European Banking Authority

EBA Public hearing

30 January 2024

MiCAR liquidity related RTS and GL

EBA Public hearing – Goals and Rules

Goals

- The EBA organises 'public hearings' during the public consultation period for its RTS / ITS / GL to **allow interested parties to ask clarifications**;
- The purpose of the hearing is for the EBA to present a summary of the CP and ask attendees whether they require additional explanations or clarifications from the EBA so as to be able to answer the questions in the CP;
- The **public hearing does therefore <u>not</u> replace written responses to the CP**: the EBA can only consider the views of stakeholders via written responses.

Housekeeping rules

- To avoid background noise, please stay muted during the presentation, unless you take the floor.
- To increase audio quality please turn off video streaming if you are not speaking.
- If you would like to intervene during the Q&A session, please identify yourself, either:
  - a) Raising your hand on Teams and when the floor is given to you, by providing your full name and organisation; or
  - b) Indicating in the Teams chat your name and on which topic you'd like to intervene; or
  - c) Writing your question / comment directly in the Teams chat.

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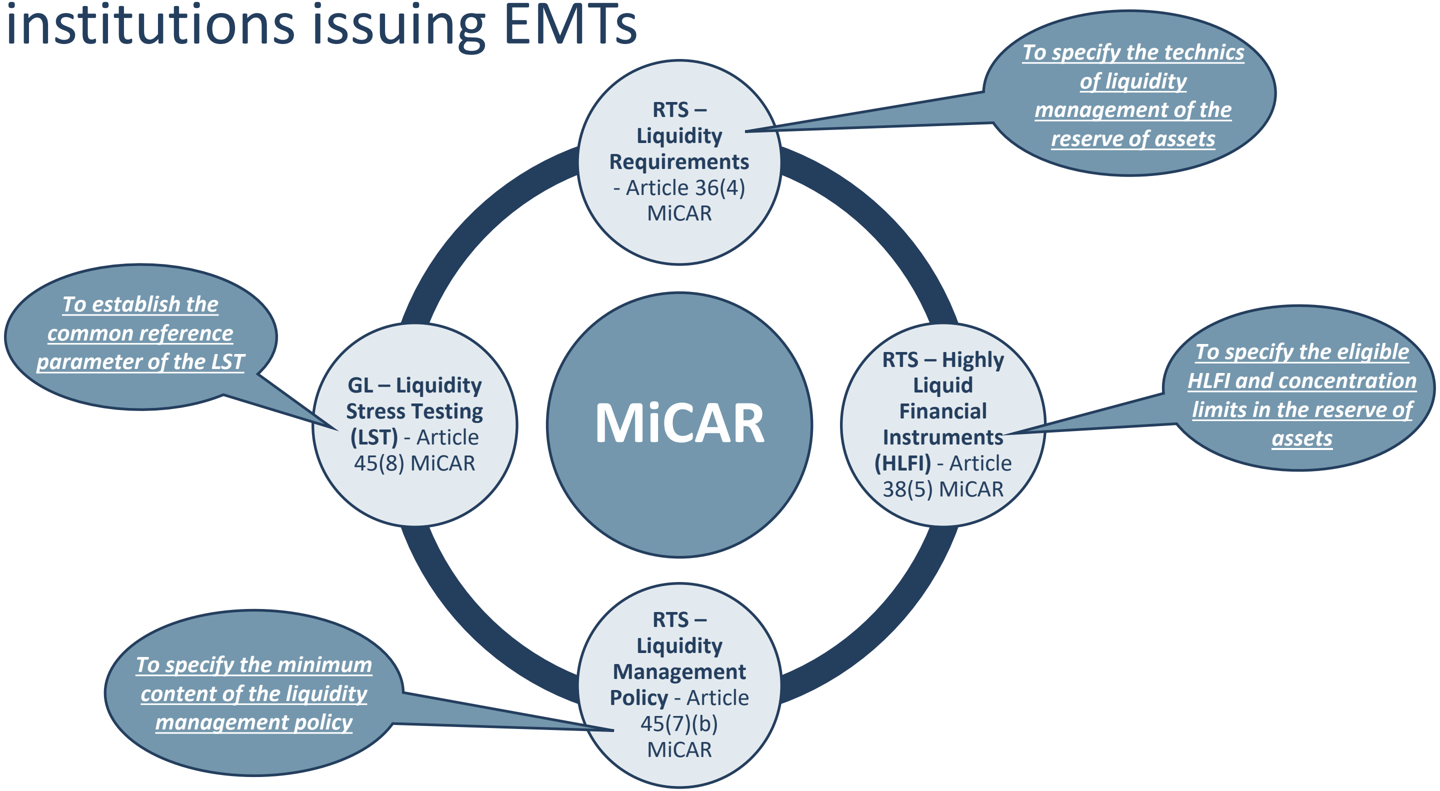
Liquidity risk – Regulatory framework for issuers of ARTs and for e-money institutions issuing EMTs



