Annex III - SUPERVISORY REPORTING REQUIREMENTS FOR LEVERAGE RATIO

Feedback on the public consultation and on the opinion of the BSG

The EBA publicly consulted on the draft proposal contained in this paper.

The consultation period lasted for almost three months and ended on 27 August 2012. 24 responses were received, of which 19 were published on the EBA website. With 13 of the responses coming from professional organisations covering a variety of European banking models – the others coming from individual institutions – the EBA is satisfied by the range of views and stakeholders that took part in the consultation.

This paper presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments and the actions taken to address them where deemed necessary.

In many cases several industry bodies made similar comments or the same body repeated its comments in the response to different questions. In such cases, the comments, and the EBA analysis are included in the section of this paper where the EBA considers them most appropriate.

Changes to the draft templates and instructions have been incorporated as a result of the responses received. Further changes will be needed once the CRR is finalised. A final ITS (comprising the legal text, as well as final templates and instructions) will be published once the CRR is finalised.

Views of the Banking Stakeholder Group (BSG)

The BSG supported the EBA initiative that aimed at harmonising reporting across Europe.

The BSG main comments are as follows:

Implementation timeline: The leverage ratio reporting is a new requirement. Even if it relies as far as possible on existing accounting data, the BSG stresses that its production would imply changes in the systems mainly due to the granularity of the information to be reported, the frequency, timeline and scope of this reporting (individual and consolidated basis).

Moreover, taking into consideration that the CRD4/CRR final text has not yet been adopted, the BSG believes that the Q1 2013 deadline for the first new reporting is inadequate in terms of feasibility, comprehensiveness and quality and that the implementation data and the content of this ITS should be readjusted once the level 1 text is finalised and published.

Deadline for remittance: The BSG favours a longer remittance period than the 30 business days set by the consultative paper.

Calculation based on arithmetic mean of the monthly average ratio over a quarter: According to the BSG, many banks do not have all the data necessary for monthly calculation of the leverage ratio, since neither COREP nor FINREP are requested on a monthly basis. Consequently, to produce these data on a monthly basis for the leverage ratio will require supplementary efforts for the institutions.

Extensive data requirements: While the data set is extensive, the usefulness of the information is said to be sometimes unclear and the BSG recommends the EBA to provide explanations as to the benefit for regulatory and calibration purposes of the leverage ratio of some tables and to limit the requirements to such purposes, as well as avoiding duplication with existing regulatory reporting.

Summary of key issues raised in the consultation and the EBA's response

Mandated in Article 417 of the CRR, this ITS will be part of the single rulebook enhancing regulatory harmonisation in Europe with the particular aim of specifying uniform formats, frequencies, definitions and dates of prudential reporting as well as IT solutions to be applied by credit institutions and investment firms in Europe.

ITS in the light of maximum harmonisation

Respondents welcomed the proposal made by the EBA and acknowledged that the new reporting requirements are an improvement to the current situation. Harmonised data definitions and uniform reporting requirements will contribute strongly to the effective functioning of the new European System of Financial Supervision and will ensure data availability and comparability for analysis on a European level and joint decisions for colleges of supervisors.

Respondents generally welcomed the approach taken by the EBA to base the reporting of the leverage ratio on the Basel QIS template and to provide definitions consistent with the other COREP templates to the extent possible.

Reporting burden and costs of implementation

Many respondents raised concerns with regard to the number of data items in the leverage ratio reporting template that are not needed for calculating the leverage ratio as presently defined in the level 1 text and suggested the deletion of several parts of the reporting template.

Respondents generally pointed out that because of the monthly reporting frequency and the large number of additional data items needed for the review mandated in Article 482 of CRR, implementation costs could be significant, even though the impact would vary from one firm to another. The EBA would like to clarify that the reporting template consists of (a) data items that are needed to calculate the leverage ratio as defined in the CRR and (b) data items that are needed for a proper review of the leverage ratio during the observation period as mandated in Article 482 of CRR.

With regard to (a), monthly data would have to be reported as Article 416(2) stipulates that ‘Institutions shall calculate the leverage ratio as the simple arithmetic mean of the monthly leverage ratios over a quarter.’ With regard to (b), only quarterly data would have to be reported in order to alleviate the burden on institutions.

