

Consultation Paper

Draft guidelines

On harmonised definitions and templates for funding plans of credit institutions under
ESRB Recommendation 2012/02 A.4



Consultation Paper on draft guidelines on harmonised definitions and templates for funding plans of credit institutions under ESRB Recommendation 2012/02 A.4

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1. Responding to this consultation

The European Banking Authority (EBA) invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in Section 5.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which they relate;
- contain a clear rationale;
- provide evidence to support the views expressed/rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the 'send your comments' button on the consultation page by 20.03.2014. Please note that comments submitted after this deadline, or submitted via other means, may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA's rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA's Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EC) No 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found under the [Legal notice section](#) of the EBA website.

2. Executive summary

This Consultation Paper contains proposed guidelines mainly as a response to European Systemic Risk Board (ESRB) Recommendation 2012/02 ⁽¹⁾ on the funding of credit institutions and in particular Recommendation A.4, addressed to the EBA, to provide harmonised definitions and templates in order to facilitate the reporting of funding plans.

In summary, the EBA is consulting on introducing a set of templates in spreadsheet format that contain harmonised definitions of the data items to be reported by institutions to their competent authorities and from the latter to the EBA. The set of templates and definitions will assist competent authorities to assess the feasibility of funding plans and their impact on the supply of credit to the real economy as well as enable the EBA to discharge its duty to coordinate the assessment of funding plans at Union level and assess the viability of such plans for the Union banking system.

The EBA will revise the templates and harmonised definitions in the light of comments received and will issue guidelines for competent authorities.

⁽¹⁾ The English text of the recommendation can be accessed at http://www.esrb.europa.eu/pub/pdf/recommendations/2012/ESRB_2012_2.en.pdf?04a855f6d5c296dd9ae9f6576d45bb33 or OJ 2013/C 119/01. Versions in the other official languages may be found at <http://www.esrb.europa.eu/pub/html/index.en.html> in the entry of 18/02/2013.

3. Background and rationale ⁽²⁾

Funding conditions for credit institutions have been significantly affected by the global financial crisis. Credit and interbank markets have remained impaired as a result of the strong links between credit institutions and sovereigns as well as the uncertainties over asset quality and the sustainability of some credit institutions' business models. Credit institutions have responded to this situation by making changes to their balance-sheet structure and the way they fund themselves.

On 29 June 2012, the Euro Area Summit took an important step towards breaking the negative link between sovereigns and credit institutions. It envisaged a single supervisory mechanism and the direct use of European funds from the European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM) for bank recapitalisation/bailout and resolution. However, certain credit institutions still weigh negatively on sovereigns, and vice versa. This vicious circle needs to be broken in order to bring about the better functioning of the funding markets.

Credit institutions provide valuable intermediation services to the real economy. In order to ensure the stable growth of the real economy, it is necessary that the resilience of the banking sector be improved. The recommendation of the EBA for a minimum 9% Core Tier 1 capital ratio for credit institutions has partly contributed to this aim. The on-going reform of the European Union regulatory regimes governing credit institutions has achieved much needed clarity (Capital Requirements Directive IV/Capital Requirements Regulation package ('CRD IV/CRR') – in particular its provisions regarding the liquidity regime) and will further strengthen credit institutions as it is phased in, though other important elements such as the Bank Recovery and Resolution Directive (BRRD) remain at the negotiation stage.

While public authorities, in particular central banks, have used extraordinary measures to alleviate funding strains and create the conditions for credit institutions to strengthen funding structures, credit institutions also need to actively strive to achieve sustainable funding structures.

The monitoring and assessment of credit institutions' funding risks and funding risk management by competent authorities is fundamental to the evaluation of the institutions' capacity to execute their own funding plans and reduce reliance on public sector funding sources. Analysing credit institutions' funding plans, in aggregate, is an important element in assessing their coherence and feasibility, and in turn this helps to ensure that funding plans will not adversely affect the supply of credit to the real economy. The analysis of funding plans should be carried out at the level of each institution being monitored and of each Member State, as well as at the level of the Union as a whole.

