



The Honorable Randal K. Quarles  
Vice Chairman for Supervision  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, D.C. 20551

The Honorable Jelena McWilliams  
Chair  
Federal Deposit Insurance Corporation  
550 17th Street, NW,  
Washington, DC 20429

The Honorable Joseph M. Otting  
Comptroller of the Currency  
Office of the Comptroller of the Currency  
400 7th Street, SW  
Washington, D.C. 20219

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## **EBF comments on the FBO tailoring proposals**

Dear Vice Chair Quarles, Comptroller Otting, and Chair McWilliams,

We would like to express our gratitude to the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC and, together with the FRB and the OCC, the Agencies) for allowing us to comment on the notices of proposed rulemaking related to the tailoring of enhanced prudential standards (EPS) and to regulatory requirements on capital and liquidity for foreign banking organizations (FBOs) (FBO tailoring proposals).<sup>1</sup>

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<sup>1</sup> This comment letter is submitted in response to the following rulemakings: Notice of Proposed Rulemaking, Prudential Standards for Large Foreign Banking Organizations; Revisions to Proposed Prudential Standards for Large Domestic Bank Holding Companies and Savings and Loan Holding Companies, Federal Reserve Docket No. R-1658 and RIN 7100-AF45; Joint Notice of Proposed Rulemaking, Changes to Applicability Thresholds for Regulatory Capital Requirements for Certain U.S. Subsidiaries of Foreign Banking Organizations and Application of Liquidity Requirements to Foreign Banking Organizations, Certain U.S. Depository Institution Holding Companies, and Certain Depository Institution

**European Banking Federation aisbl**

**Brussels** / Avenue des Arts 56, 1000 Brussels, Belgium / +32 2 508 3711 / info@ebf.eu  
**Frankfurt** / Weißfrauenstraße 12-16, 60311 Frankfurt, Germany  
**EU Transparency Register** / ID number: 4722660838-23

  
**www.ebf.eu**

Overall, the European Banking Federation (EBF) welcomes efforts to tailor U.S. regulations and improve the efficiency of the FBO regulatory regime. Among other things, we welcome the introduction of an entry-level category of intermediate holding company (IHC) consistent with the U.S. Treasury Report on Banking and Credit Unions from June 2017.

However, EBF member banks are concerned that certain elements of the FBO tailoring proposals could increase the risk of global fragmentation and that others may create a competitive disadvantage for the U.S. operations of FBOs in comparison to U.S. Bank Holding Companies (BHCs) of similar size, which could have a negative impact on U.S. economic growth. One key contributing factor is that, while nominally using the same framework of risk-based indicators (RBIs) as that of domestic banks, the classification of FBOs' U.S. operations in fact places more of them in the more severe categories than it does comparable U.S. BHCs. Of course, some of the proposed changes may indeed provide welcome relief to certain FBOs.

Furthermore, the FBO tailoring proposals include questions on two approaches on the possible application of additional liquidity requirements for FBOs' U.S. branches, either by applying the liquidity coverage ratio (LCR) to FBO branches and agencies on an aggregate basis or by applying simplified requirements based on FBO branch and agency total assets.

The EBF and its member banks have significant concerns about this potential application of standardized liquidity requirements on the U.S. branches of FBOs. Doing so would pose a serious risk of increasing global fragmentation and duplicative regulation by ring fencing additional liquidity buffers at the U.S.-branch level, since these branches are legally part of the home legal entity and covered by home-country liquidity regulation. The EU's rules sufficiently mitigate any risk of liquidity shortages for the U.S. branches of EU banks and, consequently, we urge the Agencies to consider deference to the home-country supervisor, rather than taking action that would further fragment the global financial system.

In this regard, we strongly support the submissions of the Institute of International Bankers (IIB) on the FBO tailoring proposals and we offer below comments on several key issues for our member banks from a European perspective, including references to the existing EU liquidity framework.

## Key Issues

### 1. Risk-based indicators (RBIs)

**The combined U.S. operations (CUSO) scoping for RBIs and the calculations of the RBIs themselves do not reflect the global structures of FBOs and should be adjusted to remove non-U.S. affiliate exposure and to be more risk sensitive.<sup>2</sup>**

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Subsidiaries, Federal Reserve Docket No. R-1628B and RIN 7100-AF21, OCC Docket ID OCC-2019-0009 and RIN 1557-AE63, FDIC RIN 3064-AE96

<sup>2</sup> We are cognizant that greater risk sensitivity could come at a price of greater burden, in particular, greater reporting burden under FR Y-15. We believe that such burden should be limited to institutions for which the risk-sensitive data is necessary to demonstrate their risk-based category and make a proposal in this letter that could achieve this outcome via a modular FR-Y 15 report.

