



IBF RESPONSE TO CONSULTATION ON GUIDELINES ON  
LCR CALCULATION FOR THE INTERIM OBSERVATION  
PERIOD

CONSULTATION PAPER CP80

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## 1. Introduction

The Irish Banking Federation (IBF) is the leading representative body for the banking and financial services sector in Ireland. Our membership comprises banks and financial services institutions both domestic and international operating in Ireland. Our purpose is to foster the development of a stable banking and financial services sector that contributes to the economic and social well-being of the country.

The IBF welcomes the publication of draft guidelines on LCR calculation for the interim observation period and is pleased to have the opportunity to respond to this consultation on behalf of its members. The consultation paper has assisted IBF members in populating the Liquidity Ratio templates. In this section we initially make some general observations and then address technical aspects of the consultation paper in the second part where we consider that further clarification may be required.

In the lead up to the start of the monitoring period, institutions have devoted considerable resources over a period of one to two years to the consultation process and interpretation of the requirements as they have been issued by the EBA/EU. This has allowed the industry to develop its implementation plans and specify the system changes necessary to provide the data required. The issuance of clarification on the completion of the reporting templates by the CBI is to be welcomed where it gives further clarity concerning the completion of the reporting templates over and above the current guidance issued by the EBA or contained within the CRR. This would appear to be the intend of the guidance where it states on page 6

*“Provision contained within the CRR, ITS, EBA guidelines and related Single Rulebook Q&A take precedence over this interim guidance”*

However, within the consultation paper there are a number of areas where it appears that new requirements are placed on institutions concerning the manner in which data is interpreted, collected or compiled which are not contained within the CRR. Therefore it is proposed that any such new requirements should be removed from this current guidance until the publication of the delegated act.

### 1.1 Use of the monitoring period

The guidance issued by the CBI should acknowledge that while institutions are obligated to submit returns which are accurate and timely, this necessitates the development of complex automated reporting systems which require appropriate lead times to develop and implement. Given the short time available to implement the finalised requirements and that these are expected to evolve/ be clarified over the monitoring period, further amendments to such systems will be required. It should be recognised against this backdrop that reported data will evolve further over the monitoring period. We therefore consider that reporting errors cannot arise from reporting under such circumstances. In particular:

- the templates contain a number of inconsistencies (e.g. some cells should be greyed-out as they are not applicable such as numerous credit quality step 3 assets as extremely high liquidity and credit quality),

- members are interpreting a variety of sources to populate the templates e.g.
  - the CRR/CRD. EBA guidelines, EBA draft reports
  - and EBA Q&A's which are still being answered and important ones since the consultation paper was issued
  - The CBI consultation paper

Members will be populating templates as accurately as possible but against the above backdrop it is inevitable there will need to be engagement between Competent Authorities and members in the observation period to embed the process.

## 1.2 Use of the LCR templates

The guidance outlines the methodology to be followed in the calculation of total inflow, outflows and liquid assets as a means of calculating an LCR. We would like further clarity as to whether it is a requirement that this calculation methodology replace that followed by institutions to date where the Basel III ratio was the only template available.

## 2. Technical queries on the guidance

The points listed below are areas of the draft guidance where we consider that some further clarification is required or alterations made with proposals where appropriate.

### 2.1 Reporting Matters

#### 2.1.1 Reporting levels

Within the guidance could the CBI clarify the reporting that is required by institutions with regard to a) Group and institution level returns and b) if reports by significant currency are required for each institution reported under point a)?

#### 2.1.2 Definition of HQLA

- ABS may be government guaranteed so we consider such assets should be included under 4.3.iii rather than under 4.7.
- Non-EEA assets: It is unclear as to where these should be included, if a L1 asset is held in another non-EEA jurisdiction? Could you clarify whether the term 'issued in the EEA', relates to the location of the ultimate parent of the issuer? For example a UBS covered bond, issued by London branch of parent, but the recourse and the country of risk and the legislation governing the instruments are all domiciled in Switzerland (non-EEA). However, strictly speaking it was 'issued' within EEA. Would this asset qualify as HQLA?
- Further clarity is required around allowable currencies in the classification of HQLA as the various publications are a little inconsistent:

According to CP80 (4.3), assets from sovereigns, government guaranteed assets and PSE's must be issued in domestic currency. Section 4.5 goes on to state that Level 2A assets issued by MDB's must be issued in domestic currency.