The development of new financial products and structures is a feature of the financial system. In some cases, it can be difficult for market participants and competent authorities to understand the risks in new or innovative products (for example, collateral swaps and synthetic exchange-traded funds). In

⁽²⁾ The rationale presented here substantially follows the argumentation put forth in the ESRB Recommendation, updated for developments since its publication, such as the enactment of CRD IV/CRR.

particular, in times of stress this can lead to widespread uncertainty among investors, not only with regard to the instrument but also with regard to the institution. There is anecdotal evidence that credit institutions are resorting to products that are similar to deposits, without actually being deposits, an important feature of such products being that they are not covered by deposit guarantee schemes. As a result, such instruments can respond with greater volatility to signs of the institution being subject to stress, exacerbating the funding pressure on the bank if they are withdrawn. If this practice becomes widespread, significant costs in terms of legal fees and fines may be involved as a result of mis-selling complex products to unsophisticated investors, particularly in the retail segment. Even more important is the potential decrease in depositors' confidence, which ultimately also has a negative impact on the stability of deposits.

Consequently, the monitoring by competent authorities of the recourse to innovative instruments and to the provision of uninsured deposit-like financial instruments is necessary for the timely detection of risks, allowing competent authorities to take further supervisory actions whenever necessary.

Furthermore, the monitoring of the flow of credit to the real economy is an important element of macro-prudential stability, as provision of credit is a vital ingredient in a well-functioning economy.

In order for the monitoring and assessment of funding plans to be comparable and to work effectively for cross-border institutions, it is necessary to use consistent definitions and information structured in a way that allows different levels of aggregation. This will enable authorities to identify inconsistencies that will become evident only in a systemic context (e.g. a situation where all banks expect to grow deposits at a pace that the total deposit base could not deliver).

The monitoring and assessment of funding plans by competent authorities is a complex process, which starts with a conversation between competent authorities and credit institutions on the funding plans of the latter, namely the way they expect to match liabilities and assets at the present time and in the foreseeable future.

These guidelines seek to establish consistent, efficient and effective supervisory practices by harmonising templates and definitions, in order to facilitate the reporting of funding plans by credit institutions. The information will be provided to the competent authorities with responsibility for banking supervision and further to the EBA on the basis of Article 35 of the EBA Regulation. This is in fulfilment of paragraph 4 of Recommendation A of the ESRB Recommendations of 20 December 2012 on funding plans of credit institutions ('ESRB Recommendations' and 'ESRB Recommendation A')⁽³⁾, and it is done to facilitate compliance with paragraphs 1 to 3 and paragraph 5 of ESRB Recommendation A:

Recommendation A — monitoring and assessment of funding risks and funding risk management by supervisors

⁽³⁾ OJ C 2013, 119, p. 1.

1. National supervisory authorities with responsibility for banking supervision are recommended to intensify their assessments of the funding and liquidity risks incurred by credit institutions, as well as their funding risk management, within the broader balance-sheet structure, and should in particular:

(a) assess the funding plans provided by credit institutions and their feasibility for each national banking system, on an aggregated basis, taking into account the business model and risk appetite of each institution;

(b) monitor the development of funding structures in order to identify innovative instruments, request information on such instruments and analyse the information obtained to understand how risks may shift within the financial system;

(c) monitor the level, evolution and behaviour of uninsured deposit-like financial instruments, which are sold to retail customers, and their potentially negative effects on traditional deposits.

2. National supervisory authorities with responsibility for banking supervision are recommended to monitor credit institutions' plans to reduce reliance on public sector funding sources and to assess the viability of such plans for each national banking system, on an aggregated basis.

3. National supervisory authorities and other authorities with a macro-prudential mandate are recommended to assess the impact of credit institutions' funding plans on the flow of credit to the real economy.

4. The EBA is recommended to develop guidelines on harmonised templates and definitions, in accordance with its established consultation practices, in order to facilitate the reporting of funding plans for the purposes of the recommendations contained in paragraphs 1 to 3 above.

5. The EBA is recommended to coordinate the assessment of funding plans at Union level, including credit institutions' plans to reduce reliance on public sector funding sources, and to assess the viability of such plans for the Union banking system, on an aggregated basis.

In order to achieve the above, the EBA is proposing a set of templates and definitions, shown in the annex in detail, with the following attributes envisaged for use.

Data

1. All information requested is quantitative (with the exception of certain comment fields that are mandatory), with data item definitions as far as possible taken from existing EBA reporting.

Data definitions

2. Data definitions are taken from FINREP or the EBA implementing technical standards (ITS) on reporting wherever possible. The level of consolidation may or may not follow FINREP or International Financial Reporting Standards (IFRS) reporting: the level of consolidation is for national authorities to decide on a firm-by-firm basis (see below 'Consolidation').

Outturn data

3. Alongside the projections, outturn figures will be collected based upon the most recent financial accounting period (e.g. end-of-year accounts). Where the data definition and level of consolidation coincide with existing EBA reporting, data items will be taken from existing reports to avoid duplication.

