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Feedback Statement on Requirements for the Management of Liquidity Risk Discussion Paper

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Introduction

A Discussion Paper entitled "*Review of the Requirements for the Management of Liquidity Risk*" (the "Discussion Paper"), issued by the Central Bank in October 2011, raised a range of issues related to liquidity risk management which are under consideration within the Central Bank of Ireland and internationally.

Submissions received will be considered in formulating both our policy position in discussions with regulatory colleagues and possible revisions to the Requirements for the Management of Liquidity Risk ('the Requirements'), including those emanating from the requirements of the proposed Directive and Regulation (collectively known as CRD IV). The scope of the Central Bank's responsibilities, powers and discretion with regard to liquidity risk regulation depends to a large extent on the final text of CRD IV to be agreed by both the European Council and Parliament. CRD IV is expected to be agreed in mid-2012. Until this framework becomes clear, the Central Bank is not in a position to engage in a fundamental review of the Requirements.

This Feedback Paper is limited to both providing an overview of the submissions received and discussing the key issues articulated by respondents in the corresponding Discussion Paper.

Summary of Feedback

In total six submissions were received in response to the published Liquidity Discussion Paper, namely from a representative banking body, four credit institutions and one private individual. The latter provided observations on certain aspects of liquidity risk management rather than taking an iterative approach to the paper.

Respondents were generally supportive of Basel III and CRD IV requirements and saw the benefits that are intended to accrue from their implementation. However, respondents argued that there is a need to recognise:

- The severe liquidity stress experienced in recent years and the on-going constrained access to funding markets.
- The differing business models of financial institutions operating in Ireland and apply requirements on an individual rather than an industry basis.
- The proportionality concept.

Interestingly, the responses indicated diverging views among institutions in relation to a range of key areas. The overview of responses provided in this Feedback Statement aims to provide a flavour of these.

Key issues raised by respondents included the following:

- Institutions generally do not agree with the imposition of Basel III/CRD IV requirements in advance of agreement at international/ European levels and implementation via CRD IV.
- Lists of eligible liquid assets for mismatch reporting and CRD IV/Basel III requirements were viewed as too narrow. Respondents proposed extending eligible liquid assets in particular to include securitised assets and assets specific to the Irish banking system.
- In the main, institutions were not in favour of internal models to manage liquidity risk, such as Liquidity at Risk models. They were viewed as not sufficiently advanced or standardised to be used in a regulatory framework, subject to model pitfalls and costly to implement.

- Institutions did not broadly agree on what, if any, regulatory requirements should be set to manage collateral management risk and intraday payment risk.
- Increased transparency requirements should be driven by market forces rather than regulatory requirements.

Liquidity Discussion Paper Feedback

Question 1: Do you have any comments on the overall approach?

In general, respondents were supportive of the overall proposal to align new regulatory liquidity requirements with agreed international standards of Basel III and CRD IV. The core liquidity metrics of LCR and NSFR were generally seen as a control mechanism on bank assets, leading to a more liquefiable balance sheet over-time. Greater cross jurisdictional harmonisation of minimum liquidity standards was also welcomed.

However, most respondents caveated support for CRD IV, including:

- A need to recognise the current position of the Irish banking sector to take account of the severe liquidity stress of recent years and the on-going constrained access to funding markets.
- A proposal that the range of eligible liquid assets for LCR and NSFR purposes should be broadened, with instruments that may be unique to a local market being recognised.
- The need to acknowledge differing business models of financial institutions operating in Ireland.
- Mitigation of regulatory situations whereby deposits are exported, but, local banks are nevertheless expected to continue to fund both local and national economic activity.

- Greater recognition of proportionality.

Question 2: If industry wide minimum requirements are not to be prescribed, how would you categorise credit institutions for the purposes of applying different requirements? Please indicate which requirements you consider appropriate for the different categories of credit institutions.

With one exception, respondents did not favour the imposition of standard industry wide requirements which were criticised as a “one size fits all” approach. Their preference is for a tiered or multi-layered approach with differing requirements applying to various categories of institutions. Factors proposed for the categorisation of institutions included; business model, size, receipt of government support, membership of the payments system, role in the national or global economy and ownership structure. However, no respondent tackled the question of which requirements were appropriate for the different categories of institution.

Question 3: Which of the two options do you favour with respect to the regulation of branch liquidity pending any transfer of responsibility to the home state supervisor?

Respondents favoured the option whereby branches of foreign banks remain subject to Irish regulation in the intervening period, before the possible move to home country regulation in 2015.