This seems more restrictive than CRR as the only mention of 'domestic currency' relates to the inclusion of sovereign assets issued from a third country. (CRR 416.1(c)(i))

The Basel III LCR document (Section 4- Definition of HQLA) also mentions only 'domestic currency' for sovereign debt. The EBA report to the EC on LCR impact assessment and definition of HQLA (Section 3.1) also mentions 'Sovereign bonds issued in domestic currency' but also adds that one can include: "Bonds issued by supranational institutions in EEA currencies & Bonds issued by local government institutions in EEA currencies."

If we were to give examples:

- What would the categorisation be for a UK Government Bond issued in EUR?
- As 'Issued in domestic currency' it is not specifically mentioned for Level 1 Assets in CP80 4.3 (ix), does this mean that assets of any CCY denomination issued by

- these organisations would qualify as HQLA - for example an MDB issued bond in CAD?
  - In all publications there doesn't seem to be any mention of currency restrictions regarding corporate or covered debt etc. Using examples, would an EEA issued, ECB eligible, qualifying covered bond issued in USD qualify as HQLA? Or a corporate bond issued in the UK in EUR?
- Equities: Greater clarification needs to be given as to what is considered a "major stock index in the home jurisdiction" mentioned in 4.6.iii
- Total HQLA: We assume this total (4.16) includes Level 1 and Level 2 assets but would appreciate confirmation.
- Section 4.4 states that 'Valuation haircuts of at least 15% shall be applied to Level 2 Assets'. If haircuts used for the current CBI Liquidity return are higher than this minimum, would the expectation from CBI be that we use the higher discounted rate or should 15% be applied to all Level 2A assets?
- What is the CBI's expectation on populating the discounted market value column within section 4 (rows 620-900) of C51:00 where a reported, non-Liquid asset may not fall under the criteria to be assigned a haircut?

## 2.2 Total Outflows

### 2.2.1 Retail Deposits

The reference in Table 3 to "unstable" deposits should read "less stable". This applies to 5.15 as well.

### 2.2.2 Category 3 higher outflow rate

The outflow rate referenced in 5.10: Further clarification that the outflow rate to be used here is the category three outflow rate as calculated by the reporting institution.

Methodology and data used in institution's assessment process should be in a "suitable format" and be "readily available" (5.11): Further clarification as to what the "suitable format" is, in addition to the FMP files currently used.

### 2.2.3 Brokered retail deposits (5.14)

The proposed approach is highly complex reporting and difficult to capture as it is described. IBF members suggest that the section be reworded as follows to clarify the intent of the section.

*"Pursuant to Title II, Part 2 of the EBA Guidelines, brokered retail deposits are considered to be deposits which may be subject to higher outflows. In addition to the example of a brokered deposit in the EBA Guidelines, the reporting institution should consider a deposit to be a brokered deposit when the deposit is placed at an institution on behalf of a natural person or SME, and placed via a financial customer as defined in Article 411(1)."*

## 2.2.4 Operational Deposits

Table 6 applies a 100% run-off rate to C52.00 ID 1.2.3.11.2 & 1.2.3.1.2.2. Should this read 100%/40% for financials/non-financials? If so, does paragraph 5.39 also need amending?

It is our belief that CBI's initial guidance should be more generic rather than prescriptive in relation to operational deposits. This needs to be considered in light of the uncertainty on the final classification around operational deposits in a number of public forums, including the CRR/CRD EU Delegated Act and the BCBS's evolving thinking on operational deposits for the NSFR purposes. In the extreme, unless each Credit Institution can prove that the client does not have an operational account with another Credit Institution; it could not include the account as operational per Article 422(3) (c).

We suggest replacing paragraph 5.38 with "When identifying operational deposits in accordance with Articles 422(3) (c) of the CRR, institutions should consider the definition of established operational relationship as proposed in the EBA report to the Commission on the LCR impact assessment (Article 509(1)(k) – page 65 of EBA report 23) . This definition should be considered in conjunction with the EBA Single Rulebook Q&A's, including Q135 and Q305."

## 2.2.5 Derivatives payable

Under this section can we confirm how the treatment of HQLA bonds received as collateral from counterparties differs from that of cash received from such counterparties?

Alternatively, when populating derivative outflows should equal and opposite financial customer inflows be populated where derivative obligations are fully cash margined?

## 2.2.6 Other Outflows 5.49

The outflows to be reported under this section (Table 12) should relate solely to those elements for which an institution has self-assessed its outflow requirements in respect of contingent liabilities. However, there is some inconsistency with the requirement as contained within Table 15, where it requires that other contingent liabilities would require a 100% outflow.