Time horizon

4. Data items should be projected for 3 years: on a biannual frequency in year 1 and annually thereafter. The exception is Table 2B (Pricing), for which only a 1-year projection is required.

Unit

5. The data should be reported in millions of euros. For credit institutions whose primary currency is not the euro, they should convert to euros as of the starting date of the projection, which is the date on which the balance sheet was drawn up in reporting the actual current position.

Threshold criteria

6. The ESRB has set threshold criteria that require a competent authority to collect data from institutions that represent 75% of a banking system's total consolidated assets ⁽⁴⁾.

Frequency

7. The funding plan templates (i.e. all data points in all templates) have been designed to analyse credit institutions' strategies to meet their expected funding needs based on their 3-year forward-looking business strategies.
8. In particular, the templates can be used to assess how credit institutions plan to address those needs both individually and in aggregate (at national and European level). Since the templates have been designed to capture forward-looking projections over the next 3 years, they are most naturally collected annually.
9. This would be aligned with the majority of credit institutions' planning cycles, and is considered to be a proportionate use of competent authorities' and firms' resources. The annual outturn against the first-year projections would then be collected as part of the following year's templates and would be a useful back-test of the institution's ability to execute its funding strategy.
10. The EBA considers it very unlikely that a situation might arise where the full plans ought to be collected more frequently than annually (e.g. half-yearly, quarterly or monthly). In particular, these templates have not been designed to monitor credit institutions' short-term liquidity position (for contingency funding purposes, or for recovery or resolution planning, or crisis response). Thus, the EBA considers that collecting the templates more frequently would not be an appropriate response to institutions facing short-term funding or liquidity stress, and indeed the appropriate response to such a stress is the object of other EBA ITS. This would not preclude a one-off exercise to update the templates, e.g. for systemic reasons when national or EU-wide funding conditions suddenly change.

⁽⁴⁾ V.1.3.2 Compliance criteria (g), p. 46 of ESRB recommendations on funding of credit institutions (ESRB 2012/2).

Consolidation

11. A key consideration in the practical implementation of the EBA funding plan templates will be the level of consolidation at which the data is collected and the associated level of coverage of the data collection. The ESRB recommends that competent authorities collect information from institutions on a consolidated basis ⁽⁵⁾ with the data covering at least 75% of the banking system's total consolidated assets ⁽⁶⁾. In addition, the ESRB recommends that these national views are aggregated at EU level.
12. The precise interpretation of these compliance criteria is a matter for competent authorities. However, the credit institutions which will be covered come in different shapes and sizes: small institutions operating in a single EU country; cross-border EU institutions and global institutions, either headquartered in the EU or headquartered outside the EU with entities located in the EU. Where the perimeter of the institution differs from the national boundary, competent authorities will have to judge how best to achieve the objectives of the data collection. In light of the need to aggregate at EU level, the EBA judges that a degree of coordination between competent authorities would be valuable in making their choices on appropriate levels of consolidation firm by firm. (See paragraph 21 below.)

Reporting format

13. Competent authorities should require credit institutions to submit the data in an appropriate format that facilitates transfer and aggregation at national and EU levels and employ practices that safeguard the confidentiality of information.

⁽⁵⁾ V.1.3.2 Compliance criteria (f), p. 46 of ESRB recommendations on funding of credit institutions (ESRB 2012/2).

⁽⁶⁾ V.1.3.2 Compliance criteria (g), p. 46 of ESRB recommendations on funding of credit institutions (ESRB 2012/2).

4. EBA guidelines on harmonised templates and definitions for funding plans

Status of these guidelines

14. This document contains guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Banking Authority, amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC ('the EBA Regulation') ⁽⁷⁾, as amended by Regulation (EU) No 1022/2013 of the European Parliament and of the Council of 22 October 2013 amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority) as regards the conferral of specific tasks on the European Central Bank pursuant to Council Regulation (EU) No 1024/2013 ⁽⁸⁾ ('the EBA Regulation'). In accordance with Article 16(3) of the EBA Regulation, competent authorities and institutions must make every effort to comply with the guidelines.
15. EBA Guidelines set out the EBA's view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. The EBA therefore expects all competent authorities and credit institutions to comply with guidelines. Competent authorities to whom guidelines are addressed should comply by incorporating them into their supervisory practices as appropriate (e.g. by amending their legal framework or their supervisory processes), including where guidelines are directed primarily at institutions.