Question 4: Do you agree that greater prescription is required on the role and responsibilities of the key decision making bodies?

With one exception, respondents did not believe that there is a need for greater prescription on the role and responsibilities of the key decision making bodies. They saw the role of decision making bodies as being to ensure that the necessary frameworks were in place and criticised the proposed extension of responsibilities as being at an operational level.

Question 5: What do you see as the role of the Board with respect to the management of liquidity risk?

Typically, respondents indicated that the role of the Board of Directors with respect to the management of liquidity risk is to understand and help set the liquidity risk appetite and strategy of the credit institution at a high policy level. There was recognition that the Board should receive regular communication and reports on compliance with limits and policies, risks and the operations of relevant internal committees.

Question 6: Do you agree with the additional requirements outlined? Are there other requirements that should be imposed?

Two respondents supported the additional requirements outlined in Section 3.4 as being either in line with its current practices and/or beneficial in terms of Board oversight. The majority of the remaining respondents did not support the application of additional requirements at Board level. While there was some support for their imposition on an organisation level, the general view was that they were too operational and should be the responsibility of executive management.

Question 7: Do you agree that an ALCO should be mandatory?

All but one respondent agreed that an ALCO should be mandatory. One submission, argued on the grounds of proportionality, that it should be possible to use structures in place in a Group to satisfy the requirements of an ALCO.

Question 8: Do you agree with the membership and chairmanship of an ALCO as set out above?

All respondents agreed with the membership of an ALCO as set out in the Discussion Paper. In addition, two submissions sought clarification on precisely what was meant by the provision that "the Chairman of the ALCO must be a member of senior management not directly involved in treasury/lending functions".

Question 9: Do you agree with the additional roles outlined? Are there additional roles which should be prescribed?

One respondent unconditionally supported the additional roles outlined in Section 3.7 of the Discussion Paper. The remaining submission qualified their support as being subject to:

- Wholesale subsidiaries of international banks not being subject to a requirement to produce an annual funding plan;
- Flexibility as to how the Board is updated including no requirement that they be provided with all ALCO minutes;
- Flexibility in arrangements for the quarterly review of the funding plan;
- Annual, rather than quarterly, review of stress testing scenarios; and/or
- Half-yearly, rather than quarterly, review of the funding plan.

Question 10: Should there be minimum meeting frequency for the ALCO and the reporting requirement to the Board?

There was broad consensus amongst respondents that there should be a minimum frequency for ALCO meetings. Typically, a frequency of monthly was suggested. However, suggestions of six weekly and two monthly were also received. The majority of respondents agreed that reporting to the Board should follow these timelines.

Question 11: What is your opinion on the most useful way to define liquidity risk appetite? Where applicable, what is your experience with setting a liquidity risk appetite?

The majority of respondents indicated that liquidity risk appetite should be set using a combination of liquidity risk metrics and limits, for example, liquidity mismatch ratios; loan-to-deposit ratios; liquidity outflow cover metrics; total liquidity reserves; liquid asset encumbrance ratio and funding diversification metrics.

Some institutions indicated that a coherent approach to setting liquidity risk appetite would be to ensure that the business model of a bank is sustainable in a stressed environment by using quantitative metrics, such as the LCR. Liquidity risk appetite should also reflect the fact that banks try to maximise profits while minimising risk.

One institution maintained that defining risk appetite should consider the level of dependency on external funding and the corresponding level of diversification of funding required. It noted that a subsidiary institution

receiving its funding from a parent will not have the same concerns for matching positions as an entity dependent on external funding sources.

Another respondent outlined that risk appetite metrics should adequately cover the key types of liquidity risks that institutions are exposed to and that these metrics should be integrated into divisional or business unit planning. It maintained that such an approach would enhance the understanding of liquidity risk and appetite throughout the institution and ensure that business plans developed are consistent with the risk appetite statement. Measures to encourage funding units to generate longer term and stable funding should also be aligned with business targets. It was suggested that liquidity risk metrics should be measured over time with ranges per metric to indicate the level of risk being undertaken. Converting these risk metrics to standard ranges or indexing would facilitate some standardisation and comparison at a regulatory level.

Question 12: Beyond those summarised above, do you see additional roles for a liquidity cost benefit allocation mechanism? Where applicable, what is your experience with establishing and managing such a system?

Respondents indicated that liquidity cost benefit allocation mechanisms can act as a supporting mechanism alerting different business units to the true cost/benefit of funding and helping to inform product pricing and balance sheet management. However, respondents do not see additional roles for liquidity cost benefit allocation beyond what is currently set out in the EBA Guidelines.