- As proposed, the new RBIs would serve as additional binding constraints on the organic growth of U.S.-booked business and **have a cliff effect**, especially since each RBI could catapult a firm into Category II or III, respectively, which come with an array of additional onerous EPS requirements.
- To better align the treatment of FBOs with that of U.S. BHCs, the proposals should align the scope of categorization for EPS so that IHC requirements are triggered only based on the IHC perimeter. Fundamentally, IHC requirements should not be based on the CUSO perimeter. By doing so, the FRB would reduce the disproportionate negative impact on insured depository institutions (IDI) owned by FBOs. For example, in no event should an IDI subsidiary of an IHC be subject to a requirement that would not apply to the IDI but for the CUSO's categorization. Additionally, the RBIs themselves should better reflect the unique way FBOs are structured. The following adjustments should be made to provide a level playing field with U.S. BHCs.
  - **Inter-affiliate transactions should be broadly exempted from all RBIs.**
    - The exemption for cross-jurisdictional activities (CJA) should be broadened to exclude all intercompany liabilities and claims, regardless of the level of collateralization on claims.
    - Inter-affiliate transactions should be exempted for all four RBIs, including CJA, weighted short-term wholesale funding (wSTWF), nonbank assets, and off-balance sheet exposure (OBE).
  - **Assets held to satisfy regulatory requirements should not count towards any of the RBIs** (e.g. high-quality liquid assets (HQLA) held as a required liquidity reserve).
  - **Any IHC or CUSO secured funding from affiliates should be weighted based on haircuts set out in Section 32(j) of the LCR rule.**
- Additional RBI-specific adjustments should be made to better reflect the structures and risk profiles of the U.S. operations of FBOs. These include:
  - **Cross-jurisdictional activity**
    - Trade-date receivables on securities settlements that are treated as "secured" exposure should be carved-out from the CJA computation, as they are comparable to other fully collateralized assets. Furthermore, this would improve the distribution of U.S. Treasuries in the global market.
  - **Weighted short-term wholesale funding**
    - Less than 30-day wholesale unsecured funding should be excluded from the wSTWF calculation, up to the amount of cash deposited at the FRB.
    - Funding through Federal Home Loan Bank advances should be seen as less "risky" than any other form of funding.

- **Off-balance sheet exposure**
  - Potential future exposures (PFEs) associated with affiliate derivatives clearing should be carved out as this is a regulatory requirement that promotes the stability of the U.S. markets. Penalizing such exposures could force FBOs to shift from using their own U.S. futures commission merchants (FCMs) to an unaffiliated FCM, likely owned by a U.S. GSIB, which would increase competitive disadvantages for FBOs.
  - When calculating the CUSO OBE exposure, all intra-entity activity should be excluded and a U.S. branch of an FBO should be permitted to assume no default by any non-U.S. branch or the head office of the FBO.
  - When calculating the CUSO OBE exposure, the CUSO should be permitted to reduce its OBE exposure to the extent of any committed line of credit or other legally enforceable support from an affiliate that could be drawn, if needed, to offset OBE items, but only if the notice period for the draw from the affiliate does not exceed the OBE item's notice period.
  - Loan commitments, letters of credit and guarantees that are used for corporate financing matters—and therefore support the U.S. economy—should not be penalized as severely as other transactions and should count in proportion with the risk-weight they carry.
  - The FRB should apply the U.S. Basel III Standardized risk weights in accordance with Regulation Q on top of the conversion factor to adjust PFE.
- The proposed RBIs should also be revisited so as not to jeopardize the proposed entry-level IHC. As proposed, RBIs such as \$75B in non-bank assets would vault an entry-level IHC into Category III for liquidity requirements and single-counterparty credit limits (SCCL).
- Furthermore, FBOs should be allowed (but not required) to provide greater risk-sensitivity analysis in future FR-Y-15 reporting, by adding elective schedules that demonstrate lesser risk:
  - The FRB should not lose sight of the fact that the RBIs, and associated FR Y-15 reporting, would create new burdens for a number of FBOs with \$100B or more of CUSO assets, some of which are not even close to the RBI triggers and should be allowed to instead report simple, streamlined data.
  - Through these steps, the FRB could achieve the right balance between greater risk sensitivity and appropriate easing of burdens.
  - Lastly, FBOs should be allowed time to build out the compliance infrastructure for requirements that are newly applicable to them, including new reporting requirements. All FBOs would be reporting these indicators for CUSO/branches for the first time and should be given sufficient time to develop the necessary reporting capability.

