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Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken*

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EACB position paper on BCBS Consultative Document on Liquidity coverage ratio disclosure standards

The voice of 3.800 local and retail banks, 55 million members, 216 million customers

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A. GENERAL REMARKS

In our view, the Consultative Document, while addressing disclosure for the LCR, requires a great amount of information that is not directly related to the calculation of the LCR. Such information, indeed, should rather be provided with the additional information on the liquidity metrics.

The required qualitative information, moreover, would seem to be more properly addressed under the Pillar 2 requirements. We believe that if supervisors wish to standardise information on liquidity risk management under Pillar 2, they should do that revising Pillar 2 and not in the framework of the LCR disclosure.

Furthermore, we are concerned that the Committee has not fully considered the potential impact of the new requirements on international markets. According to the BCBS revision of the LCR framework, banks will have to meet the LCR fully at the latest by 2019, while a phase-in period will start from 2015 with a minimum requirement of 60%. The phase-in will give time to banks to adapt to the new rules and to supervisors to progressively take over a new way of monitoring and controlling banks' liquidity risk.

We believe that the proposed disclosure standards may lead to inappropriate competition on the market to disclose the highest LCR in cases where it is already above the minimum requirement. This may also result in need for providing more and more additional sensitive information of strategic importance for the institutions. Therefore it would seem appropriate to support the approach reflected in the recommendation (n. 18) on liquidity from the Report published by the Enhanced Disclosure Task Force (EDTF) established by the Financial Stability Board (FSB): "Describe how the bank manages its potential liquidity needs and provide a quantitative analysis of the components of the liquidity reserve held to meet these needs, ideally by providing averages as well as period-end balances. The description should be complemented by an explanation of possible limitations of the use of the liquidity reserve maintained in any material subsidiary or currency."

Finally, at the moment the CRR does not foresee such reporting/disclosure obligations on liquidity (as opposed to COREP and FINREP). Moreover the information to be disclosed would be of particular sensitivity, and lead to misleading comparisons between banks with different structures and business models.

B. SPECIFIC REMARKS

Section 1: Scope of application, implementation date and frequency of reporting

In our view, an LCR disclosure requirement should be fulfilled where appropriate on a consolidated basis, in a way that is more consistent with the way banks manage their liquidity. According to the EDTF Report "liquidity disclosures should provide comprehensive information to support a consolidated and, where appropriate, a more granular understanding of a bank's liquidity risk." However, it is not exactly clear, what it



would mean in the case of the EU. Would it refer to the liquidity sub-groups recognised by the supervisors, or should it include a broader scope, namely the group-level where the liquidity is managed together for all institutions included.

The proposed implementation date seems way too close, especially considering that the banks will have to fully comply with the LCR (100%) only by 2019 (2018 for EU banks) and that the fine-tuning of the calibration of the LCR is still ahead.

The proposed standard suggests banks to disclose their LCR within or in parallel with their published financial reports. We wonder whether this disclosure should be audited beforehand or not. The LCR should be based on management data playing the role of an early warning indicator. An audited disclosure, on the other hand, would imply a re-run of the LCR calculation based on fully reconciled accounting figures, this would be not in line with the aim of the liquidity framework. We would appreciate some clarification in this respect.

Finally, we see an issue related to the proportionality principle. Proportionality has been explicitly addressed in the EU regulation implementing the Basel rules, including provisions on LCR, as it represents a key issue for many European banks. We think it would be appropriate to dedicate at least one paragraph to proportionality indicating, for example, how the disclosure provisions could best be applied and fulfilled also by smaller institutions and institutions with peculiar business models.

Section 2: Disclosure requirements

Information on liquidity is very sensitive. A one-day snapshot on the liquidity situation would be of little use if not misleading. In principle we agree that the liquidity disclosure should be approached by averages. However, we believe that the length of period should be in line with the disclosure frequency, i.e. where the disclosure frequency is semi-annual the averages should reflect a six-months period.

We believe that the provisions of paragraph 14 are overly burdensome. Banks, indeed, have many internal processes to assess the need for daily liquidity reserves, in this context the LCR is not used as a daily tool under normal circumstances. A daily LCR would be calculated only under a stress scenario. A requirement to disclose LCR figures calculated as daily averages would not seem in line with original LCR requirements.

We understand that the average daily calculation aims to demonstrate that banks comply with LCR at any time, avoiding *window dressing* at end of month. Thus banks shall demonstrate by using additional monitoring tools (roll of the funding; funding gaps) that their LCR is managed on a way that is fully compliant each day. If an average based on the disclosure frequency cannot be used, we believe that an average end of month LCR should be sufficient for the purpose of public disclosure. In fact, a significant part of the data for the LCR is extracted from accounting systems and produced only monthly. In this way the calculation of the LCR would be based on high quality data instead of proxies. A different solution than the ones proposed would indeed imply technical difficulties to provide the data but also with auditing the figures provided.



The disclosure template seems to reflect the idea that consolidating groups measure the LCR with a daily frequency and in this way they are able to produce the 90 day averages required by the disclosure. However, EU credit institutions must comply with the liquidity ratios on an individual basis, such requirement can be waived (Art. 8 CRR) in case of liquidity sub-groups that comply with the requirements on a consolidated level daily. The supervisory requirements for the recognition of a liquidity sub-group have not been fully clarified yet, either on a national level or for cross-border groups on an international level. Therefore producing the averages on a consolidated level may be very burdensome for several institutions. Rather it could be suggested that the consolidated information should cover that part of the group for which liquidity risk is really managed on a consolidated way, which is an kind of "sub-group".

We believe that requirements of paragraph 15 are over-prescriptive. The Basel Committee asks for the disclosure of all components of the ratio, thereby including un-weighted and weighted ones. The proposed draft also requires the split between operational vs non-operational deposits and stable vs less stable deposits. Such disclosure requirements are too burdensome, moreover it is the role of supervisors to judge whether the LCR is correctly calculated, such task cannot be demanded to the market. There is a high risk that the market may assess in an inappropriate way the data provided, carrying out unjustified comparisons between institutions which have different businesses. Therefore, we think that providing the LCR in %, or at most the data on inflows, outflows and total HQLA on a gross basis would be largely sufficient.

Moreover BCBS suggests banks to provide sufficient qualitative discussion around the LCR to facilitate a greater understanding of the results and the data provided. This seems to us consistent with the recalled FSB EDTF recommendation n.18, and it is a requirement to which banks are almost compliant.

Finally, we agree on the fact that disclosure should be provided in one reporting currency, nevertheless we hold some doubts on the requirement that disclosed information should also cover the mismatches in different currencies.

On the proposed template:

In our opinion the granularity of the requested data too broad. Granularity would be more appropriate regarding the composition of the liquidity buffer than regarding the net cash-outflows. Moreover, liquidity buffer disclosure should be completed by additional information, as credit lines granted by Central Banks, or portfolio of marketable assets that have market liquidity, such instruments nevertheless are not LCR compliant. Also, the FSB EDTF Report states that "Liquidity reserve disclosures in some cases include estimates of the bank's borrowing capacity from various central banks."

We also believe there is a more general asymmetry between assets and liabilities; liabilities requirements should be in line with those of the assets.



Section 3: Guidance on additional disclosures

We think that any additional disclosures should be limited as much as possible, in order to avoid any competition or comparison among institutions, between those having published minimum requirements and those who have published more. Such a degree of flexibility introduced in the proposal could potentially lead to situations where banks that would not provide the same quantity of information than others, could be challenged or questioned.

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