



Public Hearing

EBA

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Three CPs for currencies facing constraints:

- ITS On currencies with an extremely narrow definition of central bank eligibility under Article 416(5) of Regulation (EU) 575/2013 (Capital Requirements Regulation – CRR)
- ITS On currencies for which the justified demand for liquid assets exceeds the availability of those assets under Article 419(4) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR)
- RTS On derogations for currencies with constraints on the availability of liquid assets under Article 419(5) of Regulation (EU) 575/2013 (Capital Requirements Regulation – CRR)

Agenda

- > Background on EBA tasks
- > ITS on narrow central bank eligibility
 - Background in CRR
 - Approach & results
- > ITS & RTS on shortage of liquid assets
 - Background in CRR
 - ITS (containing the list and shortage percentages):
 - Methodological notes
 - Results
 - Robustness & updating
 - RTS (specifying derogations and its conditions)

Background – EBA tasks

- > New proposals on capital requirements (CRR / CRDIV) were published by the Commission on 20 July 2011
- > Presidency compromise texts published and final text of 20 March 2013;
- > Final text of CRR / CRDIV published on 27 June in Official Journal.
- > The CRR contains specific mandates for the EBA to develop draft Regulatory or Implementing Technical Standards as well as Guidelines (henceforth ‘GL’) related to Liquidity in order to enhance regulatory harmonisation in Europe through the single rulebook.

Background – EBA tasks

> Next EBA regulatory work on liquidity:

	Deadline
Report on Impact on LCR	31/12/2013
Report on definition of HQLA	31/12/2013
ITS on additional liquidity monitoring metrics	01/01/2014
GL on retail deposits subject to different outflows	01/01/2014
ITS on currencies with narrow central bank eligibility	31/03/2014
ITS on currencies with insufficiency of liquid assets	31/03/2014
RTS specifying derogations and conditions of their application	31/03/2014
RTS on additional collateral outflows on derivatives contracts	31/03/2014
RTS on criteria for intragroup outflows	01/01/2015
Report on NSFR	31/12/2015

ITS currencies with extremely narrow central bank eligibility – CRR background

> Mandate under Article 416 (5) CRR:

EBA shall develop draft implementing technical standards listing the currencies which meet the conditions referred to in the third subparagraph of paragraph 3.

EBA shall submit those draft implementing technical standards to the Commission by 31 March 2014.

> Third subparagraph of 416 (3) CRR:

The condition referred to in point (d) of the first subparagraph shall not apply in the case of liquid assets held to meet liquidity outflows in a currency in which there is an extremely narrow definition of central bank eligibility. In the case of liquid assets denominated in currencies of third countries, this exception shall apply and only apply if the competent authorities of the third country apply the same or an equivalent exception.

> Point (d) of 416 (3) CRR:

they are eligible collateral for standard liquidity operations of a central bank in a Member State or if the liquid assets are held to meet liquidity outflows in the currency of a third country, of the central bank of that third country;

ITS currencies with extremely narrow central bank eligibility – approach & result

- > Assumption: extremely narrow definition = only central government debt or debt issued by the central bank for standard operations.
- > EBA data-gathering exercise among Member States to ascertain eligibility of asset classes.
- > Strong variation among EEA central banks. The list is wide in the euro zone, while slightly less wide in the United Kingdom, Denmark, Norway and Sweden. A quite narrow range: Czech Republic and Iceland.
- > In the case of Bulgaria, the Bulgarian central bank does not extend liquidity to institutions except in extreme circumstances pursuant to Article 33 of the Law on the Bulgarian National Bank.
- > The result is that the list of currencies with extremely narrow central bank eligibility consists of just one currency: the Bulgarian leva.

