European Banking Federation

Brussels, 20 March 2014

Launched in 1960, the European Banking Federation is the voice of the European banking sector from the European Union and European Free Trade Association countries. The EBF represents the interests of some 4,500 banks, large and small, wholesale and retail, local and cross-border financial institutions. Together, these banks account for over 80% of the total assets and deposits and some 80% of all bank loans in the EU alone.

EBF response to the EBA draft Guidelines proposing harmonised definitions and templates for funding plans of credit institutions (EBA/CP/2013/47)

General comments

In principle the EBF agrees that funding plans are important for each bank and a standard report across the EU makes sense in order to assess the feasibility of funding structures across the financial sector. However, we express concern that the EBA should treat its consolidated, EU-wide funding plan with care because:

- forecasts are based on assumptions which will never be totally accurate in their predictive ability and when consolidating the funding plans from all EU banks such variances in forecasts will be magnified.
- because banks undertake their funding plans at different points throughout the year, the data that they receive might already be 6 months old and therefore subject to review by the banks.
- is there merit in consolidating all EU countries into one funding plan (especially Eurozone versus non-Eurozone)?

In a first brief analysis we found some information missing or not detailed enough, other information requested we consider not indispensable for fulfilling the mandate of the ESRB recommendation. The additional technical and organizational efforts for banks to be undertaken for complying with the CP will be material therefore the template request should be restricted to the minimum necessary for covering the original ESRB intention.

Comparability

It is not clear how regulators will obtain meaningful information from the pricing templates. There is a danger that people will try to compare apples and oranges.

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Reporting timeframe

A two month reporting timeframe is too short when banks might only finalise their year-end results at the end of February. Also, some banks undertake their forecasting in the mid-year and not with a starting point of January. Therefore the forecast might be 6 months old or more. For other banks the funding plan process in banks normally is performed during 4th quarter being based at end of September figures. In any case, at the end of February no final accounting figures for end of previous year will be available which makes it practically impossible to use end-year-figures. We think funding plan reporting should be aligned with banks internal planning processes, which means it should be up to the bank to decide the point-in-time to which reports are based. In order to avoid unnecessary burden, EBA should allow some flexibility when it comes to important internal processes and not to make them more complex just for reporting purposes.

Therefore, the submission date should be by the end of March at the earliest. We also question whether this data really needs to be submitted at the start of 2015. Whilst recognising that all banks should have funding plans, the EBA should take account of the other data requirements being delivered by banks and therefore should place this one as a lower priority. Furthermore, both LCR and NSFR are still in calibration phase in the EU. Extremely important issues such as the composition of HQLAs and the run-off coefficients are still open. Against this background, funding plan reporting at the beginning of 2015 is a very ambitious goal. In particular, it might be that LCR and NSFR figures are not comparable between banks because of the different assumptions made. We propose that funding plan reporting is postponed until the contents of liquidity reporting are coherent enough.

Forecasting

The template is very forward looking. It is a bit strange to have to look forward three years, when the measure itself ‘only’ focuses on a period of one month. The somewhat mechanical estimation of the forward looking estimation of the growth/decline of DGS covered savings is another example.

Even for a year it is almost impossible to forecast prices as this depends on the development of market environment, business development, competition, customer behaviour and last but not least on measures taken by politicians, regulators and central banks which are difficult to foresee for the banks. It could be suggested to provide a qualitative assessment of expected market direction rather quantitative information in bps in the spreadsheet, however, this could suggest a precision which effectively is not given.

Furthermore, businesses which are driven by more short term trading decisions will have difficulty to plan and forecast for a multi-year horizon (e.g. Repo business, derivative business, cash balances, LCR).

Finally, there is a risk that funding plan and forecast pricing data might become treated as a fact by markets. Therefore we urge to the reporting of funding plans to be limited to supervisors and to avoid any form of public disclosure of these plans.

Therefore, LCR and NSFR forecasts should be reconsidered recognising that banks might set strategic targets for these and then manage balance sheets accordingly.

Pricing is difficult to forecast and the actual price might be significantly at odds with the forecast. It might therefore be better if free-form text boxes are made available to allow banks to describe potential pricing qualitatively rather than put it numerically.

Back testing assumptions

Where the level of uncertainty is known to be very substantial, back testing does not add any value. Next to this, the three year period is not substantiated and appears to have been chosen somewhat arbitrarily.

