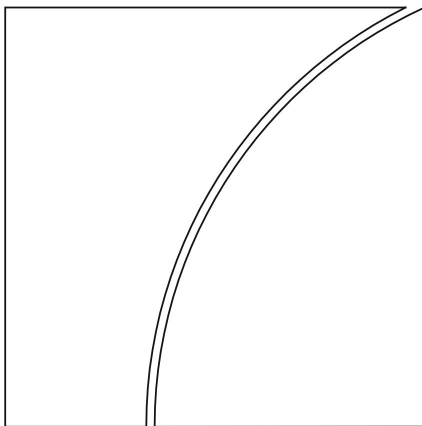
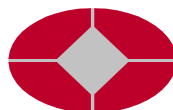
Basel Committee on Banking Supervision



Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel III LCR regulations – European Union

July 2017



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Glossary

ABS	Asset-backed securities
ALA	Alternative Liquidity Approaches
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BTS	Binding Technical Standards
CIU	Collective investment undertaking
CRD IV/CRR	Fourth Capital Requirements Directive and Capital Requirements Regulation
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EU	European Union
EUR	Euro
FAQ	Frequently asked question
G-SIB	Global systemically important bank
HQLA	High-quality liquid assets
ITS	Implementing Technical Standards
LCR	Liquidity Coverage Ratio
PSE	Public sector entity
RCAP	Regulatory Consistency Assessment Programme
SARB	South African Reserve Bank
SIG	Supervision and Implementation Group
SMEs	Small and medium-sized enterprises
SREP	Supervisory Review and Evaluation Process
SSM	Single Supervisory Mechanism
UK	United Kingdom

Preface

The Basel Committee on Banking Supervision (Basel Committee) sets a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if these are implemented appropriately and consistently by all member jurisdictions. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel framework.

This report presents the findings of the RCAP Assessment Team on the adoption of the Basel Liquidity Coverage Ratio (LCR) in the European Union (EU) and its consistency with the minimum requirements of the Basel III framework. The assessment is based on the EU LCR rules of the Capital Requirements Regulation (CRR) and the Fourth Capital Requirements Directive (CRD IV), supplemented by the Commission Delegated Act 2015/61 and the European Banking Authority (EBA) standards and guidelines in force as of 31 March 2017. The assessment was limited to the delegation of these directives and regulations to the nine Member States of the EU whose central banks and/or prudential supervisory agencies are Basel Committee members (Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain, Sweden and the United Kingdom ("the nine Member States")).[1]

The RCAP Assessment Team was led by Mr Rob Urry, Deputy Registrar of Banks, Bank Supervision Department of South African Reserve Bank (SARB). The Assessment Team comprised two technical experts, drawn from Australia and Indonesia (Annex 1). The main counterpart for the assessment was the European Commission (EC), which in turn coordinated with other EU and Member States' authorities. The overall work was coordinated by the Basel Committee Secretariat with support from SARB staff.

The assessment focuses on the consistency and completeness of the EU LCR rules with the Basel minimum requirements. Issues relating to prudential outcomes, the liquidity position of individual banks or the effectiveness of the EU authorities' supervisory effectiveness were not in the scope of this RCAP assessment. The assessment relied upon the EU regulations and other information and explanations provided by the EC and EBA and ultimately reflects the expert view of the Assessment Team on the documents and data reviewed. Where deviations from the Basel framework were identified, they were evaluated for their current and potential impact on the reported LCR for a sample of internationally active banks in the nine Member States. The materiality assessment relied upon the data, information and computations provided by the EBA. Some findings were evaluated on a qualitative basis in instances where appropriate quantitative data were not available. The overall assessment outcome was then based on the materiality of findings (in both quantitative and qualitative terms) and expert judgment. The Assessment Team followed the methodology and guidance provided in the RCAP Handbook for Jurisdictional Assessments.[2]

Starting in November 2016, the assessment comprised (i) completion of an RCAP questionnaire (a self-assessment) by the EU authorities; (ii) an assessment phase (November 2016 to March 2017); and (iii) a post-assessment review phase (April to June 2017). The second phase included an on-site visit assessment, which included discussions with the EU authorities and representatives of EU banks. These exchanges provided the Assessment Team with a deeper understanding of the implementation of the Basel LCR standards in the European Union. The third phase consisted of a two-stage technical review of the assessment findings: first, by a separate RCAP Review Team and via feedback from the Basel Committee's Supervision and Implementation Group; and second, by the RCAP Peer Review Board and

[1] The European Central Bank and the Single Supervisory Mechanism are also members of the Basel Committee. In addition, the European Commission and the European Banking Authority are members of the Basel Committee in an observer capacity.

[2] See www.bis.org/bcbs/publ/d361.htm.

the Basel Committee. This review process is a key part of the RCAP process, providing quality control and ensuring the integrity of the assessment findings.

The report has three sections and a set of annexes: (i) an executive summary with a statement from the EU authorities on the material findings; (ii) the context, scope and methodology and the main set of assessment findings; and (iii) details of the deviations and their materiality along with other assessment-related observations.

The RCAP Assessment Team acknowledges the professional cooperation received from the EU authorities throughout the assessment process. In particular, the Assessment Team sincerely thanks Martin Merlin, Kai Gereon Spitzer and their colleagues at the EC who ensured thorough cooperation during this RCAP exercise. The Assessment Team would also like to thank Adam Farkas and Isabelle Vaillant and their colleagues at the EBA for constructive engagement on the data aspects and in running the materiality tests. Finally, the team would like to thank the European Central Bank (ECB), the Single Supervisory Mechanism (SSM) and the Basel Committee members from the nine Member States along with their respective banks that participated in this RCAP assessment.

The Assessment Team is confident that the RCAP assessment exercise will contribute towards further strengthening of the prudential effectiveness and full implementation of the LCR in the EU.

Executive summary

The EU LCR framework was issued in January 2015 through the publication of the Commission Delegated Act 2015/61 of October 2014 that supplemented the liquidity coverage requirements provided for in the CRR. The LCR disclosure requirements provided in the CRR were supplemented by Guidelines on LCR disclosure published by the EBA in March 2017. The EU LCR regulation came into force on 1 October 2015 and applies to all banking institutions in the EU.

The Assessment Team finds the EU's LCR framework to be overall largely compliant with the Basel LCR standard, reflecting the fact that most but not all provisions of the Basel standard were incorporated in the EU LCR framework. The EU framework components for high-quality liquid assets (HQLA), inflows and disclosure requirements are assessed as largely compliant while the other LCR component, outflows, is assessed as compliant.

As at 31 March 2017 (cut-off date), the Assessment Team reported 20 remaining deviations from the Basel LCR standards. The majority of these deviations are not assessed as having a quantitatively or qualitatively material impact at the time of the RCAP review. Nevertheless, the Assessment Team identified one material deviation and four potentially material deviations that significantly overstate or may overstate the LCR for some banks in the EU and, in turn, may thus affect fairness and comparability both between EU banks and vis-à-vis other banks in jurisdictions that subscribe to the Basel framework.

The HQLA component grade is driven mainly by one material finding. The EU LCR regulations permit the inclusion of certain financial instruments that do not fulfil the HQLA requirements stipulated in the Basel LCR standard. Specifically, the EU recognises high-quality covered bonds[3] and assets issued by certain EU credit institutions as Level 1 HQLA. By contrast, the Basel LCR standard have a strict definition of Level 1 HQLA, which are limited mainly to instruments such as central bank reserves and 0% risk-weighted sovereigns. Further, the Assessment Team also observed one potentially material finding with regard to the treatment of asset-backed securities (ABS) and covered bonds.

Concerning the component grade assigned to inflows, the Assessment Team noted one potentially material finding that contributed to a largely compliant grading. The EU LCR regulations permit symmetrical treatment of operational deposits where the corresponding outflow rate can be identified (25% for both inflows and outflows), as opposed to the asymmetrical treatment in Basel LCR standards, ie 25% for outflows and 0% for inflows. In the case where the outflow rate cannot be reliably identified by the banks, the EU LCR regulations allow a 5% inflow rate to be applied.

The LCR disclosure component grade is driven mainly by one potentially material finding. Under the EU LCR rules, banks are required to disclose the LCR value as the simple average of month-end observations over the 12 months preceding the end of each quarter while the Basel framework requires that LCR be disclosed as simple average of *daily* observations over the previous quarter. This may result in a different disclosed LCR for EU banks and might lead to an overstated average LCR in bank's disclosure if EU banks seek to maximise their LCRs for the month-end measurement point.

The EU authorities have developed and implemented the necessary templates for banks to report compliance with the LCR. In some respects, the EU LCR framework is stricter than the Basel standards (Annex 13).

In addition to the formal assessment of the LCR standards and disclosure requirements, this report also provides an assessment of the EU's implementation of the Basel Principles for sound liquidity risk management and the LCR monitoring tools (Annexes 9 and 10). A summary of the key national

[3] The EU refers to such bonds as "extremely high-quality liquid assets.

discretions and approaches that the EU has adopted in their implementation of the LCR standards is provided in Annex 14. These annexes help to clarify how national authorities in the EU implement certain aspects of the Basel standards that are not in the scope of the formal RCAP-LCR assessment. Over time, the information detailed in these annexes will provide a basis for designing best practices and additional supervisory guidance that will benefit the regulatory community and the banking industry to raise the consistency of the LCR's implementation and to improve its effectiveness in practice.

Response from the European Union authorities

The European Commission and the European Banking Authority sincerely thank Mr Rob Urry and the Assessment Team for their work on the present draft report. We appreciate the thorough comparison of Basel standards and EU law and commend the professionalism and rigour that the whole Assessment Team demonstrated, which ensured constructive and thorough discussions on the implementation of the Basel III LCR Standards in the EU context.

We welcome and share the assessment that the implementation of the LCR in the European Union remains largely compliant with the Basel III LCR Standards. The main observations included in the report relate to the additional recognition of assets in the definition of HQLA, the recognition of inflows on operational deposits and the calculation of the LCR for disclosure purposes. These observations are correct and result from conscious choices in EU legislation, which we would like to briefly explain in this response.

We believe that the limited broadening of HQLA definition reflects European or national specificities and remains largely consistent with the Basel III LCR Standards. In particular, evidence demonstrates the equivalent liquidity of the additional assets included and, therefore, the choice made is fully consistent with the spirit of the Basel Committee's agreement.

The important share of long-term funding of credit institutions and of the economic activity through the issuance of covered bonds is a defining and specific characteristic of the European economy. The inclusion, under strict conditions, of extremely high-quality covered bonds in Level 1 is motivated by the liquidity patterns of these instruments, which, over long periods of observation, including times of stress, have exhibited liquidity characteristics equivalent to other eligible Level 1 assets.

