prone to liquidity risks than banks within an international group.
  - The method for determining the 1% threshold appears confusing. For example, are institutions really expected to determine the aggregate balance sheet size of all institutions supervised by a “single competent authority” as the proposal states?
  - For the reasons noted above, we would prefer to limit frequent reporting to entities with a material balance sheet size exceeding EUR 5 billion, or to similarly meaningful and proportionate thresholds in relation to the comparative sizes of jurisdictions’ banking sectors. This alternative criteria offers a more straightforward approach for determining which entities should be subject to more regular reporting, in turn ensuring that frequent reporting is limited to those institutions posing a significant risk to the financial system.

#### Intended use of Reports

- The industry would be grateful for feedback as to the intended use of the reports. We hold the view that there could be significant overlap between information contained in the proposed reports and what would be available through LCR reporting. Consequently, we recommend that the EBA review and assess the information provided by the LCR submissions before prescribing an additional array of reporting metrics. This might necessitate the extension of the implementation timetable and during this period, a preferred approach would be to assess additional liquidity risks based on firm specific analyses of cashflows and stress testing as well as supervisory challenge.
- AFME members have noted in addition that classifications of assets and liabilities in the contractual maturity ladder appear similar to those used under the LCR and we are interested in whether the EBA intends to perform any cross-validation between the reports.

### Timing of Implementation

- There has to date been no official mention of the intended start dates for reporting, nor the frequencies or timings of submissions. We understand from the recent EBA Public Hearing, however, that firms will be required to report from H2 2014 and that the reporting templates will be published in Q4 this year as part of the Version 2 update of the COREP data point model. Firms are likely to need significant time following the publication of the final reporting templates to complete systems changes. For most firms this might be expected to take at least 12 months but possibly longer giving competing pressures on resources from other regulatory reporting projects. Therefore, we would recommend that reporting should commence no earlier than June 2015 which would still leave two and a half years before new liquidity standards are fully implemented and existing regulatory reporting requirements are switched-off for many firms.
- The levels of detail included in the proposed new liquidity reports would entail a significant investment in infrastructure to ensure that firms can source accurate data on a timely basis. The brevity of the EBA's proposed time-frames (both in terms of the implementation date and remittance periods) risks compromising the accuracy of the data reported and will divert resources from other regulatory reporting projects which must also be completed in the near term.
- Finally, because many firms will be performing liquidity reporting on a manual basis until the LCR standard is finalised, a phased implementation of additional liquidity reporting requirements would assist firms with the significant practical reporting challenges that they face at present.

### Completion of Reports

- Further guidance is required in terms of how to populate the reports. The instructions are still unclear and are open to differing interpretations which will mean the benefit of comparable information is lost. This is particularly the case in relation to the definitions of sectors and products. Specific examples include the following:
  - In relation to the Behavioural maturity ladder, we are not clear as to the value of the report but if it is needed then further clarification is required to define what should be reported within planned and expected. It would in particular be useful for the guidance to include examples which would also help to ensure more consistent interpretations and application.
  - For the reports on the concentration of funding, the instructions indicate that there could be times when a counterparty has more than one product or currency, although it is not clear how this information should be reported. In addition, it appears that some sources of funding are not captured, (e.g. equity, sub-debt and other note issuances), although this gap is neither explained nor confirmed.

- Members have also questioned whether information on the concentration of funding by product type would already be provided through the LCR reporting templates. It is also very difficult to meaningfully assess concentrations by counterparty in relation to securities issuance due to the very significant role of the secondary market.
- It is unclear whether the 'Prices for various lengths of funding' report is intended to include retail deposits and, if so, how this should be reported. We strongly recommend that retail funding is excluded, as per the FSA 052 report which this tool would appear to be based upon.
  - The purpose of the 'Rollover of funding' report is not clear and the reporting requirements are difficult to follow. We assume that the time buckets in this report represent the original maturity of funding maturing/raised on a particular day but this is not clear.
- The ambiguities around the reporting instructions and the proposed template will likely generate a high volume of questions from firms - particularly as they build the necessary systems for meeting the new requirements. The EBA will need to ensure it has sufficient resources and processes in place to address these queries on a timely basis.

#### Frequency of data collection

- The frequency of data collection should be rationalized to avoid the inefficient use of bank and supervisory resources. The EBA should also clarify its expectations relating to increased reporting frequencies in a crisis so that firms are able to build system processes accordingly.
- Therefore, AFME and its members suggest reduced reporting frequencies as follows:
  - Funding concentration metrics: No more than quarterly reporting given that these measurements are unlikely to be volatile, even in a stress, on a month by month basis;
  - Behavioural maturity ladder: As mentioned previously, the purpose of this template is not clear and we suggest that it should be deleted. If however it must remain, and the purpose of the template is to assess the funding plans of the institution, then reporting should be aligned with firms' planning processes, which for most banks would be on an annual or semi-annual basis. If the purpose of the template is to compare the behavioural assumptions of individual banks, then again most firms would not update their assumptions on a monthly basis; and,
  - As noted earlier, the proportionality criteria for determining the frequency and scope of reporting by entity should be modified based on total asset size. This would allow regulators to focus on entities that represent a potential material liquidity risk to the financial system, as well as offer firms a more straight-forward method for determining whether entities meet the significance threshold.

Association for Financial Markets in Europe  
August 2013