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Our response to EBA consultation paper on draft implementing technical standards on supervisory reporting requirements for liquidity coverage and stable funding (EBA/CP/2012/05)

Background

The Building Societies Association represents mutual lenders and deposit takers in the UK including all 47 UK building societies. Mutual lenders and deposit takers have total assets of over £375 billion and, together with their subsidiaries, hold residential mortgages of over £235 billion, 19% of the total outstanding in the UK. They hold more than £250 billion of retail deposits, accounting for 22% of all such deposits in the UK. Mutual deposit takers account for 34% of cash ISA balances. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.

The BSA is a member of the European Mortgage Federation, and contributed to, and supports, the EMF's response to this consultation dated 22 August.

Summary

We support efforts to introduce global standards of **liquidity** for deposit takers and appreciate the need of regulators for accurate, comparable, relevant and timely information to enable them to supervise and monitor risks.

Like our members, we are keen to engage with the European Banking Authority to ensure that the business of mutually-owned deposit takers, in particular their low risk business models and mutual ownership structures, are properly understood.

As the EBA has itself acknowledged, one problem with tying the liquidity reporting framework with COREP is that COREP has not yet been finalised or agreed (though in the UK, the national authority, the FSA, has confirmed it will implement it from 1 July 2013). An associated problem is that the EBA has developed the reporting requirements on an early draft of CRR/ CRD 4, which has since been amended in the trialogue process. As well as the risk of lack of clarity on guidance and definitions, this may well lead to institutions using temporary templates which have to be changed at a later stage.

Therefore, rather than requiring institutions to implement the reporting based on draft rules and then to implement a second time based on the final rules, it would be helpful if the EBA could propose a new timetable, so that the templates could be aligned with the agreed rules in the CRD 4 package and minimise the unnecessary duplication of work.

There is no proportionality envisaged in the application of the LCR and stable funding ratio. We feel that this is an oversight: clearly, there are major differences between institutions in Europe and the information they are currently required to collect. We do not believe that the EBA requires every proposed item of data from every institution – this merely adds to the costs which are borne ultimately by mutual deposit takers' members, the mortgage borrowers and the savers. Reduced reporting burdens for smaller institutions, such as most building societies, would be a sensible way forward.

Q1: **Are the proposed dates for first remittance of data, i.e. end of January and end of March 2013 feasible?**

In short, no. The first submission date of January 2013 does not allow sufficient time for institutions to select and install/ amend and test systems. Severe delays have been caused by the lack of agreed final text of the CRR/ CRD 4 and of finalised templates for the LCR and stable funding ratio. In the UK, the FSA has announced that in the absence of an agreed CRR/ CRD 4 package, it will implement COREP from July 2013. So already there is a disconnect.

As others have pointed out, there is a further disconnect with the EBA basing reporting requirements for calibration and supervisory purposes on the Commission's initial July 2011 proposals for CRR/ CRD 4, which have already changed during the trialogue process. Besides the risks arising from the lack of clarity over guidance and definitions, this may lead to temporary templates which have to be redeveloped again at a later stage. This has a significant impact on domestic institutions such as mutual deposit takers in the UK which may not have the resources to repeatedly change templates, particularly when they are already reporting liquidity data to their national regulator, the FSA. It is also important to bear in mind that these data are for monitoring purposes so less important for them to be reported as a matter of urgency or priority.

We understand that the larger institutions which already report the LCR and stable funding ratio data through QIS will need time to adjust to new templates.

Therefore, rather than requiring institutions to implement the reporting based on draft rules and then to implement a second time based on the final rules, it would be helpful if the EBA could outline a new timetable for the adoption of the liquidity (and leverage ratio) reporting, so that both could be aligned with the agreed rules in the CRD 4 package and minimise the unnecessary duplication of work.

The BSA supports the EMF's call for a postponement of at least 6 months for the LCR rules and at least 12 months for the SFR rules.

Q2: **Do respondents agree with this proposal for defining significant currency?**

Our members operate in the UK (a few have offshore operations in the UK's Crown dependencies) and in sterling. Larger ones, however, raise some term wholesale funding – in particular senior unsecured and covered bonds – in euros or US dollars. Where bond issuances are fully hedged through the use of cross-currency swaps it does not produce any significant liquidity risk in those currencies.

