

Finance Norway's response to EBA consultation on Amending ITS on currencies with constraints on the availability of liquid assets (EBA/CP/2021/29)

General comments

Finance Norway welcomes the opportunity to offer our response to the consultation paper on Amending Implementing Technical Standards on currencies with constraints on the availability of liquid assets in accordance with Regulation (EU) No 575/2013. See our response below.

Question 1: Are the proposed amendments appropriate and sufficiently clear?

The need to update the ITS stems from EBA being tasked to amend the existing Regulatory Technical Standards specifying the use of derogations to the LCR for currencies with constraints. Norwegian krone (NOK) is currently the only currency on the list of such currencies.

Finance Norway support EBA's proposal to not update the RTS in case the list in the ITS does not contain any items. However, we would like to comment on the data used for the calculation of the aggregate shortage/surplus. It is our opinion that the conclusion (aggregate surplus) is correct, but that the surplus in the calculation is at a too high level.

Supply

Our comments mainly relate to the data used in the calculation of supply. The data points for calculation of total supply of liquid assets are mostly from the Norwegian Central Securities Depository and are based on observations made at the start of April 2021. During the Covid-19 pandemic the Norwegian Central Bank (Norges Bank) implemented a number of liquidity management measures, including extraordinary F-loans (fixed rate loans) and a relaxation in the guidelines for pledging collateral for loans from Norges Bank (banks could pledge 100% of the issue's volume outstanding).

The market conditions through the pandemic and the above liquidity management measures from Norges Banks led to issuance of a significant volume of retained Covered Bonds by Norwegian banks. These Covered Bonds were still outstanding at the point when the data was collected for the EBA's assessment of aggregate shortfall/surplus.

In addition to the above pandemic-linked factor, the data in the consultation paper do not seem to take into consideration the volume of government debt that cannot be included in liquidity portfolios due to use in repurchase agreements in relation to primary dealer activities in the government bond market. This volume was approx. 15% of outstanding NOK government debt at the time of data collection. A second

factor that does not seem to be considered is the distribution of tenors for the government debt and the resulting volatility in supply stemming from the shorter dated instruments.

The contribution from shares is not insignificant in the EBA's calculation of aggregate shortfall/surplus. Although it is accepted in the regulations to include shares in the LCR, this is not encouraged by the Norwegian authorities.

All of the above items seem to exaggerate the "steady state" supply of operationally viable high quality liquid assets in NOK.

Sensitivities

Regarding sensitivities the consultation report lists deviations between observations and assumptions in the calculation. The assumption about the share of liquid assets held by foreign non-CRR institutions is specifically mentioned and the assumptions used seem to exaggerate the aggregate surplus somewhat.

Conclusion

The effect of the factors mentioned above, in the calculation of aggregate shortfall/surplus, is that the aggregate surplus resulting from the EBA calculation is significantly higher than our assessment. We do understand that the above will not alter the conclusion at this point in time, but it is however important that these factors are incorporated in the future assessments of NOK aggregate shortfall/surplus.