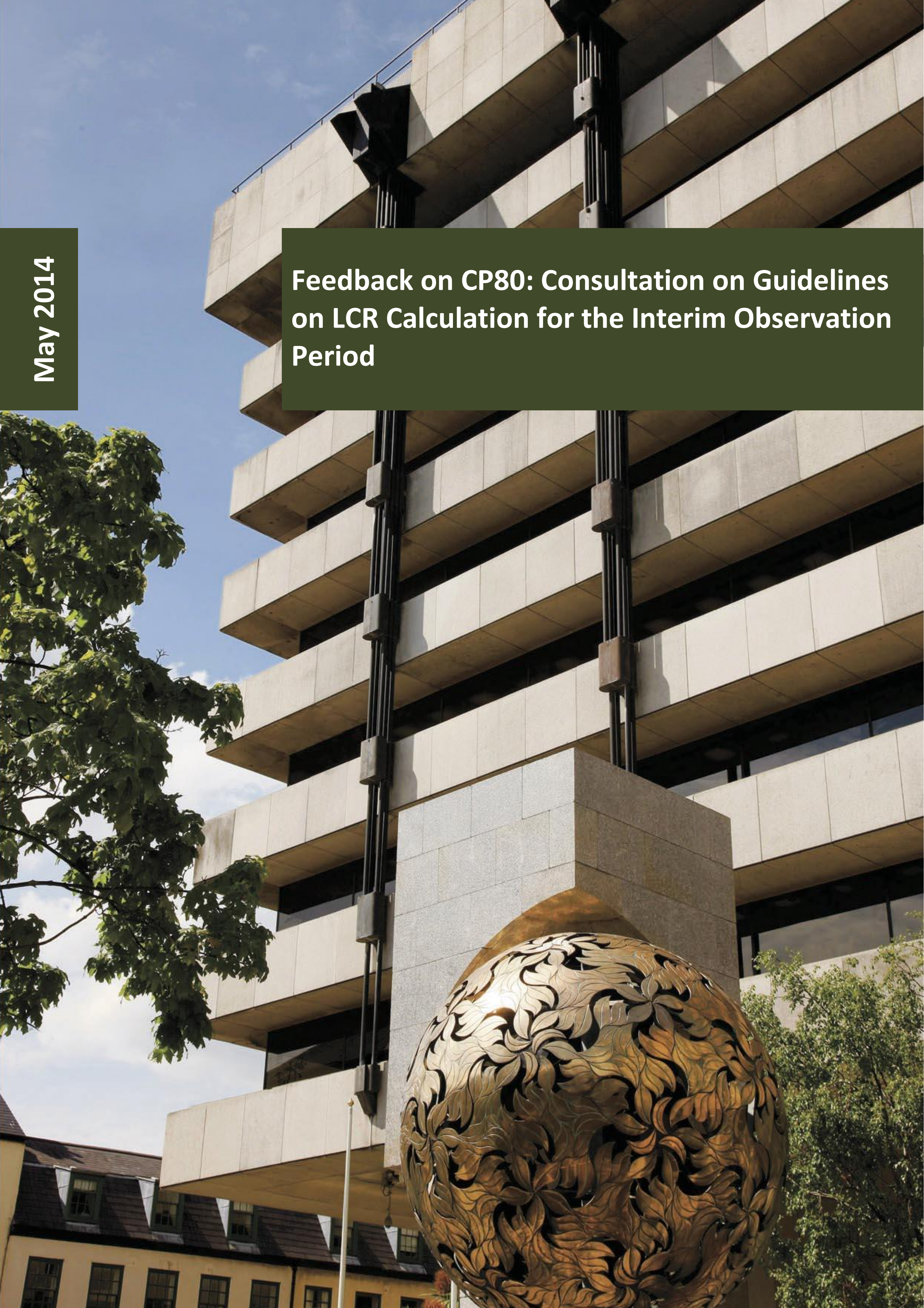
May 2014

Feedback on CP80: Consultation on Guidelines on LCR Calculation for the Interim Observation Period



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1 Introduction

Consultation Paper CP80 on *"Guidelines on LCR Calculation for the Interim Observation Period"* was published on 19 March 2014. The consultation period closed on 16 April 2014 and 3 responses were received.

CP80 outlined the Central Bank of Ireland's ('Central Bank') proposed approach to the calculation of the Liquidity Coverage Ratio ('LCR') for an interim observation period until such time as the Article 460 of Capital Requirements Regulation[1] ('CRR') liquidity delegated act enters into force.

