

# *Hot topic*

## EBA publishes Consultation Paper on Liquidity Coverage Ratio and Stable Funding Reporting

July 2012





## ***Hot topic: EBA publishes Consultation Paper on Liquidity Coverage Ratio and Stable Funding Reporting***

### ***Overview***

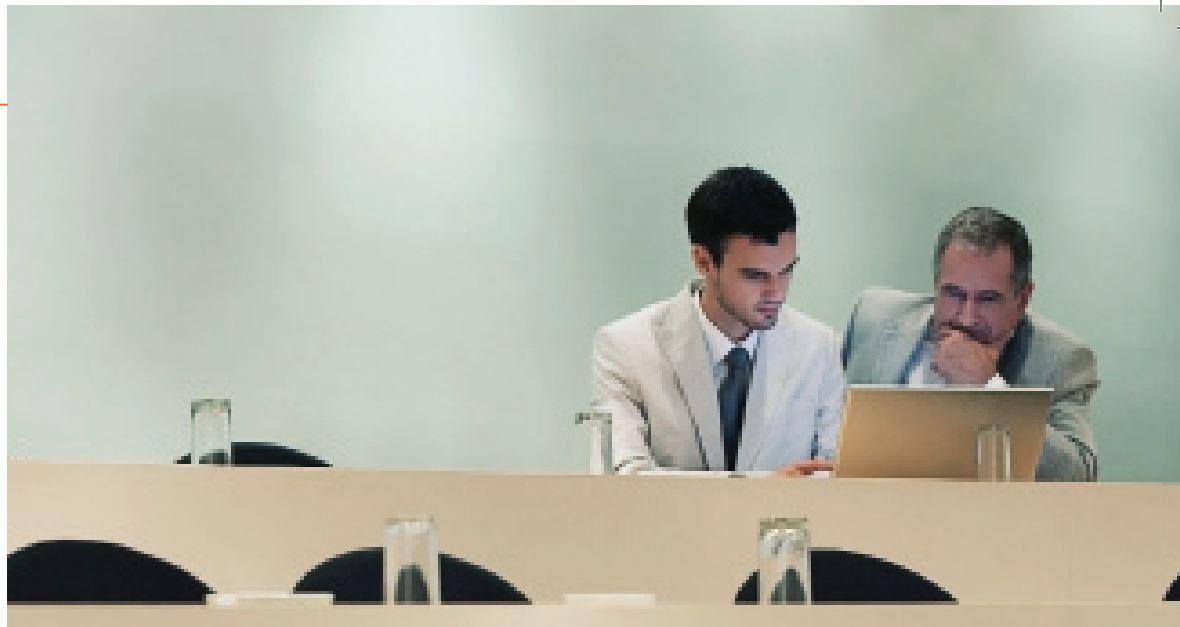
On 7 June, the European Banking Authority (EBA) released two draft Implementing Technical Standards (ITS) setting out supervisory reporting requirements under Basel III. The requirements discussed in the papers relate to the Liquidity Coverage Ratio (LCR), stable funding requirements which are similar to the Net Stable Funding Ratio (NSFR) and the Leverage Ratio (LR). This hot topic considers the impact of the draft ITS relating to the LCR and stable funding, CP2012/05, titled 'Draft Implementing Technical Standards on Supervisory Reporting Requirements for Liquidity Coverage and Stable Funding'.

### ***Background***

The new Basel III liquidity regulations require firms to meet two ratios: the LCR requires firms to hold a buffer of liquid assets to protect against a 1 month period of liquidity stress; and the NSFR requires firms to fund long-term, illiquid assets with long-term, stable funding. These ratios are being implemented in Europe through the Capital Requirements Directive (CRD) 4 and the Capital Requirements Regulation (CRR). These new pieces of EU legislation are currently expected to be binding on firms from 1 January 2013.

The EBA has been tasked with publishing ITS on a number of areas within the CRD4/CRR package, including on supervisory reporting. The majority of the CRD4 supervisory reporting requirements are dealt with by COREP, within CP50 ('Supervisory reporting requirements for institutions'), which was published on 20 December 2011. The draft ITS on LCR and stable funding reporting supplements CP50 and, assuming the CRR has been finalised on time, will need to be finalised by the EBA by November 2012.

Firms have until 27 August 2012 to submit comments to the EBA on the draft liquidity reporting ITS. A separate consultation on a data point model containing all the relevant technical specifications necessary for developing an IT reporting format will be published in the second half of 2012. In addition, at a later stage the EBA will publish material on the calibration and the definition of the LCR and the NSFR – these issues are not covered by CP2012/5.



### **What is the impact on firms?**

Based on the current draft of the CRR and these ITS, institutions will be required to comply with these new reporting requirements as of 1 January 2013. The reporting frequency will be not less than monthly for the LCR and not less than quarterly for stable funding, with firms given 15 days after the end of the period to submit completed reporting forms. The first LCR report will be required for end-January 2013 balance sheet positions and the first stable funding report will be required for end-March 2013 positions.

All credit institutions, and investment firms that deal on their own account or underwrite financial instruments, will have to comply with these reporting requirements. The default position is that firms will need to report on both a consolidated and individual basis. However, the application of the requirements at an individual basis can be waived by the relevant competent authorities if the parent entity has oversight of and monitors the liquidity risk within the group, and if funds can flow sufficiently freely between the individual entities.

Crucially, there are significant differences between the reporting required for Basel III liquidity regulations and the reporting required for the current FSA regime. Even firms that have successfully implemented systems to produce FSA data will need to make significant changes in order to produce accurate Basel III compliant data for the EBA. For example, the categorisation and treatment of retail and SME deposits is different and there are new data categories to be reported on 'operational' wholesale deposits. These are just a few of the many differences that exist. In addition, firms will have to continue to report the FSA liquidity forms until the LCR becomes a binding regulatory limit.

### **How PwC can help**

Firms face significant challenges relating to data requirements, IT systems, reporting processes, strategic funding decisions and their overall liquidity management framework, which need to be considered without delay. In particular, to prepare for this Basel III/EBA reporting, PwC can assist our clients in the following ways:

- Understanding the impact of Basel III ratios on specific business lines, products and transactions and embedding new liquidity standards into the business
- Perform a gap analysis to assess existing liquidity reporting systems
- Optimise data quality, in particular around data capture and categorisation
- Assist in the implementation of a liquidity reporting system

*For more details on this issue:*

<http://www.pwc.co.uk/banking-capital-markets/publications/liquidity-reporting-under-basel-iii.jhtml>

### **Contacts**

#### **Crispian Lord**

*Partner*

crispian.lord@uk.pwc.com  
+44 (0) 207 804 8148

#### **Gilly Lord**

*Partner*

gillian.lord@uk.pwc.com  
+44 (0) 207 804 8123

#### **Claire Rieger**

*Director*

claire.rieger@uk.pwc.com  
+44 (0) 207 212 2268

#### **John Elliott**

*Senior Manager*

john.elliott@uk.pwc.com  
+44 (0) 207 804 4952

[www.pwc.co.uk/fs](http://www.pwc.co.uk/fs)

PwC firms help organisations and individuals create the value they're looking for. We're a network of firms in 158 countries with close to 169,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at [www.pwc.com](http://www.pwc.com).

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2012 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

120712-145002-KJ-OS