FEDERATION
BANCAIRE
FRANCAISE

Banking supervision
And Accounting issues Unit

The Director

Paris, October 14th 2013

French Banking Federation comments on the Basel committee consultation on LCR disclosure standards (BCBS 259)

Dear Sir,

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

The FBF welcomes the opportunity to give its opinion to the BCBS on its Consultative Document "Liquidity coverage ratio disclosure standards". French Banks share the view of the BCBS to strengthen the liquidity framework and increase bank's resilience to liquidity shocks as well as enhancing the overall liquidity risk management.

However, any decision of a LCR disclosure requirement standard should be taken very carefully, as we know the market is still likely to overreact with a significant risk for financial stability especially in case of a mitigated or bad publication.
For instance we think any disclosure could lead to non-desirable risks on markets such as competition between banks to disclose the better LCR, even if it is over the minimum requirement. Therefore we are supportive of the FSB Enhanced Disclosure Task Force (EDTF) Report and the specific recommendation (n° 18) on liquidity.

Our response will then highlight the following issues:
We ask the BCBS to contemplate an average end of month LCR calculation based on data validated by supervisors to be used for public disclosure. We remind banks will demonstrate with additional liquidity metrics that they are LCR-compliant all the time.

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We believe the requirement to publicly disclose all components of the ratio, including unweighted and weighted ones, additionally to the split between operational and non-operational deposits, stable and less stable deposits is over-prescriptive as we think it is the role of supervisors to judge whether the LCR is properly calculated, and not the role of market participants. We think that providing the LCR in percentage, or at most the data on inflows, outflows and total HQLA on a gross basis would be largely sufficient.

You will find in the attached annex a more detailed response on these issues.

We thank for your consideration and remain at your disposal for any question or additional information you might have.

Yours sincerely,

Jean-Paul Caudal

French Banking Federation response to BCBS consultative document on LCR disclosure standards (BCBS 259)

The FBF (French Banking Federation) welcomes the opportunity to give its opinion to the BCBS on its Consultative Document "Liquidity coverage ratio disclosure standards". French Banks share the view of the BCBS to strengthen the liquidity framework and increase bank's resilience to liquidity shocks as well as enhancing the overall liquidity risk management.

Key messages

An average end of month LCR calculation based on data validated by supervisors should be used for public disclosure. On the other hand banks shall demonstrate with additional liquidity metrics that they are LCR-compliant all the time.

Any public disclosure shall neither include unweighted amounts, nor a granular approach of outflows. We propose instead a more detailed reporting with additional information including marketable assets and credit lines received by Central bank.

General Comments

According to the Basel Committee this disclosure framework aim at improving the transparency of regulatory liquidity requirements, reinforce the "Sound Principles"[1], enhance market discipline, educate market participants and would apply to internationally active banks.

Nevertheless we are much concerned about this proposal, and we are not sure whether the Committee has considered the potential impacts of such a new requirement on international markets. Indeed, following the BCBS revision of the LCR framework, banks must meet a 100% LCR at the latest in 2019, and from 2015 a progressive requirement will be put in place, starting at 60%. This "phase-in" was especially decided to give banks a sufficient time to adapt to these new rules, and also supervisors to progressively takeover a new way of monitoring and controlling banks' liquidity risks.

We think that this disclosure could lead to non-desirable risks on markets such as competition between banks to disclose the better LCR, even if it is over the minimum requirement. Therefore we are supportive of the FSB Enhanced Disclosure Task Force (EDTF) Report and the specific recommendation (n° 18) on liquidity.

Eventually, we think the LCR template should not be seen separately from what it is going to be decided on the NSFR, as the BCBS has confirmed that there will be also some NSFR disclosure standards.

[1] I.e. the 2008 Basel Committee « Principles for Sound Liquidity Risk Management and Supervision".

<u>Comments on Section 1: Scope of application, implementation date and frequency of reporting</u>

But should there be a requirement of this nature, it has to be only on a consolidated basis, as it is the most consistent with the way that banks manage their liquidity. It is stated in the EDTF report: "liquidity disclosures should provide comprehensive information to support a **consolidated and, where appropriate**, a more granular understanding of a bank's liquidity risk."

Then, the contemplated date of implementation seems too close, as the LCR at 100% will only be required in 2019 (2018 for European banks).

The BCBS propose banks to disclose their LCR in parallel of their quarterly (or semi-annually) financial statements, we wonder whether this disclosure should be beforehand audited or not. A key issue is that LCR will be based on management data, being an early warning indicator. An audited disclosure will most probably imply a re-run of LCR calculation based on fully reconciled accounting figures, which was not the aim of the liquidity framework. We ask BCBS to confirm what it is expected on that.

<u>Comments on section 2 : Disclosure requirements</u>

In order to have the best data quality as possible, a significant part of the data for the LCR is extracted from accounting systems and is produced only monthly. The calculation of a daily LCR will necessarily be based on proxies. We believe the disclosure requirement should be based on the best data quality possible and not on proxies.

We understand that the average daily calculation aims to demonstrate that banks comply with LCR at any time instead of window dressing at end of month. So banks shall demonstrate by using additional monitoring tools (roll of the funding; funding gaps) that their LCR is managed on a way that is fully compliant each day. We therefore believe that an average end of month LCR should be sufficient for the purpose of public disclosure.

If banks were to report an average of daily observations only an estimation of our liquidity position could be provided. It is likely that these estimations could not be validated by our external auditors and could therefore not be published.

Therefore should there be a disclosure requirement of the LCR, French banks propose to disclose the average of the monthly LCR, which will be reported to the supervisor. It is very important, as another solution would entail endless difficulties with auditing the date and providing the figures.

Then regarding the proposition under paragraph 15, we think the requirements are over-prescriptive. The Basel Committee asks for the disclosure of all components of the ratio, including unweighted and weighted ones, plus the split between operational and non-operational deposits, stable and less stable deposits... This is not acceptable, as we think it is the role of supervisors to judge whether the LCR is correctly calculated, and not the role of the market. There is a high risk that the market misinterprets the data provided, and does unjustified comparisons between institutions which have different businesses. We think that providing the LCR in %, or at most the data on inflows, outflows and total HQLA on a gross basis would be largely sufficient.

Moreover BCBS suggests banks to provide sufficient qualitative discussion around the LCR to facilitate a greater understanding of the results and data provided. This seems to us consistent with the FSB EDTF recommendation n°18, and banks are almost compliant with this requirement.

Specific comments regarding the proposed template:

First of all we find the granularity of the requested data too broad.

Granularity would make sense on the composition of the liquidity buffer instead of the net cash-outflows. Moreover, liquidity buffer disclosure should be completed by additional information, as credit lines granted by Central Banks, or portfolio of marketable assets that have market liquidity but which are not LCR-compliant. The FSB EDTF Report states that “Liquidity reserve disclosures in some cases include estimates of the bank’s borrowing capacity from various central banks.”

And more generally there is an asymmetry between assets and liabilities; liabilities have to be in line with the requirements of the assets.

Comments on Section 3: Guidance on additional disclosures

We think any additional disclosures should be limited as much as possible, in order to avoid any competition or comparison between banks having published the minimum required and those who have published more. This degree of flexibility introduced in the proposal could potentially lead to situations where banks that would not provide the same quantity of information than others, could be challenged or questioned.