



**EUROPEAN CENTRAL BANK**  
BANKING SUPERVISION

## Template for comments

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

**Institution/Company**

European Banking Federation

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Please tick here if you do not wish your personal data to be published.

**General comments**

The EBF welcomes the ECB willingness to ensure a gradual and proportionate introduction of the ILAAP requirements such as mentioned •  
.in the Guide

We recommend the ECB to consider that some banking groups will face difficulties in defining credible reverse stress testing scenarios •  
.due to the very high level of their liquidity buffers

We recommend the ECB to clarify if the introduction of stress-testing programme for the normative perspectives refers to the inclusion of •  
.future normative and regulatory requirements or to the definition of revised and stressed conditions applying to stressed regulatory ratios  
.The EBF supports the first option

.More insight on how to capture possible links between liquidity and solvency stress tests would be appreciated •

## 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	Scope and proportionality	14	4	Clarification	The application date of the "ECB Guide to the ILAAP" is not mentioned. We wonder if credit institutions will have to comply by 2019. We ask for the introduction of a dedicated paragraph considering that the "ECB Guide to the ILAAP" should be considered gradually and proportionately by credit institutions, on a case by case basis.	In order to clarify requirements for both credit institutions & supervisory authorities, we ask for more clarifications regarding the application date of the ECB requirements.	Chaibi, Saif	Publish
2	Principle 1	19	6	Clarification	It should be clarified that ILAAP outcomes and assumptions backtesting do not concern Stress tests. Indeed, only a crisis can properly backtest a stress scenario.	We ask for clarification on how and on which scope ILAAP backtesting should be performed.	Chaibi, Saif	Publish
3	Principle 2	The ILAAP and the risk appetite framework	10	Deletion	Considering the lack of guidelines covering the risk appetite statement, we ask for a deletion of the link between the risk appetite statement (RAS) and the risk appetite framework (RAF). We ask the ECB to define guidelines on the risk appetite statement.	We ask for dedicated guidelines on the risk appetite statement (RAS).	Chaibi, Saif	Publish
4	Principle 2	28-31	11	Deletion	The RAF and RAS exercise should be clearly defined in a dedicated guideline. These guidelines are not appropriate to provide a definition of the RAF.	A specific guideline to define the RAF and the RAS.	Chaibi, Saif	Publish
5	Principle 2	28	10	Clarification	It should be clarified if the risk appetite framework (RAF) is either an input or an output of the ILAAP and how does they interplay.	It is not cristal clear how risk appetite framework (RAF) interplays with the ILAAP.	Chaibi, Saif	Publish

6	Principle 3	44-45	16	Deletion	The new ECB guide requires institutions to forecast the LCR under normal and adverse scenarios over a period of three years. It should be clarified that whilst the LCR is a daily measure, daily forecasting is not required over the 3 year period rather that forecasting should be completed at an appropriate frequency so as to provide assurance of compliance with regulatory requirements over the proposed horizon of 3 years, thereby recognising the concept of proportionality.	Proportionality in the forecasting of compliance with regulatory requirements under stress conditions.	Chaibi, Saif	Publish
7	Principle 3	44	15	Amendment	If we consider both paragraphs 39 and 44, it should be clarified in article 44 that forward-looking horizon are expected to capture : - one year for the liquidity position; - three years or more for the funding position.	We ask for more consistency between paragraphs 39 and 44.	Chaibi, Saif	Publish
8	Principle 3	45	16	Clarification	We understand that the new ECB guide requires institutions to forecast the LCR under normal and adverse scenarios over a period of one year. Given the calibration of the LCR, a long-term projection is not reasonable as i) the LCR is already calibrated under stress conditions. Therefore calculating it under adverse scenarios would lead to a double-stress calculation ii) the LCR is highly dependent on short-term steering measures (e.g. reverse repos on nHQLA or collateral swaps) which can hardly be projected over various months.  Therefore, we would like to ask the regulator to clarify the expected projection horizon of the LCR.	Impact on IT expenses of the banks.	Chaibi, Saif	Publish
9	Principle 3	46	15	Clarification	It should be clarified that the same scenario and the same assumptions apply to the projections under economic and normative perspectives.	We ask for clarifications on scenarios and assumptions	Chaibi, Saif	Publish
10	Principle 3	48	16	Clarification	Paragraph 48 states that "In addition to projections that include management actions, the institution is expected to assess its liquidity and funding position under the economic and normative perspectives in the same scenarios without management actions".  It should be clarified as to what constitutes a management action. For example the use of liquid assets or other contingent liquidity that can be used to obtain liquidity from market participants and/or monetary authority facilities should not be taken to constitute a management action whereas the sale of a loan portfolio or the raising of additional deposits may constitute a management action. In any event, management actions should be fully permitted in stress as it is not realistic to assume that management would not take any action during a stress scenario.	Clarification on management actions	Chaibi, Saif	Publish