Approach & result – ITS currencies with extremely narrow central bank eligibility (continued)

Central bank eligible assets	Bulgaria	Croatia	Czech Republic	Denmark	Euro area	Hungary	Iceland	Latvia	Lithuania	Norway	Poland	Romania	Sweden	United Kingdom
Debt instruments issued by central banks	no (1)	yes	yes	yes	yes	yes	yes	no	no	yes	yes	yes	yes	yes
Central government debt instruments	no (1)	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Supranational debt instruments	no (1)	yes	yes	no	yes	yes	no	no	no	yes	yes (only EIB) (4)	yes	yes	yes
Securities unconditionally guaranteed by the central government	no (1)	yes	no	yes	yes	yes	yes	yes (3)	yes (6)	yes	no	no	yes	yes
Local and regional government debt instruments	no (1)	no	no	yes	yes	yes (2)	no	no	no	yes	yes (4)	no	yes	no
Covered bonds	no (1)	no	no	yes	yes	yes (2)	no	yes (3)	no	yes	yes (4)	no	yes	yes
Debt instruments issued by corporate and other issuers	no (1)	no	no	no	yes	yes (2)	no	yes (3)	no	yes	yes (4)	no	yes	yes
Credit institutions debt instruments (other than covered bonds)	no (1)	no	no	yes (8)	yes	yes (2)	no	yes (3)	no	no	no	no	no	no
Asset backed securities	no (1)	no	no	no	yes	no	no	no	no	yes (4)	no	no	yes (5)	yes
Credit claims	no (1)	no	no	yes	yes	no	no	no	yes	no	no	no	no	yes
Residential mortgage backed debt instruments (rmbs)	no (1)	no	no	no	yes	no	no	no	no	no	no	no	no	yes
Other assets	no (1)	no	no	yes (9)	yes	no	no	no	yes (7)	no	no	By decision of CB	no	no
(1) Subject to currency boards arrangements														
(2) Allowed in principle, but only few requirements meet the requirements														
(3) Allowed in principle, but not used in practice														
(4) Subject to conditions														
(5) Only until 31. December 2013														
(6) State guarantees														
(7) Includes credit institution warranties, and guarantees issued by procedure established by the Government and other asset by decision of the Central Bank														
(8) Only debt instruments issued in connection with mortgage-credit financing. Not uncollateralised senior debt in general														
(9) Only temporarily														

ITS & RTS currencies with a shortage in liquid assets - CRR background

> Assessment to be performed under Article 419 (1) CRR:

EBA shall assess the availability for institutions of the liquid assets referred to in point (b) of Article 416(1) in the currencies that are relevant for institutions established in the Union.

> Derogations under Article 419 (2) CRR:

Where the justified needs for liquid assets in light of the requirement in Article 412 are exceeding the availability of those liquid assets in a currency, one or more of the following derogations shall apply:

(a) by way of derogation from point (f) of Article 417, the denomination of the liquid assets may be inconsistent with the distribution by currency of liquidity outflows after the deduction of inflows;

(b) for currencies of a Member State or third countries, required liquid assets may be substituted by credit lines from the central bank of that Member State or third country, which are contractually irrevocably committed for the next 30 days and are fairly priced, independent of the amount currently drawn, provided that the competent authorities of that Member State or third country do the same and that Member State or third country has comparable reporting requirements in place.

> Inverse proportionality of use under Article 419 (3) CRR:

The derogations applied in accordance with paragraph 2 shall be inversely proportional to the availability of the relevant assets. The justified needs of institutions shall be assessed taking into account their ability to reduce, by sound liquidity management, the need for those liquid assets and the holdings of those assets by other market participants.

ITS & RTS currencies with shortage in liquid assets - CRR background

> Mandate under Article 419 (4) CRR:

EBA shall develop draft implementing technical standards listing the currencies which meet the conditions set out in this Article.

EBA shall submit those draft regulatory technical standards to the Commission by 31 March 2014.

> Mandate under Article 419 (5) CRR:

EBA shall develop draft regulatory technical standards to specify the derogations referred to in paragraph 2 including the conditions of their application.

EBA shall submit those draft regulatory technical standards to the Commission by 31 March 2014.