Respondents did not provide details on their experience with establishing and managing a cost benefit allocation system. However, one institution

noted that its system to allocate liquidity costs and benefits has engendered a greater understanding of the true costs of funds across the Group. This has in turn facilitated more accurate product pricing and more effective balance sheet management. Another institution outlined that its liquidity cost benefit allocation mechanism enabled it to assess the liquidity value and risk associated with its assets and liabilities. The benefits of this mechanism include a greater focus on the liquidity value of liabilities acquired rather than their volume.

Question 13: Should elements of the Cost Benefit Allocation Mechanism design and implementation be prescribed in regulatory requirements?

Four of the respondents were opposed to the explicit prescription of the cost benefit allocation mechanism design and implementation within regulatory requirements, maintaining that EBA guidelines in this area were deemed sufficient. Another respondent, noting the sensitivity of the issue as it impacts internal profit and loss allocation, argued for the imposition of minimum standards with a framework to allow institutions to apply more sophisticated non-standard methodologies, subject to regulatory approval.

Question 14: How would you measure diversification?

The majority of respondents maintained that diversification varies significantly between retail and wholesale financial institutions. In general they agreed that diversification can be measured, citing metrics including:

- Liquidity mismatch ratios;
- Loan to deposit ratios;
- Liquidity outflow cover metrics;
- Liquid asset encumbrance ratio;
- Funding diversification metrics;

- Currency profile;
- Range of counterparties - product line and geography;
- Deposit type (e.g. retail, corporate, NBFI and interbank), maturity and geography;
- Range of Issuance - CD, CP, EMTN and Covered Bonds.

In general these respondents believed that guidelines, as opposed to specific requirements and/or "hard limits", are most appropriate, arguing that these facilitated tailoring by institutions to reflect different business models.

Question 15: How would you measure the sustainability of funding?

Respondents focused on behavioural analysis and/or modelling to support assumptions regarding the sustainability of funding. There was broad recognition that this analysis should examine both normal and stressed market conditions and that institutions needed to monitor market conditions across the range of funding markets and counterparties. One respondent qualified the usefulness of these tools given the lack of granular and regular data over recent years. Only one respondent cited contractual analysis as an appropriate measure and this was in the context of wholesale funding.

Question 16: Do you agree with the imposition of industry-wide regulatory ratios/limits? If so, what ratios/limits do you believe are appropriate? If not, what difficulties do you envisage?

The majority of respondents did not agree with industry wide regulatory limits/ratios being imposed, indicating that different institutional business models require varying levels of diversification. Two submissions suggested that guidelines, rather than standard ratios/limits, would be appropriate, while another two favoured bilateral agreement between institutions and the regulatory authority. One industry respondent supported the imposition of

industry wide maximum ratios in conjunction with institution concentration limits on counterparties, sectors, instrument type and maturity profile. However, no specific metrics, ratios or limits were proposed.

Question 17: What regulatory requirements do you believe should be set to manage collateral management risk and intraday payment risk?

Responses varied significantly and some respondents failed to address both aspects of the question.

On intraday payment risk, there was little consensus with submissions ranging from supporting the imposition of individual intraday collateral limits (based on previous trends) for institutions to the imposition of a buffer for intraday risk in order to ensure that "trapped liquidity" is not included in the calculation of an institution's overall surplus liquid asset position. Another respondent was of the view that a regulatory intraday limit would be unworkable as institutions cannot forecast the timing of inflows/outflows and suggested a principles based approach rather than prescriptive regulation.

On collateral management, the majority view expressed was that further collateral management requirements were not necessary beyond ECB and current prudential requirements.

Question 18: In establishing intraday liquidity limits and collateral requirements what ratios / limits do you believe are appropriate?

Responses varied significantly and some respondents failed to address both aspects of the question.

Two respondents outlined that intraday liquidity limits essentially represent a maximum percentage of the nominal value of asset/liabilities in different currencies. This percentage can be tied to institutions' capacity and ability to replenish payment capacity at short notice.

Another respondent looked at the demand and supply side for establishing intraday funding limits. It noted that intraday limits are in practice set with reference to an institution's credit ratings. In its view, the most important element of intraday funding is how much credit the Nostro clearer will make available, which is in turn dependent on an institution's available capacity and the level of prefunding required by the Nostro. Any restrictions imposed would generally impact customers, who then may also be required to prefund their accounts to ensure payments. In such a situation, prefunding the payments system was viewed as an undesirable outcome that could "freeze" payments systems.

