Polish Bank Association respond to EBA Discussion Papers

II. “On Defining Liquid Assets in the LCR under the draft CRR”

General remarks:
Polish Bank Association welcomes the EBA’s discussion paper on Defining Liquid Assets in the LCR under the draft CRR which gives a very interesting insight into various methods of assessing the liquidity of instruments. Please find below our general comment and answers to your questions for your considerations.

PBA would like to stress that given the size, complexity and different business models the introduction of new liquidity rules may have a significant impact on the activity of institutions. The principal of the proportionality should be crucial in determining new requirements. In reference to the latest Council agreements, specificities of all concerned institutions and, in particular, cooperative banks, which play vital role for the local communities should be taken into consideration when designing new rules, definitions and methods of assessing the liquidity of instruments.

We would like to stress that Polish competent authorities in cooperation with polish banking sector have taken actions for the development and implementation of the Institutional Protection Scheme (IPS) that will allow the adaptation of Polish cooperative banks to the new liquidity requirements.
Answers to Questions:

Q1. Given the difficulties with obtaining transactional data outlined here, do you think a data sample cover 2008-2012 is sufficient for this analysis? Would you see merit in extending the sample in those countries where more data is available?

In our opinion, the length of proposed data sample is not sufficient in the respect of the modelling technique requirement to divide data sample into learning and testing sample. The parameters estimated based on learning sample should be verified based on testing sample. Thus, if possible, the sample should be extended to cover at least one more economic cycle.

Q2. Do you have additional data sources to suggest? Specifically, can you suggest a source of repo data and gold that would fit our needs?

We have no data source to suggest that will fit your needs. However, we expect that sample representativeness with respect to individual countries/markets is retained. It would be reasonable to establish some kind of source of data for whole local repo market, including non-government bonds. We suggest you contact with national competent authorities.

Q3. Do you agree with the list of liquidity metrics under consideration to be used in the EBA assessment, as mentioned in this section and Annex 5? Can you suggest further metrics the EBA should make use of, where information would be available?

We agree with the proposed list of metrics and consider it as comprehensive. However we would like to stress that it should be used very carefully because of the big number of metrics. Some of them can recognize particular asset as liquid and the other metrics as illiquid at the same time. The process based on this methodology should be executed periodically to avoid the situation where the particular asset recognized as illiquid will always be illiquid.

As we understand the significance of this list of metrics should be determined on local (jurisdiction) level as some of these measures may not be useful on smaller/less developed markets e.g. Poland.

Q4. Do you agree with the list of explanatory characteristics whose linkage to liquidity it is proposed to be tested in the EBA assessment? Can you suggest further characteristics the EBA should assess?
PBA agrees with the proposed list of explanatory characteristics. At the same time we would like to suggest adding to this list securities which can be pledged in local Central Bank. In case of crash scenario realization in the market this could be the only way to get cash in exchange for any assets.

As we understand the calibration of this list of characteristics should be left to local authorities as it will be difficult to find one “issue size” for large (e.g. Germany) and smaller markets (e.g. Poland).

Q5. Do you agree with the methodology proposed? Do you have alternative approaches that might be used?

Proposed “quantitative” methodology involves expert decisions/appraisals that may considerably impact the final results (e.g. the way of combination metrics together to provide ranking). What is more, we expect substantial differentiation in the value of metrics with respect to individual countries/markets. Thus, in our opinion any thresholds to be set should take into account the levels of developments of individual markets where appraised assets were issued. PBA believes that it would be reasonable to involve local competent authorities to reflect local market characteristics.

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