Reporting requirements

16. According to Article 16(3) of the EBA Regulation, competent authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise, with reasons for non-compliance, by 1 September 2014. In the absence of any notification by this deadline, competent authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the form provided at Section 5 to compliance@eba.europa.eu with the reference 'EBA/GL/201x/xx'. Notifications should be submitted by persons with appropriate authority to report compliance on behalf of their competent authorities.
17. Notifications will be published on the EBA website, in line with Article 16(3).

⁽⁷⁾ OJ L 331, p. 12.

⁽⁸⁾ OJ L 287, p. 5.

Title I – Subject matter, scope and definitions

18. These guidelines seek to establish consistent, efficient and effective supervisory practices by harmonising templates and definitions, in order to facilitate the reporting of funding plans from credit institutions to competent authorities and further to the EBA on the basis of Article 35 of the EBA Regulation, for the purposes of ensuring compliance with paragraphs 1–5 of Recommendation A of the ESRB Recommendations of 20 December 2012 on funding plans of credit institutions ('ESRB Recommendations' and 'ESRB Recommendation A') ⁽⁹⁾.
19. These guidelines are addressed to competent authorities as defined in Article 4(2) of the EBA Regulation.

Title II – Requirements regarding harmonised templates and definitions for the reporting of funding plans

20. Competent authorities should ensure that they use the harmonised templates and definitions of Annex I of these guidelines for the reporting of funding plans for the purposes of the ESRB recommendations A1–A3. Competent authorities should collect the data at least annually.
21. The level of consolidation of the harmonised templates and definitions of the previous paragraph as determined by the competent authorities should respect the following principles:
 - a. Adequacy of information: competent authorities should ensure that the information collected enables them to form a clear view on the funding of their national banking system and on the potential impact of the funding plans, when executed, on the supply of credit to their national real economy and should decide on whether to collect additional information that is mostly related to the funding of other (particularly non-EU) national banking systems.
 - b. Proportionality: competent authorities should ensure that the institution's resources are taken into account for the determination of the level of consolidation for the application of the template and definitions of Annex I of these guidelines.
22. Competent authorities should also provide the EBA with full transparency on the level of consolidation and explanation of choices to facilitate the EBA's aggregation of the data for EU-wide purposes. The scope of consolidation should follow the regulatory scope of consolidation with respect to the type of entities to be included or excluded (e.g. insurance entities within the group) for the purpose of the funding plan template.
23. Competent authorities should require firms to submit the data needed for the assessment of the funding plans by 28 February of each calendar year, with a reporting date of 31 December of the

⁽⁹⁾ OJ C 2013, 119, p. 1.

previous year. Competent authorities should transmit to the EBA all data received by 31 March of each calendar year.

Title III – Final provisions and implementation

24. These guidelines apply from 1 July 2014.

Annex 1

The design of the information collection is structured across multiple templates which request a projection of selected balance-sheet items focused on lending, deposits and wholesale funding.

Key features

| Tables | Explanation |
|---|--|
| SECTION 1: BALANCE SHEET | GOAL: To obtain a general overview of planned balance-sheet developments |
| Table 1A – Assets | <ul style="list-style-type: none"> Projection of the stock position of high-level balance-sheet asset and liability items forward for 3 years |
| Table B – Liabilities | |
| Table C – Forecast of liquidity ratios | <ul style="list-style-type: none"> Projection of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) ⁽¹⁰⁾ over a 3-year time horizon |
| SECTION 2: FUNDING RELIANCES | GOAL: To identify and assess (changes in) specific funding reliances |
| Table 2A: Specific funding reliances | |
| Table 2A1 – Insured and uninsured deposits and uninsured deposit-like financial instruments | <ul style="list-style-type: none"> Projection of deposits covered by a Deposit Guarantee scheme as under Directive No 94/19/EC or an equivalent deposit guarantee scheme in a third country and those which are uninsured Projection of other deposit like financial instruments that are sold to retail customers Projection of other deposit-like financial instruments that are innovative. The aim is to capture new types of funding sources which have not been used or relied upon in the past |
| Table 2A2 – Public sector sources of funding | <ul style="list-style-type: none"> Projection of sources of funding that are either directly or indirectly provided by the public sector. This includes medium- and long-term repo financing programmes, credit guarantee funding programmes and credit guarantee real economy support programmes |
| Table 2A3 – Innovative funding structures | <ul style="list-style-type: none"> Projection of debt or debt-like innovative funding structures, including innovative deposit-like instruments |
| Table 2B: Pricing | GOAL: To assess the feasibility of the planned funding from a price perspective |
| Table 2B1 – Pricing: loan assets | <ul style="list-style-type: none"> Projection of high-level yields on assets, with 1-year horizon |
| Table 2B2 – Pricing: deposit liabilities | <ul style="list-style-type: none"> Projection of high-level costs of funding, with 1-year horizon |
| Table 2C: Structural currency mismatches | GOAL: To identify and assess (changes in) funding mismatches in specific currencies |
| | <ul style="list-style-type: none"> Projection of specific elements of Table 1 split into the largest material |

