EMF Response to the EBA Consultation on Draft ITS on Liquidity Provisions 22 August 2012

The European Mortgage Federation\(^1\) welcomes the opportunity to provide a response to the EBA Consultation on "Draft Implementing Technical Standards on supervisory reporting requirements for Liquidity and Stable Funding" (Draft ITS).

The EMF would like to reiterate its support for the efforts of the European Commission to improve the resilience of the European financial system. In this context, the Mortgage Credit Industry welcomes the opportunity to contribute to the development of the technical Liquidity and Stable funding rules which are based on the Commission’s Capital Requirements Regulation and Directive (CRR/CRD IV) Proposal. However, the EMF would like to draw the attention of the EBA to a number of concerns regarding the Draft ITS on Liquidity rules which could be detrimental for the European Mortgage Credit Industry.

**Principle based concerns**

1. **The draft ITS is based on a not yet finalised and continuously changing CRR/CRD IV text**
   The Mortgage Credit Industry is extremely concerned about the fact that the EBA has been developing reporting requirements for calibration and supervisory purposes based on the Commission’s initial proposals on CRR/CRD IV (dated 20 July 2011), which have, in the meantime, already been changed by the parties to the Trialogue Discussions (i.e. the European Parliament which has already a diverging but firm position, the Council and the Commission) on several points and have not yet been finalised. Besides the risks arising from the lack of clarity regarding guidance and definitions, this may lead to temporary templates which will have to be redeveloped at a later stage.

2. **Calibration of data – special circumstances**
   In some European markets, as a result of the nature of the reporting structure, calibrating and defining Liquidity rules based on “crisis” data may not be correct: in fact, it may be burdensome during “normal” times and may lead to an economic slowdown.

3. **Treatment of objectives: calibration versus supervision**
   Based on the understanding of the Mortgage Industry, the two main objectives of collecting data on Liquidity are:
   - to calibrate the Liquidity Provisions based on the mandate given by the CRR/CRD IV to the Commission/EBA; and
   - to monitor supervisory compliance.

   The nature of these disparate objectives requires different and separate approaches to define the implementation and transition of calibration and supervisory compliance.

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\(^1\) The European Mortgage Federation, which represents over 75% of the EU mortgage industry, is the voice of the mortgage industry in the EU, bringing together national banking associations and individual mortgage lenders from EU Member States. The EMF is registered on the EU Transparency Register, ID Number: 24967486965-09
Technical issues

1. Implementation period is unrealistically short
The EMF understands that the European Council has suspended its work on the CRR/CRD IV until September 2012, whilst the vote of the European Parliament on this regulatory package has been postponed to October 2012. At the same time, it would appear that the implementation date for the new CRD Framework, including the ITS on Leverage Ratio remains the 1st of January 2013.

The Mortgage Credit Industry is extremely concerned about the significant delay experienced in the legislative process of the CRR/CRD IV, which will prevent credit institutions from having sufficient time to prepare for and adapt to the new provisions. The extensive IT modifications and other preparations that will be necessary can only be undertaken by financial institutions to a very limited extent before the final text of the CRR/CRD IV has been published. Moreover, before the technical implementation starts, credit institutions will need a sufficient amount of time to examine and understand the new rules. Given the different levels of IT development in the Member States, the extensive amount of new requirements other than those defined in the CRR/CRD IV and the different nature of business models, we believe that the remaining two month period is unrealistic and that the Industry needs at least six months for the implementation of the LCR rules, and at least 12 months for the implementation of the SFR rules after the ITS has been published in the official journal.

2. Remittance days: trade-off between data accuracy and timeliness
The remittance period regarding liquidity reporting (on a voluntary basis) is around 4-6 weeks. According to the new ITS, the remittance period for obligatory reporting will be 15 days. For most financial institutions, it is technically impossible to provide accurate and validated data in two weeks. A 15 day remittance period means that the data provided will have to be significantly modified because of the timing of accounting reconciliation. The number of days to provide accurate data will be multiplied when each entity has to report to the group in order to provide consolidated level data. Furthermore, LCR and SFR are not intended to be “real time” measures but rather a measure of the liquidity risk the institution is running. For these reasons and given the purpose of the reporting and the nature of the metrics, the Industry suggests setting the submission time at 30 days.

3. Accounting framework
The Commission's CRR/CRD IV Proposal and the Draft ITS do not provide guidance on which accountancy system should be used. The European Mortgage Industry fears that this could result in incomparable data.

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2 The Commission, in its "Non paper on CRD IV – Issues Related to the future implementation of the CRR and transposition of the CRD" from 23 April 2012, has already drawn the attention of the European Regulators to some difficulties of the implementation of the CRR and transposition of the CRD IV.

3 Preparations for the stable funding requirements are expected to require more time as there is no indication in the CRR/CRD IV Proposal about what kind of measures will have to be used or about how closely the provisions will follow the Basel III requirements.