The Central Bank guidelines contain:

- an interim definition and calibration of the LCR;
- an interim definition of High Quality Liquid Assets ('HQLA');
- in and out-flow rates applicable to each reporting category;
- guidance on identifying certain in and out-flow categories; and
- further guidance on completing the EBA Liquidity Coverage reporting templates.

This document summarises the feedback we received to CP80 and sets out the approach that the Bank intends to take in the Guidelines. It is intended to be read in conjunction with the Guidelines and makes reference to proposals and terms used in the original consultation document which can be found on the Central Bank's website.

Please note that this document is for information purposes only. It does not form part of the Liquidity Requirements as specified in the Capital Requirements Regulation. This document does not constitute legal advice and should not be used as a substitute for such advice. The Central Bank does not represent to any person that this document provides legal advice. It is the responsibility of all regulated entities to ensure their compliance with the Capital Requirements Regulation.

[1] Regulation (EU) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 [2013] OJ L 176/1; Corrigendum to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 [2013] OJ L 208/68.

2 Submissions

The Central Bank is grateful to all parties who responded to the consultation and we thank them for their time and effort. All responses to the consultation are available on our website at the following address:

http://www.centralbank.ie/regulation/poldocs/consultation-papers/Pages/closed.aspx

The responses received could be categorised into:

- general observations on the guidelines;
- comments on the interim definition of HQLA, in/outflow categories and related rates; and
- comments on the CRR Liquidity Requirements and ITS on Supervisory Reporting.

Having considered the submissions received, the Central Bank has:

- noted the issues which were supported and accepted;
- clarified the key questions raised; and
- provided further guidance on its proposed approach, where necessary.

This feedback statement does not address general comments and queries related to the CRR level 1 text and the ITS on Supervisory Reporting. Queries related to the Single Rulebook should be submitted to the EBA via the Single Rulebook Q&A process[2].

The following section summarises the main issues highlighted in the submissions and provides the Central Bank response to the relevant submission. In cases where submissions deal with related issues, they are grouped and responded to accordingly.

This feedback statement is being published at the same time as the final *Guidelines on LCR Calculation for the Interim Observation Period*[3]. The guidelines have been amended to incorporate changes resulting from the consultation process.

[2] http://www.eba.europa.eu/single-rule-book-qa
[3] http://www.centralbank.ie/regulation/industry-sectors/credit-institutions/Pages/requirements-guidance.aspx

3 Main Issues Highlighted

3.1. Compliance with the CRR Liquidity Reporting Requirements

The CRR became an applicable EU regulation from 1 January 2014. There have been delays at an EU level in the adoption of related technical standards and issues have been highlighted with respect to the relevant EBA templates. The European Commission and EBA have since delayed the first submission date of CRR reports until end June 2014[4].

Submission

The IBF suggested the Central Bank state that submissions during the transitional period should be on a 'best-efforts' basis, as this reporting is being undertaken against a moving framework. Banks will need complex automated reporting systems which require appropriate lead times to develop and implement. The EBA templates contain inconsistencies and banks are interpreting a variety of sources to populate them. In addition, the IBF does not consider that director sign-off of these reports should be required during this monitoring period.

Central Bank Response

The Central Bank expects institutions to submit accurate data on a timely basis in accordance with the requirements set out in the CRR and related technical standards. The CRR does not contain a national discretion to allow submissions on a "best efforts" basis. The EBA announced a two month extension to the first submission for these reports in April. This delay, in addition to the extended Central Bank UAT, should aid institutions in implementation of the new reporting process. The Central Bank requires director level sign-off of these returns.

[4] This delay and revised timetable was announced by the EBA on 16 April 2014.

3.2. **Scope of the Guidelines**

The Guidelines outline the Central Bank's approach to the calculation of the LCR for an interim observation period until such time as the liquidity delegated act enters into force. The delegated act will specify the EU calibration of the LCR. Where reference is made in the Guidelines to an institution's obligations under the CRR liquidity requirements, these obligations are prefaced with "shall", whereas general Central Bank guidance is prefaced with "should".

Submission

The IBF suggests the Guidelines contain some new requirements which should be removed. In addition, the submission requested clarity as to whether the CBI Guidelines would replace the methodology used to complete the Basel QIS LCR templates.

Central Bank Response

The Central Bank Guidelines do not impose additional requirements on institutions; they contain guidance on the calculation of the LCR during the interim observation period. The methodology outlined in the Central Bank Guidelines should be used for monthly EBA template submissions and for LCR forecasts/plans submitted to the Central Bank during the observation period. Basel III methodology should continue to be used for the completion of the Basel QIS templates submitted as part of the voluntary monitoring exercise[5].

