



**Liquidity Supervision**  
– *Basel, CRD4, DNB, SSM* –  
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## Pillar 1

### 1. LCR

- The Basel LCR: A Recap
- Implementing the LCR in Europe
- Dutch liquidity regulation and LCR

### 2. NSFR

- The Basel NSFR: A Recap
- Implementing the NSFR in Europe

## Pillar 2

- EBA Liquidity SREP
- Liquidity Pillar 2 at DNB and SSM

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# The Basel LCR – A Recap

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$$\frac{\text{Stock of unencumbered High Quality Liquid Assets (HQLA)}}{\text{Net cash outflows over the next 30 calendar days (NCO)}} \geq 100\%$$

- Formally released in December 2010, revised January 2013
- HQLA: Level 1 + Level 2A + Level 2B
  - Level 1 (0% haircut): Coins and bank notes, central bank reserves, 0% risk-weight (RW) debt securities issued or guaranteed by public entities, certain non-0% RW sovereign debt or central bank obligations issued in the country in which the liquidity risk is taken
  - Level 2A (15% haircut): 20% RW debt securities issued or guaranteed by sovereigns, central banks, PSEs, supranationals or MDBs, Corporate debt securities rated at least AA- and Covered bonds, not issued by the bank itself or any of its affiliates, rated AA- and above
  - Level 2B (25% to 50% haircut): Certain RMBS rated AA or higher, Corporate debt securities rated A+ to BBB- and unencumbered equities
- NCO: Total outflows – *Minimum (Total Inflows ; 75% \* Total Outflows )*
- “CRD 4 LCR” will look similar but some differences can have a large impact

# Implementing the LCR in Europe

*-Technical standards to be implemented in January 2014 -*

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- **Reporting**

- After several semi-annual rounds (Q4 2010 being the first) of the Basel 3 monitoring exercise, DNB is collecting every quarter the templates for 19 banks on a voluntary basis. To reduce burden during the voluntary data collection, EBA uses the Basel 3 template.
- From 2014, the reporting of the “LCR” is a mandatory part of the ITS on supervisory reporting
- The collected data is a key input for the analysis and subsequent advise EBA will be giving to the European Commission on the final definition of the LCR

- **Analysis and Implementing Technical Standards**

- Based on the voluntary data collection, EBA is required to advise the European Commission on the definition of highly liquid assets as well as on the impact of the liquidity requirements on both the banking industry and the real economy.
- The corresponding discussion papers are soon to be published

- **Timeline**

- From March 2013: voluntary data collection
- From March 2014: mandatory data collection
- December 2013: EBA advise to European Commission on impact of liquidity requirements and definition of HQLA
- 2014: Delegated act of the EC
- 2015: Intended fulfillment liquidity ratio (from 60 % in 2015 to 100 % in 2018)

# Implementing the LCR in Europe

*-Technical standards to be finalized by the end of 2013-*

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- **ITS on Additional Monitoring Metrics**

- Includes 1. a contractual and behavioural maturity ladder; 2. Concentration of funding by counterparty; 3. Prices for various sources of funding and 4. Roll-over of funding.
- Public consultation ended in August and included heavy criticism especially on the behavioural maturity ladder. Still subject to change.

- **RTS on additional collateral outflows**

- Concerns the LCR and includes aims at capturing outflows caused by adverse market scenarios on an institution's derivative positions
- Includes a standard, a simplified and an internal model-based method
- Likely to have a large impact on some institutions

- **RTS on Intra-group flows**

- Defines when intragroup liquidity facilities can receive preferential treatment
- Conditional on risk profile of parent and a number of other conditions
- Likely to imply a mandatory local liquidity buffer

