EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS

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# EACB Comments

# EBA draft GL on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 CRR

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## Introduction

The members of the EACB welcome the opportunity to comment on the EBA draft Guidelines (GL) on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 CRR.

While we appreciate this transparency effort, we believe that it has to be ensured that such an own initiative to impose Pillar 3 disclosure requirements does not exceed the mandate of level 1 legislation by introducing even more far-reaching requirements.

We also believe that the requirement to disclose LCR based on an average of daily LCR calculations is excessive and would present major issues of data quality and operational feasibility.

## Answers to specific questions

*Q.1 Do respondents have any comment to the scope of application of the draft guidelines?*

We believe that the draft GL should apply only at the consolidated level also in the absence of CRR liquidity waivers, consistently with the BCBS Pillar 3 requirements and general liquidity management practices.

If this were not the case, we would welcome a clarification on whether an institution that has been waived from its compliance with the LCR (but not on reporting to the supervisors without a fixed minimum) would be waived from liquidity disclosure as well. We believe that this should be the case.

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

We believe that the date of application should be postponed to at least end of 2017 to provide institutions with enough time for the necessary implementation, and to fix the application date in year-end (December 2017) so that the structure of the interim reports would remain the same for the whole year.

The disclosure of the LCR should be based on good quality data that has been audited/verified. 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. Huge operational difficulties would stem from the proposal, especially:

- if the implementation date is 30 June 2017, with a first disclosure in June 2018;
- in a consolidated LCR perspective, as it will be very difficult to gather daily LCR computation of all sub-consolidated entities.

*Q.3 Do respondents consider that the transitional period is sufficiently clear?*

Since there is currently no obligation for credit institutions to observe the LCR with a daily frequency, if such a choice is maintained the first disclosure should be published at least one year after the application date.

Moreover, in June 2017 firms will be required to meet 90% of their LCR requirements under the transitional arrangements. It might therefore be clearer for users if disclosure was to commence at least from 2018, once firms will have to meet the LCR requirement in its entirety.

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

The proposed LCR items (Liquidity Buffer, TNCO, LCR ratio) are sufficient to be disclosed more frequently than annually, as these items capture major changes.

However, regarding Art. 433 CRR on the need to disclose more frequently than annually those items that can be prone to rapid change, we do not see the added value of leaving this flexibility which could potentially create level playing field issues. We are rather in favour of option B of the CP (page 32) *"not to make any consideration for a special attention"*.

*Q.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?*

It is a bit unclear if the table is required to display strictly as proposed. Credit institutions should be able to decide on the structure of information according to Art. 435(1) CRR e.g. in financial statements according to their own risk management framework.

In general we see that the use of tables can trigger proportionality questions both for institutions and supervisors, explanatory text may be needed to clarify expectations in terms of information to be provided and to simplify the work for smaller institutions with fewer resources.

With regard to the additional key ratios to be included in the liquidity risk statement (see box 6 of para. 16 Annex I), we believe that such information should follow the proportionality principle, institutions (particularly less complex ones) should not be obliged to generate ratios that they do not use for management or reporting purposes.

With regard to the qualitative disclosure information, we would suggest to use a subset of the already proposed ILAAP documentation items. Pillar 3 should not require additional information items, and a close integration of Pillar 2 and 3 would enhance consistency while reducing the additional operational efforts for institutions.

Overall, the qualitative disclosure template departs significantly from the BCBS Pillar 3 Disclosure requirements with regards to the type of information required, the level of granularity and, unlike the Basel approach, does not give banks the flexibility to choose the relevant information to disclose. Institutions should be able 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.

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

We strongly call for using end of period values for disclosure purposes. The calculation of average values requires additional resources and leads to an additional technical and operational burden.

We believe that end of period values are even better suited to provide market participants with consistency since financial statements also use end of period values to show the entity's financial situation. Additionally, the Delegated act on leverage ratio ((EU) 2015/62) also indicates that point in time reporting of the leverage ratio at the end of the quarterly reporting period, rather than reporting on the basis of a three-month average, better aligns the leverage ratio with solvency reporting.

Finally, it should not be necessary to break down deposits in the template (stable / less stable, operational / non-operational) since it would create a possibility of misinterpretation of the bank's actual liquidity position, as the users of financial statements may not be very familiar with the detailed LCR rules and definitions. If such detailed granularity is maintained, it may not only lead to an overload of information for investors but would also harbour potential for liquidity disruptions driven by "self-fulfilling prophecy" market sentiment.

