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## EBF response to EBA consultation on guidelines on the LCR disclosure (EBA/CP/2016/06)

### Key points:

- ◆ The European Banking Federation supports greater transparency of banks' liquidity risk management by disclosing useful information rather than over-loading market participants with too much detail.
- ◆ The disclosure of the Liquidity Coverage Ratio (LCR) should be based on good quality data that has been audited. The disclosure of daily LCR calculations would not fulfil this criteria and would be very burdensome and operationally complex with little added value for end users. We suggest the LCR disclosure template to be based on averaged values over monthly observations, already reported to the supervisor.
- ◆ The scope of application of these guidelines should be aligned with the way banks manage their liquidity and be consistent with any waivers for liquidity reporting.
- ◆ There should be sufficient time for the transition to the new disclosure requirements. The deadline for the application should be at minimum 6 months from the approval and publication of the final text. A start date of January 2018 coinciding with the phasing in of the full LCR would be preferred.
- ◆ The EBA should align its Guidelines with the Basel approach and allow respondents to provide their own qualitative inputs which will vary depending on their business model and degree of liquidity and funding risks to which they are exposed.
- ◆ The proposed Guidelines should only be addressed to competent authorities.

### General Remarks

The EBF supports the over-arching objective of greater transparency but wishes to work with the EBA to ensure that such disclosure provides useful information rather than over-loading market participants with too much detail.

EBF members are concerned with the requirement to disclose LCR based on an average of daily LCR calculations. Indeed, public disclosure should be based on the best data quality possible, and data used for the daily LCR calculations would not meet this quality criterion (notably because it would not be reconciled with accounting data). If the objective of the average daily calculation is to demonstrate that banks comply with the LCR at any time, as requested by the regulation, we insist that the LCR daily calculation is already performed by banks to attest that their LCR is managed in a way that is fully compliant each day. However, this calculation is not as detailed as the one required in this guidelines. Moreover, it is worth noting that performing a daily detailed calculation of the LCR (i.e. as detailed in these guidelines) would be very burdensome and operationally complex, whereas we see no added value for end users to disclose such data. Therefore, we suggest the LCR disclosure template to be based on averaged values over monthly observations, already reported to the supervisor.

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The EBA Regulation explicitly states that Guidelines need to be “addressed to competent authorities or financial institutions.” This means accordingly that they cannot be addressed to both competent authorities and financial institutions at the same time, and that the EBA has been entrusted with the task of making a choice here. We note that the proposed guidelines are ambiguous in this respect by implying that not only competent authorities but also financial institutions are expected to make every effort to comply with the guidelines. Such a statement is clearly ultra vires. In this regard EBF Members wish to also highlight that within the EU, administrative agencies have no authority to impose Pillar 3 disclosure requirements on their own initiative directly on companies, because requirements aiming at introducing market discipline can only be imposed by means of level 1 legislation. As a consequence, the proposed Guidelines should only be addressed to competent authorities. It may be useful to highlight in this context that, in turn, competent authorities are only authorised to implement such disclosure guidelines provided they have received prior authorisation to do so by means of an Act of Parliament.

## Answers to Questions

### **Question 1: Do respondents have any comment to the scope of application of the draft guidelines?**

Based on Para 7 of the GL, Art. 6(1) and (3) and Art. 13 CRR we understand that the LCR Disclosure GL will apply only for credit institutions that are not part of a group (on solo level) and for EU parent institutions (on consolidated level). Significant institutions of EU parent institutions will not be subject to the LCR Disclosure GL, as according to Art. 13/1 CRR they are subject to Part 8 of CRR (disclosure) only to a limited extent, with liquidity risk being excluded. This should be clarified in the LCR Disclosure GL. Art 7 of the GL in combination with the explanatory text for consultation purposes (which makes repeated reference to the broad scope and level of application of the Delegated Act LCR) leaves some uncertainties in this respect.

As drafted the scope of the disclosure requirement is too broad to offer valuable information to market participants and has the potential to cause confusion. It would be helpful if the EBA could clarify if a credit institution that has been waived from its compliance with the LCR ratio requirement, (but not on reporting to the supervisors), should be waived from liquidity disclosure as well. We think that it would be appropriate to grant such a waiver for liquidity disclosure when a bank is only subject to the liquidity reporting of the LCR ratio to supervisors (without being imposed a minimum).