Taking account of different business models

It is unclear how competent authorities will take the characteristics of business models into account.

Scope of application

Though reporting is by most European banks thought to be on a consolidated level, national regulators in their own discretion may ask for a plan on legal entity level. Unclear how that plays together with a (liquidity) waiver. We strongly recommend that funding plan reporting will be only required on a consolidated level and flexibility is left for banks to opt for funding plan reporting at EURO individual level.

Data granularity and dimensions

- In section 1 1A Assets the item "other assets" should be split into high quality liquid assets, other investment bond position and other assets. The current set up in the template would not allow supervisors to assess the position of banks adequately.
- In table 1B central bank funding should be reported as a separate item.
- Table 1B distinguishes short-term (original maturity < 1 year) and long-term debt securities (original maturity > 1 year). It is not clear where debt issued with a maturity of one year should be included. We propose to define long-term debt securities as having an original maturity of one year or greater (original maturity => 1 year).
- A 3 year planning horizon for the short term LCR metric is not considered appropriate given the difficulty of forecasting a 30 day metric three years in advance.

- The funding plans of banks may rely on different customer segmentations making the necessary split into household/non household, resident/non-resident very cumbersome and diverging from current practice in banks. We suggest to collapse these dimensions and report aggregates
- Table 2A3 – innovative funding structures should be made optional and required only in case exposure of this kind of innovative products (clear definition of such products missing) is material (e.g. above 5% of total liabilities)
- Table 2A3 – it is difficult to make a distinction between retail and SME (row 90). Row 100 is often not possible, as most of the times the end-investor is not known.
- The tables 2B1 and 2B2 refer to the prices of future assets and liabilities. In our opinion such information is not necessary for the assessment of the adequacy of funding plan structures in the overall banking sector. Such assessment must be based on integrated and comprising volume information of bank balances compared with macroeconomic metrics. Future pricing will be dependent on future market situation and will be derive from the overall funding needs and plans of the banks. We therefore suggest to cancel both tables from the request.

Other observations

- Funding plans may be done mostly based on managerial data rather than accounting information.
- Multiyear plans may not be done annually in all banks while an annual funding plan with a one-year horizon would be the norm.

Response to Consultation Questions

Q01. Are the proposed templates feasible in terms of completion?

The report applies at prudential consolidated level, though it is not clear how the European-specific scope of funding and credit is available to EBA for Groups that are active outside of Europe.

Q02. Are the reporting templates and instructions sufficiently clear? Should some parts be clarified? Should some rows/columns be added or deleted?

Annex 1 – Key Features

- Section 1 Table C – Forecast of liquidity ratios
  LCR is hard to forecast over a 3 year horizon – forecast figures reflect the assumptions made
- Section 2 Table 2B1 / 2B2
  Forecast of external client pricing in bps is related to a high degree of uncertainty. Maybe better to provide a qualitative expert judgement of where banks believe the market is evolving to. Real figures may suggest a level of precision which is not appropriate.
- Section 2 Table 2C
  How shall fx fwd and ccy swaps be reported?

Excel Templates

<u>Section 1 Table 1A Assets</u>

- Shall the ‘w/o’- line items always sum up to the higher category or is this not necessarily the case?
- Does the criteria ‘domestic operations’ and ‘international operations’ refer to in which legal entity or region the transaction is book or does it refer more to where the customer is resident?
- For ‘international operations’ there is no split into customer groups. Why?
- For ‘residents’, is it the same definition as in the guidelines for additional outflows for retail deposits (i.e. EU residents and non-EU residents)?
- Where a loan to a ‘resident SME’ shall be reported, in row 040b or row 040d?
- For ‘mortgages’, is there a differentiation required with regard to KSA ? factor (as it is done for the NSFR)?
- For ‘credit provisions taken’, shall the nominal of the loans for which provisions have been taken be reported or the amount of provision taken itself?
- For ‘international operations’

- For ‘undrawn committed credit lines’, is it the face value of the line that is to be reported? If we assume a new line in year 1 for 2 years, which is expected to be drawn in year 2 for 50%, how shall such a transaction be reported in the template?