⁽¹⁰⁾ This also applies to the period where LCR and NSFR are not yet fully introduced as binding minimum requirements, but where the required data is available through (monitoring) reporting.

| | |
|---|--|
| Table 2C1 – First-largest material currency | currency |
| Table 2C2 – Second-largest material currency | <ul style="list-style-type: none"> • Projection of specific elements of Table 1 split into the second-largest material currency |
| Table 2C3 – Third-largest material currency | <ul style="list-style-type: none"> • Projection of specific elements of Table 1 split into the third-largest material currency |
| Table 2D: Asset and liabilities restructuring plans | GOAL: To assess the feasibility of the funding plans when a firm is faced with significant restructuring (including acquisitions) of its balance sheet |
| Table 2D1 – Loan assets acquisitions, Run-Offs, and Disposals Plans | <ul style="list-style-type: none"> • Projection of assets a firm intends to either acquire/dispose of and/or that have been identified for run-off |
| Table 2D2 – Deposit liabilities acquisition and disposal plans | <ul style="list-style-type: none"> • Projection of liabilities a firm intends to either acquire or dispose of, and/or that have been identified for run-off |

PLEASE REFER TO *Annex 1 – Guidelines on funding plan templates* FOR THE EXCEL TEMPLATE WITH COMMON DATA DEFINITIONS.

5. Accompanying documents

Draft cost–benefit analysis/impact assessment

Introduction

As per Article 16(2) of the EBA regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council), a guideline developed by the EBA should, if appropriate, be accompanied by an impact assessment (IA) annex which analyses ‘the related potential costs and benefits’. This annex should provide an overview of the findings regarding the problem to be dealt with, the solutions proposed and the potential impact of these options.

This note outlines the Impact Assessment (IA) on the proposed harmonised templates and definitions stemming from ESRB Recommendation 2012/02 A.4, which states that ‘the EBA is recommended to develop guidelines on harmonised templates and definitions, in accordance to its established consultation practices, in order to facilitate the reporting of funding plans for the purposes of the recommendations contained in paragraphs 1 to 3 above’.

The EBA will consult on the guidelines to address the ESRB recommendation.

Problem definition

The EBA aims to achieve the maximum possible harmonisation as a means to (a) reach the objectives of the level playing field, (b) prevent regulatory arbitrage opportunities, (c) enhance supervisory convergence and (d) achieve legal clarity. In addition, the development of common procedures and practices is expected to reduce the compliance burden of the credit institutions and contribute to the efficient and effective cooperation among competent authorities.

In general, funding stress events are severe, low frequency and highly unpredictable and can have material adverse consequences on financial and economic stability. The currently planned regulatory reporting is in its vast majority backward or point-in-time orientated (e.g. LCR, contractual maturity ladder) and does not contain the forward-looking information beyond 1 year ahead that a funding plan would need to include, namely projection of planned assets of a bank, with the matching funding to cover these assets. Therefore, the currently planned reports do not provide the competent authorities with sufficient, timely and comparable information to judge accurately the soundness of the funding profiles of the institutions they supervise, nor to evaluate the overall funding state of the system from a macro-prudential perspective.

The proposed funding plan template is distinct from the LCR and NSFR because it addresses different questions and applies to a different horizon. The LCR and NSFR have a horizon of 30 days and 1 year respectively, and are based on the current balance sheet. By contrast, a funding plan requires

projections of assets, liabilities and/or flows to a longer horizon than a year. The proposal is that the projections look 3 years forward.

Additionally, ad hoc plans from Troika projects in programme countries or recovery and resolution plans may be ill-suited to generalise as templates, as by nature they address a specific situation and are of a greater depth and consequently impose a greater burden on the institutions reporting under these templates compared with the proposed template in these guidelines.