## 2. Possible imposition of new liquidity requirements on branches

**Additional branch liquidity requirements are unwarranted and only serve to accelerate the recent and unfortunate trend towards the ring-fencing of global banking markets both in the United States and abroad. It is unnecessary to require additional liquidity standards at the branch level as FBOs are subject to global liquidity standards in accordance with Basel standards, including LCR requirements.**

- There are existing U.S. liquidity requirements in place for the U.S. branches of FBOs and there is no need for further refinements or increases to these requirements. We believe that an additional U.S. liquidity requirement on U.S. branches of FBOs, above and beyond those already in place today under U.S. state law and FRB liquidity stress testing requirements, would add limited value from a financial stability standpoint, while breaching an important principle, which is that branches (unlike subsidiaries) are under the supervision of the home country.
- The current Basel-compliant liquidity risk-management regulatory framework applied to branches under EU regulation is extremely comprehensive and should be considered as equivalent to that in the United States (description of the EU's liquidity framework is included in the Annex below).
- This framework provides the home supervisor with a comprehensive picture of the liquidity position of supervised banks, including their USD global position.
- We urge the Agencies to address any concerns about U.S. dollar liquidity through reliance on and cooperation with home-country regulators, rather than imposing additional liquidity requirements notwithstanding the existing framework for EU liquidity,<sup>3</sup> supervision,<sup>4</sup> stress testing,<sup>5</sup> and Net Stable Funding Ratio (NSFR) requirements<sup>6</sup>.

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<sup>3</sup> The 2013 Basel III LCR was implemented in the EU legal framework by way of the Capital Requirements Regulation (CRR – Articles 412 – 426 and 460) and the Commission Delegated Regulation (EU) 2015/61. LCR requirements were phased in from 1 October 2015 and are fully applicable as of 1 January 2018. The LCR of EU banks is monitored by the European Banking Authority (EBA) since 2011. In the latest EBA Risk dashboard, the weighted average LCR of the sample of 190 banks was 152%: This translates into a cumulated HQLA buffer of €2.7trn.

<sup>4</sup> Any European bank having significant activity in USD, whether in the United States or globally, reports an LCR in USD, which is monitored by the SSM/EU National Competent Authorities (NCAs). Only banks with less than 5% of their liabilities denominated in USD would not be subject to the LCR in USD requirement.

<sup>5</sup> The EU-wide stress test is conducted by the EBA in cooperation with the SSM every two years. This exercise is focused on the capital consistency. However, between those stress tests, the SSM conducts more focused exercises. In 2019, the SSM conducts sensitivity analysis of liquidity risk. In addition, EU banks are also subject to the internal liquidity adequacy assessment process (ILAAP).

<sup>6</sup> The recent revisions to CRR (CRR2), which were published in the Official Journal of the European Union on 7 June 2019, made the NSFR a binding requirement in the EU. The EBA is already monitoring compliance with NSFR since 2011.

- As it did in the final SCCL rule, the FRB should permit the use of substituted compliance and defer to home-country liquidity regulation instead of issuing additional liquidity requirements for branches.
- Home and host regulators should collaborate through international fora such as the Financial Stability Board (FSB) to determine how to best provide host countries with relevant reporting of home-country liquidity results.
- The FSB notes in its recent Report on Market Fragmentation<sup>7</sup>: “The benefits of cross-border communication and information sharing are already being realised and are a platform upon which to build in relation to multicurrency, multinational infrastructure. [...] a further strengthening of regulatory and supervisory cooperation and regular communication and information-sharing among relevant authorities on issues concerning market fragmentation could reinforce mutual understanding. Such communication and cooperation could help identify common problems and objectives before national or international measures are developed. It could also strengthen the basis on which to explore common approaches to home/host supervision, including greater joint and multilateral oversight of key infrastructure.”

