

Our response to the European Banking Authority's consultation on draft implementing technical standards on additional liquidity monitoring metrics

Introduction

The Building Societies Association represents mutual lenders and deposit takers in the UK including all 45 UK building societies. Mutual lenders and deposit takers have total assets of nearly £380 billion and, together with their subsidiaries, hold residential mortgages of over £250 billion, 20% of the total outstanding in the UK. They hold nearly £260 billion of retail deposits, accounting for 21% of all such deposits in the UK. Mutual deposit takers account for 30% of cash ISA balances. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.

Background

The Capital Requirements Regulation requires institutions to report liquidity risk information in addition to the liquidity coverage and stable funding ratios. The information will allow competent authorities, such as the Prudential Regulation Authority in the UK, to obtain a comprehensive view of the liquidity risk profile, *proportionate to the nature, scale and complexity of an institution's activities*.

The proposed metrics include:

1. a maturity ladder to provide insight into the extent to which a bank relies on maturity transformation under its current contracts. There will be two templates, one for contractual flows and one for behavioural flows.
2. additional monitoring tools relating to;
 - concentration of funding by counterparty
 - concentration of funding by product type
 - prices for various lengths of funding
 - rollover of funding.

Reporting frequency for all monitoring metrics is monthly but competent authorities can under certain circumstances reduce to frequency to quarterly, and conversely, can increase reporting requirements, for example, in a period of stress. We note the EBA may "consider further" (we interpret this as delay) the application date for reporting of additional metrics. This would be welcome for all institutions as it would give the new reporting regime time to bed in.

General

Supervisory reporting has both a micro- and a macro-prudential dimension. The supervisor needs to analyse firm-specific information as part of its engagement with individual firms. But the supervisor also wants aggregate sector-level information to inform macroprudential analysis. Our view is that these needs do not always overlap, and that the smallest institutions can be omitted from detailed reporting whose

purpose is largely macroprudential – as they are just too small to have an appreciable effect on the aggregate level picture.

Given that by definition the impact of a very small bank's failure will be modest, the amount and frequency of supervisory reporting even for micro-prudential purposes is clearly not necessarily the same as for a large bank, that should be the focus of intense supervisory activity.

A more nuanced way to approach reporting for macroprudential purposes would be to concentrate on those institutions, in descending order of size, whose assets/liabilities account for say 95% of those of the whole banking sector within a member state. The very small institutions comprising the last 5%, of that sector are unlikely to be able to affect the aggregate picture, so do not need to provide information merely in order to create a 100% data set for the whole sector. 95% thresholds can be used intelligently to reduce the burden of reporting for the smallest firms.

Q1 Are the proposed remittance dates feasible?

We recognise that the remittance dates are in line with those proposed for other liquidity reporting requirements as set out in EBA/ CP 2012/ 05. However, we consider 30 calendar days would be more appropriate, given the scale of the regulatory burden on firms, not just for liquidity. Such a relaxation would be of benefit to smaller firms which are disproportionately affected by the change in regulatory reporting.

Q2 Are the proposed frequency dates feasible? Has the proportionality been adequately considered?

Monthly might be appropriate for complex and multinational banking groups but is less so for smaller, non-systemic domestic institutions. For those, quarterly should be sufficient. Should institutions' circumstances change, Article 64 of the CRD allows supervisors to impose higher frequencies, which is an appropriate safeguard. But we do support the need for a suitably long transition phase of a minimum of two year to ease in the introduction of the new requirements.

The transition phase could be rolled out first to systemic institutions. The data they supply should be sufficient to inform the competent authorities of the national banking sector's liquidity risk profile in a comprehensive way.

Q3 Is the above size threshold of 1% of total assets suitable to determine a higher reporting frequency? Should such threshold be substituted or complemented by a liquidity-risk-based threshold or other quantitative criteria? If so, by which?

We agree with percentage of total assets as a threshold as it is clear and easy to compute. While a liquidity risk-based formula might seem more appropriate, it will undoubtedly be more complex and possibly subject to gaming. We believe the percentage is calibrated correctly but would like to see it reviewed at some stage.

Q4 Are the reporting templates and instructions sufficiently clear? Shall some parts be clarified? Shall some rows/columns be added or deleted?

Our members are best placed to answer this.

Q5 Could you indicate whether all the main drivers of costs and benefits have been identified in the table above? Are there any other costs or benefits missing? If yes, could you specify which ones?

The EBA acknowledges that the main costs to institutions will be related to IT systems and processes and to staffing. This is not insignificant given that some of the data produced will be of limited benefit, particularly to smaller institutions (and also, we suspect, to competent authorities). These tend to be purely domestic, sometimes regional or even local, operations like building societies in the UK. The EBA itself acknowledges that the uniform reporting formats are expected to reduce compliance costs of cross-border institutions.

Costs will in fact be disproportionately **higher**, not lower, for smaller institutions. These tend not to have specialist staff so have to buy them in, often at a higher cost than for more complex institutions that have superior buying clout through economies of scale. And unlike their larger, more complex counterparts, they tend to have to buy in software/ systems rather than amend current ones as their larger, more complex counterparts are better resourced to do. Wholesale reporting changes such as those wrought by the CRR hit them hard and do not necessarily provide them with data that helps them operate their businesses more effectively.

Q6 For institutions, could you indicate which type of costs (A1, A2, A3) are you more likely to incur? Could you explain what exactly drives these costs and give us an indication of their expected scale?

Our members are best placed to answer this question.

Q7 Do you agree with our analysis of the impact of the proposals in this CP? If not, can you provide any evidence or data that would explain why you disagree or might further inform our analysis of the likely impacts of the proposals?

Our members are best placed to answer this.

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