Securitisation is another key funding channel for the European economy. The enlargement of the definition of Level 2B assets to high-quality asset-backed securities that are backed by a few types of asset other than residential mortgages reflects their good credit and liquidity performance during the financial crisis, which was equivalent to that of other Level 2 assets.

With respect to inflow rates for operational deposits, symmetrical outflow rates for the receiving institution seem justified when the depositing credit institutions are able to identify that these deposits are treated as operational by the receiving institution. The impact of this adjustment on the LCR of EU banks is minimal and we have no reason to believe that it will become more important in the future.

The EU LCR disclosure is based on monthly supervisory reporting observations and its accuracy and reliability should be assessed in line with the supervisory reporting of monthly frequency as suggested in the LCR Basel standard. We believe that monthly observations do not *per se* result in more favourable disclosed LCR figures and that the construction of the LCR by the Basel Committee itself effectively prevents banks from presenting particularly favourable LCR calculations on specific disclosure dates.

1 Assessment context and main findings

1.1 Context

Status of implementation

Taking effect on 1 January 2014, the CRR and CRD IV are the primary binding legislation across all Member States implementing Basel III standards in the European Union.[4] The CRR is a directly applicable Regulation that applies to banks and their supervisors in the EU. By contrast, CRD IV is a Directive that requires the Member States to enact legislation that conforms to the requirements of that Directive. Failure to enact national legislation is immediately sanctioned by an infringement procedure.

The Regulation introduces a general LCR requirement, whereas the Directive requires Member States to vest their supervisory authorities with certain powers, for instance to impose general provisions on liquidity risk management and supervision-specific capital requirements not covered by the CRR's capital requirements. The Regulation provided a mandate for the EC to issue a Delegated Act (Article 460) to specify the general LCR requirement. This Commission Delegated Act (2015/61) was published in January 2015. The Regulation also provided a mandate for the EBA to develop Implementing Technical Standards (ITS) on LCR supervisory reporting, including on additional monitoring metrics. Further, guidelines on LCR disclosure were published by the EBA in March 2017. The EC and the EBA oversee the consistent application of EU law. The status of implementation of Basel III in the EU is indicated in Annex 3.

Structure of the banking sector

The EU has around 8,000 credit institutions (banks), ranging from very small local banks to specialised banks plus some of the largest global systemically important banks (G-SIBs). These banks account for about EUR 45 trillion in total assets or 52% of global banking assets.

In broad terms, banks in the EU can be grouped into three categories: first, a very large group of small community-based or regional banks, most of which have assets of less than EUR 1 billion; second, a group of medium-sized banks with assets ranging from EUR 1 billion to EUR 100 billion which operate on a Member State basis; and a third group consisting of around 65 large banks with assets that exceed EUR 100 billion. Only a limited number of the latter have significant business activities outside the EU. Moreover, there is a considerable diversity of business models (universal banks vs more specialised institutions) and legal forms (notably private corporations, public law corporations and cooperative/mutual institutions) across EU banks.

Within the EU, the nine Member States that are also members of the Basel Committee are home to around 4,000 EU banks that account for 86% of the total assets of all EU banks or 45% of global banking assets. As of December 2016, the nine Member States accounted for all of the 13 banking groups from the EU that were classified as G-SIBs by the Basel Committee and Financial Stability Board. The largest banking groups in the EU are typically "universal banks" and some groups include subsidiary entities that offer insurance services and therefore fall under financial conglomerate regulation and supervision in the EU. Some of the large universal EU banks have evolved into groups with significant global capital market and trading operations. Key financial indicators of the nine Member States are shown in Annex 7.

[4] A list of various Basel standards used for the RCAP assessment is given in Annex 2.

1.2 Structure, enforceability and binding nature of prudential regulations

The CRR and CRD IV apply to all banks in the EU. Given the need to reflect their diversity on the one hand, and the EU's emphasis on creating a "single rule book" for the entire banking system on the other, the regulatory structure seeks to balance these objectives to the extent possible. EU-level rules have been formulated in such a way as to encompass all institutions, regardless of size or systemic importance, and apply in all Member States (including Member States that are not members of the Basel Committee).

The CRD IV is a binding directive that must be implemented by Member States in their national laws. This Directive requires Member States to vest competent authorities with sufficient powers to address particular risks in individual banks or sectors of their banking industry that are not well covered by the general requirements of Pillar 1 and to impose sanctions.

The CRR by contrast is a directly applicable Regulation, an EU law that immediately binds banks to comply with LCR requirements. As such, it does not require implementing acts at EU or Member State level. Nevertheless, the CRR also empowers the EC and the EBA to issue acts of secondary legislation (LCR Delegated Acts, including Binding Technical Standards (BTS)) specifying additional detailed requirements through acts that are themselves laws directly binding on banks.

The EBA also issues Guidelines and Recommendations that are publicly available instruments about how requirements of EU law are to be applied by European regulators and supervisors. However, in justified instances, the nine Member States can choose not to follow EBA Guidelines and Recommendations. EU legislation, however, requires that all such instances and their reasons be placed in the public record.

This assessment relied upon the legal force of Directives and Regulations, including LCR Delegated Act and EBA BTS). It also took into account the Guidelines and Recommendations of EBA to the extent that written confirmations were received from the nine Member States that they had implemented the guidelines and recommendations.

Annex 3 describes the structure and hierarchy of various Regulations, Directives and Technical Standards implementing Basel III in the EU that formed the basis for assessment and their hierarchy. The Assessment Team's view on the binding nature of the documents that formed the basis for assessment is contained in Annex 6.

Supervisory authorities of the Member States ("competent authorities") are required by EU law to ensure that banks follow EU and Member State law. EU law requires that competent authorities be vested with appropriate sanctioning powers. In applying EU law, those supervisors are in certain instances explicitly empowered to make certain choices in the application of EU law to banks that they have authorised. They can also issue administrative guidance publicly that binds the way they apply EU law.

The assessment made on the LCR disclosure requirements were based on the Guidelines on LCR disclosure published by the EBA on 8 March 2017 (GL/2017/01), which complemented the disclosure of liquidity risk management under Article 435 of the CRR. These guidelines are viewed as binding to the extent that the nine Member States agree to implement the guidelines.

1.3 Scope of the assessment

The assessment covered the nine Member States that are home to 13 G-SIBs: four in France, one in Germany, one in Italy, one in the Netherlands, one in Spain, one in Sweden and four in the United Kingdom (UK).

The Assessment Team took into consideration the CRR and CRD IV and other documents mentioned in Annex 3 that implement and bring into force the Basel LCR framework in the EU. The assessment evaluated neither the adequacy of the LCR nor the banking system's resilience in the EU, nor

did it review the supervisory effectiveness of the relevant supervisory agencies. The assessment also did not involve verification of the actual implementation by banks.

In evaluating the materiality of the findings, the quantification was limited to the agreed 20 banks subject to the RCAP review (see Annex 8). These banks hold more than 70% of the assets of internationally active banks in the EU.

Assessment grading and methodology

As per the RCAP methodology approved by the Basel Committee, the outcome of the assessment was summarised using a four-grade scale, both at the level of each of the four key components of the Basel framework for the LCR and the overall assessment of compliance: compliant, largely compliant, materially non-compliant and non-compliant.[5]

The materiality of the deviations was assessed in terms of their current or, where applicable, potential future impact on banks' LCRs. Wherever relevant and feasible, the Assessment Team, together with the EU authorities, attempted to quantify the impact based on data collected from EU banks in the agreed sample. The non-quantifiable aspects of identified deviations were discussed and reviewed with the EU authorities, in the context of the prevailing regulatory practices and processes.

Ultimately, the assignment of the assessment grades was guided by the collective expert judgment of the Assessment Team. In doing so, the Assessment Team relied on the general principle that the burden of proof rests with the assessed jurisdiction to show that a finding is not material or not potentially material. A summary of the materiality analysis is given in Section 2 and Annex 8.

In some cases, EU LCR requirements set a higher compliance standard than the minimum Basel standards. Although these elements provide for a more rigorous implementation of the Basel framework in some respects, they have not been taken into account for the assessment of compliance under the RCAP methodology as per the agreed assessment methodology (see Annex 13 for a list of areas of super-equivalence).

1.4 Main findings

A summary of the main findings is indicated in Table 1. Overall, the Assessment Team considers the EU LCR regulation issued by the RCAP cut-off date as largely compliant with the Basel standards. More detail is provided in the main findings section below.

Summary assessment grading — Table 1

Key components of the Basel LCR framework	Grade
Overall grade	Largely compliant
LCR subcomponents	
High-quality liquid assets (numerator)	Largely compliant
Outflows (denominator)	Compliant
Inflows (denominator)	Largely compliant
LCR disclosure requirements	Largely compliant

[5] This four-grade scale is consistent with the approach used for assessing countries' compliance with the Basel Committee's *Core principles for effective banking supervision*. The actual definition of the four grades has been adjusted to take into account the different nature of the two exercises. In addition, components of the Basel framework that are not relevant to an individual jurisdiction may be assessed as not applicable (N/A). See www.bis.org/publ/bcbs264.htm for further details.

Definition of the grades): **compliant (C)**: all minimum Basel provisions have been satisfied and no material deviations have been found that would give rise to prudential concerns or provide a competitive advantage to internationally active banks; **largely compliant (LC)**: only minor provisions have not been satisfied and differences that have a limited impact on financial stability or the international level playing field have been identified; **materially non-compliant (MNC)**: key provisions of the framework have not been satisfied or differences that could materially impact the LCR: **non-compliant (NC)**: the regulation has not been adopted or differences that could severely impact the LCR and financial stability or international level playing field have been identified.

Colour code:

Compliant	C
Largely compliant	LC
Materially non-compliant	MNC
Non-compliant	NC

Main findings by component

High-quality liquid assets (numerator)

The principles regarding the HQLA under the EU LCR rules are assessed as largely compliant with the Basel standards.

The Assessment Team identified some findings, one of which is considered material and another one potentially material.

The material deviation is related to the expansion of the HQLA definition, in which the EU Authorities include some instruments that are not listed in the Basel standard. In Level 1 HQLA, the EU Authorities recognise the eligibility of high-quality covered bonds with some criteria applied, in particular a high credit rating and minimum issue size.

In addition, EU LCR Regulations also recognise the eligibility of assets issued by certain credit institutions, for which either the Member State has the legal obligation to protect the economic basis of the credit institution, or the credit institution is a promotional lender.[6]

The Assessment Team also found as a potentially material deviation from the Basel framework, the recognition of: (i) ABS with underlying assets other than those envisaged in the Basel standard; and (ii) covered bonds recognised as assets qualifying under Level 2B HQLA.

Outflows (denominator)

The EU rules regarding outflows are assessed as compliant with the Basel standards.

