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Draft ITS on reporting requirements for leverage ratio

The Swedish Bankers' Association welcomes the opportunity to provide comments on the draft ITS on reporting requirements for leverage ratio.

General remarks

Leverage Ratio reporting will be implemented together with COREP and FINRP as well as large exposure and liquidity reporting. Since the finalisation and publication of the EBA draft ITS on supervisory reporting requirements for institutions has been pushed back pending the adoption of the CRR, we consider that the same should be the case for the draft ITS on reporting requirements for leverage ratio.

Main comments on the draft ITS

We are of the opinion that *end-of-quarter* based figures are preferable over a simple arithmetic mean of the monthly leverage ratios over the quarter. This would keep the leverage ratio as an understandable non-risk sensitive ratio that could be measurable on public data and analysed by external parties. An end-of-quarter based figure would also decrease the work load to a big extent as well as to give a more reasonable implementation cost. In addition an end-of quarter based figure gives the possibility for the institutions to implement updates in the systems during non-reporting periods.

Furthermore we consider that the reports should only be done on consolidating level, especially since the data for the legal entities might not be comparable. This is because IFRS is applied on group level and local GAAP on legal entity level.

Since the leverage ratio is introduced as an additional measure which will be tested for several years we are of the opinion that the reporting requirements are too harsh. The reporting could be done less frequently than every quarter and with fewer details, and more importantly with a longer period from month-end to the date the report needs to be delivered. Thereby allowing for more focus and quality checks on the new capital adequacy reporting which engage the same internal resources.

In order to alleviate the administrative burden we recommend that any memorandum



items not used in the actual leverage ratio calculation are excluded, at least for the first couple of years. The templates are complex and resource demanding to fill in. The highest demands do not seem to arise from the component used in the leverage ratio, but on all additional specifications and breakdowns. This concerns especially LR2 that put higher demands on IRB banks, not using the CCF:s used in STD approach, and LR6 that has a new break down of the exposures that in several areas are not in line with the break downs in the COREP report.

Detailed comments

Q1 Do institutions agree with the use of existing and prudential measures? Is there additional ways to alleviate the implementation burden?

Quarterly data is preferable to monthly to secure the objective with the measure. The leverage ratio, as presented, aim to be a non-risk sensitive ratio that should be measurable based on public data. It is therefore important that the items included in the calculation are easy to obtain, objective and structured in such a way that it gives the reader of the report an understanding of how it is calculated. RWA calculation has to some extent been questioned with regards to the complexity of the underlying models, how they are calculated and the meaning of the different approaches. The interim reports are presented on a quarterly basis and therefore it is beneficial if also the leverage ratio is based on the data included in the report. To have the ratio based on average of monthly data would make the analysis less simple to do for an external party, loosing part of the motivation for the ratio. Furthermore the capital adequacy data reported is based on quarter end data.

Calculation of the leverage ratio on both consolidated and individual level is cumbersome and resources demanding to perform. It puts even higher demands on the personnel that should perform the COREP report within the same time frame. This can especially be seen within larger banks with many subsidiaries and where the responsibilities not always are centralized. It can also be questioned what gains there is to introduce the leverage ratio even on the smallest subsidiaries.

In addition, there can be deviations between the accounting regulations on group level compared to entity level since EU IFRS is applicable on group level for listed companies while the legal entities usually reports in accordance with local GAAP. This can cause differences if leverage ratio for entity levels should be reported. The leverage ratio is suggested to be reported only on consolidated level. If entity levels also should be reported, the entities to be reported could at least be in line with article 12(1) within CRR, i.e. only for significant subsidiaries.



Q2 Do institutions already have the data required under this proposal on a monthly basis? If so, is this data of the required standard as other data reported to supervisory authorities?

Not all the data necessary for monthly calculation of leverage ratio are available since most of the external reporting such as capital adequacy reporting is performed on quarterly basis. Introducing monthly calculation requirements will have a huge impact on the reporting process as it requires involvement of different functions in the bank in terms of accounting data (balance sheet data), group credit data (provisions for shortfall calculation in the capital base) as well as capital adequacy data (derivative and SFT exposure). It is a time consuming to process the figures since it-infrastructure is not adapted to these requirements. Moreover, implementations of updates within the IT-systems are performed during the in-between-quarter months, not to risk the system during the reporting period. A monthly reporting frequency takes away that possibility, and is therefore aligned with a higher risk.

Q3 The same timeline are proposed for reporting on a consolidated level as well as on an individual level, is this seen as problematic? If so, would you propose a different timeline for reporting on a consolidated level?

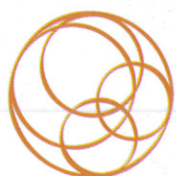
The reporting burden will be heavy, especially since the leverage ratio is proposed to be delivered at the same time as the other capital adequacy reports. In order to facilitate the reporting burden we would prefer the reporting time for leverage ratio to be after the capital adequacy reporting.

Q4 What additional costs do you envisage from the proposed approach to reporting the leverage ratio in order to fulfil the requirements of the CRR outlined in this ITS?

If monthly calculation of leverage ratio is required this will have an extremely high impact on costs as involvement from accounting, group credit and capital adequacy functions is needed. Overall, the required data that is actually needed for the leverage ratio calculation is ok; however, all the memorandum items will be very time consuming and enhance the reporting burden. Furthermore, due to the required mark-to-market method for derivatives to be applied (see also reply to question 5 – 7), double reporting of derivative exposures will be needed for those banks with an IMM approval for derivatives.

Q5 Is the calculation of the derivatives share threshold sufficiently clear?