Section 1 Table 1B Liabilities

- Is row 210 supposed to be the sum of row 220 and row 230? Does that make sense?
- Row 370: Why reported as per original maturity? This means that a bond issued in year 1 is reported in year 3 still in this line item? What is the meaning of doing this?
- Row 390 (Total Equity) not differentiated further into type of capital (core, LT2, etc?)
- Line items 380 (derivatives), row 420 (deposits from other group entities): it is almost not possible to forecast over 3 years.

Section 1 Table 1C Liquidity Ratios

- Row 450/460 (LCR): this will be very dependant on assumptions used in the forecast over 3 years

Section 2A – Specific Funding Reliance

- Why are line items 010 to 040 not part of the breakdown in table 1A?
- Are line item 040 (‘deposit-like financial instruments’) and line item 080 (‘innovative deposit-like instruments’) distinct or overlapping?
- Does line item 050 include funding with central banks?
- Does line item 070 include pass-through promotional loans (‘Förderkredite’)? Is there a corresponding position on the asset side?
- Does the ‘o/w’ position in row 100 refer to the position in row 090 or in row 080?

Section 2B1 – Pricing on Loan Assets

- The pricing forecast is difficult, but even meaningless without differentiation into secured / unsecured and maturity.
- Shall the pricing incorporate all-in-costs (credit, interest, funding, margin) or only a particular component?

Section 2B2 – Pricing on Deposits

- The pricing forecast is difficult, but even meaningless without differentiation into secured / unsecured, different saving products and maturity.

Section 2C – Structural Currency Mismatches

- Guidance required on how to treat fx fwd and ccy swaps. How does the supervisor assess the mismatches without having any maturity information in the template?
- Does row 220 include derivatives, cash and fx?
- No separate disclosure of public sector funding?
- Shall row 206 and 270 be reported as per original or remaining maturity?

Section 2D – Asset and Liability Restructuring Plans

- Are assets and liabilities in this section supposed to be included in template 1A and 1B (i.e. they are separately reported in section 2D additionally)
- What is meant by 'asset / liability acquisitions'?

Q03. Do you agree that the information to be gathered on the pricing of assets and liabilities (Section 2B) would provide effective insight into the expected development of funding costs within the broader scope of medium-term strategic planning? If not, do you have concrete suggestions as to what other information would be more suitable?

See response to Question 2.

Q04. Do you agree that information on currency breakdown (Section 2C) will provide effective insight into possible currency mismatches? If so, will such information be easily available, and can it be reliably projected by credit institutions to the required horizon?

See response to Question 2.

Q05. Are all the main drivers of costs and benefits identified in this CP? Are there any other costs or benefits missing? If yes, please specify which ones.

Banks understand that there is a benefit for the supervisory authority to get a better consolidated picture of the financial system. For banks there is no big benefit as they already do the planning for themselves (though probably in a different format). They also will not benefit directly from the data gathering exercise as there will be no disclosure of the figures collected. Banks only may benefit from a more sustainable macro-prudential perspective.

Q06. Do you agree with our analysis of the impact of the proposals in this CP? If not, please provide any evidence or data that would explain why you disagree or which might further inform our analysis of the likely impacts of the proposals.

This requirement on its own certainly can be matched, however, the cumulative efforts given by all the outstanding regulatory requirements post an issue.

Q07. Will firms subject to this template be able to report the data by 28 February for a reporting date of 31 December previous? Should the EBA explore other options, such as a split submission date (different deadlines for different parts of the template)?

The dates used for forecasting and reporting that are required by the EBA do not match. For instance, forecasting is usually done in Q1 where reporting is based on Q4 data of the previous year, i.e. based on the assumptions from the year before. We would expect firms to be able to report by end of March, however the question raises a point for clarification.

In practice institutions will generate funding plans in advance of the year end and these plans will have been through the appropriate governance before 31 December. The plans will typically have included 31 December forecasts. Does the EBA intend that institutions should restate their plans using actual year end balances? If so, most institutions would expect to have to reapply its complete governance processes on this restatement of the position for year end balances. Is the EBA cognisant of that possibility and is this what was intended?

Collection of data should be no more frequent than annually per 31 Dec to be reported by 28 February the latest. Bank multi-year planning processes are not necessarily identical with regard to the calendar year. For instance, for some banks, the planning process starts after annual results have been published in March lasting for 3-4 months with board approval by July/Aug.