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BBA Response to EBA CP/06: CONSULTATION PAPER ON DRAFT IMPLEMENTING TECHNICAL STANDARDS ON SUPERVISORY REPORTING REQUIREMENTS FOR LEVERAGE RATIO[1]

Introduction

The British Bankers' Association ("BBA") is the leading association for UK banking and financial services representing members on the full range of UK and international banking issues. It has more than 200 banking members that are active in the UK, which are headquartered in 50 countries and have operations in 180 countries worldwide. All the major banking groups in the UK are members of our association as are large international EU banks, US and Canadian banks operating in the UK and a range of other banks from the Middle East, Africa, South America and Asia, including China,. The integrated nature of banking means that our members are engaged in activities ranging widely across the financial spectrum from deposit taking and other more conventional forms of retail and commercial banking to products and services as diverse as trade and project finance, primary and secondary securities trading, insurance, investment banking and wealth management. Members include banks headquartered in the UK, as well as UK subsidiaries and branches of foreign banks all of which are likely to be impacted by this consultation, to which the BBA is pleased to respond.

Data requirements

Of the 134 data items proposed in the draft ITS, only 10 are required to calculate the leverage ratio as required in the CRD IV text. The 124 non-essential data items (potentially required monthly for the calculation of a quarterly simple average) are largely focused upon additional analysis on the leverage exposure calculation. This analysis is contrary to the stated goals of integrated reporting. COREP and FINREP, not to mention institutions' external financial reporting, provide supervisors with tens of thousands of data items, largely focused upon on and off balance sheet exposures. These should be more than enough to conduct any further analysis on the leverage exposure that is required. There is no need to collect information required for this analysis again.

Point 18 in the General Remarks of Annex II states:

> "… *the leverage ratio shall be calculated as the simple arithmetic mean of the monthly leverage ratios over the quarter. Reporting should therefore be based on quarterly averages of monthly measures*… "

However, aside from the data required for the leverage ratio, it is not clear what measures are expected to be monthly averages and which are expected to be end-of-quarter data. The

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[1] http://www.eba.europa.eu/Publications/Consultation-Papers/All-consultations/2012/EBA-CP-2012-06.aspx

members of the BBA would appreciate further clarification of this. We assume only information directly applicable to the leverage ratio calculation should be calculated on the basis of monthly measures.

In addition there is a calculation outlined in paragraph 13 of the general remarks in Annex II for the total exposure measure; however it is not clear where this should be displayed in the template. As in the QIS exercise, we would suggest that there should be a designated cell within the template for firms to input the measure into. The same applies for the calculated leverage ratio figure – it is not clear where firms should enter the actual leverage ratio figure and a new cell should be added to accommodate the calculated number.

Implementation timetable

There are a number of concerns around the timing of implementation, particularly as the publication of the data point model is not due until Q4 of 2012. Working on the basis that the final requirements will be published in Q4 2012, yet with the first reporting reference date being 31st March 2013 (as per COREP) will allow only a very short timeframe for banks to build and implement reporting solutions. A significant number of the data requirements are not readily available, and banks will have to allocate a considerable amount of resource to building the required systems, for which there just may not be enough time. Requiring banks to comply with this very tight timetable will not result in good quality information being provided in some cases and we look forward to working with the EBA to find a way of providing good quality information in a suitably timely fashion to a pre-agreed timetable. We have already welcomed the UK FSA's decision to commence collecting data for COREP reporting for the period beginning 1 July 2013 and believe a similarly precise date, building on the EBA's recent 'update on the finalisation and implementation of the standards on supervisory reporting' would be welcomed by EU banks generally.

Comparability with COREP/other reporting requirements

The use of a monthly average in the EBA ITS vs. quarter-end figures that are required by other templates reduces comparability, particularly where other COREP templates have been referenced in the guidance. The BBA members welcome the intention of the EBA to align the reporting requirements; however asking for the data in a different format only increases the implementation burden. We would ask the EBA to further consider aligning the leverage ratio requirements with those in COREP.