The Assessment Team identified some findings, one of which is considered a potentially material deviation from the Basel framework. The Basel rules specify that operational deposit treatment may be applied to clearing, custody and cash management accounts. There is no discretion for classifying other types of deposit as operational. By contrast, the EU regulations allow for other types of account that are operational in nature with no specifics given.

The Assessment Team also listed one issue for further guidance from the Basel Committee. This issue relates to the qualification of term deposits for exclusion from the LCR. Specifically, the Assessment Team is of the view that the meaning and intention for early redemption requests to be subject to a

[6] EU Regulations specify the promotional lender as any credit institution whose purpose is to advance the public policy objectives of the Union or of the central or regional government or local authority in a Member State predominantly through the provision of promotional loans on a non-competitive, not for profit basis, provided that at least 90% of the loans that it grants are directly or indirectly guaranteed by the government.

"significant penalty greater than the loss of interest" is not sufficiently clear and may subject to varying interpretation (see Annex 11 for further details).

Inflows (denominator)

The EU rules regarding the liquidity inflows are assessed as largely compliant with the Basel standards.

The Assessment Team found three findings, one of which is considered potentially material. The Basel rules stipulate a 0% inflow rate from a bank's operational deposits placed at other banks while the EU regulations allow banks to recognise positive inflows, which in the extreme case could be a 25% inflow (symmetrical treatment of inflows and outflows between banks).

Disclosure requirements

The EU rules regarding the LCR disclosure requirements are assessed largely compliant with the Basel standards.

The Assessment Team found one potentially material finding. Under the EU LCR rules, banks are required to disclose the LCR value as the simple average of month-end observations over the 12 months preceding the end of each quarter while the Basel framework requires that LCR be disclosed as a simple average of *daily* observations over the previous quarter. The Assessment Team is of the view that this deviation may result in disclosing an overstated average LCR if EU banks seek to maximise their LCRs for the month-end measurement point.

2 Detailed assessment findings

The component-by-component details of the assessment of compliance with the LCR standards of the Basel framework are detailed below. The focus of Sections 2.1 to 2.3 is on findings that were assessed to be deviations from the Basel minimum standards and their materiality. Section 2.4 lists some observations and other findings specific to implementation practices in the European Union.

2.1 Scope of application and transitional arrangements

Summary	Overall, the Assessment Team finds the scope of application and transitional arrangements to be in compliance with the Basel standards. The Assessment Team did not identify any deviation.

2.2 LCR

2.2.1 High-quality liquid assets (numerator)

Section grade	Largely compliant
Summary	The Assessment Team assesses the EU's regulatory implementation of the HQLA requirements to be largely compliant. The key deviation is the expansion of the HQLA definition to include instruments that are not allowed by the Basel standard. The EU recognises the eligibility of high-quality covered bonds as Level 1 HQLA, with specific criteria applied, in particular a high credit rating (ie at least AA– or 10% risk weight) and minimum issue size of EUR 500 million. In addition, the EU also includes in Level 1 HQLA assets issued by specific credit institutions for which either the Member State has the legal obligation to protect the economic basis of the credit institution, or the credit institution is a promotional lender. The Assessment Team also evaluated as deviations the EU's recognition of (i) ABS with underlying assets other than those envisaged in the Basel standard; and (ii) covered bonds recognised in Level 2B HQLA.
Basel paragraph no	Basel III LCR paragraph 24
Reference in domestic regulation	Delegated Regulation (EU) no 2015/61 Article 7(6)
Findings	The Basel standard requires HQLA to be listed on a developed and recognised exchange to increase the asset's transparency. The EU regulations, however, allow HQLA to include unlisted assets or assets traded in an organised venue which is not a recognised exchange, either in a Member State or in a third country, as long as the trading venue provides for an active and sizeable market for outright sales of assets. In order to determine whether a trading venue provides for an active and sizeable market, credit institutions are required to take into account some aspects as minimum criteria stipulated in the EU regulation, which are (i) historical evidence of market breadth and depth as proven by low bid-ask spreads, high trading volume and a large and diverse number of market participants; and (ii) the presence of a robust market infrastructure.
Materiality	Not material The Assessment Team found the deviation to be not material. In the absence of data to validate the impact of this deviation, following discussion with a sample of banks, it was apparent that there is no evidence of banks holding unlisted assets in their HQLA portfolios.
Basel paragraph no	Basel III LCR paragraph 44
Reference in domestic regulation	Delegated Regulation (EU) no 2015/61 Article 8(1)
Findings	The Basel LCR standards require the stock of HQLA to be well diversified within the asset classes themselves, except for sovereign debt of the bank's home jurisdiction or from

	the jurisdiction in which the bank operates, central bank reserves, central bank debt securities, and cash. By contrast, EU regulations allow assets representing claims on or guaranteed by multilateral development banks and international organisations to be exempted from the diversification requirement.
Materiality	Not material. Based on the review of the EU RCAP sample banks' HQLA composition, the Assessment Team did not observe specific concentration to instruments issued by multilateral development banks and international organisations. On average, these instruments comprised 3.0% of the total HQLA, with a maximum share of 7.9% in one EU bank.
Basel paragraph no	Basel III LCR paragraph 50
Reference in domestic regulation	Delegated Regulation (EU) no 2015/61 Article 10, 15, 16 and recitals (6) and (8)
Findings	The Basel LCR standard allows coins, bank notes, central bank reserves and marketable securities representing claims on or guaranteed by sovereigns, central banks, public sector entities (PSEs), the Bank for International Settlements, the International Monetary Fund, the European Central Bank and European Community, or multilateral development banks that satisfy some requirements to be included as Level 1 HQLA. One of the requirements, among others, is the securities or assets must not be an obligation of a financial institution or any of its affiliated entities. In addition to the Basel list of Level 1 HQLA assets, EU regulations recognise the eligibility of the following assets as Level 1 HQLA: • some high-quality covered bonds that meet criteria defined in Delegated Regulation (EU) no 2015/61, including minimum issue size (ie EUR 500 million or the equivalent amount in domestic currency) and a credit assessment assigned by a nominated ECAI that would result in a 10% risk weight under EU regulations. Covered bonds meeting these criteria are subject to a cap (cannot represent more than 70% of the HQLA) and a minimum haircut of 7%, • assets issued by credit institutions, which are either (i) incorporated or established by the central government of a Member State or the regional government or local authority in a Member State, where the government or local authority is under the legal obligation to protect the economic basis of the credit institution and maintain its financial viability throughout its life-time; or (ii) the credit institution is a promotional lender and under conditions defined in the EU regulations. • some assets issued by credit institutions which benefit from a Member State's guarantee, granted prior to 30 June 2014. This is a transitional provision with phase-out arrangements, to recognise assets that are a legacy of the financial crisis. EU authorities explained that the prevalence of covered bonds as a source of long-term funding is a defining and specific characteristic of the European economy. The eligibility of high-quality covered bonds under Level 1 HQLA for the calculation of the EU LCR was motivated by the liquidity patterns of these instruments, which, over long periods of observation, including times of stress, exhibited liquidity characteristics similar to other eligible Level 1 assets. The inclusion of assets issued by such credit institutions in Level 1 HQLA is aimed at recognising support from Member States' governments. EU Regulations specify the promotional lender as any credit institution whose purpose is to advance the public policy objectives of the Union or of the central or regional government or local authority in a Member State predominantly through the provision of promotional loans on a non-competitive, not for profit basis, provided that at least 90% of the loans that it grants are directly or indirectly guaranteed by the government.
Materiality	Material On average, the banks' HQLAs are dominated by Level 1 HQLA (94.5%), followed by Level 2A (3.8%) and 2B (1.8%). The Level 1 HQLA mostly consist of government and central bank securities, with high-quality covered bonds making up only 2.1%. The high-quality covered bonds have a small impact on the banks' LCR (ie a decline of 0.3% on average), which is attributable only to the difference in haircut rate between Level 1 and Level 2A HQLA (high-quality covered bonds are subject to minimum 7% haircut, while Level 2A assets are subject to 15% haircut). Despite this small impact on the EU banking

	system's LCR, the Assessment Team were concerned about the amount of covered bonds permissible under EU regulations (ie up to 70% of total HQLA) which gives scope for banks to increase their exposure. In addition, the EU LCR Regulations also recognise the eligibility of assets issued by certain credit institutions, for which either the Member State has the legal obligation "to protect the economic basis of the credit institution", or the credit institution is a promotional lender. The EU Authorities argue that inclusion of assets issued by such credit institutions in Level 1 HQLA is aimed at recognising their specific support from Member States' governments where the activities of these institutions are regarded as supportive of financing in the real economy and public objectives. Notwithstanding the assets' role in the economy, the Assessment Team maintains the view that, according to Basel rule, any assets placed in other financial institutions or any of their affiliated entities are not eligible as Level 1 HQLA. Currently, banks' holding of these assets is 0.35% of total HQLA on average, which implies an insignificant impact to the banking system LCR. However, some banks in the sample assessed demonstrated a high proportion of these assets, ranging from 1.5% to 2.5%. Based on this assessment, the Assessment Team considered the deviation of Level 1 HQLA definition to be material.
Basel paragraph no	Basel III LCR paragraph 50
Reference in domestic regulation	Delegated Regulation (EU) no 2015/61 Article 10.1(g) and Regulation (EU) no 575/2013 Articles 117(2) and 118
Findings	According to the Basel standards, Level 1 HQLA include marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs, the Bank for International Settlements, the International Monetary Fund, the European Central Bank and European Community, or multilateral development banks, which follows the categorisation of market participants applied in the Basel II Framework. The EU regulations, however, include an international financial institution established by two or more Member States in this category, which has the purpose of mobilising funding and providing financial assistance to the benefit of its members that are experiencing or threatened by severe financing problems. The purpose of this provision is to respond to potential developments in the financial architecture of the EU, similar to the European Financial Stability Facility and the European Stability Mechanism, which are allowed to have 0% risk weight according to Basel standard.
Materiality	Not material At present, EU RCAP sample banks do not have exposure to assets falling under this description and this is not expected to change in the next three to five years.
Basel paragraph no	Basel III LCR paragraph 50
Reference in domestic regulation	Delegated Regulation (EU) no 2015/61 Article 10
Findings	The Basel standard states that, where the sovereign has a non-0% risk weight, domestic sovereign or central bank debt securities issued in foreign currencies, they are eligible up to the amount of the bank's stressed net cash outflows in that specific foreign currency, stemming from the bank's operations in the jurisdiction where the bank's liquidity risk is being taken. Under EU regulations, all securities issued by central governments of Member States are assumed to qualify as Level 1 HQLA with no limit, irrespective of the currency in which they are denominated and of the risk weight assigned. EU authorities argue that the potential mismatch from this treatment is minimised by the requirement in EU regulations for banks to maintain consistency between the amounts of liquid assets and net outflows by currency.
Materiality	Not material. Based on the discussion between the Assessment Team and EU sample banks, HQLA-eligible assets denominated in a foreign currency are only maintained to cover the banks' net cash outflows in the respective currency, within the reporting jurisdiction. Consequently, the impact on the LCR is limited. Moreover, EU regulations also require independent LCR compliance of each subsidiary bank in a banking group, making it unlikely for banks to increase their holdings in non-0% risk weight sovereign or central