Across the EU, competent authorities use different templates to monitor the funding profiles of credit institutions, where they do so at all. In its impact assessment of the CRD IV framework, the European Commission highlighted that the fragmentation of supervisory reporting practices hampers effective communication and cooperation between competent authorities, putting financial stability and depositor protection at risk, particularly in stressed circumstances, when coordination between competent authorities is necessary. Moreover, it imposes additional reporting costs on cross-border institutions, because of different sets of requirements that apply at consolidated and solo levels.

Finally, the fact that competent authorities do not use a standard template within their jurisdiction makes it difficult to aggregate, including for the purpose of national-level and EU-wide assessment.

To address all these issues, the Commission mandated the EBA to harmonise reporting practices for liquidity coverage and stable funding, and the ESRB specifically recommended that the EBA develop harmonised templates for the reporting of funding plans. Through the proposed funding plan template, the EBA aims to provide a tool to facilitate the supervisory dialogue, based on common definitions. This tool will also allow system-wide analysis of the feasibility of the funding plans.

Level of implementation

The guidelines are issued and implemented on a 'comply or explain' basis. Without these guidelines, there is no unified system of regulatory reporting for credit institutions' funding plans, notwithstanding the fact that most supervisors are engaging in the review and monitoring of funding plans, particularly as this is an important part of the SREP with respect to the assessment of liquidity and funding risks.

The templates are aimed at assessing the funding plans of credit institutions.

The principle of proportionality is implicitly included in the current guidelines, as it was addressed by the aforementioned ESRB recommendation under part V.1.3.2 (g), (i) and (n), and the principles mentioned above in Annex 1, paragraph 14. As a result, funding plans will be submitted by the larger credit institutions in each Member State.

Objectives

General objectives

The impact assessment has been carried out having in mind that the general objective of ‘ensuring the international competitiveness of EU banking sector (G-3)’⁽¹⁾ is met, the principle of proportionality is respected and also seeking convergence of the banking system within the EU.

Problem drivers

There is no standardised reporting for the required information in the EU, and therefore any attempt to satisfy Recommendation A at national level is prone to (consistency) problems.

Operational objectives/specific objectives

The operational objective that has to be met is to develop harmonised templates and definitions in order to facilitate the reporting of funding plans for the following purposes:

- to promote good supervisory practice and improved communication in colleges;
- to intensify the assessment of the funding risk incurred by the credit institutions, as well as their funding risk management, within the broader balance-sheet structure and in particular:
 - ▶ to assess the funding plans provided by credit institutions and their feasibility for each national banking system, on an aggregated basis, taking into account the business model and risk appetite of each institution;
 - ▶ to monitor the development of funding structures in order to identify innovative instruments, request information on such instruments and analyse the information obtained to understand how risks may shift within the financial system;
 - ▶ to monitor the level, evolution and behaviour of uninsured deposit-like financial instruments, which are sold to retail customers, and their potentially negative effects on traditional deposits (Recommendation A.1);
- to monitor credit institutions’ plans to reduce reliance on public sector funding sources and assess the viability of such plans for each national banking system, on an aggregated basis (Recommendation A.2);
- to assess the impact of credit institutions’ funding plans on the flow of credit to the real economy (Recommendation A.3);
- to enhance supervisory cooperation and convergence.

Technical options proposed

The funding plan reporting is split into two templates and organised so as to provide a balance-sheet overview and macro-prudential information (Section 1), complemented by additional information (Section 2: Funding reliance, Pricing and Structural currency mismatches).

⁽¹⁾ For more information refer to the ‘Commission Staff Working Paper – Impact Assessment’ accompanying the document ‘Regulation of the European Parliament and the Council Regulation on prudential requirements for the credit institutions and investment firms’ (http://ec.europa.eu/internal_market/bank/docs/regcapital/CRD4_reform/IA_regulation_en.pdf).

The definitional basis was thoroughly considered. The starting point was that existing definitions should be used wherever possible, in order to limit the additional reporting burden. The two main alternatives considered for the definitional basis were FINREP and in particular the contractual maturity ladder (part of COREP) (Consultation Paper on Draft Implementing Technical Standards on Additional Liquidity Monitoring Metrics under Article 403(2) of the Draft Capital Requirements Regulation (CRR)). The main advantage of FINREP is the fact that it is potentially easier for credit institutions to project, because when constructing funding plans they use a balance-sheet approach and therefore consider stocks under a financial accounting concept. The contractual maturity ladder is produced at the liquidity sub-group level, which for some firms may be a natural unit for liquidity assessment, and indeed is the most granular unit in the presence of a waiver. The FINREP approach was chosen as it aligns more closely with existing data definitions and banks' internal practices.

