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COMMENTS ON THE "DRAFT DELEGATED ACT AMENDING THE COMMISSION DELEGATED REGULATION ON THE LIQUIDITY COVERAGE RATIO (LCR)

Danmarks Nationalbank would like to thank the European Commission for the opportunity to give our view on the proposed amendments of the Liquidity Coverage Ratio (LCR corrigendum).

General remarks

Danmarks Nationalbank continues to strongly support the idea and adoption of the LCR. LCR has since its adoption in 2014 created a general minimum liquidity requirement in all EU countries which has contributed to a more stable financial sector.

Within the LCR structure we do, however, have some concerns about the framework for secured transactions. While we agree with the general purpose of the so-called repo unwind – to hinder institutions from improving their LCR by borrowing liquid assets through short-term repos – we find that the unwind mechanism may have some unintended consequences.

Short-term repos can be a useful liquidity tool for market makers, but its use may lead to a substantial negative impact on the LCR. Repo-funded positions used to buy assets do not increase the HQLA buffer or change the composition of the buffer, as the cash obtained through the repo is used to buy the asset, which itself is encumbered. Even though there is no change to the HQLA buffer, the unwind mechanism still requires a recomposition of the buffer, which will have a negative impact on LCR.

We support that the LCR corrigendum seeks to solve the unwind problem for the specific case of repos with central banks.

Solving the unwind problem for repos with central banks is a step in the right direction, but we think work should continue towards a general solution to the unwind problem preventing institutions from improving their LCR through short-term borrowing, but not hindering the use of short-term repos as liquidity tools.

Hence we would like to propose that the Commission adds to the corrigendum a mandate for the EBA to review the unwind rules and bring forward a recommendation for a broad solution to the unwind problem.

Specific remarks

Amendment 11 – addition of a new paragraph 4 to article 17
In the draft text, the waiver only applies to transactions using "liquid assets", which can be read as HQLA assets. In order not to limit the central bank's options in a systemic crisis, the waiver should apply for all repos/"reverse repos" with the central bank regardless of whether the collateral is considered liquid in LCR or not.

Another concern is whether the application of the waiver, on a case-by-case basis, is in practice applicable on a very short notice during stressed times. A more general waiver under specific conditions specified by the supervisory authorities would in our view be a better solution.

Amendment 22 – amending article 33(2)
We do not agree with this technical amendment, since the removal of the reference to article 26 would open the possibility of waiving the 75 per cent cap on inflow for all inflows related to mortgage lending, even if these inflows are not connected to any outflows and could arrive after a potential outflow. In our view this does not seem prudent.

The proposed timeline
The draft indicates implementation 18 months following the publication in the Official Journal of the European Union. We would prefer a shorter implementation period.

Yours sincerely

Karsten Biltoft