	bank securities in foreign currencies, even if the EU rules allow banks to hold it in excess of the Basel standard.
Basel paragraph no	Basel III LCR paragraph 52
Reference in domestic regulation	Delegated Regulation (EU) 2015/61 Article 7(4), 11, 15, and recital (9)
Findings	Basel LCR standards allow corporate debt securities that are plain-vanilla assets whose valuation is readily available based on standard methods and that do not depend on private knowledge to be included as Level 2A HQLA. The Basel LCR standards state that corporate debt securities shall not include subordinated debt. The EU regulations do not explicitly exclude subordinated debt from Level 2A HQLA.
Materiality	Not material The limited amount of subordinated debt with a credit rating exceeding AA– traded in the EU market makes the impact on LCR currently insignificant. The HQLA portfolios of sample banks include no subordinated debt. This is unlikely to change in the next three to five years.
Basel paragraph no	Basel III LCR paragraph 52 and 54
Reference in domestic regulation	Delegated Regulation (EU) 2015/61 Articles 7(4), 11, 15, and recital (9)
Findings	The Basel standard states that for assets to be included as Level 2A and Level 2B HQLA, such assets must have a proven record as a reliable source of liquidity in markets (repo or sale) during stressed market conditions, ie the maximum price decline must be measured during a relevant period of significant liquidity stress and should not exceed certain thresholds. The EU regulations do not explicitly state the threshold of price decline and do not require banks to measure the maximum price decline of liquid assets during a liquidity stress period.
Materiality	Not material The EU authorities argued that for Level 2A and 2B HQLA, the liquidity is approximated by credit quality, issue size, and also time to maturity. In this regard, it would be difficult to assess the liquidity of a newly issued security if the security has not been traded in a relevant period of significant liquidity stress. In order to cover the Basel requirement, the EU regulations also require HQLA to include only freely transferable assets that can be converted quickly into cash within a short time frame and without significant loss in value. The Assessment Team found those arguments cannot replace the Basel requirement on the threshold of price decline. However, the Assessment Team also noted the difficulty in quantifying the impact. Based on the fact that some requirements have been covered in EU regulations, the impact is unlikely to be material.
Basel paragraph no	Basel III LCR paragraph 54
Reference in domestic regulation	Delegated Regulation (EU) 2015/61 Articles 7(4), 12, 16, and recital (10) and (12)
Findings	The Basel standard restricts Level 2B HQLA to RMBS, corporate debt securities (including commercial paper) and common equity shares that satisfy certain conditions. In addition to Level 2B HQLA allowed under the Basel LCR standard, the EU regulations recognise the eligibility of the following assets: • types of securitisation other than those envisaged in the Basel standard, backed by a defined list of underlying assets, eg (i) commercial loans, leases, and credit facilities to finance capital expenditure or business operations other than the acquisition of commercial real estate; (ii) auto loans and leases; and (iii) loans and credit facilities to individuals resident in a Member State for personal, family or household consumption purposes. • exposures in the form of high-quality covered bonds, that comply with certain criteria stipulated in the regulations, which include among others that the pool of underlying assets consists exclusively of exposures which qualify for a 35% or lower risk weight and the cover pool at all times meets an asset coverage requirement of at least 10% in excess of the amount required to meet the claims attaching to the

	covered bonds. The exposure is subject to 30% haircut and minimum issue size of EUR 250 million (or equivalent amount in domestic currency). EU authorities argue that the expansion of the definition of Level 2B assets to high-quality asset-backed securities backed by a few types of asset other than residential mortgages is predicated on their importance as funding instruments, to support an economy that is heavily reliant on small and medium-sized enterprises (SMEs), and the good credit and liquidity performance of European securitisations during the financial crisis. Meanwhile, the eligibility of high-quality covered bonds as Level 2B HQLA is justified by EU authorities based on the fact that the instruments currently exhibit higher liquidity than other comparable Level 2B assets.
Materiality	Potentially material. The current average proportion of Level 2B HQLA in non-mortgage ABS was only 0.1% of total HQLA, from which the impact on banks' LCR calculation should be immaterial. At an entity level, these assets make an insignificant contribution to total HQLA, with the highest contribution at 1.2%. Nevertheless, given that each bank can own this type of ABS up to 15% of total HQLA, there is reasonable potential for banks to increase their exposure in the future. The share of LCR attributable to high-quality covered bonds in Level 2B HQLA is also negligible, at 0.04% of total HQLA. On average, the holding of covered bonds in Level 2B HQLA increases the sample banks' LCR by only 0.1%, with the largest increase at entity level of only 0.5%. Notwithstanding, the current small proportion of covered bonds in Level 2B HQLA does not preclude an increase in such holdings in future. Further, the combined potential to include covered bonds and non-mortgage ABS in Level 2B HQLA gives banks considerable scope to inflate their LCR materially in the near future. Consequently, based on these facts, the Assessment Team concluded that the deviation of Level 2B HQLA definition was potentially material.
Basel paragraph no	Basel III LCR paragraphs 50, 52 and 54
Reference in domestic regulation	Delegated Regulation (EU) 2015/61 Articles 15 and 16
Findings	The Basel standard restricts Level 1, 2A and 2B HQLA to certain assets that satisfy certain conditions for each level. In addition to HQLA allowed under the Basel LCR standards, the EU regulations further recognise the eligibility of the following assets that do not satisfy criteria prescribed by the Basel text: • shares or units in Collective Investment Undertakings (CIUs) that meet certain conditions in the regulations, up to an absolute amount of EUR 500 million (or equivalent amount in domestic currency) for each credit institution on an individual basis. The shares or units in CIUs qualify for Level 1, 2A and 2B HQLA following a look-through approach, ie based on the underlying assets. • deposits and other funding in cooperative networks and institutional protection schemes. The EU authorities explained that the restrictions applied to the recognition of shares or units in CIUs in the HQLA portfolio ensure that these assets remain highly liquid even in times of severe stress, which justifies the application of a look-through approach. Additionally, because of the cap on the amount of CIUs, the recognition of shares or units in CIU will only impact smaller banks, which use holdings of CIUs to help appropriately manage and diversify their HQLA portfolios. The EU authorities also argue that the provision to include deposits and other funding in cooperative networks and institutional protection schemes should not be considered a deviation from the Basel LCR standard as approval to apply these exposures to the HQLA are only considered on an individual basis, and these exposures have no impact for internationally active banks on a consolidated basis.
Materiality	Not material. The average holding of shares or units in CIUs in all sample banks was limited to 0.2% of HQLA, which is considered not material, with a minimal impact on the EU banks' LCR.

	RCAP sample banks currently do not report any exposure to deposit and other funding in cooperative networks and institutional protection schemes.

2.2.2 Outflows (denominator)

Section grade	Compliant
Summary	While there are a number of identified deviations from the Basel rules, only one issue was assessed as potentially material.
Basel paragraph no	Basel III LCR paragraph 93
Reference in domestic regulation	Article 27 of Delegated Regulation (EU) no 2015/61
Findings	The Basel rules require supervisory approval for banks to apply operational deposit run-off treatment. The EU regulations do not require prior approval.
Materiality	Not material. The effect of this deviation is not quantifiable and is dependent on supervisory practice. Whether this is addressed by active supervision or preapproval it is unlikely for there to be a difference in cash outflows.
Basel paragraph no	Basel III LCR paragraph 94
Reference in domestic regulation	Article 27 of Delegated Regulation (EU) no 2015/61
Findings	The Basel rules specify that operational deposit treatment may be applied to clearing, custody and cash management accounts. There is no discretion for classifying other types of deposit as operational. By contrast, the EU regulations allow for other types of account that are operational in nature with no specifics given. The Basel rules do not provide for discretion.
Materiality	Potentially material. The Assessment Team is not able to quantify the materiality of this issue. The EU states that its rules are intended to mirror the Basel requirements. However, the EU authorities do not use specific terms, such as "clearing" to avoid confusion where the terminology in some EU jurisdictions might be different. The EU also said it specifically excludes the deposit types that the Basel rules exclude. Nevertheless, it is not possible to determine whether banks are classifying deposits as operational, which the Basel rules were not intended to include, since the EU authorities were not able to provide information on this. While it is likely most banks comply with the spirit and intentions of the EU and Basel rules, it is not possible to confirm this without detailed analysis that was not available at the time of the review. Consequently the Assessment Team regards this finding as being potentially material.
Basel paragraph no	Basel III LCR paragraphs 107 and 109
Reference in domestic regulation	Articles 28(1) and 31(10) of Delegated Regulation (EU) no 2015/61
Findings	Under the Basel rules, a credit union is considered a financial institution. EU regulations specifically exclude credit unions from their definition of a financial institution. This allows banks to treat deposits from credit unions as corporate deposits with a 40% outflow as opposed to a 100% outflow.
Materiality	Not material. Credit unions in the EU are miniscule relative to the size of the EU banking system.
Basel paragraph no	Basel III LCR paragraphs 113 and 114
Reference in domestic regulation	Paragraphs 3 and 4 of Article 28 of Delegated Regulation (EU) no 2015/61
Findings	The Basel rules specify a run-off rate for maturing secured funding transactions based on the HQLA classification of the collateral. Covered bonds are considered Level 2A HQLA and thus have a 15% outflow for maturing secured transactions. The EU regulations consider some covered bonds as Level 1 HQLA with an associated 7% outflow for maturing secured transactions as opposed to 15%.

