

## **Consultation on Supervisory reporting requirements for leverage ratio (EBA/CP/2012/06)**

### ***BNPP general comments***

We welcome the opportunity to comment the consultation paper on draft ITS on supervisory reporting requirements for leverage ratio.

First of all, we understand the EBA's intent to provide uniform templates as soon as possible without waiting for the final rules in order to give the European institutions the time they need for implementation. However we consider this initiative is somewhat premature. While the CRDIV/CRR and Corep/Finrep reforms have not been finalized yet, EBA has published other reporting ITS on capital disclosure, liquidity ratios and this ITS on leverage ratio. While improved information will help supervisors and financial markets, the accumulation of several reporting requirements in lack of common data definition and the relevant mapping with other requests might result in multiplication of same or similar data in several templates and excessive reconciliation /validation efforts. Consequently, we suggest that EBA take a holistic review of overall reporting requirements once the final rules enter into force, carry out a single data definition and elimination of any duplicative templates then propose the final ITS.

Regarding leverage ratio, there are numerous amendments to the level 1 text currently under discussion in the trilogue process. We recommend that the new implementation date of this ITS be set from 1 year after the entry into force of the final CRDIV/CRR. Furthermore there is no international framework agreed on the reporting scope of this ratio while the international template has been set up for the capital disclosure. In the US according to its Basel III NPR currently under consultation, only advanced approach banks will be required to produce the new Basel III leverage ratio and the majority of the banks will maintain the current leverage ratio. In this context, we question the relevance of this extensive data gathering while the same exercise has not been defined at the international level.

On this ITS in particular, we are concerned by the significant implementation burden. It requires more data with a higher level of granularity than defined in the level 1 text. Combined with the requirement of generating quarterly average of monthly data which is not currently available, on individual basis within an unrealistically short remittance date, this additional data requirement turns out to be particularly burdensome and costly. We are aware that EBA is supposed to abide by the level 1 text but rationalisation should also be a paramount objective. We recommend EBA limit the memorandum items to the data clearly linked to the leverage ratio calculation. The RWA split in LR6 and information on asset encumbrance in LR8 seem to be the perfect examples which are not an absolute necessity within this framework. Any additional data requirements if they need to be maintained, should be justified as either unavailable in other existing or upcoming supervisory reporting or a must have by EBA. In terms of the level of application for which EBA's clarification is deemed needed, we believe that it should be aligned with Corep.

## ***BNPP responses to specific questions in the ITS***

### **Question 1:**

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

The use of existing and prudential measures is a good proposal. Nevertheless, it must be noted that the prudential measures prescribed for Derivatives and SFTs may not be consistent with measures used by institution using advanced approaches. Some institution use EEPE for its prudential reporting. The Mark-to-market method for derivatives, and the comprehensive method for SFTs are new measures that need to be developed by these Groups.

In order to reduce the implementation burden, Authorities shall rely on the existing regulatory reporting (COREP/FINREP) to get as much as possible data regarding the supervisory requirements for leverage ratio. One way to alleviate the implementation burden would be to report only additional data not included in the other regulatory reporting.

### **Question 2:**

**Do institutions already have the data required for reporting under this proposal available on a monthly basis?**

**If so, is the data of the required standard similar to other data reported to supervisory authorities?**

We do not have all the data necessary for monthly calculation of leverage ratio since the accounting and prudential reporting are performed on quarterly basis. This requirement will significantly increase the cost of regulation because of the necessity to produce data on a monthly basis. As a reminder, as of today, neither COREP nor FINREP are requested on a monthly basis and institutions do not have the data required for reporting on a monthly basis, including audited accounting data. Producing these data on a monthly basis would not only require costly efforts for the institutions but also undermine data quality in the absence of any reference to be reconciled against.

We suggest that the transitional provisions in article 475-3 CRR allowing competent authorities to permit end of quarter LR reporting should become permanent. Alternatively EBA could recommend that the article 416 should be amended to allow quarterly reporting. We are aware that this consultation does not intend to accept amendments to level 1 text. However given the importance of operating burden, it is crucial this LR calculation is not required monthly.

### **Question 3:**

**The same timelines 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 30 business days for reporting seem to be unrealistic regardless of the level of reporting. In order to ensure quality, we suggest that the remittance date for LR should be after the submission of COREP.