XBRL reporting

We support the use XBRL taxonomies to ensure unambiguous interpretation of the data provided by our members that is essential for the calculation of the Leverage Ratio. Whilst we appreciate that the EBA intends to publish the appropriate taxonomies later in the year members are not planning at this stage to include templates LR3, LR4, LR6 and LR8 in their COREP reporting framework preparations as we do not believe that they are essential. So we would not expect to see XBRL taxonomies being developed for these particular templates.

Conclusion

Our recommendation is to remove the non-essential data items to facilitate fast, effective implementation and to adhere to the principles of integrated supervisory reporting. A low-impact realisation of this would mean the removal of LR3, 4, 6 and 8, which we look forward to.

We hope these comments are useful and the BBA would be delighted to provide assistance in any way we can on the future development of this initiative. We have provided our responses to the specific questions asked in CP/2012/06 in Annex 1 as well making some specific comments on the templates/guidance in Annex 2.

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Annex I

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

A number of the templates state that the definitions and data requests directly match those in other COREP tables and that the information can be sourced from them. If that is the case, and as this information does not flow through into the actual leverage ratio calculation, there is a question as to why firms are required to provide information again, with all the attendant risks of re-keying error and costs of duplication of effort. A better solution would be to draw the relevant information from the source COREP form.

If it is necessary for the EBA to collect the data again, it is important that any additional work for banks is minimised. However, in the current guidance and templates there are a number of instances where the two do differ and this creates a further implementation burden for banks. For example, the data for the leverage ratio is to be based on an arithmetic mean of 3 months data – which is not in line with the COREP reporting which is based on Point in Time month end numbers. Also, if other data is to be taken directly from the COREP tables, which we would support, we would presume that the EBA will require end-of-quarter values, rather than monthly averages as for the leverage ratio. This point is not clear in the guidance.

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?

Banks will have certain balance and off balance sheet data available on a quarterly basis, to meet their regulatory reporting requirements. However, where the level of detail required for leverage ratio purposes is over and above that required for other regulatory reporting purposes e.g. COREP, then this data will not be readily available on a quarterly basis, let alone a monthly one. As a result this will add to the already very significant burden that banks face in trying to meet the current and very short 1 January 2013 implementation deadline for complying with overall CRR requirements.

An example of this can be seen on template LR6 Alternative decomposition of leverage ratio exposure measure components where we understand that IRB banks will be required to reproduce and report a standardised RWA calculation for their IRB categories. In addition, in LR 2 method 2 specifically is unduly onerous as it requires institutions to calculate PFEs under the Current Exposure Method twice, under two different sets of rules, which is not specified in the CRR. It would be helpful to understand why this information is being requested on this, in our view, non-essential monitoring data. We also consider the data sought in Template LR8: Asset encumbrance' as relating solely to liquidity and not leverage. We do not see its relevance here and it would involve additional data capture and recommend that it be relocated to the liquidity reporting template.

A similar argument can be made in relation to template LR3 On and off BS items - additional breakdown of exposures which requires banks to split EaD data between on and off balance sheet items according to risk weight bands that will not necessarily reflect those used internally by banks. We do not believe this data is collected to meet any other regulatory requirement and are not convinced of its relevance for leverage ratio monitoring purposes.

It is also not clear from the guidelines the exact requirements for some of the data, particularly whether it is required on a quarterly or monthly basis.

Q3: 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?

We would question the benefit of entity level reporting due to the demands placed on the capital levels of solo entities. For instance an entity providing mortgages would have relatively low capital requirements under both standardised and IRB, but would need to provide additional capital to meet leverage ratios a requirement that is not prudentially relevant. We propose that the template should be required at consolidated group level only.

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?

The additional costs of collecting new data, as indicated in the examples shown in Q2 above, are the result of extending regulatory calculations not currently required elsewhere, e.g. in current UK FSA004 reporting or in future COREP. The additional costs would be significant as additional systems and reporting resource will be required to enable firms to:

- *collect any new data requirements*
- *perform the additional calculations*
- *verify the results;*
- *report final results on a monthly basis; and*
- *on a quarterly basis also undertake COREP reporting to the same reporting deadline/timeframe*

It is not clear why some of the information in relation to risk parameters in template LR3 and LR6 for instance is being collected for a non-risk measure (as the leverage ratio is) as. There is therefore there is a question as to whether the additional cost burden can be justified for information that is not directly pertinent for leverage ratio calculation purposes.