Timeline

8 November 2023 – Publication of consultation papers

30 January 2024 – Public hearing

8 February 2024 – End of public consultation

June 2024

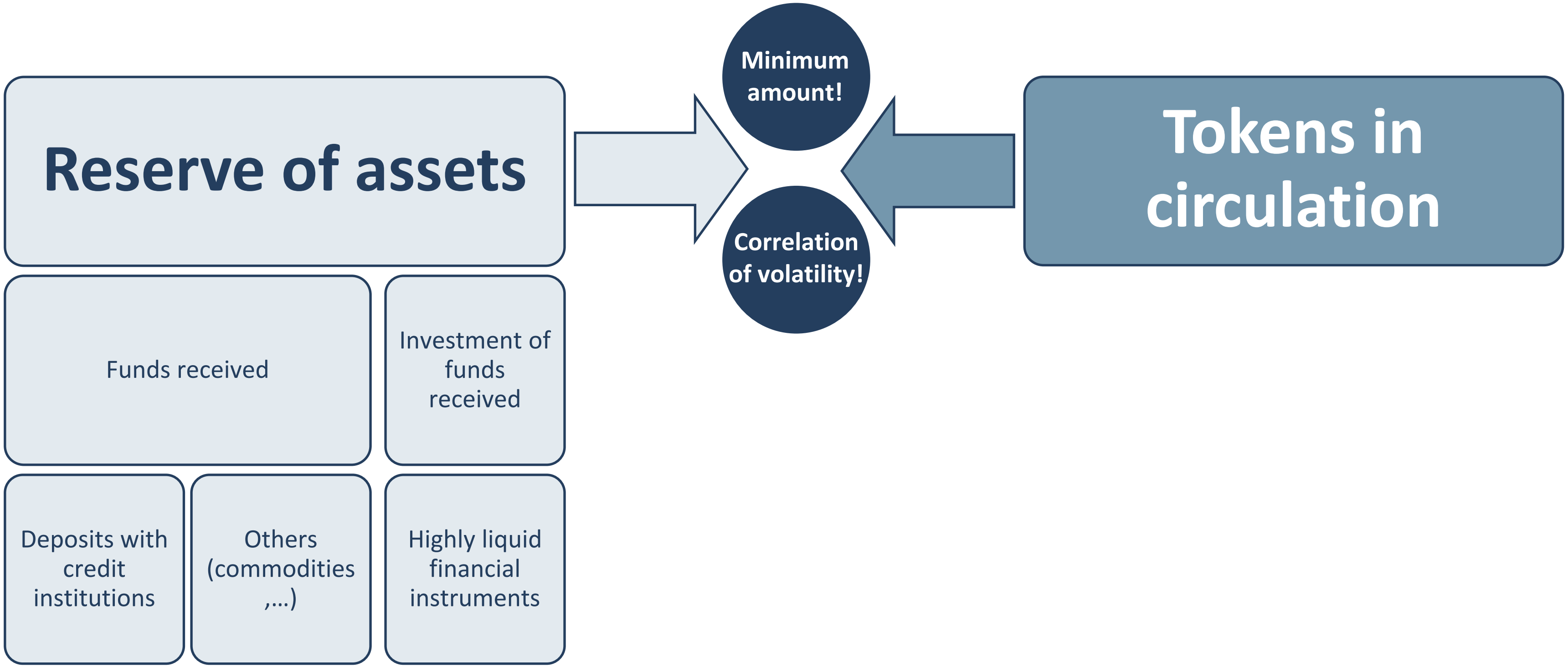
– Publication of draft RTS and submission to the EU Commission

– Publication of EBA GL

Application of the GL - 2 months after publication of the GL in all official languages.

Application of the RTS - 20 days after publication in the OJ following EU COM endorsement and scrutiny by EP and Council.