On collateral requirements, one institution suggested that stress testing of increased haircuts for eligible assets and different levels of liquidity could perhaps address the issue of ratios and limits for intraday collateral requirements. Another institution maintained that eligible asset collateral and cash overnight with the Central Bank should be sufficient to meet intraday liquidity and satisfy liquidity buffer requirements.

However, no specific metrics or limits were proposed for intraday liquidity and collateral requirements.

Question 19: Should credit institutions be required to hold a separate asset buffer to mitigate intraday payment risk?

Four respondents did not believe it was necessary to hold separate buffers to mitigate intraday payment risk. One maintained that a minimum intraday collateral limit is sufficient while two respondents maintained that such a buffer would not be required if maximum intraday limits as a percentage of the nominal value of assets/liabilities in different currencies were set. The maintenance of the Minimum Reserve Requirement on a daily basis was also seen as providing a degree of potential emergency liquidity. Another respondent, while recognising the need for a buffer, suggested that institutions should not be required to hold a separate asset buffer for intraday payments. Instead, it proposed that such a buffer could be part of an "End of Day" liquid assets buffer. However, it noted such a regime may prove a significant challenge and a long lead time would therefore be required.

However, one respondent did indicate that it may be appropriate to establish a separate risk mitigation buffer for intraday payment risk. It noted that intraday payment risk should become more integrated into liquidity risk analysis, as traditionally many banks have delegated this function to Treasury in conjunction with back office payment teams.

Question 20: What policies and procedures should be in place to deal with the potential illiquidity of traded instruments used as collateral due to widening bid/offer spreads or longer holding (liquidation) periods during periods of stress (e.g. a liquidity adjusted Value at Risk approach)?

There was some consensus in submissions in that two respondents indicated that any such policies and procedures should be reflective of the eligibility of the asset with monetary authorities. One institution was of the view that if such collateral is on the eligible asset list, the on-going Central Bank review of eligibility and level of haircut should be sufficient to address the deteriorating liquid value of an asset over-time. Another respondent maintained that the Liquidity Policy and Liquidity Contingency Plan should reflect assessments for these matters and should be built into the stress testing model. It suggested compiling a liquid asset hierarchy measuring available liquidity and haircuts under normal and stressed conditions.

However, respondents did not provide specific details on policies and procedures in place to deal with these matters. One institution advised it was open to suggestions regarding any such policies and procedures that should be put in place.

Question 21: Do you agree with a prescribed minimum regulatory stress test, including both time horizons and assumptions? Which time horizon for liquidity stress testing would you consider appropriate?

All respondents indicated support for minimum regulatory stress tests, albeit one was somewhat less definitive than the others. The main justification for the prescription of various scenarios and assumptions was the potential to aid regulatory comparison and benchmarking of institutions. The regulatory stress test is seen as supplementary to various stress tests which institutions may choose to run.

Despite the broad agreement on the need for minimum regulatory stress tests, the submissions differed significantly on the time horizon, ranging from 1 to 6 months.

Question 22: Do you believe that the time bands in the current Requirements are appropriate?

In general, respondents deemed the current time bands as appropriate. However, there were nuanced positions within this:

- Increased granularity in shorter-term horizons was typically viewed as beneficial (i.e. individual dates within 0-7 days timeband, individual weeks within the 8 - 30 day timeband);
- The Basel III Quantatitive Impact Study should inform any decision on timebands and better understanding of any cliff-effect; or
- The introduction of a 0 - 3 day timeband with more stringent assumptions regarding rollovers and ability to liquidate assets.

Question 23: Do you agree with extending full matching to one month?

Taking 'full matching' to mean 100% coverage of outflows, funded through some combination of liquid assets and cash inflows, respondents agreed with the longer term implementation of full matching. The timing of implementation, particularly its alignment with PLAR requirements, is seen as critical for covered banks. In addition, one respondent noted that the level of behavioural adjustments permitted would be critical to delivering meaningful 100% matching.

Question 24: What approach do you favour in addressing the cliff-effect? In your reply, please consider the relative costs and benefits of the two suggested approaches to dealing with the cliff effect.