With regard to the EU-specific information in the LCR disclosure template, we see that there might be a risk of misinterpretation by non-EU international players. Investors and users of financial statements outside the EU might not have the necessary knowledge to fully appreciate this information, reducing its added value for disclosure. We believe that such items could be omitted.

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

The template seems too detailed and should be simplified. The information should be assessed at a more general level and according to the table in Annex I.

We see merit in the fact that institutions may wish to explain details of their disclosed LCR if necessary, as this may be in their own interests, for example to explain an unusual financial situation or with larger deviations of the current LCR to the previous period.

We believe that a qualitative explanation for such situations could be justified. However, we see no added value for mandatory qualitative explanation if the institution itself sees no need in it. Also the BCBS guidelines on LCR disclosure enables institution-specific application of the qualitative requirements as in para. 15 they suggest some elements that could be discussed "*where significant to the LCR*".

In particular, the first four items of the EBA qualitative disclosure are extremely critical. The LCR is disclosed to allow market participants to have a picture of the liquidity situation of a bank. The proposals instead may provide an insight far beyond the liquidity position, touching upon the business strategy of an institution.

Moreover, it is unclear what information is actually expected, as detailed descriptions and examples of the numerous details in Annex III are missing.

Furthermore, we see a significant overlap with the qualitative information that are to be made in the context of disclosure to the liquidity risk management and in the context of financial statements.

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

We believe the requirement to publicly disclose all components of the ratio, including unweighted and weighted ones, in addition to the split between operational and non-operational deposits, stable and less stable deposits is over-prescriptive, as it is the role of competent authorities and not of market participants to judge whether the LCR is properly computed.

If amounts in line items are not relevant (for example less than 1 % of the total NCO) it could be considered to take them into account in lines 14, 15, 19.

As indicated under Q.6 EU-specific information in the LCR disclosure template could be omitted.

We also see an issue with regard to the relationship between materiality, business secrecy as addressed in Art. 432 CRR and the content of the disclosure proposed in para. 18 (pag. 20 draft GL). Items 1 – 4 of the qualitative disclosure requirements there proposed are very critical. While the LCR disclosure should be intended to give market participants a view on the institution’s liquidity situation, the information here proposed would imply a much deeper insight into an institution’s business strategy.

We think that public disclosure of such information would not be consistent with the confidentiality and privacy of a bank’s business operations. Granular information on these elements could create unintended competitive distortions. This is valid for all banks, but it can be particularly true for small locally operating institutions. Compliance with well-known and understood regulatory ratios reviewed and regularly audited by supervisors should be sufficient to enable a third party to rely on an institution having a sustainable liquidity and funding position (i.e. disclosure of the three main components – HQLA, outflows and capped inflows – plus the LCR ratio). This was a primary objective for a standardized and harmonized liquidity ratios in Pillar I.

In addition, qualitative information in Annex I and Annex II are already mentioned in Art. 435(1) CRR and should thus be addressed in the level 1 legislation.

Finally, alignment of disclosure with new reporting standards (as some amendments of the LCR are already planned) also needs a transitional period and retroactive correction of values should be avoided. In addition, it would be consistent to gear disclosure solely to HQLA, outflows as well as capped inflows and the reported LCR ratio.

*Q.9 What information would respondents like to see added to the LCR disclosure requirements?*

We do not see a need for any other information to be added to the LCR disclosure requirements.

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

*Q.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 EBA proposal for disclosing the averages of daily observations of the LCR is excessive and does not provide any added value for the appreciation of an institution's liquidity position. Monthly results provide sufficient and adequate information for the purpose of disclosure of the LCR, especially when it comes to banking groups composed of many entities and subsidiaries.

We believe that there is no legal basis for requiring banks to report daily LCR results. According to Art. 414 CRR only an institution which does not meet, or expects not to meet the requirement set out in Art. 412 CRR shall provide daily report the LCR.

If this is not the case institutions shall decide, taking into account the proportionality principle, upon the frequency of their LCR reporting to assure, as per the requirement of Art. 4 LCR Delegate Act, that the ratio is met at any time. In the event that an institution is below the minimum level of the LCR, it must follow the requirements of the LCR Delegated Act and the CRR to be able to determine an LCR daily and to report it to the competent supervisor (see. Art. 4(3) and (4) LCR Delegated Act and Art. 414 CRR).

Instead, the proposed disclosure templates require an observation and a disclosure on daily basis even when there is no requirement for any monitoring or reporting on a daily basis for the LCR. According to the Commission Implementing Regulation (EU) 2016/322 (amending the technical standards on reporting) institutions shall submit the information on the LCR with a monthly frequency.