Different time horizons for the forward-looking perspective have been discussed. The following options were considered:

- 1-year horizon;
- 3-year horizon;
- 5-year horizon;
- 10-year horizon.

Consensus was that it would be too difficult to estimate 5- to 10-year projections, as they extend beyond the economic cycle and thus it would be extremely difficult for credit institutions to project accurately. Moreover, experience has shown that far-reaching projections for a funding plan are affected not only by the uncertain economic environment but also by the potential change in the credit institution's management strategy. Since it is rather unrealistic to assume that the management of the credit institution (or its strategy) will remain the same for the following 5 to 10 years, the option of a 5- to 10-year horizon was rejected. On the other hand, the 1-year horizon would be too little to serve the micro- and macro-prudential perspective. Based on experience, 3 years appears to be the best option. It keeps the template manageable and to an appropriate size, minimising costs of completion, while providing enough information to indicate the direction a credit institution intends to follow (e.g. which asset classes it is targeting, etc.). Moreover, it is in line with the responses to the Consultation Paper on Draft Implementing Technical Standards on Additional Liquidity Monitoring Metrics under Article 403(2) of the Draft Capital Requirements Regulation (CRR), where the respondents recommended that the forward-looking horizon should not exceed 3 years.

In order to understand whether the funding plan is feasible, a section on pricing (in Table 2B) was introduced. Prices are an important part of SREP and represent a way for supervisors to get the credit institution's view on the costs of funding underlying the funding plan and use this information to assess the plan's feasibility in relation to the institution's business model. The current and projected costs of funding provide insights on the health of the plan and its feasibility, especially when market conditions would develop unfavourably.

Since funding markets in different currencies have the potential to behave differently, information on the main currencies an institution plans to target is necessary. In light of the need to keep the templates as simple as possible, a currency breakdown is not asked in every section. However, in order to have a view on what currency the credit institutions use to fund their assets (and identify potential concentration risks), a section on structural currency mismatches is included (in Table 2C). A

reporting credit institution has to complete this only if it has significant business (either assets or liabilities) in the foreign currency.

Moreover, in order to identify and monitor trends in uninsured deposit-like financial instruments, reliance on public sector funding and development of innovative instruments, specific items are asked for, targeting these specific issues (Table 2A).

For the macro-prudential mapping, the consensus view of ESRB ATC members was that the collection of information on real economy (monetary) figures should not be prioritised at the moment, and instead the approach taken was that the accounting-based information should be collected, with the additional breakdown of the domesticity of the counterparties and impairments. In this way, a proxy for the data necessary for the assessment of the impact on the flow of credit to the economy can be created by national authorities, while keeping the additional reporting burden to a minimum.

Cost–benefit analysis

Under the proposed templates, supervisors will get the minimum dataset that allows them to meet the objectives stated previously.

By reusing definitions used in other regulatory returns, the proposed templates promote consistency and provide banks with leverage and/or allow them to harness existing infrastructure and management information systems, without conceptual re-alignments.

Benefits

The benefits arising from implementing the proposed funding plan templates are difficult to quantify in monetary terms. However, the EBA identifies a series of important qualitatively assessed benefits.

During the recent past, the EU witnessed a funding crisis with consequences that are still felt today, which underlined the importance of effective supervision. The templates proposed in these guidelines provide competent authorities with a standard set of information regarding the funding plans of a credit institution. This additional information should enable them to make a better and earlier assessment of the potential funding risks, thereby improving the effectiveness of supervision.

The proposed templates allow the EBA as well as competent authorities to fulfil the ESRB Recommendation A. More specifically, the supervisors would have a tool to assess the funding plans of credit institutions and their feasibility on an aggregated basis; identify the development of innovative products; monitor the evolution of uninsured deposit-like financial instruments; monitor credit institutions' plans to reduce reliance on public sector funding sources; and assess the impact of credit institutions' funding plans on the flow of credit to the real economy.

The proposed templates and definitions provide a framework for a structured dialogue between competent authorities and credit institutions and a tool that would enhance supervisors' ability to prevent another crisis stemming from the funding profiles of credit institutions. For example, with the

data required in Section 2C, the competent authorities could have observed the role that asset-backed securities were gaining in the global banking system before 2007.

Many competent authorities have in place reporting requirements related to the funding plans of the supervised institutions. Implementing the proposed templates would improve the level of harmonisation at EU level, which would lead to the better functioning of colleges when addressing the important issue of a bank's funding plan. This would also allow for a better comparability between institutions and an easier aggregation of data. Moreover, harmonisation at European level would reduce the compliance costs for cross-border institutions.