ITS currencies with a shortage in liquid assets – general approach

- > Data collection and self-assessment by the Member States according to pre-determined methodology. The data collection completed for two currencies, namely the Norwegian krone (NOK) and the Danish krone (DKK).
- > Supply of liquid assets: Basel definition of high-quality liquid assets (HQLA), as in the January 2013 Basel rules text. To be reviewed after EU definition is finalised (delegated act from the Commission by 30 June 2014 in accordance with Article 460).
- > On the demand side, demand for liquid assets of CRR institutions (EBA voluntary exercise). Also here, the CRR is different: inflows referred to in Article 425(1) CRR (i.e. review necessary).

ITS currencies with a shortage in liquid assets – methodological notes

- > In formal terms, currencies face constraints on the availability of liquid assets if:
 $A < D + B$
- > where A is availability for institutions of liquid assets not locked up by e.g. pension funds, insurance companies and central banks.
- > $D = \sum cD(k)$
where $D(k)$ is the demand from institution k when liquidity coverage requirement = 1, and c is set at 1.1, reflecting the fact that institutions may aim for a LCR of 110%.
- > B is the estimate of the amount of free-floating assets required for a market to remain liquid, namely 25% of the total demand for liquid assets generated by the liquidity coverage requirement: $B = 0.25 * D$.

ITS currencies with a shortage in liquid assets – Results

- > Result: Norwegian krone (NOK) and Danish krone (DKK) are currencies with constraints on the availability of liquid assets.
- > Specifically, the available liquid assets denominated in NOK are estimated to be 62% of the aggregate demand for liquid assets denominated in NOK from institutions, assuming that they target a 110% liquidity coverage requirement.
- > The shortage without taking into account the 25% buffer for keeping markets liquid equates to 38%, that is $100\% - 62\%$. Incorporating the 25% buffer would result in a 63% shortage of NOK compared with the aggregate demand for NOK-denominated liquid assets.
- > For DKK, the available liquid assets are estimated to be 98% of the aggregate demand for liquid assets denominated in DKK from institutions, assuming that they target a 110% liquidity coverage requirement. The shortage without taking into account the 25% buffer for keeping markets liquid will then be $100\% - 98\% = 2\%$. Incorporating the 25% buffer would result in a 27% shortage in DKK compared with the aggregate demand for DKK-denominated liquid assets.

ITS currencies with a shortage in liquid assets – robustness and updating

- > Sensitivity analysis:
 - potential deviations from the Basel rules definition of liquid assets
 - scenarios in which supply or demand change
- > In this context: CRR-specific exclusion from inflow cap of inflows referred to in Article 425(1) CRR.
- > Repeat of analysis: if change (or series of changes) occurs that is likely to have a major impact on the outcome. And after delegated act.

RTS currencies with a shortage in liquid assets

The RTS specify the derogations and the conditions of their application as follows:

- > Firstly and continuously, institutions need to seek to reduce their need for a derogation.
- > Under derogation A, a general additional 8% haircut has to be applied to foreign currency liquid assets held to meet domestic currency net outflows to adjust for currency risk. This additional haircut can be lower in case of a mutually supported currency peg and higher in case of a non-global currency.
- > Under derogation B, the associated fees to be paid by institutions to the Central Bank should offset the higher yield earned on the assets kept to secure the credit lines and, if applicable, also incorporate a charge reflective of the amount drawn down.
- > Institutions should be able to limit or mitigate the risk of unintended consequences from the use of these derogations.

RTS currencies with a shortage in liquid assets (continued)

- > A limit to the total use of the derogations by institutions, which equals the above-mentioned relevant shortfall percentage for the relevant currency. The EBA's view is that the aggregate estimated shortfall in liquid assets can be offset by allowing each institution to cover its individual net outflows by means of the derogation up to the aforementioned percentage.
- > A detailed notification requirement (30 days prior to the initial use). Additionally, the use of derogations A and B reported in the reporting ITS.

Feedback welcome

We welcome feedback on the three BTS and in particular on the questions raised in the respective CPs.

Consultation period for the three draft BTS: 22 October – 22 December 2013

Thank you

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