While we understand that mutual deposit takers fall underneath the proposed 5% exemption, the threshold would provide a disincentive for further cross-border financing. This could have an impact on the efficiency of the single market.

Therefore, we propose that liabilities that are fully hedged using cross-currency swaps are excluded for the purpose of this rule.

Q3: **Is the proposed remittance period of 15 days feasible?**

We note that the time between reporting date and submission is not specified in the CRR. The CP proposes as a baseline that reporting dates should be at month end for LCR and quarter end for NSFR, and that the submission time should be 15 calendar days. EBA says that this will take into consideration that the LCR incorporates a 30 days forward looking stress scenario ie ideally remittance should occur before this period ends.

Given the stated purpose of the reporting and nature of the metrics, we find it hard to see why it is necessary to report the LCR and stable funding ratio within 15 calendar days. The fact that the LCR is looking out for 30 days is irrelevant – it is not intended to be "real time", rather a measure of the liquidity risk the firm is running in a normal period. In an actual stress period, institutions would expect more intrusive supervisory contact and more frequent reporting.

Another reason for our rejection of the 15 calendar day submission period is due to audit/ reconciliation/ alignment with financial reporting and other COREP returns once reporting becomes mandatory at the end of the observation period, which means the end of best efforts. 15 days is simply not long enough to complete the validation and quality assurance needed to produce robust data. Under the (voluntary) QIS, liquidity returns – on which the LCR is based - are submitted in 4-6 weeks.

In view of the above and to be compatible with other reporting, we (in common with the EMF) call for the submission time to be 30 calendar days/ end of the next calendar month.

Q4: **Are there additional sub-categories of inflows and outflows that are consistent with the specification of the liquidity coverage requirement in the CRR and would inform policy options that should be reported?**

Our members have not commented on the detail, that we have left to other organisations. But we do note that the LCR is based on the QIS, which itself is based on data from 300 large international banks provided during a time of crisis – therefore data which may not be relevant in more balanced times, nor necessarily relevant to domestic mutuals such as building societies in the UK. This is especially pertinent given the fact no feedback/ analysis from QIS has been made. Without knowing the added value of the QIS data, even in aggregate form, it is hard to know what real benefit the significant amount of data required from many other institutions, such as domestic mutuals, will bring.

As was made clear at the EBA public meeting, institutions are concerned that the EBA has developed the reporting requirements on an early draft (July 2011) of CRR/ CRD 4, which has since been amended in the trialogue process. As well as the risk of lack of clarity on guidance and definitions, this may well lead to institutions using temporary templates which have to be changed at a later stage.

There is no proportionality envisaged in the application of the LCR and stable funding ratio. We feel that this is an oversight: clearly, there are major differences between institutions in Europe and the information they are currently required to collect. But we understand the issue may be addressed in a forthcoming consultation.

Furthermore, we understand the QIS does not capture the timing of flows during the one month stress horizon and that this flaw is repeated in the LCR.

One problem is that liquidity, unlike COREP, is forward looking - based on projections and cash flows. It means institutions may collect the data but not in the format the EBA wants eg they may have data on deposits but not broken down. It will be difficult to audit projections.

Q5: **For the purposes of providing guidance as to transferrable securities of high and extremely high credit and liquidity quality, what additional assets, if any, should the ITS collect?**

No comment.

Q6: **Do respondents agree that the template captures the requirement of the draft CRR on reporting of stable funding?**

We consider that the template should be kept to the minimum required for the calculation of the ratios. Including further items is unnecessary and could require further reconciliation steps with the costs that would entail (see below for example).

Including COREP is problematic given that the final rules and templates will not be ready until late 2012. Furthermore, as others have pointed out, the interaction with IFRS 9 needs to be sorted out. There is a mismatch between COREP balance sheet data and the LCR return which necessitates a reconciliation with accounting data.

We believe that the assets and liabilities from the institution's balance sheet used in the stable funding calculation should be kept to a minimum. But it is worth pointing out that own funds are reported here under stable funding sources and not IFRS shareholders' equity which will lead to differences.

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