To underline this further, the reporting template is now divided into two parts. While Part A comprises all data items required to be reported on an end-of-month basis, unless the derogation stipulated in Article 475(3) of the CRR has been granted by national competent authorities, data items of Part B will only have to be reported on an end-of-quarter basis. As a result and for further internal consistency, tables LR1 (on on-balance sheet items), LR2 (on off-balance sheet items and derivatives) and LR4 (on credit derivatives) have been merged into a new LR1 called ‘Alternative treatment of the Exposure Measure’. This later change is also intended to avoid double reporting.

Timing and ITS application date

In light of the fact that the CRR is not yet finalised, some respondents suggested either to postpone the application of the reporting requirement until January 2014 or to set up a gradual phase-in. Some of them suggested starting with a reporting requirement on a consolidated level only.

The EBA would like to highlight that both the timing and the scope of application are determined in the CRR and the EBA has no power to adjust them. Furthermore, the report that the EBA shall submit to the European Commission as per Article 482(3) of the CRR must cover ‘at least the period from 1 January 2013 until 30 June 2016’.

Reporting and remittance dates

Some respondents acknowledged the necessity to report the data items going directly into the leverage ratio calculation based on quarterly averages as required by the CRR. However, with regards to the data items that do not go directly into the leverage ratio calculation, a reporting based on end of quarter values was proposed.

A number of respondents noted that longer remittance periods would be helpful to meet the reporting requirement. Since many data items are derived from other COREP templates, respondents proposed to extend the remittance period for the leverage ratio reporting beyond that for the other COREP templates. The suggested time span ranged from 30 to 90 working days after the reporting date.

The EBA has decided to divide the template into two main parts. While Part A comprises all data items required to be reported on an end-of-month basis, unless the derogation stipulated in Article 475(3) of the CRR has been granted by national competent authorities, data items of Part B will only have to be reported on an end-of-quarter basis.

As per the remittance period, it will be aligned to that of the other COREP templates.

Materiality thresholds

A relatively large proportion of cells in the leverage ratio reporting template are dedicated to collect information on derivatives among which only a few are needed for the calculation of the leverage ratio total exposure measure as defined in the level 1 text. The remaining data cells will be used for the EBA to fulfil its mandate as per Article 482 of the CRR, including assessing ‘whether – and if so, which – changes to the calculation methodology detailed in Article 416 would be necessary to ensure that the leverage ratio can be used as an appropriate indicator of an institution’s risk of excessive leverage’. In the consultation paper, the EBA proposed to introduce two materiality thresholds in order to alleviate the burden on institutions for which derivatives represent a non significant part of the total exposure measure.

Some respondents stated that the materiality thresholds would reduce their implementation burden. However, a number of respondents stated that the burden would not be reduced as institutions would still be required to collect the data in order to calculate the materiality thresholds. Some respondents suggested higher threshold levels than those proposed in the consultation paper, while others suggested replacing thresholds by buffers, so as to avoid cliff effects. Generally, respondents were in favour of higher threshold levels in order to alleviate the reporting burden. The threshold level proposed by respondents for the materiality threshold detailed in paragraph 21 (now paragraph 30), Annex II, of the consultation paper ranged from 2% to 5%. Regarding the materiality threshold detailed in paragraph 24 (now paragraph 32), Annex II, of the consultation paper, some respondents suggested that a threshold level expressed as a fraction relative to a banks’ balance sheet size would be more appropriate than the proposed nominal threshold level. However, suggestions for concrete threshold levels were not provided.

The EBA would like to clarify that all data items on derivatives that are needed to calculate the threshold defined in paragraph 16 (now paragraph 26) of the consultation paper are part of the total exposure measure as defined by the level 1 text and thus have to be reported in any case. Similarly, the items listed in paragraph 25 (now paragraph 34) of the consultation paper are not needed to calculate the threshold defined in paragraph 24 (now paragraph 32).