Furthermore, as for “Final Options and Discretion attended”, it is necessary and effective for institutions that all aspects granted only to competent authorities, still under their revision, are well defined at local level as well as at European level at the time of disclosure (June 2017).

Finally, we believe that the scope of application of these guidelines should be aligned with the way banks manage their liquidity. The BCBS Pillar 3 requirements are applied on the consolidated basis, which is the way most banks manage their liquidity. At the same time, consideration should be given to those banks that manage their liquidity under a decentralised model of autonomous subsidiaries.

### **Question 2: As currently foreseen, the application date will be in June 2017. Do respondents find the date of application of the guidelines appropriate?**

At present, it is not clear whether firms would be expected to disclose information on the LCR from June 2017 or whether this might be the date from which the guidelines apply with disclosure envisaged from a later date. We would note in addition that in June 2017, under the LCR transitional arrangements firms will be required to meet 90% of their LCR requirements and that it might be clearer for users therefore if disclosure was to commence from 2018 when firms will have to meet their LCR requirements in their entirety.

If the requirement to disclose LCR based on an average of daily LCR calculations is maintained, we would ask for the application date to be postponed to provide sufficient time for banks to comply with the

proposed guidance. The deadline for the application should ensure a minimum of 6 months counting from the approval and publication of the final text.

**Question 3: Do respondents consider that the transitional period is sufficiently clear?**

The explanatory text for the calculation of averages for the first disclosure on June 2017 is not clear. Banks should disclose daily averages for four quarters at Q2 2017. However current templates for supervisory reporting are to be sent starting of Q3 2016. This said it is unclear whether the LCR reporting templates referred to should be seen as valid as from now or from the first point of supervisory reporting. As the timeline for supervisory reporting for Delegated Act is published it would be clearer to use that date in the example. EBF urges clear guidance regarding the first quarter for which the average calculations should be done and published.

**Question 4: Do respondents have any comment relative to the proposed LCR related items prone to rapid change?**

No.

**Question 5: Do respondents have any comment relative to the content of the table in Annex I of the draft guidelines and the way to display it?**

This qualitative disclosure template departs significantly from the Basel Pillar 3 Disclosure requirements with regards to the type of information required, the level of granularity and, unlike the Basel approach, does not allow banks the flexibility to choose the relevant information to disclose. The EBA should align with the Basel approach and allow respondents to provide their own qualitative inputs which will vary depending on their business model and degree of liquidity and funding risks to which they are exposed. Requiring EU banks to provide additional, potentially highly sensitive material could distort the global level playing field and exacerbate any market confidence issues affecting credit institutions.

In addition we note that most of the qualitative requirements - in particular the last two items - are remarkably similar to what is required by the European Central Bank as part of the ICAAP and ILAAP submission process. Such statements contain sensitive information and are duplicative requirements which would not provide any additional insight or value to market participants.

**Question 6: Do respondents have any comment on the content of the LCR disclosure template in Annex II?**

The LCR is a very volatile ratio when compared with other prudential ratios (as the NSFR) as it is designed to ensure that financial institutions have the necessary assets available to face short-term liquidity disruptions over a 30 day period. This volatility results essentially from the variation of some of its components due to their nature, which, if misunderstood by stakeholders, can have a detrimental impact on the liquidity situation of the institution.

As such, we question if the level of granularity proposed would be more relevant or meaningful to investors when compared to a simplified disclosure based only on the ratio itself, the numerator and the denominator. In this regard, we note that for supervisory purposes, banks must comply with a ratio and not with any sub-ratios, values or variation limits of the LCR components. Disclosure of granular information on possibly volatile figures might increase the risk of misunderstandings or wrong conclusions by market participants. Such a situation would be counterproductive compared to be fundamental intentions behind the disclosure requirements.

In our opinion, if such detailed granularity is maintained, it may not only lead to information overload for investors but it would also bear the potential for disruptive situations for banks driven by a "self-fulfilling prophecy" situation.