Finally, an important focus point of the proposed templates is represented by the aggregation of the funding plans at national and EU-wide level, with a positive impact on the financial stability of the national systems and of the Union.

Given all the aforementioned points, the EBA considers the benefits of implementing the proposed funding plan templates as being **medium** for on-going supervision and **high** during bank crises. The ITS on Additional Liquidity Monitoring Metrics under Article 415(3)(b) of Regulation (EU) No 575/2013 estimates that the impact on **credit institutions** from the implementation of the ITS implies is 'Low', as the information should already be at their disposal. However, the level of the impact on **competent authorities**, as estimated in the ITS, coincides with the impact estimated in the present IA (Low) and the impact of the current guidelines is expected to be of the same level. On the other hand, the ITS do not estimate the benefits in monetary terms or in terms of level of magnitude.

Costs

The information required in the proposed templates does not exist fully in current reporting; therefore, the additional reporting requirements will pose a burden on banks. However, providing the required information should not be too onerous, as the templates (a) use existing definitions and therefore conceptual frameworks, (b) respect the proportionality principle and (c) request the absolute minimum of information to construct an adequate picture of a bank's funding plan. In addition, well-run credit institutions should already be going through the funding planning process and hence are likely to already have the required data in a broadly similar form.

The EBA acknowledges that **(Macro-prudential Information)** potentially may have a higher cost as it asks for breakdowns based on geography (domestic/non-domestic), which may not be immediately available to a credit institution.

The level of the impact on competent authorities estimated in the ITS on Additional Liquidity Monitoring Metrics coincides with the impact estimated in the present IA (Low).

The EBA estimates that overall costs are **low**.

Summary of the costs and benefits of the proposals

| Requirement | Party affected | Compliance costs | Benefits | Net impact |
|---|-----------------------|--|--|-------------------------------|
| <p>Section 1 (Balance-Sheet Overview)</p> <p>Section 2 (Financial Reliances)</p> <p>Section 2 (continued) (Structural Currency Mismatches)</p> | Credit institutions | Low (Some of the data required should already be in the accounting systems. Most of the definitions used are aligned with existing definitions.) The proportionality principle also ensures lower costs for smaller institutions | Low (funding plan reporting is currently done (if at all) in a heterogeneous way throughout the Union, based on domestic requirements. The harmonised reporting templates are expected to reduce the compliance costs for cross-border credit institutions; moreover, the credit institutions would be evaluated on the basis of uniform information, which would enhance supervisors' capacity to fairly assess their position within the peer group) | Positive (negligible) to zero |
| | Competent authorities | Low (the order of magnitude of the cost impact also depends on the extent to which data submission and storage facilities already established can be used) | Medium to high (improved effectiveness of supervision, financial stability, harmonisation, smoother functioning of the colleges) | Positive (Low) |
| Macro-prudential Information | Credit institutions | Low to medium | Low (lower costs for cross-border institutions) | Negative (negligible) to zero |
| | Competent Authorities | Low | Medium to high (improved effectiveness of supervision, financial stability, harmonisation) | Positive (low) |

Conclusion

Taking into account the aforementioned cost–benefit analysis, it is apparent that the introduction of harmonised templates and definitions for funding plans will have a net positive impact, as the benefits are expected to be higher than the costs.

Overview of questions for consultation

Q01. Are the proposed templates feasible in terms of completion?

Q02. Are the reporting templates and instructions sufficiently clear? Should some parts be clarified? Should some rows/columns be added or deleted?

Q03. Do you agree that the information to be gathered on the pricing of assets and liabilities (Section 2B) would provide effective insight into the expected development of funding costs within the broader scope of medium-term strategic planning? If not, do you have concrete suggestions as to what other information would be more suitable?

Q04. Do you agree that information on currency breakdown (Section 2C) will provide effective insight into possible currency mismatches? If so, will such information be easily available, and can it be reliably projected by credit institutions to the required horizon?

Q05. Are all the main drivers of costs and benefits identified in this CP? Are there any other costs or benefits missing? If yes, please specify which ones.

Q06. Do you agree with our analysis of the impact of the proposals in this CP? If not, please provide any evidence or data that would explain why you disagree or which might further inform our analysis of the likely impacts of the proposals.

Q07. Will firms subject to this template be able to report the data by 28 February for a reporting date of 31 December previous? Should the EBA explore other options, such as a split submission date (different deadlines for different parts of the template)?