Questions from Annex II:

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

Yes. However, the calculation for ‘total exposure measure’ is not correct. Currently it is double counting one of the data entries. We would suggest the alterations below:

Total exposure measure = {LR1;010;3} + {LR1;050;4} + {LR1;060;2} + {LR1;070;2} + {LR2;010;1} + {LR2;010;3} + 0.1 *({LR2;070;5} + {LR2;090;5}) + ({LR2;060; 5} - {LR2;070;5} - {LR2;070;5}-{LR2;090;5}) + {LR2;110;5} + {LR2;120;5} + {LR2;130;5} - {LR5;080;1} + {LR5,070,1} .

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

Yes, although a lower impact alternative which would avoid smaller banks having to collect and calculate this information could be to base a threshold on accounting information.

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?

It is not clear that this would be the case as banks would still have to collect the data in order to calculate the threshold to determine whether or not they fell below it.

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?

For accounting and auditing, a materiality threshold value of 5% is often applied; therefore we would support a threshold that is in line with this already established guideline of 5%.

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

The calculation is clear; however we question the rationale for collecting the data in LR4. There is no prudential justification for collecting this data, which is operationally burdensome to collate. It would be helpful to understand why this information is required.

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?

We support the upper threshold of £500 million.

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

Yes. However, the data collection would be a manual process and we question the additional benefit of this information. It would be helpful to understand why it is needed.

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

Yes. Given that the collection of the data in LR4 is operationally burdensome and not explicitly required in the level 1 text, there should be no additional requirement to decompose indices into their constituent parts. However we would prefer not to have to provide the data in LR4 at all.

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 additional features should be considered. No further complexity should be added to an already complex and burdensome template. We would question the purpose of the LR4 template as it has no basis in the CRR, has no prudential purpose and is unduly onerous to prepare. It would be helpful for us to understand why this information is required.

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

This panel seems to cut in a different way the data already available in various COREP tables. We question whether there is any additional benefit to requiring this data for the calculation of the leverage ratio. It should be sourced from pre-existing COREP templates so there should be no additional need to complete LR^, which should be deleted from the template pack.

The template requires Risk Weighted Asset data to be reported, but calculated on a standardised basis. This would result in a significant amount of additional work for IRB banks. IRB banks should calculate the template on an IRB basis.

{020}, {030}, {060}, {070}. We understand that the basis of preparation of these cells should be consistent with LR1, i.e. only the cash legs of reverse repos and stock borrows should be included. This should be clarified in the guidance to these cells. In addition, we are not certain of the purpose of splitting these exposures between trading and banking books. If this analysis is considered prudentially necessary, institutions need guidance as to how to allocate netting benefits where a netting set includes trades from both the banking and trading book.

{040}, {080} the purpose of collecting data on “Securities for securities financing transactions” is unclear. It is also unclear what should be reported here. Is it securities which are on the bank’s balance sheet but which are lent / repo’d out? If so, how does this differ from the data collected in cell {030} of LR8?

Overall, on LR6 including data items that are either: 1) not required elsewhere, e.g. in COREP, to meet CRR requirements such as memorandum rows 110 and 120; or 2) are risk based, such as column 2 (RWA) when the leverage ratio is a non-risk based measure, is unhelpful. We cannot see any clear rationale supporting the need for this additional level of granular detail required on LR6, nor an explanation of how this information will assist the EBA/national supervisors perform their supervisory functions. The requirements of this LR6 should be reconsidered.

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?

The current split seems to be a combination of IRB and standardised approaches to credit risk which leaves it a little unclear. We believe it would be better, for reconciliation purposes, to split LR6 along separate IRB and standardised exposure class lines that are used for

COREP rather than use a composite/hybrid with additional undefined exposure classes as is the case in the current draft version of LR6.

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

Yes.

