BBVA Creating Opportunities

BBVA comments on ECB Guide on ILAAP

BBVA welcomes the ECB's publication of the draft Guide to the Internal Liquidity Adequacy Assessment Process (ILAAP) and the opportunity to comment on it. We see this Guide as being part of the ECB's ongoing efforts to provide transparency on its expectations on the ILAAP and on ILAAP requirements, following from Article 86 CRD IV, and to assist institutions in strengthening their ILAAP and at encouraging the use of best practices. We, therefore, appreciate the ECB's efforts to improve the ILAAP framework and for our part, we also fully commit to working together with supervisors to make ILAAP play a key role in the risk management of institutions and also in the supervisory practices, as it feeds into the Supervisory Review and Evaluation Process (SREP).

#	Chapter	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be taken on board
1	1	3	2	Clarification	According to this introductory paragraph "In the ECB's view, a sound, effective and comprehensive ILAAP is based on two pillars: the economic and the normative perspectives". Both perspectives are expected to complement and inform each other".	We sympathize with this, however, paragraphs 38 and following, in our opinion, tend to blur both perspectives; in particular it seems to us that the economic perspective could end up being contaminated by certain normative requirements, jeopardizing the credibility of the model and limiting its usefulness for internal liquidity management.
2	P1	15 and 21	5 and 7	Amendment	According to the guide, "The management body is expected to produce and <u>sign</u> 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.”
3	**P1**	**15**	**5 and 6**	**Amendment / Deletion**	“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.”.	The management body defines and 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. 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. In particular, we suggest the following amendments / deletions: ● Delete “internal documentation requirements” for its minor relevance; ● 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.
4	**P2**	**34**	**11**	**Clarification**	"The ILAAP is expected to ensure liquidity adequacy at relevant levels of consolidation and for <u>relevant</u> entities within the group, as required by Article 109 CRD IV."	The scope of the ILAAP as foreseen in this paragraph is not clear. We understand that the reference to "relevant entities" should be interpreted as "applicable entities" (i.e. those entities individually falling under the scope of Article 109 CRD IV). This understanding is in line with paragraph 11 of the guide ("[…] a parent institution in a Member State […] shall meet the ILAAP obligations set out in Article 86 CRD IV on consolidated basis"). The current wording of this paragraph could also be interpreted as a requirement that parent institutions' ILAAPs should also cover "significant" (relevant) subsidiaries' ILAAPs. However, this interpretation would not be consistent with the scope of Article 109 CRD IV and disregards the fact that subsidiaries may be subject to their own individual ILAAP requirements under local regulations. We suggest replacing "relevant entities" with "applicable entities".

5	**P2**	**32**	**10 and 11**		"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 (timing and amount) and liquidity adequacy statements."	In our opinion, the use of central bank facilities is already included within the current three-year funding plan. In addition the required alternative funding plan under an adverse scenario should consider the potential use of central banks resources. Beyond this, we do not consider suitable that the use of public funds according to different scenarios (systemic or idiosyncratic) should be set in advance within a policy.
6	**P2**	**33**	**11**	**Amendment/Deletion**	"Moreover, potential management actions in the ILAAP are expected to be reflected <u>without delay</u> in the recovery plan and vice versa to ensure the availability of up-to-date information".	We do not understand the meaning of "without delay". Hence, if including management actions in the ILAAP within the recovery plan is the proposal, we suggest deleting "without delay" : "Moreover, potential management actions in the ILAAP are expected to be reflected in the recovery plan and vice versa to ensure the availability of up-to-date information.
7	**P3**	**43**	**14 and 15**	**Clarification**	The statement that "... the normative perspective is not limited by the assumptions underlying the calculation of the Pillar 1 ratios. Rather, when assessing its liquidity adequacy under the normative perspective, the institution is expected to take into account the assumptions it uses under the economic perspective and assess how they affect Pillar 1 and Pillar 2 ratios over the planning period, depending on the scenarios applied", seems to blur normative and economic perspectives.	In our opinion, normative perspective should stick to Pillar 1 risks; other risks are considered within P2R. Current wording hybridizes normative perspective with economic perspective, leading to confusion.
8	**P3**	**44**	**15**	**Clarification**	"The institution is expected to maintain a robust up-to-date liquidity and funding plan which is compatible with its strategies, risk appetite and liquidity resources. The liquidity and funding plan is expected to comprise baseline and adverse scenarios and to cover a forward-looking horizon which is	In our opinion and from the liquidity risk perspective, a stress scenario for three or more years is not feasible without central bank support in the case of a systemic crisis and excessively long for an idiosyncratic scenario.

					expected to capture three or more years".	We would like further clarification as to define the required adverse scenario during 3 years. How severe is expected to be that scenario ? Does it take into account the internal stress scenarios?
9	**P3**	**48**	**16**	**Clarification**	"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".	What are considered as management actions from liquidity perspective? Are these management actions those included within the current contingency funding plan? Subject to the former question, we have some doubts on how to assess the liquidity and funding position without management actions is expected.
10	**P5**	**63**	**21**	**Amendment/Deletion**	"Internal limits are expected to be set for both components, with a clear link between the target size of the buffers of liquid assets and the liquidity risks that could materialise over various time frames, taking into account a time frame of at least one year".	BBVA has already established minimum high liquid assets within the RAF. Additionally, the LCR Delegated Act establishes the requirement to hold a diversified buffer of liquid assets. It seems unrealistic to require an internal limit on the use of liquid assets in a stress scenario.
11	**P7**	**76**	**26**	**Clarification**	The statement that "[T]he stress-testing programme is expected to cover both the normative and the economic perspective" is confusing, since some regulatory ratios (eg. LCR) are already stressed by definition.	We would like further clarification as to how stress testing should be applied to the normative perspective.

12	**P7**	**82**	**27**	**Clarification**	"ICAAP and ILAAP stress tests are expected to inform each other; i.e. the underlying assumptions, stress test results and projected management actions are expected to be mutually taken into account". The mention to management actions is confusing.	We have some doubts about how we are expected to communicate the mutual feedback between ICAAP and ILAAP as regards management actions, since liquidity measures of ILAAP are different from capital measures of ICAAP and complementary by definition.