For better efficiency, materiality buffers instead of thresholds have been introduced in former LR1, LR2 and LR4 (now all merged in LR1), so as to avoid cliff effects. Each buffer consists of an upper and a lower bound. Under this approach, institutions will not be required to report the data items that are subject to the materiality buffers if the lower bound is normally not exceeded and the upper bound is never exceeded.

An account of further comments received and the EBA´s responses to them is provided in the feedback table below.

Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
ITS reporting template structure	It was pointed out that the CRR's requirement to "calculate the leverage ratio as the simple arithmetic mean of the monthly leverage ratios over a quarter" would not be satisfied given the current structure of the reporting template that permits the collection of end-of-quarter data only.	The EBA agrees with the comment. The reporting template has been restructured accordingly.	The reporting template and Annex II have been restructured accordingly.
Level 1 text	Respondents asked for clarification on whether, unless stated otherwise, the valuation of items shall be based on the applicable accounting standard according to Article 94 of CRR.	The methods for valuating assets and off-balance sheet items for the purposes of the Leverage Ratio in LRCalc are detailed in Article 416 of CRR.	No change.
ITS reporting template structure	A number of respondents pointed out that the inclusion of a cell with the actual leverage ratio figure would be helpful.	This comment has been accommodated.	See new cells {LRCalc;150;4} and {LRCalc;160;4}
Timeline – implementation date	Most respondents stressed that they will not have enough time to implement the ITS before January 2013 and ask for an implementation period of 1 year in order to amend their IT systems and ensure a good quality of data. A phased-in implementation was deemed preferable by many respondents.	On this issue, institutions and the EBA are bound by the CRR.	No change
ITS alignment to COREP	With regard to LR6 (now LR4) of the reporting template, some respondents called for a better alignment to the other COREP templates.	The EBA understands that the reporting of data items listed in LR4 (former LR6) causes additional costs for institutions. In order to minimise the reporting burden, LR4 (former LR6) has been thoroughly revised and detailed	LR4 (former LR6) has been revised. To the extent possible, the comments provided by respondents have been taken into account.

		references to the CRR have been included in Annex II.	
ITS data item definition	With regard to LR8 (now LR6) of the reporting template, some respondents expressed the need for more precise definitions.	This comment has been accommodated.	LR6 (former LR8) has been revised.
ITS data item definition	With regard to LR2 (now merged in LR1) of the reporting template, it was pointed out that the so-called "Method 2" for calculating the exposure measure of securities financing transactions differs from the methodology used for the Basel QIS-template.	The EBA agrees with this observation. However, the difference is due to the CRR level 1 text.	No change.
ITS level of reporting	Respondents pointed out that requiring reporting on both an individual and a consolidated level will be highly burdensome. Some respondents suggested postponing the reporting on an individual level until 2018.	On this issue, institutions and the EBA are bound by the CRR.	No change.
ITS materiality thresholds	Consultation responses suggest that the calculation of the derivatives share threshold is sufficiently clear to institutions. However, an error in the formula for determining the total exposure measure was pointed out as {LR2;070;5} should not be deducted twice from the total exposure measure.	The EBA agrees with this observation. The formula has been revised.	Annex II has been revised accordingly.
ITS data item definition – LR4 (now merged in LR1)	With regard to LR4 (now merged in LR1) of the reporting template, some respondents sought confirmation as to whether the term "reference name" would refer to the underlying legal entity and the term "reference obligation" would refer to a	The EBA confirms the suggested definitions for the terms “reference name” and “reference obligation”.	Annex II has been revised accordingly.

	specific obligation on the reference name.		
ITS data item definition	Respondents asked for a definition of the term “credit derivative” and whether it includes total return swaps. It was also asked how nth-to-default and tranched credit derivative transactions should be treated in LR4 (now merged in LR1) and how financial network securitisations transactions would be treated under the leverage ratio. Respondents suggested that it would be helpful to incorporate examples into the ITS.	While recognising the need for further descriptions, incorporating examples in the ITS may be limiting for the scope of transactions intended for reporting.	No change.
ITS reporting template structure	It was expressed that a breakdown of derivatives and SFTs exposures between the banking and the trading book should not be required as these items are subject to the counterparty credit risk framework no matter whether they belong to the banking or the trading book.	The comment has been accommodated.	The reporting template has been amended accordingly.
ITS data item definition	A clearer definition of "trade finance operations" was requested.	The comment has been accommodated.	The reporting template has been amended accordingly.
ITS remittance dates	Some respondents noted that longer remittance periods would be helpful in order to meet the reporting requirement. Since some data items are derived from other COREP templates, is was proposed to extend the remittance period of the leverage ratio reporting beyond that of the other COREP templates. The suggested time span varied between 30 and 90 working days.	The Leverage Ratio reporting template represents only a small amount of cells compared to the other COREP templates. Therefore the EBA does not see the need for a longer remittance period for the Leverage Ratio.	No change

