Money Market Statistical Regulation: Fine-tuning the reporting of transactions with non-financial corporations

MMCG
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# Overview

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Open issues

• Given their relevance, the statistical data collection encompasses wholesale deposits taken from non-financial corporations

• Problems with identification of deals generally classified as “wholesale” NFCs using the Basel III definition:
  • Problems with identification of deals with “wholesale” NFCs within different internal systems
  • In particular banks that take in such deposits on decentralised basis might find it difficult to report such transactions in a timely manner
Definitions

• Regulation concerning statistics on the money markets (ECB/2014/48)
  – Transactions by the reporting agent […] with non-financial corporations classified as ‘wholesale’ according to the Basel III LCR framework

• Basel III: Liquidity Coverage Ratio and liquidity risk monitoring tools
  – For the purposes of the LCR, "unsecured wholesale funding" is defined as those liabilities and general obligations that are raised from non-natural persons (i.e. legal entities, including sole proprietorships and partnerships)
  – It defines several categories:
    a) wholesale as the opposite of retail
    b) small business customers:
       LCR also refers to paragraph 231 of Basel II defines them as managed like retail exposures, provided that aggregated exposures on one client are < €1 million on a consolidated basis, where applicable
Open issues

Balancing act has to be made between...

1) Completeness and accuracy: receive wholesale transactions with NFCs on time.

2) Feasibility and costs for reporting banks: low set up and reporting costs.
1) Keep the current approach unchanged, or....

2) Adopt the LCR/Basel II definition of small businesses in the regulation and set up a threshold to eliminate them based on the following definition

- Basel II paragraph 231 defines
  "[...] small businesses and managed as retail exposures are eligible for retail treatment provided the total exposure of the banking group to a small business borrower (on a consolidated basis where applicable) is less than €1 million. Small business loans extended through or guaranteed by an individual are subject to the same exposure threshold"

- Amend the Reporting Instructions to reflect this exclusion that clarifies the text of the Regulation by staying in the same LCR framework.
Advantages!

- Consistent with the MMSR Regulation text
- Follows LCR framework
- Reduces set up costs
Members are therefore asked to provide their feedback on the proposal:

- Does the focus on transactions with counterparties on a cumulative threshold above EUR 1 million of loans lead to lower IT set up costs compared to the initial version of the Reporting Instructions?

- Can you quantify, in broad terms, the impact of the exclusion of these trades (ie unsecured funding with NFCs for which the aggregated exposures are < EUR 1 million, in line with LCR requirements) for your institution on the burden of the data collection?

- Would you have any other suggestions - that are compatible with the Regulation?