The reserve of assets



Highly liquid financial instruments (HLFI) - Article 38(5) MiCAR

Type of asset	Value	Cap in the reserve of assets	Concentration limit by issuer or guarantor (or with close links) in the reserve of assets	Other requirements
LCR 0% haircut level 1 HQLA	Market value considering cash-in/out flows from an early close out of market risk hedges	Uncapped	35%	LCR general and operational requirements with some exceptions
LCR Level 1 extremely high-quality covered bonds		35%	10%	
Financial instruments referenced by the token or related derivatives		Uncapped	5%	
Units of UCITs investing in other HLFI		Uncapped	5%	

<u>ONLY</u> for tokens not referenced to official currencies!!!

Specific liquidity requirements of the reserve of assets - Article 36(4) MiCAR

For tokens referenced to official currencies!!!

For tokens NOT referenced to official currencies!!!

Min. amount of deposits with banks	• 30% (significant token: 60%) of official currencies referenced.
Max. maturity of reserve of assets	• 1 day for 20% and 5 days for 30% (significant token: 40%/60%).
Max. maturity of reverse repos and depos	• 1 day for 20% and 5 days for 30% (significant token: 40%/60%).
Min. creditworthiness of bank deposits	• No expectation of non-performance.
Limit by bank deposit counterparty	• 10% of reserve assets (if not large institution: 5%); and • 2.5% of the total assets of the bank taking deposits.
Mandatory over-collateralisation	• Largest % excess of assets referenced versus reserve assets any 5 consecutive days over the last 5 years.
Unwind mechanism	• Reserve assets to be raised/reduced by reserve assets to be received/posted in SFTs maturing within 5 days.

Minimum content of the liquidity management policy - Article 45(7)(b) MiCAR

Procedures to identify, measure, manage, monitor and report on liquidity risk

- Composition of the reserve of assets,
- Market value of the reserve of assets,
- Concentration risk,
- Creditworthiness of deposits,
- Currency consistency,
- Minimum OC,
- Hedging strategies…

Contingency plan

- Early warning signals, e.g.:
  - Market value of reserve of assets vs assets referenced,
  - Market value of tokens vs assets referenced.
- Mitigation tools, e.g. access to diversified funding sources.
- Action plans, e.g. lines of responsibilities, strategies, internal limits…

Information on the liquidity stress testing

- Description of risks covered, parameters identified, calibration and outcome of the liquidity stress testing.

Liquidity stress testing - Article 45(8) MiCAR

Methodology

- Weighted amount of the reserve assets vs weighted amount of the assets referenced.
- Weights as stress factors to be calibrated by issuers taking into account:
  i. Specific parameters/information, as detailed in the GL; and
  ii. Specific risks (redemption risk, risks related to deposits, volatility risk, de-pegging risk), as detailed in the GL.
- The calibration should build on various stress scenarios and time horizons.
- The quantification of the stress factors should be based on own historical observations and of the markets as well as expert judgment.

Q&A session

MiCAR liquidity related RTS and GL

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Questions in the consultation papers (1 of 6)

Questions for consultation - CP RTS to specify the highly liquid financial instruments in the reserve of assets Article 38(5) MiCAR (1 of 2)

Question 1. Do respondents have any comment on the list of eligible highly liquid financial instruments provided under point (c) of Article 1(1) of these draft RTS?

Question 2. Do respondents have any comment on the general and operational requirements to be met by highly liquid financial instruments provided under points (a) and (b) of Article 1(1) of these draft RTS? Please explain if some criteria is expected to be challenging to be met in practice.

Question 3. Do respondents find the treatment for hedging derivatives under Article 2 clear to be applied?

Question 4. Do respondents think that the draft RTS create any impediment for issuers to ensure a good control of the correlation between the highly liquid financial instruments and the assets referenced? This is particularly relevant for the case of tokens referenced to assets other than official currencies.

Question 5. Do respondents have any concern about the feasibility for issuers to have the minimum amount of reserve of assets considering the list of eligible highly liquid financial instruments, the one-to-one currency matching requirement in Regulation (EU) 2023/1114 and the concentration limits under Article 3 of these draft RTS? This is particularly relevant for tokens referenced to official currencies.