ITS reporting dates	Some respondents acknowledged the necessity to report the data items going directly into the leverage ratio calculation on a monthly basis, and stated that they would have the data available. Others called for a reporting based on end of quarter values. With regard to the data items that do not directly go into the leverage ratio calculation, a reporting based on end-of-quarter values was proposed by many respondents.	The comment has been accommodated.	A new LRCalc including all the cells needed for the calculation of the Leverage Ratio has been added to the reporting template and requires end-of-month data. The corresponding cells have been removed from the rest of the reporting template for which only end-of-quarter data are required.
ITS reporting template structure	One respondent suggested splitting LR6 (now LR4) into assets treated under the standardised approach to credit risk and assets treated under the IRB approach.	The comment has been accommodated.	LR6 (now LR4) has been revised.
ITS data item definition	Respondents pointed out that some of the headings in the reporting template were misleading.	The comment has been accommodated.	Some headings in the reporting template have been revised.
ITS materiality threshold definition	Respondents asked for clarity on whether the threshold defined in paragraph 24 (now paragraph 32) of the consultation paper would be based on net or gross notional amounts.	A formula that details the calculation has been incorporated into Annex II of the ITS.	Annex II has been revised accordingly.
ITS materiality threshold definition	Buffers for the materiality threshold levels were suggested by some respondents.	The comment has been accommodated.	Annex II has been revised accordingly.
Format of data submission	Some respondents suggested allowing institutions to submit the data in XML or Excel format for the first rounds of the reporting.	The format of the data submission to national authorities is for the later to decide.	No change.

ITS data item definition	One respondent noted that the treatment of unsettled securities purchases and sales would affect the data item “other assets” differently depending on the applicable accounting standard as some accounting standard require such purchases and sales to be reported net on the balance sheet while others require a reporting at gross level.	With regard to asset valuation, banks need to follow the instructions as per Article 416 of the CRR.	No change
ITS materiality thresholds	One respondent sought clarification on how the two materiality thresholds would relate to each other. In particular, it was asked whether exceeding the threshold for credit derivatives reporting (former LR4, now merged in LR1) would also trigger a reporting requirement for all derivatives data items in LR1 and former LR2 (now merged in LR1)	The EBA would like to clarify that the two materiality thresholds are independent from each other. The threshold detailed in paragraph 21 (now paragraph 30) of the consultation paper exclusively relates to data items in LR1 and former LR2 (now merged in LR1) of the reporting template. The threshold detailed in paragraph 24 (now paragraph 32) of the consultation paper exclusively relates to data items in former LR4 (now merged in LR1) of the reporting template.	No change.
ITS links to COREP	Some respondents recommended direct links to the other COREP templates for data items in former LR3 (now merged in LR1), LR5 (now LR3) and LR6 and to FINREP for data items in LR8.	The EBA has tried to accommodate these comments as much as possible. Because of differences in definitions and reporting frequency, this has not always been possible.	LR3 (now merged in LR1) and LR6 (now LR4) have been restructured.
Consolidation scope, applicable accounting standard and valuation	In some cases, respondents were unsure as to what consolidation scope, accounting standard and valuation methods apply to the various data items in the reporting template.	The EBA would like to clarify that the reporting template is based on prudential consolidation. The accounting standard and the valuation methods applicable for the leverage ratio are detailed in Article 416 of CRR.	Some of the headings in the reporting template and data item definitions in Annex II to the consultation paper have been revised for better clarity. Additional references to the level 1 text of the CRR have been included in Annex

methods.			II.