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ESBG common response to the European Banking Authority consultation on draft implementing technical standards on currencies for which the justified demand for liquid assets exceeds the availability of those assets under Article 419(4) of Regulation (EU) 575/2013 (Capital Requirements Regulation – CRR).

WSBI-ESBG (World Institute of Savings and Retail Banks - European Savings and Retail Banking Group)

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First of all, the European Savings and retail Banking Group (ESBG) would like to welcome the opportunity to share its views on this draft regulatory technical standards paper. Please find below some of our main messages and views.

The ESBG would first like to highlight the surprising fact that the EBA only further investigates the Norwegian Krone and Danish Krone, leaving aside the Swedish Krone and the Central Eastern and South Eastern Europe (CESEE)currencies. Other countries may also experience somewhat of a deficit in liquid assets, especially, when taking into account the free-float exchange rate. We believe that a broader analysis should have been made. From our point of view it is important that the EBA makes an additional effort to gather data and perform a thorough **assessment for all** the **European Union currencies.**

We are concerned about the possibility of creating different level playing fields. It could happen that banks operating in countries in which a liquid assets shortage has been observed may gain advantage compared to banks operating in other jurisdictions. Moreover, in some of these excluded countries the demand for liquid assets is expected to exceed the supply of liquid assets in the domestic currency.

Therefore, the ESBG calls on theEBA to perform additional surveys to cover all EU currencies in its ITS in order to ensure a ‘level playing field’ to all banks within the EU which have to cope with the problem of a liquid asset shortage. Indeed, ensuring a ‘level playing field’ is one of the key functions and initial mandates of the EBA.

Furthermore, the definitions and data used in the analysis do not seem to be updated, as they have not used the CRR as a reference, but rather the Basel Committee’s definition. This is especially striking due to the fact that it is the CRR text which will be applied. Furthermore, this analysis has been made before finalising the rules on HQLA, which could be problematic as it makes this consultation less relevant. The assumption on the preferred LCR level, 110%, is also remarkable. The extra ‘buffer’ may affect institutions in a different manner depending on the bank and the business models. For a bank with wholesale flows as issued debt and lending/borrowing to credit institutions the LCR can be rather volatile and a 10% ‘buffer’ is probably too narrow.

Specifically, with regards to the Norwegian analysis we would like to comment on the consideration of the covered bond market as not liquid. This conclusion seems to be based on what is regarded as low trading volumes. For such an important purpose as defining assets eligible for the LCR, a broader assessment should be undertaken. An in-depth analysis of the Norwegian covered bond market, which takes into account more factors/variables, including that the market has been through a build-up phase, should be made. The market for the Norwegian Krone denominated covered bonds is now larger – in terms of outstanding volumes - than the Norwegian government bond market, and is regarded to be as liquid as the government bond market by market participants. Data show a turnover rate at the same level as government bonds excluding repos, and with lower volatility and spread levels. The repo activity is also increasing, and the industry is investigating the possibilities of establishing a more standardised repo market. In 2012 the Norwegian covered bond market was assessed by the Norwegian Accounting Standards Board as sufficiently deep and liquid to be used as the basis for calculating the discount rate for use in accordance with IAS 19.

The Norwegian covered bond market is vital for long term funding in the banking sector. A well-functioning national capital market is generally important for financial stability, especially, in times where stability is threatened. Norwegian covered bonds were also important in solving the liquidity crisis in 2008/2009, by being the basis for the “swap arrangement” set up by the government. Defining the Norwegian Krone covered bonds as illiquid and thereby not eligible for the LCR will make it very difficult for Norwegian banks to comply with the LCR requirements, and will very likely have a detrimental impact on the national covered bond market.

With regards to the CESEE countries, the expectation is that liquid assets denominated in some of these currencies will also turn out to be short of the estimated demand. Firstly, this can be due to the fact that the local CESEE debt and equity markets are rather undeveloped, i.e. are not ‘deep’ and the traded volume is very low. Secondly, the volume of domestic currency denominated government bonds in these countries is rather low. Thirdly, due to the pension system reform in most CESEE countries, a great part of the locally-issued government bonds is bought by local pension funds, which means that it is locked-up

**EBA methodology and assumptions**

Concerning the results of the shortfall calculation it seems clear that the estimated shortfall obtained will largely differ according to the assumptions made by the EBA; thereby, the suggested constraint on the use of derogations will also be heavily dependent on the aforementioned assumptions. In the Norwegian case the estimated shortage has been set at 63% for Norway. Even though the estimated shortage is 63% for Norway, this figure could easily be both higher and lower by applying slightly different assumptions. As a matter of fact, the sensitivity analysis made by the EBA clearly supports this view by showing that the shortfall varies from 47% to 83%. Therefore, our conclusion is that the methodology gives results which are far less robust than what is needed for such an important part of public regulation. This suggests that the use of derogations cannot be solely dependent on this estimate.

**About WSBI-ESBG (European Savings and Retail Banking Group)**

**WSBI-ESBG – The European Voice of Savings and Retail Banking**

WSBI-ESBG (European Savings and Retail Banking Group) is an international banking association that represents one of the largest European retail banking networks, comprising of approximately one-third of the retail banking market in Europe, with total assets of over €7,631 billion, non-bank deposits of €3,500 billion and non-bank loans of €4,200 billion (31 December 2011). It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

WSBI-ESBG members are typically savings and retail banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their region. WSBI-ESBG member banks have reinvested responsibly in their region for many decades and are a distinct benchmark for corporate social responsibility activities throughout Europe and the world.



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