POSITION PAPER

# WSBI-ESBG common response to the BCBS consultative document on liquidity coverage ratio disclosure standards

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The WSBI-ESBG (World Savings Banks Institute - European Savings and retail Banking Group) welcomes the opportunity to share its views on this Basel Committee consultative document that covers the disclosure standards for LCR. These disclosure requirements will be applicable to all internationally active banks on a consolidated basis.

## 1. General considerations

The WSBI-ESBG would like to enrich the discussion by providing some comments with regards to the disclosure standards for the liquidity coverage ratio that may help to improve the current design.

Firstly, the WSBI-ESBG would like to stress that calculating a daily average of the LCR could become a very problematic issue for most banks since many banks are currently not at the stage of being able to calculate the LCR on a daily basis. It is also questionable what time frame should be used for an average calculation and whether an average or ultimo number would be most beneficial.

Concerning the template, we consider that it is quite detailed and it holds information on both weighted and non-weighted numbers of the LCR. This can lead to confusion when comparing with other information in a bank's financial information. The more details that are disclosed, the more information/clarification will be needed from each bank. The LCR may be seen as the "real image" of a bank's liquidity risk with an added focus on it. As we all know, the LCR is merely one liquidity metric among many used to capture the liquidity risk of a bank. Many external parties and investors may need to have more information on what the LCR means, in order not to misinterpret the information provided. The WSBI-ESBG is in favour of having uniform reporting, introduced at the same time in the same template and with the same frequency, for all banks.

Paragraph 16 of the BCBS disclosure requirements states that banks should also disclose an array of information in addition to the LCR disclosure figures that would serve for a qualitative discussion. The information requested is composed of:

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- the main drivers of their LCR results and the evolution of the contribution of inputs to the LCR's calculation over time;
- intra-period changes as well as changes over time;
- the composition of HQLA;
- concentration of funding sources;
- derivatives exposures and potential collateral calls;
- currency mismatch in the LCR;
- a description of the degree of centralization of liquidity management and interaction between the group's units; and

- other inflows and outflows in the LCR calculation that are not captured in the LCR common template but which the institution considers to be relevant for its liquidity profile.

With regards to this point, the WSBI-ESBG does not see the additional value of this qualitative discussion given that, in times of stress, this kind of information may result in being especially negative for banks and financial groups. Thus, we deem it necessary that the disclosure standards are very carefully balanced – taking into account not only the market reactions to these disclosures, but also the different impact on every type of institution.

The WSBI-ESBG shares the objective sought by the BCBS of achieving higher transparency also in the field of liquidity. Nevertheless, with regards to particular and sensitive aspects, the standard can easily result in generating unintentional - and very detrimental - consequences, especially if any of the disclosed information is not, in fact, comparable, since imprecise and vague standards (especially concerning point 19), may lead to the use of different approaches for its implementation and/or a wrongful interpretation of the disclosed data. Should the additional standards for a disclosure of qualitative liquidity data be deemed necessary and are eventually implemented, they should be mandatory to all institutions in the same way, similar to the method used for the template for quantitative liquidity data.

As a conclusion, the WSBI-ESBG is concerned with the strong effect that the proposed disclosures standards of liquidity position data could have in times of stress due to the unpredictable reactions of market participants. Any proposal for disclosure standards should try to avoid these misinformed conclusions as it risks worsening an already critical situation for institutions. Hence, any liquidity disclosure requirement needs to bear these potential consequences in mind.

## About WSBI-ESBG (European Savings and retail Banking Group)

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

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

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

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