### 3. Liquidity standards for IHCs

**The liquidity standards for the IHC should be triggered based on the IHC and not the CUSO perimeter. Further, the liquidity requirements applied to the IHC should not be expanded to include the NSFR, if/when finalized. Rather, FBOs should be allowed to adhere to the NSFR through substituted compliance at the consolidated level, which is the more appropriate way to manage the longer-term funding risk of the IHC.**

- **IHC Perimeter:** Liquidity requirements for the IHC should be triggered based on the IHC perimeter, instead of the CUSO perimeter, as it is currently set in the proposed rule. Applying the LCR (and the NSFR if finalized and adopted for the IHC) should only apply to the IHC based on the risk profile of the IHC and not on the CUSO.
- **NSFR:** The NSFR should not be applied at the IHC level. FBOs should be allowed to adhere to the NSFR through substituted compliance at the consolidated level. The intent of the NSFR, to reduce funding risk over a longer time horizon, is achieved through compliance at the parent level. The funding risk at the IHC is appropriately managed through the current liquidity controls, EPS and the LCR.
- In addition, the U.S. resolution plans of the largest FBOs require the them to calculate Resolution Liquidity Execution Need (RLEN) and Resolution Liquidity Adequacy and Positioning (RLAP) on an individual material entity level; this should provide appropriate comfort to the Agencies to ensure that any liquidity risks are properly addressed.

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<sup>7</sup> FSB Report on Market Fragmentation, 4 June 2019, available at: <https://www.fsb.org/wp-content/uploads/P040619-2.pdf>.

- The timing gap between the effective date of the FBO tailoring rules and the finalization of the NSFR present additional burden and complexity.
- **Reduced LCR:** Turning the “modified LCR” into a “reduced LCR” does not align with the FBO tailoring proposals’ objective – nor the objective of the U.S. Congress (through the Economic Growth, Regulatory Relief, and Consumer Protection Act) to tailor liquidity requirements and reduce regulatory burdens. On the contrary, the “reduced LCR” increases the liquidity regulatory burden for IHC FBOs relative to the “modified LCR”. The main reasons for this regulatory burden are the:
  - Reduced LCR calibration between 70% and 85% (when modified LCR was at 70%),
  - Maturity mismatch add-on, and
  - Application for all IHCs, including those that do not have an IDI.
- The final version of the reduced NSFR will present similar challenges as does the reduced LCR.
- **Liquidity Reporting:** The full LCR requirement and T+2 reporting for the FR 2052a form should be aligned. Therefore, firms complying with reduced LCR should have to report only on a T+10 basis.
- **Liquidity Stress Testing:** In addition, the FRB’s liquidity stress-testing requirements penalize flows between an FBO parent and its U.S. operations, as well as flows between an FBO’s U.S. subsidiaries and U.S. branches: internal cash inflows may only be used to offset internal cash outflows, as opposed to external cash outflows. This results in higher buffer requirements than would otherwise be the case. U.S. BHCs, in contrast, do not have to manage this segregation of cash flows. As it is the case under the LCR, FBOs should have the capacity, under the liquidity stress-testing for CUSO/IHC/U.S. branches, to treat internal and external flows in the same manner, such that internal inflows can be used to offset external outflows.

#### 4. Single-Counterparty Credit Limits

**The IHC SCCL requirement should be based on the IHC footprint. Also, the current large exposures reporting, under the Capital Requirements Regulation (CRR 1), to which the EU banks are already subject, should provide a basis for substituted compliance for the CUSO under SCCL.**

- We understand that the proposed SCCL requirements in the FBO tailoring proposals remove the bifurcated treatment under the current rule regarding exposures to special purpose vehicles and the application of the economic interdependence and control relationship tests, as well as compliance requirements.
  - We recommend that the more onerous requirements should not apply to Category II and III IHCs. The FBO tailoring proposals fail to provide evidence of why the more burdensome requirements should be imposed on these

institutions. Further, it is unclear why the regulators are modifying a final rule prior to the rule coming into effect. The FRB should not finalize these changes until proper evidence and support have been provided to demonstrate that these changes are warranted.