**Question 7: Do respondents have any comment relative to the content of the template on qualitative information on LCR?**

The template suggests to disclose qualitative information on LCR to complement the LCR disclosure template. There are five different information areas to comment. As this template should complement the disclosure with frequent updates as in the quantitative template, one of the areas does not fit to the template. "A description of the degree of centralisation of liquidity management and interaction between group's units" is not fulfilling the requirement of LCR related items prone to rapid change as described for the quantitative section nor is it information specific to LCR but rather to general set-up of liquidity risk management. This information should rather be described in Annex 1 which is disclosed on a yearly basis.

If banks are expected to disclose the 'currency mismatch in the LCR', it is important that the means for calculating the ratio by material currency is clearly defined on a common basis. There appears to be some inconsistency in the way the Delegated Act on the LCR, and the EBA ITS on LCR reporting, have interpreted the treatment of maturing foreign currency derivatives in the LCR. The Delegated Act Article 21 allows FX transactions to be treated on a net basis: "*Cash outflows and inflows arising from foreign currency derivative transactions that involve a full exchange of principal amounts on a simultaneous basis (or within the same day) shall be calculated on a net basis*".

The EBA ITS on reporting, on the other hand, requires banks to calculate the LCR ratio using foreign currency derivatives on a gross basis: *Netting by counterparty may only be applied to flows in that currency, for instance Counterparty A: EUR+10 and Counterparty A: EUR-20 shall be reported as EUR10 outflow. No netting shall be made across counterparties, for instance Counterparty A: EUR- 10, Counterparty B: EUR+40 shall be reported as EUR10 outflow on C73.00 (and EUR40 inflow on C74.00).*

LCR by Currency calculations in accordance with the ITS will lead to extreme outcomes, rendering the ratio useless for internal risk management, supervision or external disclosure.

In addition we note that the first and the fourth of the qualitative requirements are similar to what is required by the European Central Bank as part of the ICAAP and ILAAP submission process. Such statements may contain sensitive information and are in some extent duplicative requirements which would not provide any additional insight or value to market participants.

Regarding the last information area on the template it is unclear whether "LCR common template" is referring to the disclosure template or the supervisory template.

**Question 8: What information from Annex II, if any, would respondents consider irrelevant for LCR disclosure purposes?**

As stated above in our response to Question 6, we question if the level of granularity proposed would be more relevant or meaningful to investors when compared to a simplified disclosure based only on the ratio itself the numerator and the denominator. Therefore we would question the value that public disclosure of line items 19 a, 19b, 20a, 20b and 20c would give outside market participants. As stated above, the disclosure of such granular information might increase the risk of misunderstandings or wrong conclusions by market participants. Such a situation would be counterproductive compared to the fundamental intentions behind the disclosure requirements.

In addition, these items are more granular than proposed by Basel during the recent consultation exercise and we would question how the public release of such granular information would achieve the objective of providing market participants with relevant information on the liquidity positions of credit institutions. In the interests of maintaining a global alignment in the layout of templates and foster the ability of investors to compare data among peers, we reiterate our belief that the LCR disclosure templates should be aligned with the BCBS Pillar 3 requirements.

Also a daily detailed calculation of the LCR would be very burdensome and operationally complex, therefore, we suggest the LCR disclosure template to be based on averaged values over monthly observations.

**Question 9: What information would respondents like to see added to the LCR disclosure requirements?**

No comment.

**Question 10: Do respondents find the general instructions in Annex III sufficiently clear for the development of the disclosure template?**

No comment.

**Question 11: In accordance with Article 4 of Commission Delegated Regulation (EU) 2015/61, the LCR needs to be met at any time whereas Article 15(1) of Commission Implementing Regulation (EU) No 680/2014 requires a monthly frequency of LCR reporting. The suggested approach for the LCR disclosure template is based on averaged values over daily observations based on the reporting templates. Particularly considering that the most recent data needed would be from the quarter prior to the disclosure date, do respondents consider that this approach is, from a practical point of view, operationally feasible meaning that the accuracy of the daily reporting observations for the calculation of the averages can be ensured? Do respondents consider that this operational feasibility could depend on the size of the credit institution or could be different in the case of solo or consolidated data?**

The calculation of a 'fully-fledged' LCR ratio on a daily basis is not feasible from a practical point of view. It will not only increase substantially the amount of work performed by institutions but also increase dramatically the costs resulting from the need of IT developments and more information storage capabilities. It will increase exponentially the costs for larger and more complex institutions. Banks use proxies and 'management buffers' to monitor and ensure their compliance with LCR requirements" at all times.

