



EUROPEAN COMMISSION  
 Directorate General Financial Stability, Financial Services and Capital Markets Union

## **Call for advice to the EBA for the purposes of the Net Stable Funding Requirements and the Leverage Ratio**

In accordance with Articles 510 (3) and 511 (1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (1) (henceforth 'the Capital Requirements Regulation' or 'CRR') the Commission is required to submit:

- by 31<sup>st</sup> December 2016 a legislative proposal, if appropriate, on how to ensure that that institutions use stable sources of funding (net stable funding requirements), taking into account the EBA reports referred to in Article 510(1) and (2) and taking full account of the diversity of the banking sector in the Union;
- by December 2016 a report to the European Parliament and Council on the impact and effectiveness of the leverage ratio, based on the results of the EBA report required under Article 511(1). If appropriate, that report shall be accompanied by a legislative proposal on the introduction of "an appropriate number of levels of the leverage ratio that institutions following different business models would be required to meet, suggesting an adequate calibration for those levels...".

### **Context**

The leverage ratio (henceforth LR) and Net Stable Funding Requirements<sup>1</sup> (henceforth NSFR) have been developed by the Basel Committee in the aftermath of the financial crisis. They are aimed respectively at preventing the build-up of excess leverage and at avoiding excessive maturity transformation in bank balance-sheets.

In view of the potentially significant implications that the introduction of those instruments could have on institutions in the Union, the Legislator decided to mandate the European Banking Authority (EBA) to prepare comprehensive reports to be taken into account by the Commission in the preparation of its own reports/proposals. To this end, the CRR provides extensive details on the aspects that those reports should cover.

However, some important aspects could deserve additional attention in the aforementioned EBA reports. Therefore, that Commission considers it necessary to issue this call for advice to the EBA, to complement the content of these reports. In particular, for an adequate design and implementation of these prudential instruments at a European level, the Commission considers it needs further input on three topics: "proportionality", "scope of application" and "impact on certain markets and activities"

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<sup>1</sup> The CRR, in article 510, uses the slightly more generic expression "Net Stable Funding Requirements" instead of the "Net Stable Funding Ratio" used by the Basel Committee on Banking Supervision (BCBS). Basically, they are referring to the same thing.

## Scope

For the purpose of informing the Commission's decisions, we would be grateful if the EBA could, in preparing the abovementioned reports, include an analysis of the following additional aspects:

- **Proportionality**

The CRR already requires the EBA to look at the issue of proportionality when preparing the aforementioned reports. More specifically, the CRR requires the EBA to examine the adequacy of establishing different requirements for different types of institutions. However, the language of the CRR focuses on the calculation methodologies or the calibration of the requirements. At the same time, it leaves out the issue of applying proportionality of reporting requirements and thereby the question of administrative burden on institutions. In fact, simplified ratios or fewer reporting dates might be an adequate relief for institutions that have simple and less volatile business profiles. It may be possible to assume based on simple ratios that they are sufficiently above minimum requirements without a detailed and frequent reporting.

Furthermore, unlike in the case of the LR, the language in Article 510 of the CRR is not entirely clear on whether the EBA should look at the possibility of introducing different NSFR calibrations for different institutions.

Given the emphasis that the CRR places on the analysis of proportionality in its mandate for the Commission to prepare the respective report/proposals on these instruments, this information is considered necessary for the EC to have a full picture of options and answer the mandate adequately.

We would therefore be grateful if the EBA could include in the abovementioned reports an analysis of the following:

- the possibility of introducing simplified reporting requirements (in terms of frequency or amount of data to be reported) for LR and NSFR based on criteria such as type of business model, risk profile, size etc.;
- the possibility of having different NSFR calibrations for different institutions, based on criteria such as type of business model, risk profile, size, etc., similar to what explicitly envisaged for the LR in Article 511(2) of the CRR.
- **Scope of application**

The language in Articles 510 and 511 of the CRR does not explicitly require an analysis on whether the LR and the NSFR should apply to all institutions or whether some institutions may be excluded from the scope of application of those requirements. Nevertheless, given that this possibility may be raised by industry or other stakeholders, it is important to analyse it and provide arguments either in favour or against it.

We would therefore be grateful if the EBA could include in the abovementioned reports an analysis of

- The costs and benefits of fully excluding some types of credit institutions from the scope of application of each of these requirements, based, for example, on business models, risk profile, systemic relevance, size or other criteria considered to be relevant.

- **NSFR impact on certain markets and activities**

The analysis of the impact of the introduction of the NSFR on certain markets and activities is spelt out in far less detail than is the case for the LR. The BCBS NSFR standard assigns a specific value to each type of asset/liability in a bank's balance sheet, in terms of stable funding required/ available. Therefore, it may have different impacts on different types of banking activities, which need to be carefully analysed when designing the instrument at a European level. Some of these concerns have been already singled out by various stakeholders, who claim that the NSFR could lead to a reduction in liquidity in specific markets or in the ability of banks to provide certain services supporting economic activities. This makes it even more important that the EC comes up with its own, independent EU level analysis of this issue.

We would therefore be grateful if the EBA could include in the abovementioned reports an analysis of the following:

- An analysis of the impact of NSFR requirements on bank lending in the EU, with a particular focus on:
  - lending to SMEs, local authorities, regional governments and public sector entities;
  - promotional credit by public development banks;
  - financing of residential property;
  - trade financing, including lending under official export credit insurance schemes and
  - pass through financing models, including match funded mortgage lending.
- An analysis of the impact of NSFR on the volume and liquidity of financial markets at the EU level, with a particular focus on markets for:
  - securities financing transactions;
  - covered bonds;
  - options and other listed derivatives;
  - OTC derivatives, taking into account in the analysis the way initial margin requirements are treated for NSFR purposes.
- An analysis of the impact of the NSFR on the following activities: clearing, settlement and custody activities, underwriting and market making.
- An analysis of the impact of the NSFR on business models, balance-sheet structures and refinancing structures of institutions.
- An analysis of the impact of the interaction of the NSFR with risk-based capital requirements and the leverage ratio.

### **Timeline**

The CRR requires EBA to report to the Commission on NSFR by 31 December 2015 and on LR by 31 October 2016. From the perspective of the Commission, it would be preferable to align the timing of possible proposals and therefore, it would be helpful if EBA could advance its report on LR as far as possible while of course ensuring a sound data basis at the same time.