Materiality	Not material. The largest impact on an entity is 0.1%. At a system level, the impact is less than 0.01%.
Basel paragraph no	Basel III LCR paragraph 115
Reference in domestic regulation	Articles 28(3) of Delegated Regulation (EU) no 2015/61
Findings	The Basel rules specify a run-off rate for maturing secured funding transactions based on the HQLA classification of the collateral. Non-RMBS securitisation assets (not HQLA under the Basel rules) have a 100% outflow for maturing secured transactions. The EU regulations consider some non-RMBS securitisations as Level 2B HQLA with an associated 35% outflow for maturing secured transactions as opposed to 100%.
Materiality	Not material. The data provided by the EU authorities indicated that few repos or none are secured by Level 2B HQLA collateral that would not be eligible under the BCBS rules.
Basel paragraph no	Basel III LCR paragraph 118
Reference in domestic regulation	Article 30(2) Delegated Regulation (EU) 2015/61
Findings	The Basel rules require banks to include outflows stemming from a three-notch credit rating downgrade. The EU regulations require this outflow only if the relevant supervisor deems it material.
Materiality	Not material. While supervisory discretion appears to leave room for manipulation, the larger European banks in the sample all include amounts for a three-notch credit rating downgrade. As such, the three-notch downgrade impact appears to be applied to all large European banks, which is the intention.
Basel paragraph no	Basel III LCR paragraph 165
Reference in domestic regulation	Article 25 of Delegated Regulation (EU) no 2015/61 and Article 86 of Directive 2013/36/EU in the context of general requirements of liquidity risk management
Findings	The Basel text provides guidance for looking at the significance of non-consolidated financial entity investments. This is not mentioned in the EU regulations.
Materiality	Not material

2.2.3 Inflows (denominator)

Section grade	Largely compliant
Summary	The symmetrical treatment of operational deposit inflows versus outflows as opposed to the Basel requirement for asymmetrical treatment is the primary reason the EU was not graded compliant.
Basel paragraph no	Basel III LCR paragraphs 69 and 144
Reference in domestic regulation	Articles 20, 22(1), 33 and recital (16) of Delegated Regulation (EU) no 2015/61
Findings	The Basel rules cap inflows at 75% of outflows. In the EU rules, for some institutions (such as those primarily involved in leasing, trade finance, motor vehicle financing or consumer credit) the inflow cap may be increased to 90% with prior supervisory approval. The EU stated that in practice large institutions should not be able to qualify for this treatment.
Materiality	Not material. This should benefit only small, specialised financial institutions and not be applied to larger institutions. None of the surveyed banks had received this exception at consolidated level.
Basel paragraph no	Basel III LCR paragraphs 98, 156 and 157

Reference in domestic regulation	Point (d) of Article 32(3) of Delegated Regulation (EU) no 2015/61
Findings	The EU LCR regulations permit symmetrical treatment of operational deposits where the corresponding outflow rate can be identified, (25% for both inflows and outflows) as opposed to the asymmetrical treatment in Basel LCR standards, ie 25% for outflows and 0% for inflows. If banks cannot readily identify the outflow rate, the EU LCR regulations allow a 5% inflow rate to be applied. The Basel rules are asymmetrical in this regard because, if a bank has operating deposits with another bank, these funds are required to stay on deposit and cannot be counted as an inflow, as they are needed for the bank's operations. To the extent that the funds are in excess, they can be counted as an inflow.
Materiality	Potentially material. While the average impact on RCAP sample banks is minimal, at 0.2%, the largest impact on the most affected bank in the RCAP sample stood at 2.1%. The Assessment Team viewed this particular bank in the RCAP sample as an outlier. However, the Assessment Team believes that there is a reasonable chance that the amount could also increase at other EU banks in the future.
Basel paragraph no	Basel III LCR paragraph 105
Reference in domestic regulation	Paragraphs (1) and (3) of Article 27 and point (d) of Article 32(3) of Delegated Regulation (EU) no 2015/61
Findings	See issue for paragraph 98 above. It is the same inflow cap issue but for inflows within cooperative banking networks.
Materiality	Not material – cooperative banking networks either do not make use of this treatment at consolidated level, or are not internationally active banks.

2.3 LCR disclosure requirements

Section grade	Largely compliant
Summary	The Assessment Team finds that the EU's implementation of the LCR disclosure standard is largely compliant with the Basel LCR standard. The key deviation relates to the requirement to disclose LCR value as the simple average of month-end observations over the 12 months preceding the end of each quarter. The Basel rules by contrast require that LCR data must be presented as the simple average of daily observations over the previous quarter.
Basel paragraph no	Basel Liquidity Coverage Ratio Disclosure Standards paragraph 13
Reference in domestic regulation	Paragraphs 20 EBA/GL/2017/01 of the Guideline on LCR Disclosure to Complement the Disclosure of Liquidity Risk Management under Article 435 of Regulation (EU) no 575/2013 paragraph 20
Findings	According to the Basel standard, LCR data must be presented as simple average of daily observations over the previous quarter. By contrast, the EU authorities require banks to disclose their LCR value as the simple average of month-end observations over the 12 months preceding the end of each quarter.
Materiality	Potentially material. Differences between the frequency of the LCR disclosure observations in the EU and the Basel rules may result in significant differences in disclosed average LCR values.

2.4 Observations and other findings specific to implementation practices in the European Union

2.4.1 High-quality liquid assets (numerator)

Basel paragraph no	Basel III LCR paragraphs 23 and 26

Reference in domestic regulation	Delegated Regulation (EU) 2015/61
Observation	The Basel standard requires HQLA (except for Level 2B) to ideally be eligible at central banks for intraday liquidity needs and overnight liquidity facilities. This is based on the fact that the central banks have provided a further backstop to the supply of banking system liquidity under conditions of severe stress. Central bank eligibility should thus provide additional confidence that banks are holding assets that could be used in events of severe stress without damaging the broader financial system. That in turn would raise confidence in the safety and soundness of liquidity risk management in the banking system. EU regulations do not require HQLA to be central bank-eligible. However, this should not have a material impact on the liquidity of HQLA, because most HQLA in EU regulations are central bank-eligible. From discussions with a sample of banks, the Assessment Team understands that banks nevertheless apply central bank eligibility as one of the criteria for assets to be qualified for HQLA.

2.4.2 Outflows (denominator)

Basel paragraph no	Basel III LCR paragraph 90
Reference in domestic regulation	Article 3(8) of Delegated Regulation (EU) no 2015/61
Observation	The Basel rules require that, for deposits to be treated as SME deposits, in addition to meeting the definition of an SME depositor, the deposit must also be managed like a retail deposit. EU regulations do not require that the deposit be managed like a retail deposit. In practice, it is evident that these deposits are managed like retail deposits.
Basel paragraph no	Basel III LCR paragraph 96
Reference in domestic regulation	Articles 27(4) of Delegated Regulation (EU) no 2015/61
Observation	The Basel rules stipulate that where a bank cannot determine the amount of an operational deposit account which is "excess", it must treat the entire amount as non-operational. The EU regulations contain no such provision. In practice, it is unlikely a bank would conclude that it could not determine the excess.
Basel paragraph no	Basel III LCR paragraphs 107 and 109
Reference in domestic regulation	Articles 28(1) and 31(10) of Delegated Regulation (EU) no 2015/61
Observation	The EU regulations stipulate that Personal Investment Entities and Deposit Brokers are specifically excluded from the definition of a financial institution. The Assessment Team agreed with the EU and concluded that the profiles of these types of entity are not akin to those of financial institutions.

2.4.3 Disclosure requirement

Basel paragraph no	Basel III LCR Disclosure paragraph 10
Reference in domestic regulation	EBA/GL/2017/01 on the Guideline on LCR Disclosure to Complement the Disclosure of Liquidity Risk Management under Article 435 of Regulation (EU) no 575/2013
Observation	The first binding disclosure requirement for European banks was issued on 8 March 2017 with effective implementation date on 31 December 2017. This means the implementation date of LCR disclosure has been delayed from the deadline of 1 January 2015 as stipulated in Basel standard. Up to 31 December 2017, there will be no mandatory requirement for banks to disclose their LCR ratio and/or calculation to the public. However the Assessment Team notes that the sampled banks have disclosed their LCR in their financial statements, either as a statement of compliance, or the actual total LCR ratio.
Basel paragraph no	**Basel III LCR Disclosure paragraph 9**
Reference in domestic regulation	EBA/GL/2017/01 on the Guideline on LCR Disclosure to Complement the Disclosure of Liquidity Risk Management under Article 435 of Regulation (EU) no 575/2013 paragraph 14
Observation	The EU LCR disclosure applies to EU credit institutions identified as systemic credit institutions (ie "Global Systemically Important Institutions and Other Systemically Important Institutions"), which may not exactly correspond to the internationally active banks as stipulated in Basel standard.

Annexes

Annex 1: RCAP Assessment Team and Review Team[7]

Assessment Team Leader

Mr Rob Urry	Deputy Registrar of Banks, Bank Supervision Department of South African Reserve Bank

Assessment Team members

Mr Kevin Stephenson	Head of Liquidity Risk, Australian Prudential Regulation Authority
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Supporting members

Ms Siphumelele Zondi	South African Reserve Bank
Mr Nik Faris Sallahuddin	Basel Committee Secretariat
Mr Olivier Prato	Basel Committee Secretariat

Review Team

Mr Neil Esho	Basel Committee Secretariat
Mr Chua Kim Leng	Monetary Authority of Singapore
Mr Qi Xiang	China Banking Regulatory Commission
Mr Alexander Zhdanov	Bank of Russia

[7] The RCAP Assessment has benefited from the feedback of the RCAP Review team and the Peer Review Board. The Review Team is separate from the Assessment Team, and provides an additional level of quality assurance for the report's findings and conclusions.

Annex 2: List of LCR standards under the Basel framework used for the assessment

Basel documents in scope of the assessment

(i) *The Liquidity Coverage Ratio (January 2013), including the frequently asked questions on Basel III's January 2013 Liquidity Coverage Ratio*, April 2014

(ii) *Liquidity Coverage Ratio disclosure standards*, January 2014

Basel documents reviewed for information purposes

(iii) *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* (part of liquidity risk monitoring tools), January 2013

(iv) *Monitoring tools for intraday liquidity management*, April 2013

(iv) *Principles for sound liquidity risk management and supervision*, September 2008

Annex 3: Local regulations issued by European Union authorities to implement Basel LCR standards

Overview of issuance dates of important European Union LCR rules — Table 2

Domestic regulations	Name of the document, version and date
Domestic regulations implementing Basel III LCR	Regulation (EU) no 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no 648/2012. Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC. Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) no 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions. Various BTS and Guidelines issued by the EBA under the above Regulations and Directives.

Hierarchy of European Union laws and regulatory instruments — Table 3

Level of rules (in legal terms)	Type
Laws (CRD IV, CRR)	Enacted by the European Parliament and the Council.
Regulations (BTS drafted by the EBA and LCR Delegated Regulation drafted by the European Commission)	Regulatory technical standards and implementing technical standards (often collectively referred to as "Binding Technical Standards" or "BTS") are legal acts drafted by the European Banking Authority and adopted by the European Commission by means of Regulations or Decisions. The European Commission also adopts delegated acts without EBA draft BTS but based on EBA advice.
Administrative instruments (eg conditions on banking authorities, directions)	
Other regulatory documents (prudential practice guides, other guidance and letters to industry)	Issued by the EBA.

