ECB consultation on the ECB Guide to the internal liquidity adequacy assessment process (ILAAP) – March 2018

EACB Comment Paper

ID	**Paragraph**	**Page**	**Amendment** **Deletion** **Clarification**	**Detailed comment**	**Explanation**
1	General comments		C	We see that it should be clarified that by ILAAP-relevant publication it is meant only the ones which have completed the necessary European/national law endorsement process, and this for legal certainty reasons. Principles stipulated at BCBS or FBS level have no legal status as such and cannot be consistently applied. Also, it should be considered that changes can occur before internationally agreed standards become binding. This would lead to inconsistencies and additional costs that should be avoided. Moreover, we believe that "adverse scenarios" and "stress tests" should not be uses as interchangeable terms, as	

				many institutions differentiate between stress and adverse scenarios in the economic perspective.	
2	ii)	5	C	We believe that some non-exhaustive examples should be provided as regard to what is meant by “any other relevant information” that the management body is expected to consider in addition to the ILAAP when producing the Liquidity Adequacy Statement.	
3	27	9	D	The proposed expectation seems too far reaching and should be deleted. The way the ILAAP outcomes regarding risk quantification and liquidity allocation are used by senior management should be left at the discretion of the management body, especially in terms of the definition of key performance benchmarks and targets against which each (risk-taking) division’s financial and other outcomes are measured. Or, at least it should be clarified with some examples what is expected with regard to how ILAAP outcomes regarding risk quantification and liquidity allocation should be transposed into key performance benchmarks and targets.	
4	33	11	A	The paragraph should be amended to avoid an inappropriate need for updating the plans, triggered by “normal” actions in day-to-day risk management. Actions may be needed due to a continuous adjustment of a document which sets out	

				measures to be implemented in an exceptional case (recovery). It seems not feasible that "*potential management actions in the ILAAP are expected to be reflected without delay in the recovery plan and vice versa to ensure the availability of up-to-date information.*" The overview of all recovery measures in the recovery plan should be updated once a year. The requirement to reflect them "without delay" would preclude adequate governance procedures in banks. Planning recovery measures is not part of day-to-day risk management.	
5	44	15	A	We understand that in the guide "liquidity" is meant to cover both "liquidity" and "funding" (footnote 1). However, a liquidity plan and a funding plan are two different concepts, even though in some cases it could be sufficient for an institution to use a funding plan that covers the short term instead of setting up a liquidity plan. For the sake of clarity, where there are two different plans a distinction should be marked, also in terms of time horizons (i.e. twelve month for the liquidity plan and three or more years for the funding plan). The guide implicitly requires banks to make projections of their LCR under baseline and adverse scenarios over the following three years. However, the	

				objective of the LCR is to "*promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient HQLA (high-quality liquid assets) to survive a significant stress scenario lasting 30 calendar days.*" The LCR scenario already includes a "*combined idiosyncratic and market-wide shock*" resulting in a loss of refinancing capacity and various additional outflows on a scale never before experienced. A three-year projection under adverse future developments would not deliver any additional information, but merely extend the stress horizon by three years. To ensure the availability of sufficient liquidity over a longer time horizon, the NSFR has been designed. In addition, the LCR can be influenced at short notice since the ratio is heavily dependent on short-term operations (repos and unsecured money-market transactions, for instance). Owing to these factors, long-term LCR forecasts can be neither realistic nor reliable. We suggest dropping the idea of requiring any LCR projection beyond the one-month period already covered. The NSFR should instead be used for long-term projections. The long-term horizon is also covered by the additional monitoring metrics and maturity ladder already reported to supervisors.	

				If an institutions uses the EBA harmonized funding plan for internal purposes the expectations of this paragraph should already be met.	
6	73	24	A	Separation of model development and validation should be implemented in practice according to the significance of individual models and to the principle of proportionality. The ILAAP Guide emphasises the principle of proportionality in the context of the independent validation function. With regard to the proportionate design of the independent validation, according to para. 73, the materiality and complexity of the risks and methods are decisive. Also in Example 6.1 the organisational implementation is tuned according to nature, size, scale and complexity of the risks. Accordingly, for Pillar 2 models, it should be possible to differentiate the independent validation on the basis of the nature of the risk and its significance for the bank (i.e. the organisational forms described in Example 6.1 may vary depending on the materiality and complexity of the type of risk in a credit institution). While it is indicated that the TRIM Guide also has to be taken into account, we see that a distinction should be made between Pillar 1 and Pillar 2 models with regard to the validation function. The cost of validating Pillar 1 models is only worthwhile for material	

				risks, and therefore specifically higher validation requirements should be set here. However, these should not be introduced without adjustments for Pillar 2 models.	

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