- We recommend applying the SCCL requirement to an IHC by categories based on an IHC-based threshold. The level of complexity and interconnectedness of the IHC is measured by the IHC metrics and those alone should drive the SCCL requirements. (As before, SCCL continues to apply to the CUSO of vastly more FBOs than it applies to U.S. BHCs.)
- The FBO tailoring proposal was used to revisit the scope of the SCCL rule's application to FBOs but was not used to clarify the application of substituted compliance to them.
  - As separately communicated to FRB staff, we believe that current CRR 1 large exposure reporting requirements form a sufficient basis for finding substituted compliance for EU institutions in the interim period until the Basel-compliant CRR 2 standards are in effect on 28 June 2021.
  - Although CRR 1 does have some differences to the Basel large exposure framework, most of these differences can be mitigated on a post-production reporting basis, and the remainder should not be material given the limited duration until these reports get enhanced to meet CRR 2 standards.<sup>8</sup>
  - This clarification is needed urgently to avoid costly build of redundant reporting infrastructure.

## Conclusions

### Risk-based Indicators

- The proposed design of the RBIs based on CUSO assets does not reflect the global structure of FBOs and, while nominally using the same framework of RBIs as that of domestic banks, the classification of FBOs' U.S. operations in fact places more of them in the more severe categories than it does comparable U.S. BHCs
- To address this, categorization of EPS for IHCs should solely focus on an IHC's perimeter and not the CUSO perimeter.
- In addition, we recommend calibrating the RBIs themselves to secure a level playing field with U.S. BHCs by excluding inter-affiliate transactions from all RBIs, by excluding assets held due to regulatory requirements from all RBIs, and by weighting IHC and CUSO secured funding from affiliates based on the haircuts set out in Section 32(j) of the LCR rule. In detail, each individual RBI should be adjusted to account for the actual risks FBOs pose to U.S. financial stability.

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<sup>8</sup> In this regard, on May 17, 2019, the EBF submitted a letter to Mr Michael Gibson and Ms Norah Barger of the FRB, providing additional information on the EU large exposure regime to which EU have been subject to since 2014 pursuant to CRR 1.

- The additional revisions to each specific RBI, as articulated in Section 1, above, should be adopted.
- FBOs should be allowed (but not required) to provide greater risk-sensitivity analysis in future FR-Y-15 reporting, by adding elective schedules that demonstrate lesser risk.

### **Possible imposition of new liquidity requirements on branches**

- There are existing U.S. liquidity requirements in place for the U.S. branches of FBOs and there is no need for further refinements or increases to these requirements.
- In addition, the current Basel-compliant liquidity risk-management framework applied to branches under EU regulation is extremely comprehensive and should be considered as equivalent to that in the United States and provides the home-country supervisor with a comprehensive picture of the liquidity position of the supervised banks, including their global USD positions.
- Consequently, we believe that a U.S.-specific liquidity requirement on U.S. branches of FBOs would add limited value from a financial stability standpoint, while breaching an important principle, which is that branches (unlike subsidiaries) are under the supervision of the home country.
- We urge the Agencies to address any concerns about USD liquidity through reliance on and cooperation with the home regulators, rather than taking actions that would increase fragmentation and ring-fencing.

### **Liquidity standards for IHCs**

- We recommend basing IHC liquidity requirements on an FBO's IHC perimeter only, and not on the CUSO perimeter.
- FBOs should be allowed to adhere to the NSFR through substituted compliance at the consolidated level.
- The "reduced LCR" increases the liquidity regulatory burden for IHC FBOs relative to the "modified LCR" and should not be implemented.

### **Single-Counterparty Credit Limits**

- The level of complexity and interconnectedness of the IHC is measured by the IHC metrics, and therefore we recommend setting SCCL requirements for IHCs by categories dependent on an IHC-based threshold.
- EU banks should be permitted to certify to substituted compliance to the SCCL rule for the CUSO based on CRR 1-compliant reports (with certain post-production modifications) until CRR 2 comes into effect.