Annex 4: Details of the RCAP assessment process

A. Off-site evaluation

(i) Completion of a self-assessment questionnaire by the EU authorities

(ii) Evaluation of the self-assessment by the RCAP Assessment Team

(iii) Independent comparison and evaluation of the domestic regulations issued by the EU authorities with corresponding Basel III standards issued by the BCBS

(iv) Identification of observations

(v) Refinement of the list of observations based on clarifications provided by the EU authorities

(vi) Assessment of materiality of deviations for all quantifiable deviations based on data and non-quantifiable deviations based on expert judgment

(vii) Forwarding of the list of observations to the EU authorities

B. On-site assessment

(viii) Discussion of individual observations with the EU authorities

(ix) Meeting with selected EU banks

(x) Discussion with the EU authorities and revision of findings to reflect additional information received

(xi) Assignment of component grades and overall grade

(xii) Submission of the detailed findings to the EU authorities with grades

(xiii) Receipt of comments on the detailed findings from the EU authorities

C. Review and finalisation of the RCAP report

(xiv) Review of comments by the RCAP Assessment Team, finalisation of the draft report and forwarding to the EU authorities for comments

(xv) Review of the EU authorities' comments by the RCAP Assessment Team

(xvi) Review of the draft report by the RCAP Review Team

(xvii) Review of the draft report by the Peer Review Board

(xviii) Reporting of findings to SIG by the Team Leader

Annex 5: List of rectifications by European Union authorities

The EU authorities did not make any rectifications during the RCAP review.

Annex 6: Assessment of bindingness of regulatory documents

The following table summarises the assessment of the seven criteria used by the Assessment Team to determine the eligibility of European Union regulatory documents.

Assessment of eligibility of EU regulatory documents — Table 4

Criterion	Assessment
(1) The instruments used are part of a well defined, clear and transparent hierarchy of legal and regulatory framework.	All the Regulations and Directives listed in Annex 3 are legislation enacted by the European Parliament and the Council. They are legally enforceable in all 28 Member States. *BTS drafted by EBA:* BTS are legal acts which specify particular aspects of an EU legislative text (Directive or Regulation) and aim at ensuring consistent harmonisation in specific areas. BTS are finally adopted by the European Commission by means of Regulations or Decisions. According to EU law, Regulations are directly applicable and binding in their entirety. This means that they do not have to be transposed into national law but confer rights or impose obligations directly in the same way as national law. Directives are addressed to the Member States and are binding with respect to the intended result. Directives lay down certain end results that must be achieved in every Member State. Each directive specifies the date by which the national law must be adapted. National laws must be interpreted in a way that gives full effect to the directives (and the EU law in general). The (regulatory and implementing) technical standards remain in draft stage until final formal approval by the EBA Board of Supervisors, following which, in order to become European law, the process for adopting technical standards must be completed. This process provides for a review of the draft regulatory technical standards by the European Commission. The European Commission may not change the content of a draft regulatory technical standard or BTS without prior coordination with the Authority. Moreover, (as stated in EU legislation), "given the technical expertise of the Authority in the areas where regulatory technical standards should be developed, note should be taken of the Commission's stated intention to rely, as a rule, on the draft regulatory technical standards submitted to it by the Authority". For regulatory technical standards, there is a period of objection for the Council and the European Parliament (however, no amendments are possible). Recommendations and Guidelines: The Guidelines issued by the EBA are an important tool for fostering convergence of supervisory practices across the EU. Although they are not legally binding, supervisory authorities and institutions across the European Union must make every effort to comply with them. Supervisory authorities, in particular, are obliged to inform the EBA of their compliance or intention to comply with them and to also explain the reasons for any non-compliance. A recommendation issued by EBA sets out its view of appropriate supervisory practices within the European System of Financial Supervision and of how Union law should be applied in a particular area. The Guidelines and Recommendations require approval of the EBA's Board of Supervisors. However, unlike the BTS, these are

	finalised at the level of EBA and are not required to be endorsed by the European Commission.
(2) They are public and easily accessible.	All the Regulations, Directives, and BTS are published in the Official Journal of the European Union and are accessible to all. The Official Journal is also publicly available on the internet. Guidelines are publicly available on the EBA website.
(3) They are properly communicated and viewed as binding by banks as well as by the supervisors.	*Regulations, Directives and BTS:* These instruments are not notified to the banks individually, as they are officially published. As indicated above Regulations, Directives and the BTS are legally binding. *Recommendations and Guidelines:* The EBA expects all competent authorities to whom the recommendation is addressed to comply with it. Competent authorities to whom the recommendation applies should comply by incorporating it into their supervisory practices as appropriate (eg by amending their legal framework or their supervisory processes). In accordance with Article 16(3) of the EBA Regulation, competent authorities must make every effort to comply with the guidelines and recommendation. The EBA publishes the fact that a competent authority has not complied or does not intend to comply with a guideline or recommendation.
(4) They would generally be expected to be legally upheld if challenged and are supported by precedent.	The above Regulations, Directives and the BTS are laws and cannot be challenged in courts.
(5) Consequences of failure to comply are properly understood and carry the same practical effect as for the primary law or regulation.	Regulations, Directives and BTS are all legislative instruments and breaches are, as a consequence, breaches of law.
(6) The regulatory provisions are expressed in clear language that complies with the Basel provisions in both substance and spirit.	The regulatory provisions are expressed in clear language.
(7) The substance of the instrument is expected to remain in force for the foreseeable future.	These instruments are expected to remain in in force for the foreseeable future, subject to review wherever it is so provided in the Regulations and Directives themselves.

Annex 7: Key liquidity indicators of the European Union banking system

Data on a standalone basis as of 30 September 2016		Table 5
Size of banking sector (EUR million).		
1. Total assets domestic banking groups and standalone banks in EU Basel Committee member countries	3,296,066	
Number of banks in EU BCBS nine member countries		
2. Number of banks operating in the jurisdiction (excl. local representative offices)	3,803	
3. Number of Global Systemically Important Banks (G-SIBs)	13	
4. Number of banks required to implement Basel III liquidity standards	All	
Breakdown of LCR for 20 RCAP sample banks	Unweighted	Weighted
5. Total HQLA	2,864,947	2,797,316
6. Level 1 HQLA	2,643,974	2,639,164
7. Level 2A HQLA	124,254	105,614
8. Level 2B HQLA	93,923	49,741
9. ALA HQLA	2,796	2,796
10. Total cash outflows	14,312,213	3,317,159
11. Retail and small business stable deposits	2,694,171	134,568
12. Retail and small business less stable deposits	1,710,496	209,012
13. Wholesale unsecured operational deposits	1,125,676	274,288
14. Wholesale unsecured non-operational funding	2,057,149	1,219,829
15. Secured funding	2,129,814	343,263
16. Debt issued instruments (incl. credit and liquidity facilities)	2,618,152	654,971
17. Other contractual outflows	403,680	397,987
18. Contingent funding obligations	1,573,075	83,241
19. Total cash inflows	3,555,979	1,211,943
20. Secured lending	2,260,406	431,370
21. Fully performing unsecured loans	1,000,332	496,811
22. Other cash inflows	295,241	283,762
23. Liquidity Coverage Ratio		132.8

Annex 8: Materiality assessment

As a general principle, and mirroring the established RCAP assessment methodology for risk-based capital standards, the RCAP-LCR materiality assessment is based on both quantitative and qualitative information with an overlay of expert judgment. Where possible, teams also take into account the dynamic nature of liquidity risks and seek to assess the materiality of deviation at different points in time.

In line with underlying RCAP principles, the quantitative materiality assessment for the LCR is based on a determination of the cumulative impact of all identified deviations (both quantifiable and non-quantifiable deviations). Where deviations are quantifiable, the Assessment Team will generally base the assessment on the highest impact that has been reported across three data points. The collection of data across different dates is agreed upon between the Team Leader and the assessed jurisdiction.

In the case of the EU LCR assessment, 20 deviations were assessed on both a quantifiable and qualitative basis. The following table summarises the number of deviations according to their materiality.

Number of gaps/differences by component — Table 6

Component	Non-material	Material	Potentially material
Definition of HQLA (numerator)	7	1	1
Outflows (denominator)	6	-	1
Inflows (denominator)	2	-	1
LCR disclosure requirements	-	-	1

Note: materiality is defined based on quantitative benchmark thresholds (for the quantifiable gaps) and expert judgment (for the non-quantifiable gaps). See Section 2 with the detailed assessment findings for further information.

RCAP sample of banks

The following EU banks were selected for materiality testing of the quantifiable deviations. Together, these banks hold about 70.8% of the total assets of the internationally active banks in the EU banking system. The sample covers internationally active banks, and is a fair representation of the various types of bank operating in EU. The basis of materiality assessment is the impact on the reported liquidity ratio of the banks constituting the sample agreed between the Assessment Team and the assessed jurisdiction.

Banking group	Share of banks' assets of the assets of internationally active banks in EU
France	
1. BNP Paribas SA	6.8%
2. Groupe Crédit Agricole	5.2%
3. Group BPCE	3.9%
4. Société Générale SA	4.3%
Germany	
5. Deutsche Bank AG	4.7%
6. Commerzbank AG	1.8%
Italy	
7. UniCredit SpA	3.4%
Netherlands	
8. ING Group NV	3.8%
9. Coöperatieve Rabobank UA	2.4%

Banking group	Share of banks' assets of the assets of internationally active banks in EU
Spain	
10. Banco Santander SA	4.6%
11. Banco Bilbao Vizcaya Argentaria, SA	2.6%
Sweden	
12. Nordea Bank Group	2.0%
United Kingdom	
13. The Royal Bank of Scotland Group Plc	2.8%
14. HSBC Holdings Plc	7.9%
15. Barclays Plc	4.8%
16. Lloyds Banking Group Plc	3.0%
17. Standard Chartered Plc	2.3%
Subtotal (17 EU banks)	66.3%
EU-incorporated foreign bank subsidiaries	
18. Goldman Sachs Group UK Limited	2.3%
19. Credit Suisse International	0.8%
20. Merrill Lynch UK Holdings Ltd	1.4%
Grand total (20 banks)	70.8%

Share of banks' assets measured using the leverage ratio exposure measure.

Annex 9: European Union implementation of the liquidity monitoring tools

Basel liquidity monitoring tools

In addition to the minimum LCR standard, the Basel LCR framework outlines the metrics to be used to monitor liquidity risks ("the monitoring tools"). The monitoring tools capture specific information related to a bank's cash flows, balance sheet structure, available unencumbered collateral and certain market indicators. The monitoring tools supplement the LCR standard and provide a benchmark for supervisors in assessing a bank's liquidity risk. This annex provides a qualitative overview of the implementation of the monitoring tools in the EU.