3.3. **Application of the CRR Liquidity Requirements**

The CRR Liquidity Requirements apply on an individual and consolidated basis in accordance with Articles 6(4) and 11(3) of the CRR respectively. A requirement to report by significant currency is specified in Article 415(2) of the CRR.

Submission

The IBF asked if the Central Bank could clarify the reporting that is required by institutions with regard to group and institution level returns, and if reports by significant currency are required for each institution reported at group and individual level?

[5] Where possible, elements of the CRR reporting requirements should be applied to the BIS QIS templates to ensure consistency in the LCR calculation, e.g. EBA guidelines on higher outflows for retail deposits.

Central Bank Response

As specified in the CRR, the liquidity requirements apply on a consolidated and individual basis. The requirement to report by significant currency is set out in Article 415(2) of the CRR; the application of this requirement is on a consolidated and individual basis. A derogation from the application of these requirements on an individual basis is available pursuant to Article 8 of the CRR[6].

3.4. **Further Guidance**

Submission

Respondents requested further guidance or clarification in relation to certain topics. These topics include the treatment of government guaranteed ABS, the definition of a "major stock index", valuation haircuts, the default higher outflow rate for retail deposits, suitable assessment format, brokered retail deposits, operational deposits, and additional collateral outflows.

Central Bank Response

Further guidance and clarification is provided in the final Guidelines as appropriate.

3.5. **Diversification of the Liquidity Buffer**

The Guidelines contain a general provision on diversification of the stock of HQLA.

Submission

Respondents requested that more specific or granular detail on diversification be introduced into the Guidelines.

Central Bank Response

The Central Bank will maintain this provision as a generic guideline for the observation period, rather than introducing a prescriptive requirement in advance of the entry into force of the European Commission delegated act.

[6] The Central Bank's approach to the exercise of this derogation is set out in the Central Bank Implementation Notice "Implementation of Competent Authority Discretions and Options in CRD IV and CRR, May 2014"

3.6. Definition of HQLA

The Guidelines contain an interim definition of HQLA, which takes into account the Basel III and EBA recommended definitions. The ultimate EU definition of HQLA to be specified in the European Commission delegated act may differ from these definitions, as the Commission is mandated to take European specificities into account. The Central Bank interim definition does not attempt to categorise all possible asset sub-categories as it does not wish to pre-empt the specification in the delegated act.

Submission

The IBF requested further clarification on the treatment of non-EEA assets and allowable currencies in the classification of HQLA.

Central Bank Response

A section on the treatment of non-EEA assets has been added to the Guidelines, along with clarification on the "domestic currency" restriction. The Central Bank interim definition of HQLA has been expanded to include EEA sovereign debt issued in any Member State currency.

3.7. Contingent Liabilities

Outflows from contingent liabilities are to be reported under section 1.4 and section 1.2.9 of Template C52.00. For uncommitted and non-contractual contingent liabilities, the Central Bank Implementation Notice on CRD IV and CRR details an assessment process whereby the Central Bank may set an outflow rate of between 0% - 100%. In the absence of this determination, the Guidelines recommend a default outflow rate of 100%.

Submission

Respondents requested a clarification on the reporting of contingent liability outflows and contended that a default rate of 100% during the observation period may be excessive, as many of these facilities can be unconditionally revoked or could be demonstrated to be closer to 0% in reality. In addition, clarification was requested on outflow rates for intra-group committed facilities where a lower outflow rate has not been granted.

Central Bank Response

The Guidelines have been amended to further clarify the process around setting outflow rates for uncommitted and non-contractual contingent liabilities. The Central Bank currently accepts institution's assessments of their contingent liabilities; the deadline for the *at least* annual assessment is 30 September. For intra-group committed facilities, the amended Guidelines now specify that the default outflow rate is dependent on the counterparty type.

3.8. **Inflows Past Due**

The Basel III standard specified that only contractual inflows from exposures that are fully performing may be included in the LCR calculation. CRR Article 425(2) added a further requirement that these inflows must not be "past due". The Guidelines separate out the relevant conditions to highlight that all conditions must be met. The Guidelines include a definition of "past due".

Submission

The IBF suggested amending the Guidelines to refer to the CRR text only, and that "past due" for liquidity purposes should be considered past due for 90 days.

Central Bank Response

"Non-performance" and "Past due" are different concepts which have been highlighted in the Guidelines to ensure institutions take account of the difference. The definition of "past due" used in the Guidelines corresponds to that used in paragraph 48 of Part 2, Annex V of the ITS on Supervisory Reporting: *"Assets qualify as past due when counterparties have failed to make a payment when contractually due."*

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