Yours sincerely,



Wim Mijs  
Chief Executive Officer  
European Banking Federation

## Annex: Liquidity framework in place in Europe

### 1. EU legal requirements

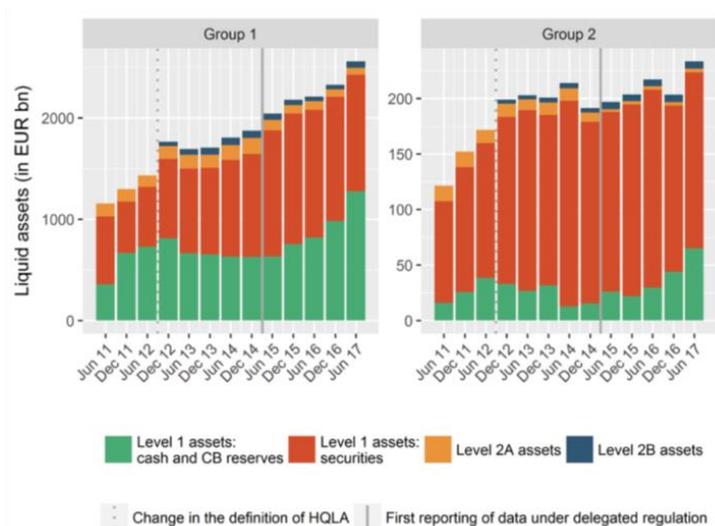
- The 2013 Basel III Liquidity Coverage Ratio was implemented in the EU legal framework by way of the Capital Requirements Regulation (CRR – Articles 412 – 426 and 460) and the Commission Delegated Regulation (EU) 2015/61.
- LCR requirements were phased in from 1 October 2015 and are fully applicable as of 1 January 2018.
  - Article 412 of the CRR imposes the requirement for all credit institutions in the EU to hold a sufficient amount of liquid assets.
  - Reporting obligations, including reporting formats and specification which assets are and which are not considered liquid, are included in Articles 415 and 416 of the CRR.
    - Institutions are able to report assets as liquid only if “*the denomination of the liquid assets is consistent with the distribution by currency of liquidity outflows after the deduction of inflows*” (Article 417 (f)) – certain derogations (in line with the Basel framework) are allowed under Article 419.2 and further specified in the Commission Delegated Regulation (EU) 2016/709.
- The LCR of EU banks is monitored by the EBA since 2011. In the latest EBA Risk dashboard, the weighted average LCR of the sample of 190 banks was 152%:

Period	Weighted average	25th	50th	75th
Sep - 16	140.4%	127.1%	150.3%	243.3%
Dec - 16	141.3%	128.4%	154.1%	243.9%
Mar - 17	144.7%	131.7%	156.6%	221.1%
Jun - 17	145.5%	135.8%	159.0%	230.8%
Sep - 17	144.5%	133.3%	158.0%	228.8%
Dec - 17	148.2%	139.7%	166.0%	232.7%
Mar - 18	147.0%	139.8%	165.6%	234.8%
Jun - 18	148.3%	139.8%	162.0%	223.2%
Sep - 18	148.5%	137.1%	161.4%	225.2%
Dec - 18	152.0%	140.4%	172.0%	247.5%

- This translates into a cumulated HQLA buffer of €2.7trn:

### As of June 2017:

- **HQLA amount: €2,500 bn Group 1 + €230 bn Group 2 in EU**



EBA Basel III monitoring exercise, March 18, as of June 17 (Group 1 banks T1 capital > €3bn and internationally active)

## Supervision and reporting

- In accordance with Article 111 of the Capital Requirements Directive (CRD IV), supervision of banking groups in the EU is conducted on a consolidated level by a NCA. From November 2014, the SSM is the NCA for all large banks headquartered in the 19 Euro Area Member States (currently 130 banks).
- EU institutions are obliged to report in a single currency (Article 415.1 of the CRR).
  - However, separate reports in currencies different than the reporting currency is obligatory in cases when 1) aggregate liabilities in a currency different from the reporting currency amounts to or exceeds 5 % of the institution's or the single liquidity sub-group's total liabilities, or 2) institutions have a significant branch in accordance with Article 51 of Directive 2013/36/EU in a host Member State using a currency different from the reporting currency under paragraph 1 of this Article (Article 415.2 of the CRR).
  - **This means that, for any European bank having significant activity in USD, whether in the United States or globally, an LCR in USD is reported and monitored by the SSM.**
    - Only banks with less than 5% of their liabilities denominated in USD would not be subject to the LCR in USD requirement, however such banks are unlikely to present a systemic risk to the U.S. financial system.
- Reporting templates are included in the Commission Implementing Regulation (EU) No 680/2014.