The Commission Implementing Regulation (EU) 2016/313 of 1 March 2016 amending Implementing Regulation (EU) no 680/2014 with regard to additional monitoring metrics for liquidity reporting is the main legislative act implementing the Basel liquidity monitoring tools in the EU. The additional liquidity monitoring metrics that must currently be reported according to EU legislation are the following:

EU additional liquidity monitoring metrics — Table 7

Concentration of funding by counterparty	This tool helps identify wholesale and retail funding sources of such significance that their withdrawal could trigger liquidity problems. It identifies the top 10 largest counterparties from which funding obtained exceeds a threshold of 1% of total liabilities. It also provides information on the counterparty name, counterparty type and location, product type, currency, amount received, weighted average and residual maturity.
Concentration of funding by product type	This tool collects information about the institution's concentration of funding by product type, broken down into different funding sources relating to retail and wholesale funding. It identifies the total amount of funding received from each product category when it exceeds a threshold of 1% of total liabilities.
Concentration of the counterbalancing capacity by issuer or counterparty	This tool provides information about the 10 largest holdings of assets or liquidity lines granted to the institution.
Prices for various lengths of funding	This tool collects information about the average transaction volume and prices paid for funding with different maturities ranging from overnight to 10 years.
Rollover of funding	This tool collects information about the volume of funds maturing and new funding obtained, ie "rollover of funding", on a daily basis over a monthly time horizon.

The EBA is currently developing a contractual maturity ladder that will be added to the other liquidity monitoring metrics. It is expected to be submitted to the EC for adoption shortly. In the interim and pending the future adoption of mandatory reporting for the maturity ladder, where necessary and justified, supervisors may seek additional reporting not provided for by the Implementing Regulation.

These reports are to be made by all institutions on a solo and consolidated level. The frequency of reporting is generally monthly except for some smaller institutions at an individual level, in which case it is quarterly.

Moreover, Commission Implementing Regulation (EU) 2016/322 of 10 February 2016 amending Implementing Regulation (EU) no 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions of the liquidity coverage requirement, following Article 415(2) of Regulation (EU) no 575/2013, requires separate reporting of the LCR items denominated in a significant currency to all institutions at an individual and consolidated level and on a monthly basis.

The EBA also published its *Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP)* in December 2014. These guidelines are addressed to competent authorities and are intended to promote common procedures and methodologies for the SREP referred to in Article 97 and following of Directive 2013/36/EU and for assessing the organisation and treatment of risks referred to in Articles 76 to 87 of that Directive, including liquidity risk (Article 86). Regarding liquidity risk, the SREP is intended to assess the liquidity risk in institutions beyond the specific regulatory requirements (LCR, NSFR) and assess further risk factors not covered by them. The SREP guidelines refer specifically to the additional liquidity monitoring metrics mentioned above as elements that competent authorities should take into account to support the analysis of liquidity needs.

Basel intraday liquidity management

The BCBS issued guidance on monitoring tools for intraday liquidity management in April 2013. It has not yet been implemented in the EU but this is foreseen in the EBA work programme alongside other work related to liquidity risk. It should be noted, however, that the EU regulation (Article 86(1) of Directive 2013/36/EU) already provides that institutions should have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of intraday liquidity risk, so as to ensure that institutions maintain adequate liquidity buffers. Those strategies, policies, processes and systems should be tailored to business lines, currencies, branches and legal entities and include adequate allocation mechanisms for liquidity costs, benefits and risks. The relevant authorities must ensure that institutions meet this obligation.

Annex 10: European Union implementation of the *Principles for sound liquidity risk management and supervision*

Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 creates a general obligation for institutions to adequately manage their liquidity risk. It sets out the necessary principles to ensure proper governance, measurement, management of liquidity risk, and establishes the supervisory framework to review liquidity risk and take prompt action if necessary.

Governance of liquidity risk management

Institutions should have liquidity risk profiles consistent with a well functioning system taking into account the nature, scale and complexity of their activities.

The strategies, policies, processes and systems of institutions to measure and manage their liquidity risk should be tailored to their business lines, currencies, branches and legal entities and should include adequate allocation mechanisms for liquidity costs, benefits and risks. They should be proportionate to the complexity, risk profile, scope of operation of the institutions and risk tolerance set by the management body.

Measurement and management of liquidity risk

Institutions should have robust strategies, policies, processes and systems in order to identify, measure, manage and monitor their liquidity risk, including intraday, and their funding positions. Cash flows in and arising from assets, liabilities, off-balance sheet items, including contingent liabilities and the possible impact of reputational risk need to be considered therein. This will ensure that institutions maintain adequate liquidity buffers.

Institutions should distinguish between pledged and unencumbered assets available at all times taking into account the legal entity and the country where they are located. Institutions should have regard to existing legal and operational limitations to potential transfers of liquidity or unencumbered assets.

Institutions should consider liquidity risk mitigation tools and an adequately diversified funding structure and assess to funding sources.

Institutions should consider alternative scenarios on liquidity positions and on risk mitigants and develop effective contingency plans, taking into account the outcome of these alternative scenarios.

Institutions should consider the potential impact of institution-specific, market-wide and combined alternative scenarios, in different time periods and varying degrees of stress conditions.

Institutions should have liquidity recovery plans setting out adequate strategies and proper implementation measures to promptly address possible liquidity shortfalls. These plans should be tested at least annually, updated and approved by senior management.

Public disclosure

Regulation (EU) no 575/2013 ensures a mandatory disclosure framework on the liquidity risk management profile of institutions without prejudice to further developments with respect to specific key figures or metrics such as the LCR or the Net Stable Funding Ratio.

The role of supervisors

Directive 2013/36/EC provides that the relevant authorities should ensure and review that institutions comply with the above measures on governance and management of liquidity risk.

In the context of the supervisory review and evaluation process for liquidity risk, the relevant authorities should review the arrangements, strategies, processes and mechanisms implemented by the institutions, taking into account their particular business model and the systemic liquidity risk that threatens the integrity of the financial markets, among others. The relevant authorities should carry out, as appropriate but at least annually, supervisory stress tests on the institutions they supervise.

The authorities should monitor liquidity risk profiles and take action in the case of an individual institution's or systemic instability.

The authorities should consider the need to apply administrative penalties or other administrative measures, including prudential charges if the liquidity position is below the established requirements.

In order to facilitate and establish effective supervision, the consolidating supervisor and other relevant authorities should have written coordination and cooperation arrangements in place. The consolidating supervisor should establish colleges of supervisors to ensure appropriate coordination and cooperation also with third-country supervisory authorities where appropriate.

Annex 11: Areas for further guidance from the Basel Committee

The Assessment Team listed the following issue for further guidance from the Basel Committee:

Definition of "significant penalty" for breaking a term deposit

The Basel rules stipulate that, for a deposit to be excluded from the LCR, it must have a term greater than 30 days. If the depositor breaks the deposit within 30 days, there must be a "significant penalty greater than the loss of interest". EU regulations state that the term deposit can be excluded from the LCR with a "material penalty that does not have to exceed the interest due for the time that elapsed between the date of deposit and the date of withdrawal". The EU's position is that the lost interest in the BCBS rules refers to only the interest lost from the date of withdrawal to the original maturity date. In other words, the depositor's "significant penalty" is to not earn interest on a deposit once it has been withdrawn from the bank. In the Assessment Team's view, not earning interest on money no longer on deposit does not represent a penalty, let alone a "significant" one.

At the time of RCAP review, the Basel Committee has not clearly defined the definition of "loss of interest". In this regard, the team recommends that the Basel Committee reviews the need for a set of principles to aid a homogeneous implementation of the concepts "significant penalty" and "loss of interest", in the context described above.

Annex 12: List of issues for follow-up RCAP assessments

The Assessment Team identified the following issues for future RCAP assessments for European Union:

HQLA Level 1: EU covered bonds and credit institutions' assets

The EU LCR regulations permit the inclusion of certain financial instruments that do not fulfil the Level 1 HQLA requirements stipulated in the Basel LCR standard. Specifically, the EU recognises high-quality covered bonds and assets issued by certain EU credit institutions as Level 1 HQLA. By contrast, the Basel LCR standards have a strict definition of Level 1 HQLA, which are limited mainly to instruments such as central bank reserves and 0% risk-weighted sovereigns. This difference is material for the EU sample banks.

HQLA Level 2B: EU covered bonds and asset backed securities

The EU LCR regulations permit the inclusion of certain financial instruments that do not fulfil the Level 2B HQLA requirements stipulated in the Basel standard. The EU also recognises: (i) asset backed securities with underlying assets other than those envisaged in the Basel standard; and (ii) Level 2B covered bonds. These instruments were not material at the time of RCAP review. However, the Assessment Team deems that the possibility that EU banks might increase their exposures in such assets in the future cannot be fully ruled out. As such, this could be reviewed in a future RCAP.

Definition of operational deposits

The Basel rules specify that operational deposit treatment may be applied to clearing, custody and cash management accounts. There is no discretion for classifying other types of deposit as operational. By contrast, the EU regulations allow for other types of account that are operational in nature with no specifics given. The Basel rules do not provide for discretion. The Assessment Team is not able to quantify the materiality of this issue. The EU states that its rules are intended to mirror the Basel requirements. However, the EU authorities do not use specific terms, such as "clearing" to avoid confusion where the terminology in some EU jurisdictions might be different. While it is likely most banks comply with the spirit and intentions of the EU and Basel rules, it is not possible to confirm this without detailed analysis that was not available at the time of the review.

Treatment of operational deposits

The EU LCR regulations permit symmetrical treatment of operational deposits where the corresponding outflow rate can be identified, (25% for both inflows and outflows) as opposed to the asymmetrical treatment in Basel LCR standards, ie 25% for outflows and 0% for inflows. If banks cannot readily identify the outflow rate, the EU LCR regulations allow a 5% inflow rate to be applied. While the average impact on RCAP sample banks is minimal at the time of review, the Assessment Team believes that there is a reasonable chance that the amount could also increase at other EU banks in the future.

LCR disclosure

According to the Basel standard, LCR data must be presented as simple average of daily observations over the previous quarter. By contrast, the EU authorities require banks to disclose their LCR value as the simple average of month-end observations over the 12 months preceding the end of each quarter. Differences between the frequency of the LCR disclosure observations in the EU and the Basel rules may result in significant differences in disclosed average LCR values.

Annex 13: Areas where European Union LCR rules are stricter than the Basel standards

In several places, the European Union authorities have adopted a stricter approach than the minimum standards prescribed by Basel or have simplified or generalised an approach in a way that does not necessarily result in stricter requirements under all circumstances but never results in less rigorous requirements than the Basel standards. The following list provides an overview of these areas. It should be noted that these areas have not been taken into account as mitigants for the overall assessment of compliance.

1. Date for the full implementation of the LCR at 100% level

The calendar for the full implementation of the LCR, at the level of 100%, in the European Union is stricter than the one established in the Basel standard. EU credit institutions have to meet a 100% LCR from 1 January 2018 (the Basel standard envisaged a minimum LCR of 90% from 1 January 2018 and 100% only from 1 January 2019). The EU regulation sets out the possibility for Member States to require domestically authorised credit institutions (or a subset thereof) to maintain a higher LCR up to 100% during the LCR implementation phase in (1 October 2015–1 January 2018).