The suggested approach for the LCR disclosure template based on averaged values over daily observations is an accurate method, but from a practical point of view, the accuracy of the daily reporting observations for the calculation of the averages cannot be ensured. This is because of different reasons such as:

- It is very data intensive to be managed daily,
- delays on recording and communication of financial information by accounting (of 1 or 2 days of delay)
- necessity to make assumptions about data missing or not available on a daily basis

From a conceptual point of view we cannot agree that, for public disclosure purposes, a higher calculation frequency is prescribed when compared to the one requested by supervisors (monthly, according to the Commission Implementing Regulation (EU) No 680/2014).

The EBA proposal for daily calculations of the LCR is unduly excessive, adds unnecessary complexity to the current regulation and does not provide any added value. Monthly calculations would be sufficient and adequate. Moreover we object to the fact that LCR needs to be met at any time to justify an LCR disclosure based on averaged values over daily observations.

Additionally, all prudential ratios (capital, liquidity, leverage) should be met at any time by institutions. This does not mean that, for public disclosure purposes, they should be requested to be calculated on a daily basis.

**Question 12: Do respondents find the specific instructions in Annex III sufficiently clear for the development of the LCR disclosure template and the template on qualitative information on LCR in Annex II?**

No comment.

**Question 13: In the elaboration of this CP, the EBA has considered several policy options under three main areas: a proportionality approach in the scope of application, items for a higher**

**disclosure frequency and methodology for the calculation of the disclosures. Do respondents have any particular view on the assessment conducted on these policy options?**

No comment.

**Question 14: The provisions of Regulation (EU) 575/2013, including the disclosure requirements in its Part Eight, respect the principle of proportionality having regard, in particular, to the diversity in size and scale of operations and to the range of activities of institutions. A less complex, low risk institution will have to disclose less than a more complex, higher risk institution. In addition, specific waivers for disclosure exist in case of non-materiality of information, and the EBA has issued Guidelines to specify the cases where such waivers are used. The EBA intends to conduct further work on the application of the principle of proportionality to regulatory requirements, including the disclosure requirements. As a result, should a specific approach be needed as regards the implementation of the Guidelines on liquidity disclosures in a proportionate manner, this approach will be consistent with the EBA general approach as regards proportionality. In the meantime, users are invited to express their views on the following questions, whose answers will inform the future work of the EBA. Any potential solution suggested by respondents will have its feasibility assessed considering the applicable disclosure framework.**

**Do respondents think that the opportunity of having a simplified disclosure template for smaller credit institutions should be assessed? This simplified LCR disclosure template could comprise for example the ratio itself, the numerator and the denominator as key ratios and figures of the LCR, in the sense of Article 435 (1) (f) CRR. What arguments could respondents provide to justify that the LCR ratio itself, its numerator and its denominator are the only key ratios and figures of the LCR which are required to be disclosed by smaller credit institutions?**

**More generally please provide any argument in favour or against a simplified template, and if you believe a simplified template for LCR disclosures is relevant, please indicate which type of information you would like to have disclosed in that template.**

**What specific criteria would respondents suggest to identify those smaller institutions for which a simplified disclosure template could potentially be disclosed?**

No comment.

## About EBF

The European Banking Federation is the voice of the European banking sector, uniting 32 national banking associations in Europe that together represent some 4,500 banks - large and small, wholesale and retail, local and international - employing about 2.5 million people. EBF members represent banks that make available loans to the European economy in excess of €20 trillion and that securely handle more than 300 million payment transactions per day. Launched in 1960, the EBF is committed to creating a single market for financial services in the European Union and to supporting policies that foster economic growth.

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