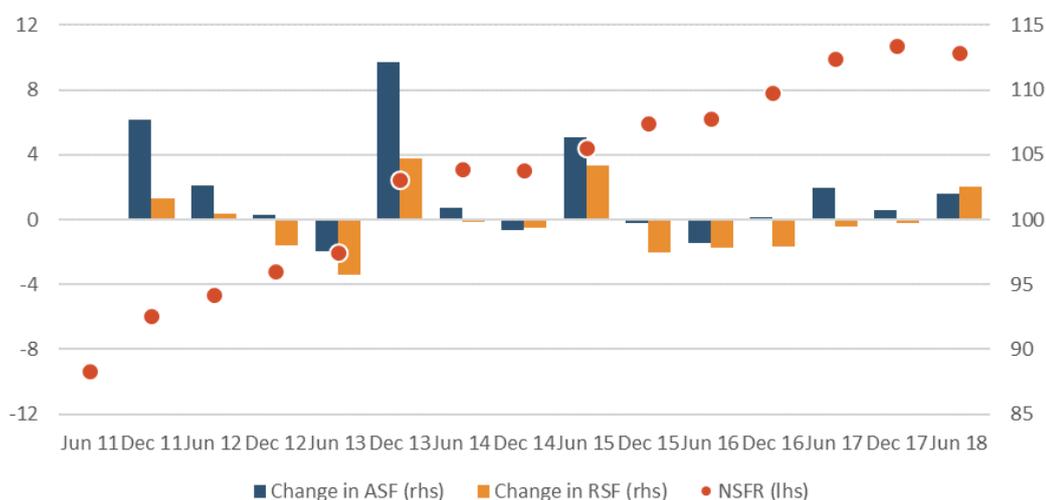
- Article 15 of this Commission Implementing Regulation obliges institutions to report specific information included in the annex XII.

## 2. EU liquidity stress testing

- The EU-wide stress test is conducted by the European Banking Authority in cooperation with the SSM every two years. This exercise is focused on the capital consistency. However, between those stress tests, the SSM conducts more focused exercises.
- In 2019 SSM conducts sensitivity analysis of liquidity risk.
  - Launched on 6 February 2019.
  - Exercise focuses on banks' ability to handle idiosyncratic liquidity shocks.
  - SSM tests adverse and extreme hypothetical shocks in which banks face increasing liquidity outflows focusing on banks' expected short-term cash flows to calculate the "survival period", which is the number of days that a bank can continue to operate using available cash and collateral with no access to funding markets.
  - The exercise tests impact of these idiosyncratic liquidity shocks on individual institutions and not a wider economy.
  - A methodological note for banks is available [here](#).
  - Main findings are expected to be published in Q3 2019.
- In addition, EU banks are also subject to the internal liquidity adequacy assessment process (ILAAP).
  - Article 86 of Directive 2013/36/EU (CRD) requires institutions to have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons and management and monitoring of funding positions, so as to ensure that institutions maintain adequate levels of liquidity buffers and adequate funding.
    - Those strategies, policies, processes and systems shall be tailored to business lines, currencies, branches and legal entities and shall include adequate allocation mechanisms of liquidity costs, benefits and risks.
    - The methodologies for managing and monitoring of funding positions shall include the current and projected material cash-flows in and arising from assets, liabilities and off-balance-sheet items, including contingent liabilities and the possible impact of reputational risk.
  - The competent authorities review internal capital adequacy assessment process (ICAAP) and ILAAP as part of the supervisory review and evaluation process (SREP) performed in accordance with Article 97 of the CRD and in accordance with the EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP Guidelines).

### 3. NSFR implementation in the EU:

- The recent revision of the CRR (CRR 2), voted by the European Parliament on 16 April 2019 made the NSFR a binding requirement in the EU.
  - The CRR 2, including binding NSFR should enter into force in June/July 2019, after publication in the official journal. The NSFR will apply at a level of 100% to credit institutions and systemic investment firms two years after the date of entry into force of the proposed Regulation (June/July 2021).
  - In the meantime, the EBA will develop draft implementing standards to harmonise NSFR reporting requirements and institutions will need to prepare for these new reporting requirements.
- CRR 2 amended the Basel Committee specification of the NSFR to include some EU-specific preferential treatments, notably not requiring long term funding for HQLA assets, reducing RSFs on reverse repos collateralised by HQLA assets, and on trade financing. The EU NSFR also introduces a 5 percent stable funding requirement for gross derivative liabilities, in line with the discretion provided by the Basel Committee standards. Last, but not least, in accordance with the CRR 2, small non-complex banks will be subject to a simplified version of the NSFR to reduce their administrative burden (fewer data collection points).
- The EBA has been monitoring compliance with the NSFR since 2011:
  - NSFR (right-hand scale, rhs) (%), and change in its determinants (left-hand scale, lhs)



Source: EBA QIS data (June 2018)