Most respondents recognised 'the cliff-effect' as the unintended consequence of liquidity regulatory requirements. Three respondents came down in favour of the proposal that an industry wide limit of 50%, for example, be imposed in the 1 - 3 month time band. Others noted that extending limits further out the time bands simply pushed out the cliff effect. A number of respondents acknowledged that any attempt to set hard limits could result in dysfunctional behaviour amongst banks competing for funds at certain maturity lengths. Two main costs associated with addressing the cliff effect were seen by most institutions and these related to more expensive funding for banks and the knock-on effect for lending into the real economy.

Question 25: What do you consider appropriate mitigants to the risks posed by foreign currency mismatches?

Respondents approach to foreign currency mismatch varied. Typically, restrictions on foreign currency mismatch per individual time bucket and overall mismatch were employed. Also, a number of responses indicated that assets held in a certain currency should be funded in the same currency, thereby, limiting the potential mismatch. The majority view was that guidelines for monitoring the availability of foreign currency and cross currency swap lines by an institution would be useful as well as limits imposed by the financial institution on currency mismatches.

Question 26: What are your views on the appropriate criteria and range of assets that should be eligible for maturity mismatch reporting? Please state the rationale for your preferences.

There were varied responses to this question. To some degree, the majority of respondents agreed that ECB/monetary authority eligibility represented a fundamental requirement for assets' inclusion in maturity mismatch reporting.

Two respondents indicated that during a liquidity crisis it is necessary to have only the highest quality liquid assets in a portfolio delivering cash proceeds when required. Such assets should be liquefiable bilaterally and/or via Central Banks standard market operations. Any move to a narrower/higher quality list would increase the costs of managing liquidity which, ultimately, feeds into product pricing.

Some respondents outlined their preference to extend the range of eligible liquid assets. One respondent considered that all assets which are eligible with the Monetary Authorities should be eligible for mismatch reporting, including sovereign bonds, cash with Central Banks, covered bonds, NAMA bonds, financial institutions debt, highly rated corporate bonds and retained issuances. Another respondent outlined that asset backed securities with adequate ratings could be considered as eligible liquid assets, specifically internal securitisations, mortgage backed promissory notes and covered bonds. There was broad support among respondents to permitting the inclusion of retained securitisations.

However, some institutions also maintained that there should be no change to the range of assets that are currently eligible for mismatch reporting pending the finalisation of the definition of liquid assets under CRD IV.

All industry respondents referred to the split of liquid assets envisaged by Basel III into level 1 and level 2. However, there was no real consensus on the proposed categorisation of assets envisaged by Basel III in this regard. While seeking some clarification on proposals, one institution was in favour of the split with certain restrictions on composition. While another institution noted that certain assets, such as, equities and commodities, may be unsuitable in the stress testing buffer, it suggested that they be considered appropriate as inflows in the denominator of the LCR, subject to a haircut.

Another institution maintained that the segregation of level 1 and level 2 assets as proposed by LCR poses difficulties as both asset classes are eligible with the Central Bank. It noted that institutions may swap level 2 assets with the Central Bank for level 1 assets. Furthermore, the exclusion of banks own issuances and unsecured bank paper as liquid assets, may limit banks' ability to issue long dated paper. It believes that all assets that are eligible with Central Banks should be eligible for mismatch reporting.

Question 27: Do you see merit in using the BASEL III criteria nationally in advance of its EU implementation?

The majority of respondents indicated that they were against the early implementation of Basel III criteria nationally. Respondents viewed any such move as premature given that the transposition of Basel III criteria into European law (e.g. CRD IV) is still a work in progress and potentially detrimental to the national banking system as it would be at a competitive disadvantage to Europe.

However, one respondent noted that once CRD IV is formally approved, notification of future implementation dates would assist planning. As with other measures to reinforce liquidity requirements/buffers, it was noted that an immediate move to Basel III/CRD IV would not be achievable and would be expensive in current markets. The knock-on effect on lending capacity to the domestic economy was also raise.

Question 28: Do you think that the "planned stress" assumptions used for the buffer calculation should be the same as those used to define a regulatory minimum stress test?

Two institutions indicated that 'planned stress test' assumptions should be the same as internal bank stress test assumptions. However, other respondents indicated that planned stress tests should examine extreme cases, while minimum regulatory stress test levels should reflect natural, less extreme assumptions.

Question 29: Should the definition of eligible assets for the buffer compliance match the definition used for maturity mismatch reporting?

With one exception, respondents believed that the definitions should not match, as the buffer in question (which needs to be available outright over a defined short period of time) should be comprised of a narrower set of assets than that used for on-going maturity mismatch reporting. A number of respondents took the opportunity to advise that they believe the definition of liquidity in Basel III and CRD IV are too narrow and should be broadened.