## 2.2.7 Contingent Liabilities

It is unclear from the guidance if all contingent liabilities are to be entered in Table 15. If this is the case, it is the industry's view that they should not attract a 100% outflow factor as such commitments are in many cases unconditionally cancellable by the Institution (reflected in the underlying product terms and conditions) and hence would attract a 0% outflow. It is also noted that under CRR article 426, the EBA may issue technical standards in this area.

Please note that EBA Question ID 2013\_322 has stated that 'The "Outflow" column for rows 1260-1330 in template C 52.00 (Liquidity Coverage - Outflows) should be left empty during the monitoring period since the Regulation (EU) No. 575/2013 (CRR) does not prescribe any particular outflow rate for the undrawn committed credit and liquidity facilities that fall under Article 424(5) of the CRR.' However, we do acknowledge that this Q&A guidance was issued on March 28<sup>th</sup>, post publication of the CP80.

## 2.2.8 Additional Outflows (5.55)

With the publication at end March of the EBA's final draft of RTS on additional collateral outflows<sup>1</sup>, the EBA has completely changed the reporting framework from the previous proposal. The EBA has replaced both the simplified and standard calculation methods, which banks had been working towards, with a new 'Historical Look-back Approach', in line with BCBS.

Both the simplified and standard methods will now be now obsolete and we note that the new RTS shall enter into force on the twentieth day following that of its publication in the Official Journal of the European Union. We require further clarification as to what the CBI's expectation is in terms of including this Outflow on the first submission. Should banks stay with their simplified and standard methods already progressed or can they now move to the historical look-back approach? Although banks may try to use this new historical look back approach method for end April, with time constraints it may not be feasible. This again aligns with our overall suggestion for the CBI to officially state that the submissions during the transitional period should be on a 'best-efforts' basis, as this reporting is being undertaken against a moving framework.

Article 1 point (2) – does this mean additional outflow rates are not considered in LCR reported or only where it is beneath threshold?

SFT Additional collateral calculation for monitoring purposes – is there a suggested movement in exchange rates as a guide for materiality? Are institutions expected to calculate all movements in exchange rates over the last two years?

We understand that Section 1.3.8. of table 14 for LCR outflow rates requires the institution to report deposits received as collateral separately from liabilities listed under Art 422. For example, if an institution holds a deposit (i.e. cash) in its books as collateral on a derivative deal with a counterparty, that deposit should be reported under Sec 1.3.8 and not under, say, Section 1.2.6. We would appreciate confirmation of this.

## 2.3 Total inflows

### 2.3.1 Inflows past due (6.4)

We suggest referring to the CRR wording in article 425.2 to ensure a level playing field across the EU for paragraphs 6.4 and 6.5. For simplicity we also request that credit and liquidity past due are aligned at 90 days – as currently applies for credit purposes.

Can the CBI provide further clarity as to what exactly 'New Obligations' refer to in section 6.7 of CP80 where it is stated that "Institutions shall not report inflows from any new obligations entered into."

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<sup>1</sup> <http://www.eba.europa.eu/documents/10180/640532/EBA-RTS-2014-05+%28Final+draft+RTS+on+additional+collateral+outflows%29.pdf>



## 2.4 Additional Observations

- Section 4.17 refers to a requirement for institutions to address diversification of the stock of HQLA, taking into account the nature, scale and complexity of operations. It is unclear how this latter requirement could be met.
- Section 5.9 suggests that higher outflow rates should be calculated as if the Irish Government guarantee had not been in place. This is considered an area where further consultation is required to assess how such a requirement could be implemented and also to assess if there is any material impact from the guarantee over the full period.
- Section 5.12 requires the daily classification of retail deposits, whereas the CRR only refers to an institution having the ability to calculate the LCR on a daily basis in times of stress.

In conclusion, the industry proposes that the paper issued by the CBI following the consultation process to be restricted to the completion of the templates using only those outflow factors which have to-date been specified by the EBA or CRR. This would reflect the absence of the delegated act, the continuous development of additional guidance and the short timeframe available for consultation on the guidance.

## 2.5 Sign Off

We would appreciate guidance on what level of sign off is required for the submission of the templates. In the absence of a delegated act specifying the LCR, the uncertainty over the final outflow factors to be used for certain elements within the reporting templates and the issuance of guidance that may alter the reporting requirement during this monitoring period we do not consider that director sign off is required. Can this interpretation be confirmed?