2. Scope of application

In the EU regulation, the LCR applies to all credit institutions at both individual and consolidated level, without prejudice to a regime of total or partial waiver (conditional on compliance with certain criteria and subject to authorisation of the competent authority). The Basel LCR standards are applied to all internationally active banks on a consolidated basis, but may also be applied to other banks and on any subset of entities of internationally active banks.

3. Differences in home/host liquidity requirements

When subsidiaries of EU groups in third countries are consolidated, the most conservative approach is followed for all LCR items in the EU regulation (inflows and outflows rates and definition of HQLA) between the home and host regulations.

4. Eligibility criteria for covered bonds and corporate debt securities as Level 2A assets

In EU regulation, covered bonds and corporate debt securities are subject to minimum issue size eligibility criteria, which are EUR 500 million or the equivalent amount in domestic currency and EUR 250 million or the equivalent amount in domestic currency, respectively. Moreover, corporate debt securities are also subject to a maximum time-to-maturity restriction, which is currently 10 years. There are no such criteria in the Basel LCR standard.

5. Eligibility criteria for corporate debt securities as Level 2B assets

In EU regulation, corporate debt securities are subject to minimum issue size eligibility criteria and maximum time-to-maturity restrictions, which are EUR 250 million and 10 years, respectively. There are no such criteria in the Basel LCR standard.

6. Treatment for sharia-compliant banks

The EU regulation envisages that the specific assets for these banks can only fall within the category of Level 2B assets (ie cannot represent more than 15% of the buffer) and are subject to a 50% haircut, whereas the Basel standard does not specify the category of liquid assets to which they must be assigned.

7. Unwind mechanism for the determination of Level 2 HQLA caps

The EU regulation envisages the unwinding of secured transactions maturing within 30 days where HQLA, including cash, comprise at least one leg of the transactions. The Basel standard requires that HQLA comprise both legs.

8. Alternative liquidity approach in the case of jurisdictions with insufficient HQLA: foreign currency HQLA to cover domestic currency liquidity needs

The Basel text envisages a minimum 8% haircut on foreign currency HQLA used to cover liquidity needs in the domestic currency (and only applicable to the part of these HQLA exceeding the threshold specified by supervisors, which cannot be greater than 25%) whereas the EU regulation envisages that an additional 8% haircut must be added to the haircut applied on a regular basis. Moreover, this additional haircut is applicable to all foreign currency HQLA used to cover liquidity needs in the domestic currency without any threshold.

Annex 14: Implementation of LCR elements subject to prudential judgment or discretion in the European Union

The following tables provide information on elements of LCR implementation that are subject to prudential judgment and national discretion. The information provided helps the Basel Committee to identify implementation issues where clarifications and (additional) FAQs could improve the quality and consistency of implementation. It should also inform the preliminary design of any peer comparison of consistency across the membership that the Committee may decide to conduct, in similar fashion to the studies on risk-weighted asset variation for the capital standards.

Elements requiring judgment (non-comprehensive list) — Table 8

Basel paragraph	Description	Implementation by the EU
24(f)	Treatment of the concept of "large, deep and active markets"	Article 7 of the EU LCR Delegated Regulation (Commission Delegated Regulation (EU) 2015/61) requires that assets shall be traded via outright sales or repo transactions in active, large and deep markets in order for them to be eligible as HQLA.
50	Treatment of the concept of "reliable source of liquidity"	See above.
52	Treatment of the concept of "relevant period of significant liquidity stress"	See above.
74–84	Retail deposits are divided into "stable" and "less stable"	Articles 24 and 25 of the EU LCR Delegated Regulation envisage such a breakdown. Retail deposits covered by an effective DGS and where the depositor is either part of an established relationship or held in a transactional account will attract a 5% outflow rate. A 3% outflow rate is envisaged from 2019 for these stable retail deposits where the DGS meets the criteria set out in Basel. Generally, other retail deposits apply a 10% outflow rate. However, the EU regulation defines a set of risk factors of which a specific combination will attract in any case higher outflow rates of between 10% and 20%.
83, 86	Treatment of the possibility of early withdrawal of funding with maturity above 30 days (paragraph 83 – retail deposits; paragraph 86 – wholesale funding)	Articles 25 and 22 of the EU LCR Delegated Regulation envisage such treatment. The outflows exemption for beyond 30-day term deposits, under the regulated legal constraints or necessary material penalty, needs to be applied for the whole circumscribed category of deposits upon which those criteria apply.
90–91	Definition of exposure to small business customers is based on a nominal euro amount (EUR 1 million)	Article 3(8) of the EU LCR Delegated Regulation treats liabilities to an SME (micro, small and medium-sized enterprises) as retail deposits as long as the business qualifies for the retail exposure class for credit risk and its aggregate deposits do not exceed EUR 1 million.
94–103	Deposits subject to "operational" relationships"	Article 27 of the EU LCR Delegated Regulation envisages operational deposits as deposits needed for clearing, custody and cash management activities under an established relationship critically important for the deposits and with legal or operational limitations that make significant withdrawals within 30 days unlikely.

		Funds in excess of those amounts shall be treated as non-operational. Deposits from correspondent banking and prime brokerage services are expressly excluded.
131(f)	Definition of other financial institutions and other legal entities	Article 31 of EU LCR Delegated Regulation deals with credit and liquidity facilities setting out the outflow rates to be applied for the different transactions depending on the counterparty in line with Basel. Its paragraphs (8)(b) and (c) apply a 100% outflow rate to those transactions made with other residual potential customers not specifically mentioned in other paragraphs of this Article 31. This needs to be read together with Article 3 of EU LCR Delegated Regulation, which lists all potential types of financial customer.

Elements left to national discretion (non-comprehensive list)

Table 9

Basel paragraph	Description	Implementation by the EU
5	These two standards [the LCR and NSFR] comprise mainly specific parameters that are internationally "harmonised" with prescribed values. *Certain parameters, however, contain elements of national discretion to reflect jurisdiction-specific conditions. In these cases, the parameters should be transparent and clearly outlined in the regulations of each jurisdiction to provide clarity both within the jurisdiction and internationally.*	More stringent requirements have been set out: • Higher haircuts are foreseen to be applied by competent authorities. • Higher outflow rates in retail deposits for some categories between 10% and 20%.
8	Use of phase-in options	Article 38 of EU LCR Delegated Regulation: 60% LCR is required from 1 October 2015; 70% from 1 January 2016; 80% from 1 January 2017 and 100% from 1 January 2018.
11	The Committee also reaffirms its view that, during periods of stress, it would be entirely appropriate for banks to use their stock of HQLA, thereby falling below the minimum. Supervisors will subsequently assess this situation and will give guidance on usability according to circumstances. *Furthermore, individual countries that are receiving financial support for macroeconomic and structural reform purposes may choose a different implementation schedule for their national banking systems, consistent with the design of their broader economic restructuring programme.*	Article 4 of EU LCR Delegated Regulation. The EU regulation envisages that banks may use their liquid assets to cover their net liquidity outflows during stress periods, even if such a use of liquid assets may result in their liquidity coverage ratio falling below 100% during such periods. It also establishes a process of immediate communication to the competent authority in case a bank falls or can be reasonably expected to fall below 100%, when a restoration plan will need to be carried out.
50(b)	Eligibility of central bank reserves	Article 10 of EU LCR Delegated Regulation. Eligibility of central bank reserves as Level 1 assets depends on the banks being permitted to withdraw such reserves at any time during stress periods following the conditions specified for such withdrawal in an agreement between the relevant competent authority and the central bank.
50(c)	Marketable securities that are assigned a 0% risk weight under the Basel II Standardised Approach for credit risk	Article 10 of EU LCR Delegated Regulation. These marketable securities, established in paragraph 50(c) of the LCR Basel standard as uncapped Level 1 assets subject to 0% haircut and subject to 0% risk weight under the

		Basel II Standardised Approach for credit risk, are envisaged in the EU regulation.
53–54	Eligible Level 2B assets	Article 12 of EU LCR Delegated Regulation. Some additional limited high-quality covered bonds and ABS are included as Level 2B assets.
54a	Provision relating to the use of restricted contractual committed liquidity facilities (RCLF)[8]	Article 12 and 14 of EU LCR Delegated Regulation. Some restricted-use committed liquidity facilities provided by a central under stringent conditions can be eligible as Level 2B assets.
55(f)	Treatment for jurisdictions with insufficient HQLA (subject to separate peer review process)	Commission Implementing Regulation (EU) 2015/2344 of 15 December 2015. Only the Norwegian krone is envisaged as a currency with constraints.
68	Treatment of sharia-compliant banks	Article 12 of EU LCR Delegated Regulation. Sharia-compliant banks can compute some sharia-compliant assets as Level 2B under stringent conditions.
78	Treatment of deposit insurance	Article 24 of EU LCR Delegated Regulation. A 3% outflow rate is envisaged from 2019 for stable retail deposits where the DGS meets the criteria set out in Basel.
79(f)	Categories and run-off rates for less stable deposits	Article 25 of the EU LCR Delegated Regulation. Generally, less-stable retail deposits attract a 10% outflow rate. However this article lists a set of risk factors where every retail deposit exposed to a specific combination of them will attract higher outflow rates ranging from 10% to 20%.
123	Market valuation changes on derivative transactions	The same approach as in Basel is followed in the EU regulation (Commission Delegated Regulation (EU) 2017/208 of 31 October 2016).
134–140	Run-off rates for other contingent funding liabilities	Article 23 of the EU LCR Delegated Regulation. An assessment process between the credit institutions and the competent authority is envisaged for the determination of those contingent liabilities.
160	Weight assigned to other contractual inflows	N/A
164–165	Determination of scope of application of LCR (whether to apply beyond "internationally active banks" etc) and scope of consolidation of entities within a banking group	Article 2 of the EU LCR Delegated Regulation. The LCR needs to be met by credit institutions at an individual level and also at a consolidated level.
168–170	Differences in home/host liquidity requirements due to national discretions	Article 2 of the EU LCR Delegated Regulation. A prudential approach is followed for consolidating subsidiaries established in third countries. The higher outflow and lower inflow rates apply between those envisaged in both legislations respectively. Only assets from subsidiaries which are eligible as HQLA for both legislations are eligible for the liquidity buffer of the consolidated LCR.
Annex 2	Principles for assessing eligibility for ALA	Commission Implementing Regulation (EU) 2015/2344 of 15 December 2015. The assessment of the availability of liquid assets was done in accordance with the international standards adopted by the BCBS. Only the Norwegian krone turned out to be a currency with constraints and eligible for ALA.

[8] See www.bis.org/publ/bcbs274.htm.