Annex II

Specific comments on the templates/guidance:

- **LR1:**
  - {010, 3}. The guidance specifies that "All credit derivatives, not solely those in the trading book, shall be considered." The guidance notes should clarify that where credit derivatives (protection purchased) in the banking book are treated as guarantees received, they may be excluded from {010, 3} to avoid double counting with the loan on which protection is purchased.
  - {010, 3}. The guidance notes should clarify whether cash or security collateral is permitted to be offset against the net market value in this cell. If no collateral is permitted, the guidance notes should say so.
  - {010, 3}. We note that there is a great deal of uncertainty as to the regulatory treatment of exchange traded derivatives for counterparty credit risk purposes. This uncertainty spills over into their treatment for leverage purposes. It would be helpful if guidance could be provided as to what should be included in this cell in relation to exchange traded derivatives. For example, where a daily movement in price means that variation margin is receivable from the exchange, should this be reflected as a positive exposure arising from a derivative (and thus be reported under {010, 3}), or as a sundry receivable in {070}?
  - {020, 1}, {030, 1}, {040, 1}. Where netting occurs between derivatives for accounting purposes, it may not be meaningful to attempt to allocate this netting benefit between individual product types. EBA should consider providing guidance as to how this netting benefit should be allocated (e.g., in proportion to the gross positive market values)
  - {050, 1}, {050, 2}, {050, 3}, {050, 4}. We are bewildered by the guidance to these cells, and in particular by the reference to including cash received and securities given in cells {060, 1}, {060, 2}, since those cells are designed for SFTs not subject to a master netting agreement. Our understanding of cells {050, 1}, {050, 2} and {050, 3} in the existing Basel leverage template is that they should be used for cash paid out under stock borrows and reverse repos, which may, in columns 1 and 3, be netted against cash received on repos and stock loans where this is justified under accounting and regulatory principles. There is an outstanding question as to how to treat cash variation margin received on a reverse repo or stock borrow – e.g. whether it may be offset against the main cash leg or not. It would be helpful if this question could be addressed. But references to cells {060, 1}, {060, 2} should be deleted or significantly clarified.
  - {060, 1}, {060, 2}. Presumably these two cells should be equal, given that these relate to contracts where there is no enforceable netting.
- **LR2:**
  - We assume, as the calculation of the Leverage Ratio is to be based on accounting, not risk based measures, that the amounts to be disclosed are the gross exposures, rather than exposures at default, but would appreciate confirmation of this

- Why are the drawn amounts for the unconditionally cancellable commitments required to be disclosed separately in lines 080 and 100, when they are not used specifically in the calculation and would be included in {LR1;070;2}? Also these lines seem to be an 'of which' of {LR2;060;5} but how can a drawn amount be off balance sheet? The heading does not suggest on and off balance sheet items should be combined in here. It seems more sensible to include the drawn amounts in template LR1.

- {010, 3}. We note that there is a great deal of uncertainty as to the regulatory treatment of exchange traded derivatives for counterparty credit risk purposes. This uncertainty spills over into the treatment for leverage purposes. It would be helpful if guidance could be provided as to what should be included in this cell in relation to exchange traded derivatives. For example, given that there is very rarely any positive mark-to-market for exchange traded derivatives shown on a balance sheet; can the Net-to-Gross ratio be set to zero and consequently the PFE calculated on the basis of 40% of the normal add-on?

- **LR3:**
  - Footnote 2 specifies the use of exposures post-CRM. Should they not also be post-CCF and PD substitution?
  - Footnote 3 refers to converting obligor grades from the COREP IRB template, but the pools aren't split by risk weight so this does not appear to make sense. Can we please have clear instruction on how the IRB exposures should be mapped by risk weight?
  - The allusions to banking and trading book are apparently inconsistent and therefore confusing. The template asks for a breakdown of banking book exposures, but paragraph 33 in Annex II states that the information can be obtained directly from COREP tables and that this includes all exposures/transactions in the trading book subject to CCR. Also, note 1 states that "transactions subject to treatment for CCR should be included, irrespective of whether they are classified in the banking or trading book".

- **LR5:**
  - {LR5;080;1} – regulatory adjustments – Tier 1 is being deducted from the exposure measure. This would appear to include the adjustments for provisions and own credit risk, but as these regulatory adjustments do not affect assets it is unclear why they should be included in the deduction. They are currently not included in the deduction in the QIS or the FSA003+ returns.