

## **EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS**

The Co-operative Difference: Sustainability, Proximity, Governance

## ECB Guideline and Recommendation on the exercise of options and discretions available in Union law by national competent authorities in relation to less significant institutions

EACB Draft Comment Paper (to be transposed into ECB form)

Guideline / Recomm endation	Issue	Article/Paragraph	Explanation
G	Deductions from significant investments in companies in the financial sector and deferred tax claims, which depend on future profitability, of common equity (Article 478(3)(a)(b) CRR)	0	The transitional periods are shortened for deferred tax claims incurred before January 1, 2014. We see that for the purposes of convergence and harmonisation this may seem a sensible choice.  However, we do not support to override the right of the national competent authority to decide based on its own assessments and knowledge. A generalised shortening of the transitional periods is not in line with the approach of the legislator and may overlook specific Member States situations, moreover as a transitional period is already provided, such option will naturally come to exhaustion.
R	Deductions of holdings in institutions affiliated to an IPS (Art. 49 (3) CRR)	IV. 1.2	We welcome the clarification that an IPS can submit a request for all LSIs affiliated to the protection scheme. However, this seems to suggest that SIs would have to submit individual applications for the single SI and its subsidiaries. We believe that this process would not be effective and practically lead to administrative duplications and overlaps, and lengthening of processes.
R	Intra-group liquidity outflows or outflows within an IPS (Art. 29 of Regulation (EC)		Section II, Chapter 6, paragraph 11(iv) of the consolidated ECB's Guide on ONDs for SIs requires a daily mutual report on the liquidity situation. "In

	No 2015/61, i.e. LCR delegated act, Art. 422(8) CRR)		order to assess whether the liquidity risk profile of the liquidity receiver is adequately taken into account in the liquidity risk management of the liquidity provider, the ECB expects to be shown that the liquidity-providing entity monitors on a regular basis the liquidity position of the counterparty, including its daily liquidity position."
			This periodic monitoring should be reduced to a maximum of mutual disclosure of the reported LCRs. LSIs in an IPS should not be subject to daily supervision of the liquidity position of the central institutions, also considering that this is not feasible due to operational arrangements and IT solutions.
R	Diversification of holdings of liquid assets (Art. 8(1) LCR delegated act)	III & V	Section II, Chapter 6, para. 5 of the ECB's consolidated Guide for SIs designs restrictions for the purpose of diversifying holdings of liquid assets, in particular on covered bonds if on aggregate they represent more than 60% of the total amount of liquid assets net of applicable haircuts. This requirement would be particularly burdensome for LSIs and should be amended. In general, LSIs mostly have a well defined and sufficiently diversified pool of very liquid assets, chosen among a number of simple products. Imposing strict and hard diversification requirements would rather increase the costs of LCR compliance and the efforts to identify appropriate securities without providing benefit in terms of quality of the pool of assets used to comply with the ratio, and on the overall liquidity position of the institution.
R	Higher outflow rates (Art. 25(3) LCR delegated act)	III & V	Section II, Chapter 6, paragraph 9 of the ECB consolidated Guide for SIs stipulates that, in certain circumstances, the outflow rates for certain retail deposits should be higher than the limits specified in the LCR delegated act. However, LSIs usually do not have market making profiles, nor hold products that require aggressive marketing of deposit refinancing. For this reason, LSIs should have the certainty that only the legally specified limits are relevant for the internal simulation of the LCR. A different determination should remain in the hands of the relevant supervisor on a case by case basis where specific risk profiles justify so.
R	Additional collateral outflows from downgrade triggers	V	Section II, Chapter 6, paragraph 12 of the ECB consolidated Guide for SIs points at additional outflows due to deterioration of credit ratings. "The ECB would be inclined to consider as material, among the amounts of outflows notified by credit institutions, those outflows which represent at least 1% of

	the gross outflows of a given institution (i.e. including those additional outflows triggered by the above-mentioned deterioration in credit quality)."
	However, for LSIs, such materiality limits should derive from observed situations and should not be based on 1% of gross cash outflows.
	To assess the materiality of outflows in the LCR, institutions often rely on Art. 423(3) CRR and the Final Draft of EBA RTS 2014/05 (there is no uniform definition of "significant outflows" in connection with the content of the LCR delegated act).
	The application of the requirements of Art. 423(3) CRR and Art. 23 LCR delegated act leads to a materiality outflow when the total amount of these outflows is more than 10% of the institution's net cash outflows:
	"For the purposes of these draft RTS, a derivative portfolio is deemed material if the total of notional amounts of such contracts exceeds 10% of the net Liquidity Coverage Requirement out-flows. Institutions with derivative portfolios below this threshold are excluded from the application of these RTS." (final Draft EBA RTS 2014/05)