11	Principle 2	32	11	Clarification	<p>The guidelines require the institution to have in place a policy regarding the use of public funding sources. Banks tend to diversify their sources of funding and to exploit each of them according to their needs. Public funding sources are included among the sources that the bank address. Stating specific guidelines on a policy may reduce the funding flexibility of banks both in ordinary and in stressed conditions.</p> <p>Furthermore, the sentence "such policies ... be explicitly considered in the risk appetite (timing and amount) and liquidity adequacy statements" is not clear if it intends to recommend the bank to have specific limitations or constraints in the use of ECB / central banks funding sources.</p>	<p>It may have a material impact on the daily operation of Banks' Treasuries. We ask for more flexibility for any kind of public funding sources, even if footnote number 13 seems to focus only on ECB sources.</p>	Chaibi, Saif	Publish
12	Principle 6	66 vs 71	24-25	Clarification	<p>The paragraph "Risks are not expected to be excluded from the assessment because they are difficult to quantify or the relevant data are not available. In such cases, the institution is expected to determine sufficiently conservative risk figures, taking into consideration all relevant information and ensuring adequacy and consistency in its choice of risk quantification methodologies." seems to be not perfectly aligned with "the institution is not expected to implement risk quantification methodologies that it does not fully understand"</p>	<p>A clarification on the bank would make the guidelines more linear</p>	Chaibi, Saif	Publish
13	Principle 4	54	18	Deletion	<p>Although required by the EBA's guidelines, the specific shadow banking risk should not be mentioned in a document following a principle based approach</p>	<p>As the document is principle based and do not substitute or supersede any other text, there is no reason to mention the specific shadow banking risk</p>	Chaibi, Saif	Publish
14	Principle 4	57 and 58	19	Deletion	<p>We ask for removal of the specific risks listed in the document as it deals with Principles</p>	<p>We ask for the removal</p>	Chaibi, Saif	Publish

15	Principle 5	63	21	Deletion	<p>Paragraph 63 states that “An explicit internal view is expected to be formed on the desired composition of the buffers of liquid assets used to cover liquidity risks. In particular, the institution is expected to differentiate between assets that are highly likely to remain liquid during times of stress and assets that can only be used to obtain liquidity from central banks. Internal limits are expected to be set for both components” Through the LCR Delegated Act, institutions are already required to hold an adequately diversified buffer of liquid assets (HQLA), having regard to their relative liquidity and credit quality. The Delegated Act is also specifically silent on how liquid assets can be monetised</p> <p>Assets which can be only be used to obtain liquidity from central banks represent an important source of contingent liquidity for institutions.</p> <p>In the context that the Delegated Act allows institutions to breach minimum LCR requirements in stress, it is unrealistic to require an internal limit on the utilisation of such liquid assets in a stress scenario.</p>		Chaibi, Saif	Publish
16	Principle 7	76	26	Clarification	<p>Some prudential ratios are regulatory stressed, it should be clarified that the prudential framework considers a stressed perspective.</p>	We ask for clarification on the normative perspective of stress testing programmes.	Chaibi, Saif	Publish
17	Principle 7	77	26	Deletion	<p>The transferability of the liquidity has to be taken into account and it is regarding the law and regulations in force in the countries . Under stressed conditions the regulations might change . That is what happened in 2011 during the liquidity crisis , local regulators changed the rules to prevent from a deeper crisis and forbid the liquidity transfer outside of the country ( that was the case for Poland for instance) .</p> <p>But it is very difficult to anticipate these changes in a stress scenario. The stress scenario cannot take into account hypothetical changes of the legal framework □</p>	As we cannot include in our stress scenario hypothetical changes of the legal framework, we ask for the deletion of his part	Chaibi, Saif	Publish
18	Principle 7	78 to 80	27	Clarification	<p>Paragraph 80 adequately states that there are a « range of adverse scenarios » while paragraph 70 seems to imply there is only one particular degree of severity.</p>	Please, clarify that paragraph 79 deals with « the most adverse » scenarios.	Chaibi, Saif	Publish
19	Principle 7	Example 7.1	28	Amendment	<p>If we understand the example of interaction between ICAAP and ILAAP stress tests, we ask for an example of interaction between ILAAP and ICAAP stress tests.</p>	We ask for another example.	Chaibi, Saif	Publish
20	Principle 7	Example 7.2	28	Amendment	<p>It should be considered that for some banking groups, as regards the very high level of their liquidity buffers, it is difficult to define credible reverse stress testing scenarios leading to exhaust liquidity buffers, except either on a mechanical basis (e.g. homogenous increase of all parameters) or by shocking risk drivers beyond liquidity.</p>	We ask for a proportionate and credible approach of reverse stress testing scenarios.	Chaibi, Saif	Publish