We suggest that EBA grant the institutions with a grace period allowing them to produce this reporting only on the consolidated basis so that they can achieve a certain level of industrialization of this reporting, for instance till the public disclosure is required. In terms of interpretation of the CRR text on the requirement for individual level reporting, we strongly call for the EBA's clarification through this ITS. Our understanding of the individual level should not diverge from the level of application of Corep and not all the legal entities. In such case, it will make sense that EBA should be thorough in its concept of proportionality to introduce a threshold for materiality. It is impossible for some institutions to produce this reporting for every single legal entity. Applying the same level of application as Corep will improve consistency between regulatory reporting.

**Question 4:**

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

First of all, we would like to stress the fact that it is impossible to estimate the cost of the implementation of a monthly reporting.

The LR reporting is a new requirement. Even if it relies as far as possible on existing accounting data, some additional work is expected to calculate the exposures without any netting effect.

Beside the monthly average, the production of the required reporting would imply additional costs, mainly due to the potential conflict of timing with other reportings and the adaptation of the systems.

System impacts would be linked to :

- ⇒ the granularity of the information to be calculated, verified and reported,
- ⇒ the frequency, timeline and scope of this reporting (individual and consolidated basis)
- ⇒ the development of specific measures such as :
  - standardized exposures where institutions are using advanced measures (EEPE for derivatives and SFTs in LR 1 & 2),
  - standardized Exposure classes and RWAs where institutions are using IRB-A features (LR6)
  - accounting measures without taking into account any netting effect even allowed by the IFRS framework – enhanced by the fact that IFRS framework is under review.

**Questions from Annex II:**

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

No observation

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

As far as the threshold allows institution to limit the detail of their reporting on derivative, we believe that the threshold should be determined consistently with the degree of reporting adaptation involved.

When an entity is below the threshold, it does not need to report details on their credit derivative exposures separately from their other derivative exposures.

As a consequence, we propose that the threshold is based on the proportion of credit derivatives out of the total derivative exposure.

**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?**

No further observation beyond Q6

**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?**

No further observation beyond Q6

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

No further observation beyond Q6

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

No further observation beyond Q6

**Q11: Is the term “reference name” and the distinction from “reference obligation” sufficiently clear?**

These 2 notions exposed in §36 need more guidelines. It would be for instance necessary to add examples to the proposal.

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

No observation

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

No observation.

**Q14: Is the classification used in template LR6 sufficiently clear?**

See Q15

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

This template is based on classification existing under standard approach and we understand that the second column asks for RWAs calculated under standard approach. For the banks applying IRB approach, such information is not available. The template should be split into two templates allowing reporting under standard and IRB approaches. In such case, LR6 will become a complete duplication of Corep where all the information is already currently available.

Considering the wish expressed by EBA to alleviate the reporting burden, we suggest the withdrawal of this template.,

**Q16: Is the classification used in template LR7 sufficiently clear?**

This classification appears to be sufficiently clear.

**Additional comments**

**On LR 5**

In the LR5 “Capital and calculation of the leverage ratio”, several cells refer to the CRR article 416-4. However, this article which specifically refers to the consolidation of significant investments in relevant entities is not sufficiently clear. In this regard, we suggest that the reduction of the exposure measure should be more clearly explained, by adding the following details to the ITS:

- Paragraph (a) of Art. 416 (4) should be understood as “the sum of exposure values of all the assets either deducted or risk-weighted for the calculation of Tier-1 solvency ratios, relating to significant investments in relevant entities that are included in the consolidation according to the relevant accounting framework but not in the prudential consolidation according to Chapter 2 of Title II of Part One” ;
- Paragraph (b) of Art. 416 (4) should be understood as “the sum of the deductions from Tier-1 items specified in point (i) of Art. 33 (1) and in point (d) of Article (53) relating to relevant entities that met condition (a) divided by the sum of exposure values of all the assets either deducted or risk-weighted for the calculation of Tier 1 capital relating to relevant entities that met condition (a).

## **On LR8**

The information on asset encumbrance has never been required in the Leverage Ratio framework neither in the level 1 text in CRR nor in Basel QIS. We suggest EBA to withdraw these templates and get this information from readily available source.

## **On remittance process**

Considering the answer to Question 3 and the potential inconsistency between the requested measures in Leverage vs Solvency that limit the automatic controls that can be carried out between the COREP and the Leverage Ratio reporting, we suggest that the Leverage Ratio reporting is not embedded in the COREP reporting in order to limit the reporting burden.

Integrating the Leverage ratio into the COREP package would add complexity in the operational implementation of the reporting, and specific developments in COREP reporting tools that can be avoided if the leverage ratio can be declared by itself. The remittance process can be done using XBRL without integration in the COREP package.