Calculation of the threshold as such is clear. Unfortunately, the threshold is based on mark-to-marked method and not the bank's approved method for calculating derivative exposure (see Q4). Please also note that {LR2;070;5} is deducted twice in the total exposure measure formula which is assumed to be a typo. Furthermore, in the total exposure measure formula the link is unclear regarding 20% and 50% CCF



as only 10% CCF is applied. Please clarify why the split between the standardised approach CCF classes is needed if not separately considered in the calculation of the total exposure measure in leverage ratio.

Q6 Do you believe this method captures institutions derivatives exposure in a sensible way?

No, the method for calculation of derivative exposures in leverage ratio should follow the same approval the bank uses in the rest of the capital adequacy reporting. Please see reply to question 5.

Q7 Does the reduction of fields to be reported in a given period by institutions that do not exceed the threshold value in that period, lead to a significant reduction in administrative burden?

The reporting burden is only slightly improved by the threshold values, since there are other templates (e.g. LR6) that in relation still is very cumbersome. Furthermore, as stated above in question 5 and 6, as the threshold is based on mark-to-market method, it will be irrelevant level if the bank has IMM approval for derivatives.

Q8 Preliminary internal calculations by supervisors suggest that a threshold value should be in the range of 0,5% to 2%. Would you suggest a different threshold level, if yes, please justify this?

The main concern is how we calculate the derivative share (see Q7). We assess the level to be too low given the method used, i.e. effect mark-to-market. If banks would be allowed to use approved models as the basis for calculation would be more appropriate.

Q9 Is the calculation of the nominal amount threshold sufficiently clear?

No, is it based on netted amounts or gross amounts? We assume it should be netted amounts.

Q10 Preliminary internal calculations by supervisors suggest that the nominal threshold valued should be in the range of 200 to 500 MEUR. Would you suggest a different threshold level, if yes, please justify this?

The threshold should be set based on the bank's balance sheet size and not fixed amounts. For example, the threshold level could be credit derivative in relation to total exposure measure.

Q11 Is the term "reference name" and the distinction from "reference obligations" sufficiently clear?

Yes, we interpret this to be the underlying name.



Q12 Is the treatment of credit derivatives referring to indices and baskets sufficiently clear?

Yes.

Q13 Which additional contractual features should be taken into consideration when assessing offsetting of written and purchased credit derivatives? How should this add to complexity and reporting burden?

No comment.

Q14 Is the classification used in template LR6 sufficiently clear?

No, several questions occur when reading the instruction in Annex II. In some areas they occur since the references seem to be incorrect and in other areas due to not enough specified instructions. On an overall level is it unclear, both in LR6 and LR3, to what the total amount should be reconciled against (a sum in COREP/leverage ratio/nothing?).

Some examples regarding LR6:

Row

090 and 130	Instructions are missing.
050	The instruction is vague about the definition of "repledged".
110 and 120	In the table this is an "of which" item and in the instruction an "memo item". It is different treatment between "of which" and "memo items" according to §41.
140	In the template there's a reference to paragraph 229 of the Basel II framework, but not in the description in annex II.
250	There is a cross references to row 290 and 300, but they can't be found in LR6.
190	For STD approach there's a reference to the whole article 118 (which includes both SME and natural persons, but the corresponding reference for IRB (article 142 (5a ii) is to SME specifically.
230	In STD approach there is a reference to the exposure classes Corporate and Institutions while in IRB approach the corresponding references are to the exposure classes Corporate and Retail.



Column

010	Unclear which value that should be reported for market risk exposures (row 020-050).
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Other

The outcome of LR6 occurs to be different when it comes to STD and IRB, since the definitions to some extent differs for the same row. This puts higher demand on the IT-systems for groups that contains both IRB and STD companies.

In addition to template LR6, other errors can be found in Annex II. For example the calculation of leverage specified in annex II, paragraph 13 seems to be incorrect.

In the instruction for LR3 is it in § 30 stated that only the non-trading book should be included, while it in § 33 are written that also exposures within the trading book should be included in this template (even though the template includes the description: "Total on-and off-balance sheet exposures belonging to the banking book").

The definition of trading book exposure is not clarified in relation to market risk RWA. Our assumption is that RWA includes all trading book risks while the amount column only includes derivative and SFTs, but would like to get that clarified. There are no formulas in the template that can guide us. As a general comment this information should not necessarily be provided as part of the leverage ratio report since it will be included in the future COREP and can be found in those reports.

Regarding IRB banks we do not understand why it should be based on the standardised approach exposure classes split. It should be adopted to the bank's approval. Using another approach as basis for exposure class distribution, other than that used in the capital adequacy reporting will increase the reporting burden substantially.

Q15 Do you believe the current split, which is predominately, based on the exposure classes for institutions using the standard methods are appropriate or would you suggest an alternative split?

An alternative split that is closer connected to the breakdown used in the COREP report would be more appropriate.

The definitions for what should be included in the different rows will not be the same for institutions using the STD approach as for institutions using the IRB approach, since the references and descriptions to what should be included, according to Annex II, on the same row differs (eg row 190 and 230). It should also be notified



that many IRB institutions also use some STD exposure classes, why there will be a mix between the two different approaches in LR6, which in turn will make the analysis even more complex.

The most problematic area is the breakdown into groups not used at all in the COREP report such as row 020, 030, 040, 050, 090, 110, 140 among others, since it demands the adjustments and analysis regarding the COREP report to be made on a much more detailed level. In some area this also put additional requirement on data delivery as well as on the used applications and processes, which in turn are connected to a higher implementation cost.

Q16 Is the classification used in template LR7 sufficiently clear?

Yes.

SWEDISH BANKERS' ASSOCIATION

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