EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Template for comments

ECB Guide to the internal liquidity adequacy assessment process (ILAAP)

Institution/Company

Commerzbank AG, Frankfurt / Germany

Contact person

Mr/Ms

First name

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General comments

Template for comments

ECB Guide to the internal liquidity adequacy assessment process (ILAAP)

Please enter all your feedback in this list.
When entering feedback, please make sure that:
- **each comment deals with a single issue only;**
- **you indicate the relevant article/chapter/paragraph, where appropriate;**
- **you indicate whether your comment is a proposed amendment, clarification or deletion.**

Deadline:	4 May 2018

ID	Chapter	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be taken on board	Name of commenter	Personal data

1	Principle 2	32	10f.	Amendment	While establishing a policy for public funds may make sense, it should be noted that the use of public funds does not constitute a risk by itself. Therefore, we suggest to adjust the wording concerning stress tests and monitoring. - Stress tests on public funds do not deliver an added value. The stress tests regularly applied by the Bank are designed to measure the bank's resilience against the deterioration of its environment, not to predict its behaviour regarding the use of public funds. - Additionally, it is unclear how a potential future use of public funds is expected to be monitored. - Furthermore, the monitoring of the actual use of public funds requires a clearer definition of the public sector entities concerned. Only the parts of the public sector which offer emergency funding should be part of this definition (not municipal electricity providers / public pension funds etc.). Suggested wording change: "The institution is expected to have a policy in place regarding the use of public funding sources. Such policies are expected to differentiate between the use of such sources during business as usual and during times of stressed conditions and be explicitly considered in the risk appetite and liquidity adequacy statements. The actual use of such sources is expected to be monitored. This monitoring is expected to take place in all material currencies."	Stress tests on public funds exposure and monitoring of potential future use of public funds create a considerable administrative burden and do not deliver a major added value.	,	Don't publish
2	Principle 2	33	11	Amendment	There is need for action with respect to the following requirement: "Moreover, potential management actions in the ILAAP are expected to be reflected without delay in the recovery plan and vice versa to ensure the availability of up-to-date information." Our assessment: updates without delay are not feasible because the portfolio of recovery measures in the Recovery Plan should be updated and documented once a year. The "without delay" request contracts proper Governance procedures in banks. Recovery Planning is not a day-to-day management tool. Suggested wording change: "Moreover, potential management actions which have a considerable effect on the ILAAP steering are expected to be reflected within an appropriate timeframe in the recovery plan."	Avoid continuous need for adjustments triggered by minor steering actions in daily risk management. We would not consider this as appropriate for a document describing measures for an exceptional emergency situtation (recovery). Suggested wording change: "Moreover, potential management actions which have a considerable effect on the ILAAP steering are expected to be reflected within an appropriate timeframe in the recovery plan."	,	Don't publish

3	Principle 3	44-45	15	Deletion	The new ECB guide requires institutes to forecast the LCR under normal and adverse scenarios over a period of three years. According to BCBS 238 the LCR has been designed “to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient HQLA to survive a significant stress scenario lasting 30 calendar days”. The LCR scenario “entails a combined idiosyncratic and market-wide shock” that result in funding losses and various additional outflows which have not been observed in the past, not even during the Lehman crisis. Hence, a 3year projection under adverse future developments as required in Figure 2 on page 16 would not bring additional information but extends the stress horizon by 3years. To ensure the liquidity over a longer time horizon the NSFR has been designed. The NSFR “indicates that an institution holds sufficient stable funding to meet its funding needs during a one-year period under both normal and stressed conditions” (proposal of the EU commission as of 23.11.2016 page 30 number 38). Additionally, the LCR can be managed over a short-term horizon as the ratio is highly dependent on short-term steering actions (e.g. via repo and unsecured money market transactions). Due to these characteristics, a long-term projection of the LCR is neither realistic nor reliable. Therefore, we propose to abstain from any projection of the LCR above the already covered 1M time horizon. For long term projections the NSFR should be used. In addition, the additional monitoring metrics and maturity ladder already provided to regulators already covers long term horizons in close consistency to LCR.	A long-term LCR projection over various scenarios would require significant implementation efforts for institutions while the result of the projection is neither realistic nor reliable	,	Don't publish

4	Principle 4	54			The referenced EBA Guideline EBA/GL/2015/20 focuses on credit exposure and impact on other types of ICAAP related dimensions. 'Shadow banks' include unregulated financial market participants such as Hedge funds, private equity companies and Fintechs. It is understandable that the regulators strive to gain an oversight over banks' credit exposure to shadow banks. Nevertheless, it is questionable whether business with shadow banks from a liquidity perspective can be considered as riskier than business with other borrowers (e.g.: emerging markets countries/ construction companies / project finance / big Corporates / generally business partners with Non-Investment-Grade rating etc.). Additionally, it is highly questionable whether the gained insights would offer a considerable added value going beyond the reporting of credit exposure to shadow banks which is required anyway. Therefore we suggest to renounce on a separate reporting of liquidity exposure to shadow banks.	'- Avoid focusing on shadow banks which is not considered appropriate for the risk type liquidity risk.	,	Don't publish
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