The proposed approach will not only increase substantially the necessary amount of work but also the costs resulting from the need of IT developments and information storage capabilities for both large and complex and smaller less complex institutions.

While the intention is to have accurate and very granular data, the accuracy of the daily reporting observations for the calculation of the averages, there are evident obstacles linked to the data intensive operations to be managed daily, thedelays on recording and communicating financial information and the necessity to make assumptions on data missing or not available on a daily basis.

Moreover, already the consultation paper itself considers that (see page 19) because of possible, different logics in daily and monthly determination of the LCR, inconsistencies may arise between the values calculated and those to be finally published.

We share this view and believe that there should be no such requirement for a strictly averaged LCR. In order to have the best data quality as possible, a significant part of the data for the LCR is extracted from accounting systems and is produced only monthly. The calculation of a daily LCR will then necessary be based on proxies. Moreover these daily calculations are neither reconciled with accountancy nor audited by competent authorities. We strongly believe the disclosure requirement should be based on the best data quality possible and not on proxies.

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. Also, there are other ways to maintain a ratio at a certain level at any time than calculating it on a daily basis in all details. For the LCR, for instance, the compliance could be ensured with a HQLA buffer which is extensive enough to absorb the volatility of the cash flows between the monthly calculation dates.

The aim of the LCR disclosure is to contribute to a better understanding of the liquidity situation of an institution. However, due to the already identified inconsistencies and possible deviations of the average LCR for regulatory purposes (monthly), there may be uncertainty on the evaluation of this indicator which are not related to the situation of the institution but to interpretation of the market. We therefore support the policy option 3B, and a disclosure of the average of the monthly LCR, which is already reported to the supervisor.

*Q.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?*

*Q.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?*

a. General assessment

We see that the options are not presented in strict connection with the cost-benefit analysis, as it is assumed that there will be no significant additional workload for institutions. At the same time, the CP explicitly lists which data collection, data processing, control system and monitoring costs institutions would face. It is not clear how the benefits of the guidelines would outweigh these costs. In particular, it is not clear how risk appetite would be reduced. Additional costs would rather increase the pressure on institutions' profits, and particularly in the current market environment, the search for earnings could be accompanied by a higher risk appetite.

Besides implementation of processes for computing the LCR on a daily basis across an entire group, formal aspects also need to be taken into account which, for compliance reasons, mean the introduction of additional key controls and documentation measures for institutions. In addition, complex disclosure would impose an additional auditing/verification burden both internally and externally.

b. Assessment of the policy options

As regards proportionality, we are in principle in favour of adopting option 1A for simplified disclosure templates for smaller institutions. A simplified approach to LCR disclosure for smaller institutions ensures that these institutions can deliver key information quickly and in good quality. The information that would have to be disclosed through a simplified disclosure template and a non-simplified disclosure template would generally be mutually comparable for interested, external third parties.

As regards frequency, we believe that option 2B leaving to institutions to decide which items would be disclosed more frequently than annually is best suited to give relevant information without increasing the operational burden. Moreover, the use of ad-hoc templates would not therefore make things easier for institutions.

With regard to the calculation methodology we believe that accuracy would benefit from fewer data items, as they would be of higher quality thanks to longer validation. We agree that that calculation of averages based on daily values would be highly data-intensive and burdensome. Generally speaking, the feasibility of option 3A is questionable and the averages produced might not match the quality of reported values.

We are therefore in favour of option 3B, as we believe that less frequent data observations allow more reliable and accurate calculation of averages, i.e. monthly values (weekly at the very least).

Furthermore, the cost of implementing option 3A is in no proportion to any potential gain in information that could be obtained through calculation of the LCR on a daily basis rather than its calculation on the basis of averages on the reporting dates. This argument would be particularly true if supervisors were to decide not to introduce any simplified reporting template for smaller institutions.

*Q.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 favor 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?*

As recalled above, we would support the adoption of simplified disclosure templates for smaller institutions. An approach similar to the simplified FINREP obligations could for instance be envisaged. Alternatively detailed guidance should be offered in the templates indicating what are the expectations for the information to be provided by smaller institutions (e.g. which fields are expected to be completed, which additional key indicators etc).

A simplified approach to LCR disclosure for smaller institutions ensures that these institutions can deliver key information quickly and in good quality. The information that would have to be disclosed through a simplified disclosure template and a non-simplified

disclosure template would generally be mutually comparable for interested, external third parties.

Moreover, we do not agree to apply disclosure requirement at solo level. LCR disclosure requirement should apply only at the consolidated level only in order to be consistent with BCBS general Pillar III disclosure requirements.