Questions in the consultation papers (2 of 6)

Questions for consultation - CP RTS to specify the highly liquid financial instruments in the reserve of assets Article 38(5) MiCAR (2 of 2)

Question 6.	Do respondents have any concern about the operational feasibility of the look through approach envisaged in paragraph 3 of Article 3 of these draft RTS? If yes, please elaborate your answer and specify the reasons for the concerns.
Question 7.	Do respondents have any comment with regards to the unwind mechanism proposed under Article 4 of these draft RTS and the related examples provided?
Question 8.	Do respondents have any general comment about the interaction of these draft RTS with the business model and the continuity of the business of these activities?
Question 9.	Do respondents find any provision in these draft RTS confusing or difficult to understand?
Question 10.	Do respondent have any comment on the impact assessment provided?

Questions in the consultation papers (3 of 6)

Questions for consultation - CP RTS further specifying the liquidity requirements of the reserve of assets Article 36(4) MiCAR (1 of 2)

Question 1. Do respondents have any comment about the calibration of the percentages of reserve assets with specific maximum maturities as suggested in Article 1 and Article 2 of the draft RTS?

Question 2. Do respondents consider that the requirements in Article 1 and Article 2 related to the 1 and 5 working days maximum maturity could create excessive pressure in the repo market, taking into account the minimum required amount of deposits in credit institutions in the case of tokens referenced to official currencies?

Question 3. Do respondents have any comment on the proposed approach in Article 3 of the draft RTS to not increase the minimum amount of deposits from 30% (or 60% if the token is significant) of the asset referenced in each official currency?

Question 4. Do respondents have any comment with the definition of the requirement of a minimum liquidity soundness and creditworthiness in the deposits with credit institutions as proposed in Article 4 of the draft RTS?

Question 5. Do respondents have any comment about the definition of the requirement of a maximum concentration limit of deposits with credit institutions by counterparty in Article 5 of these draft RTS? And about the definition of the general limit considering, in addition to deposit with a bank, also the covered bonds issued by and unmargined OTC derivatives with the same bank counterparty?

Questions in the consultation papers (4 of 6)

Questions for consultation - CP RTS further specifying the liquidity requirements of the reserve of assets Article 36(4) MiCAR (2 of 2)

Question 6. Do respondents have any concern about compliance with these concentration limits in Article 5, considering in particular paragraph 14 of the cost/benefit analysis in relation to the potential operational burden and risk of a wrong direction diversification, linked to the minimum required liquidity soundness and creditworthiness of deposits with banks, and taking into account the minimum amount required of deposits with credit institutions by MiCAR for tokens referenced to official currencies?

Question 7. Do respondents have any comment about the definition of the mandatory over-collateralisation in Article 6 of these draft RTS and the rationale for it? Do respondents find it challenging from an operational perspective, in particular with respect to envisaging 5 days windows rather than 1 day windows for observation periods of the market value of the assets referenced versus the reserve of assets and over the previous 5 years? Please elaborate your response with detailed reasoning.

Question 8. Do respondent think that any provision in the draft RTS is confusing and that some clarification would be necessary?

Questions in the consultation papers (5 of 6)

Questions for consultation - CP RTS to specify the minimum content of the liquidity management policy Article 45(7)(b) MiCAR

Question 1. Do respondents have any concerns of Article 1 for the identification, measurement and monitoring of liquidity risk of issuers? Do respondents think that the main aspects in the processes for issuers of tokens to properly manage liquidity risk are captured?

Question 2. Do respondents have any comment on the minimum content of the liquidity contingency policy proposed in Article 2? In particular, do respondents have any concern on the inclusion of the required indicator to measure deviations between the market value of the token and the market value of the assets referenced as an early warning signal to be calibrated by the issuer?

Question 3. Do respondents find any challenge in the application of the segregation of the liquidity management policy as envisaged in Article 3?

Question 4. Do respondents have any comment regarding the minimum content envisaged in Article 4 of these RTS about the liquidity stress testing under Article 45(4) of MiCAR to be included in the liquidity management policy?

Question 5. Do respondents find any provision unclear to apply?

Question 6. Do respondents have any comment on the impact assessment provided?

Questions in the consultation papers (6 of 6)

Questions for consultation - CP GL on liquidity stress testing - Article 45(8) MiCAR

Question 1.	Do respondents have any comment with respect to the proposed non-re-strictive list of parameters of the stress test scenarios that need to be considered for the calibration of the stress factors?
Question 2.	Do respondents have any comment about the risks identified that need to be covered by the parameters of the stress test scenarios? Do respondents think that any other risk should be included?
Question 3.	Do respondents find operational challenges in the implementation of the guidelines?
Question 4.	Do respondents find any piece of the guidelines confusing or difficult to understand?

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