- **Guideline on higher retail outflows (moved to Pillar 2)**

# Dutch liquidity regulation and LCR

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- **National liquidity requirement will be maintained until 2018**
  - Decision by Dutch Ministry of Finance, DNB can define specifics
  - National requirement could also be LCR
  - Await final definition of the LCR by the European Commission
- **Overgangsregeling**
  - According to this rule, bank bonds and central bank eligible RMBS receive haircuts of 20%
  - To allow a smooth transmission to the LCR, haircuts might be increased to 50% in 2014
  - Decision not yet made as it is dependent on the developments regarding the LCR
- **Regulatory burden**
  - DNB is aware of the problem and intention is to have a smooth transmission phase
  - However, decisions are heavily dependent on international developments
  - Overarching principle is prudent liquidity supervision, implying that we can only replace our regulation once there is a stable and credible substitute

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# The Basel NSFR – A Recap

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$$\frac{\text{Available Stable Funding over the next year (ASF)}}{\text{Required Stable Funding over the next year (RSF)}} \geq 100\%$$

- Formally released in December 2010, subject to revision
- Partially caused by BCBS decision of it being a structural ratio
- Designed to disincentivize excessive maturity and/or liquidity transformation and minimize pro-cyclical balance sheet contraction
- ASF: Funding that can be relied upon during the next year
  - Capital, liabilities and preferred equity with maturities > 1 year
  - Stable and less stable deposits as well as some wholesale funding with maturities < 1 year
- RSF: Part of the balance sheet that could not be monetized within 1 year
- Revision
  - Several options are under consideration
  - Could include a factor for total asset encumbrance as well as longer and shorter maturities
  - Due to it becoming a structural ratio, potentially changes to some risk factors
  - Intention to simplify the ratio

# Implementing the NSFR in Europe

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- **Waiting for Basel**

- Basel intends to finalize the NSFR by the end of 2013
- This might bring more clarity on how the EU will proceed

- **Europe**

- The funding ratio underlies the same reporting requirements as the liquidity requirement
- The CRD4 also mandates the EBA to define the funding requirement as well as to assess its impact on the real economy
- BUT: The current text of the CRD4 does not allow the introduction of a funding ratio as Pillar 1 requirement
- While it might therefore play an important role in Pillar 2, introducing a (modified) version of the NSFR in Europe would require a new CRD

- **Timeline**

- From March 2013: voluntary data collection
- From March 2014: mandatory data collection
- No delegated act for funding ratio
- Theoretically introduced in 2018 but not formally in CRD4

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# EBA Liquidity SREP

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- **SREP Guidelines**

- EBA is mandated to develop Guidelines with the aim to increase the consistency and quality of supervisory SREP practices, and hence their outcomes.
- Guidelines will be subject to a “comply or explain” approach

- **Liquidity SREP Guidelines**

- Part of the overall SREP Guidelines and first draft to be presented in October
- Very similar to DNB’s Liquidity SREP due to our very active involvement
- Specifically assesses both liquidity and funding risk
- Includes assessment of risky retail deposits according to Guideline on additional retail outflows
- Liquidity SREP Guidelines also include Guidelines for a funding template which is developed to address a ESRB recommendation

- **Timelines**

- It is intended to issue a draft consultation paper in mid 2014
- Liquidity Guidelines might be consulted separately at an earlier stage

# Liquidity Pillar 2 at DNB and SSM

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- **SSM**

- Have to comply with DNB Guideline as well
- Develop currently their liquidity Risk Assessment and SREP
- Officially in place around October 2014

- **DNB**

- Complies already with current draft of EBA Guideline
- From 2014, likely to be a parallel run of DNB and SSM SREP
- DNB's SREP and ILAAP is likely to remain in place for at least 1 more year

- **Regulatory burden**

- We try to avoid it but there will be some overlap
- Final version of the EBA Additional Monitoring Metrics has some influence on our decision when to substitute our current reporting

# Questions?

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- **Additional Q&A session today from xx to xx in Room xx**
- **Otherwise: [c.bonner@dnb.nl](mailto:c.bonner@dnb.nl)**

**Thank you!**