Question 30: What are the most pertinent factors and possible timelines to be considered in discussing a restoration plan?

In general, the most pertinent factor was viewed as whether the underlying stress was institution specific or of systemic origin. Systemic, market wide issues were seen as needing a more medium term plan particularly as individual institution specific restoration plans may impact the liquidity and funding position of other institutions. However, institution specific difficulties were generally seen as capable of resolving quicker, with an analysis of the causes and reporting to regulatory authorities in the medium term if necessary. In either event, market confidence and investor sentiment were considered crucial in any restoration initiative.

Question 31: Do you support the use of internal liquidity risk models?

Institutions were generally cautious regarding the wider use of internal liquidity risk models. Reasons cited for this caution included that such models were not sufficiently advanced or standardised to be used in a regulatory framework, recognition of model pitfalls (e.g. incorrect assumptions, model error) and cost implications, both from an IT and human resources perspective. While some institutions currently use models to assist in arriving at behavioural assumptions, most respondents pointed to the need for the regulatory authorities to set minimum standards in terms of model specification and assumptions, if wider application is to be pursued.

Question 32: Do you have concerns regarding the reliance which can or should be placed on Liquidity at Risk methodologies?

All respondents believed Liquidity at Risk models are not currently sufficiently advanced or standardised to be used in a regulatory reporting framework and cautioned that reliance on them could lead to underestimating potential risks.

Question 33: Have you experience of using internal models to calculate liquidity risk?

Beyond use of models to calculate behavioural assumptions of various assets and liabilities, which then feed into regulatory reporting, respondents did not reference experience with the use of internal models to calculate liquidity risk. A number stated that they had no practical experience of Liquidity at Risk models.

Question 34: Do you agree that the above list of reports should represent the key regulatory liquidity risk reports?

All respondents agreed that the reports listed represented the key liquidity reports but a number noted that the detailed content was critical to the usefulness of these reports.

Question 35: Are there other key liquidity risk metrics which you believe would be useful?

There was no disagreement on the key liquidity metrics suggested in the Discussion Paper. Four of the five industry respondents proposed collecting additional liquidity risk metrics, such as:

- Collateral sensitivity analysis;
- Currency mismatch reports;
- Stress test results;

- More granular information on areas such as liability profile, liquid assets and cash flows. It was noted that the collection of this information on a daily basis may be restricted by systems constraints;
- Ratio of liquid assets to assets. This metric is viewed as akin to the leverage ratio and beneficial to ensure that entities correlate their business expansion with appropriate increases in liquid assets.

Question 36: Do you see merit in developing recommended minimum levels of transparency for liquidity risk data?

All respondents see merit in increased transparency for liquidity risk data for a number of similar reasons, such as, developing investor confidence, assisting stakeholders in making informed decisions on banks and addressing current insufficient disclosure by institutions.

Two respondents advocate market led disclosure rather than regulatory prescription, while one would expect to see transparency requirements within Pillar 3. A number of respondents, while recognising the need for disclosure, cautioned on potential negative effects including possible market misinterpretation of adverse movements which could lead to bank-runs.

Question 37: Do you agree with the setting of target ratios pending the introduction of the NSFR and LCR?

Four respondents did not agree with the setting of target ratios until both the LCR and NSFR requirements have been finalised. In particular, one institution maintained that the LCR seems a more critical ratio, while compliance with the NSFR will depend on market access re-opening for banks. It noted that, in normalised circumstances, targets set as part of the

PLAR exercise should not form part of the supervisory process and should only being applicable where direct intervention is deemed necessary.

One institution did however see merit in introducing target LCR and NSFR ratios earlier to facilitate progress towards meeting the minimum ratios and ensure sufficient senior management attention is devoted to compliance.

Question 38: Should these be imposed on an industry-wide or case by case basis?

There were varying levels of agreement regarding the imposition of target ratios on an industry-wide basis. Two respondents supported the imposition of ratios at the industry level, with one of these advocating the capability to over-ride at an institutional level. Another proposed applying limits to institutions operating in the same markets, such as deposit taking, within the banking sector. This, in its view, should avoid a one size fits all approach given the diverse range of credit institutions and business models.

The remaining respondents did not support the imposition of industry-wide targets. Arguments put forward were that target ratios should be applied as deemed necessary by the supervisor on an institution basis only and that the timing of the implementation of the new requirements should be homogenised across regulated entities within the EU, while recognising the business model of individual institutions and their positions within the economy.

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