21	Principle 1	18	6	Clarification	It is common for the Banks to review the liquidity impact in case of new services and products. Does this cover your definition of "proactive adjustment"?		Chaibi, Saif	Publish
22	Principle 2	(ii)	8	Amendment	The monitoring of intraday liquidity is based on specific metrics that are monitored by the Treasury unit on a continuous basis through the day (cumulative outflows & inflows, available buffer, time schedule of payments etc.). The term «indicators» can be misleading in this context		Chaibi, Saif	Publish
23	Principle 2	29	10	Clarification	Please confirm that the RAF should include motivations for taking on or avoiding types of risks, products and regions. It is not common to make specific motivations on RAF. Do you mean general statements and not specific?		Chaibi, Saif	Publish
24	Principle 2	34	11	Clarification	Please provide more information regarding the coherence that is required for ILAAP across the relevant levels of consolidation. You should acknowledge that the characteristics of each market are taken into account for the ILAAP of each subsidiary and that each subsidiary may follow its own ILAAP format based on its particular needs and environment		Chaibi, Saif	Publish
25	Principle 7	82	27	Clarification	We believe that the statement is too strong. ILAAP stress test is of a different nature, time horizon and severity compared to the ICAAP stress test. While adverse funding conditions will most certainly be a part of any ICAAP framework, integrating ILAAP and ICAAP stress test assumptions into a single set may lead to projections which are overly conservative and / or misleading		Chaibi, Saif	Publish
26	Principle 1	15 and 21	5 and 7	Amendment	According to the guide, "The management body is expected to produce and sign the LAS [...]". "The authority to sign the LAS on behalf of the management body is expected to be decided by the institution in the light of national regulations and relevant prudential requirements and guidelines."	Please note that the formal execution of the LAS would not increase the stringent diligence duty the management body has to comply with in each and all of its decisions, and it would add more operational complexity. Additionally, the expectation that the document is signed on behalf of the management body is a mere formality which is not consistent with the decision-making process of the management bodies (through voting majorities) foreseen in national regulations.  Therefore, we suggest amending the wording as follows: "the management body is expected to produce and approve the LAS."	Chaibi, Saif	Publish

	27 Principle 1	15	5 and 6	Amendment / Deletion	<p>“The management body is expected to [...] approve the key elements of the ILAAP, for example: the governance framework; internal documentation requirements; the perimeter of entities captured, the risk identification process and the internal risk inventory and taxonomy, reflecting the scope of material risks; risk quantification methodologies, including high-level risk measurement assumptions and parameters (e.g. time horizon, confidence levels, and maturity profile), supported by reliable data and sound data aggregation systems; methodologies used to assess liquidity adequacy (including the stress-testing framework and a well-articulated definition of liquidity adequacy), quality assurance of the ILAAP, particularly with regard to key inputs for the LAS (including the set-up and role of internal validation, the use of self-assessment against applicable rules, regulations and supervisory expectations, controls in place for validating the institution’s data, stress test results, models applied, etc.”.</p>	<p>oversees the implementation of the strategy, key policies and governance arrangements to ensure effective and prudent management of the institution (EBA guidelines on internal governance, Title II, section 1). The operational implementation of these strategies on a day-to-day basis, on the other hand, corresponds to the senior management.</p> <p>In our opinion, some of the elements listed as examples of those matters expected to be approved by the management body (such as the “internal documentation requirements” or the “risk identification process”) cannot be considered “key” or strategic elements of the ILAAP. Instead, they are part of the day-to-day liquidity management and, as such, within the remit of the senior management.</p> <p>In particular, we suggest the following amendments / deletions:</p> <ul style="list-style-type: none"> <li>• Delete “internal documentation requirements” for its minor relevance;</li> <li>• Amend the reference that the management body is expected to approve “the risk identification process and the internal risk inventory and taxonomy”; as it is not consistent with paragraph 55, stating that the management body is also responsible for deciding which types of risk are material and to be covered by liquidity. Amend the paragraph regarding “risk quantification methodologies”, including a reference to the governance framework and the role and responsibilities of the management body regarding risk quantification methodologies and ILAAP established in other ECB Guides and supervisory guidelines, to ensure consistency.</li> </ul>	Chaibi, Saif	Publish
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28	Principle 1	15 and 21	5 and 7	Amendment	<p>According to the guide, "The management body is expected to produce and sign the LAS [...]."</p> <p>"The authority to sign the LAS on behalf of the management body is expected to be decided by the institution in the light of national regulations and relevant prudential requirements and guidelines."</p>	<p>Please note that the formal execution of the LAS would not increase the stringent diligence duty the management body has to comply with in each and all of its decisions, and it would add more operational complexity.</p> <p>"Additionally, the expectation that the document is signed on behalf of the management body is a mere formality which is not consistent with the decision-making process of the management bodies (through voting majorities) foreseen in national regulations.</p> <p>Additionally, the expectation that the document is signed on behalf of the management body is a mere formality which is not consistent with the decision-making process of the management bodies (through voting majorities) foreseen in national regulations.</p> <p>Therefore, we suggest amending the wording as follows: "the management body is expected to produce and approve the LAS."</p> <p>"</p>	Chaibi, Saif	Publish
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