Nederlandse Vereniging van Banken

Koen Holdtgrefe
Advisor Prudential supervision
t + 31 20 55 02 838
m + 31 6 12 62 38 33
e holdtgrefe@nvb.nl

European Banking Authority
Via e-mail: CP-2012-6@eba.europa.eu

Date 27 August 2012
Reference BR1722

Regarding: Response NVB; Consultation on supervisory reporting requirements for leverage ratio

Dear Mr. Farkas,

The Dutch Banking Association welcomes the opportunity to comment on EBA's consultation on the Supervisory Reporting Requirements for leverage ratio. We support the aim of EBA to strive for common reporting templates and the mission of the European Commission to achieve a Single Rule book. We do, however have grave concerns regarding the approach of EBA and the Commission which we would like to share with you.

These concerns do not specifically apply to this consultation only, but should be seen in relation to all the consultations that relate to reporting requirements stemming from CRDIV. As CRDIV is the basis from which all reporting requirements are derived, it is impossible to fixate reporting templates given that no agreement on CRD has been reached at this point in time. The implementation deadlines however have not been changed in line with the incurred delays in the decision making process and remain 1 January 2013.

As a result, it is no longer possible for banks implement all the different requirements in the very short timeframe that is left, without making compromises on quality of the data. To make the implementation schedule more realistic - including reconciliation and data quality checks - we strongly suggest to postpone the implementation dates for all the final reporting requirements (such as Corep, Finrep, Large Exposures, Liquidity , Leverage, Own Funds) to 1 January 2014.

Finally, it is essential that all the reporting dates of the different requirements are coordinated. Aligning the reporting requirements will make the reporting processes of banks and the supervisors more effective. With regard to the current consultation we have the following comments:

Leverage ratio; challenging calculation of a simplistic measure
The leverage ratio is meant to be a very simple, non risk sensitive, backstop measure. This should also be reflected in the reporting requirements.

- We request EBA to investigate if the calculation of the leverage ratio could be simplified, especially in areas where the calculation of the leverage ratio does not follow applicable accounting standards. This would solve many of the implementation issues faced by institutions.
- We furthermore question whether a hybrid exposure measure, which combines accounting data with Basel netting rules, potential future exposures for derivatives and others, is the optimal calibration for a volume based measure when considering the costs and benefits, i.e. the improvement of the quality of measurement versus higher implementation and recurring costs. In this context we would also like to highlight the importance of taking IFRS

netting rules into account in the leverage calculation. This is for instance the case for the netting of offsetting debit and credit positions. Please see Annex 1 for more elaborate information.

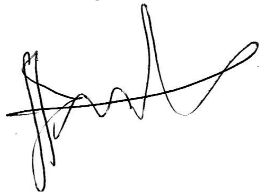
- We do not believe that the purposes of the leverage ratio, intended as a simple volume based metric, justify the extended reporting specifically regarding derivatives and the extended breakdowns by exposure classes. This could be left out of the reporting scope.
- Simplicity also entails that the data are only reported on the consolidated level and not on solo-level. Reporting on a consolidated level would also make more sense from a business perspective.
- We agree with EBA that the format can be reported on a quarterly basis. We do however believe this should not be on the basis of quarterly averages of monthly data. The data should be based on the quarterly reporting only. This would reduce reporting burdens, without doing injustice to the purpose of leverage reporting.
- Finally, as stated by EBA, the format could be revised after EBA has reported to the Commission in 2016 on the impact of the leverage ratio framework. As the final requirements are still to be set, the reporting requirements during the review period should be as simple as possible.

More clarity desired
Before being able to start working on the implementation process within the banks, it is necessary to clarify certain elements:

- SFT netting methodology remains unclear. This causes considerable uncertainty on the capital impact of the Leverage Ratio.
- The definition of credit derivatives is not clear: The COREP template requires separate reporting of credit derivatives, but a definition of credit derivatives is not provided. Certain instruments (e.g. total return swaps) could be classified as credit derivatives, but no clear distinction is available. The local regulator advised that the classification is currently at the discretion of the institution.

Thank you for the opportunity to respond, should you have any questions, please do not hesitate to contact me.

Kind regards,



Koen Holdtgrefe
Advisor Prudential Supervision

Nederlandse Vereniging van Banken

Annex I Answers to the questions asked in the consultation document
Questions from the ITS:
Q1: „Do institutions agree with the use of existing and prudential measures? Is there additional ways to alleviate the implementation burden?"

The preference is to use the existing monitoring template as the format and definitions are familiar.

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?"

In the Netherlands, the data is available on monthly basis. The content is accumulated from various existing regulatory reports (mainly COREP and FINREP).
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?"

Consolidated level reporting is currently based on tighter timelines. If individual level (solo) reporting is required, additional time would be required. This could alleviate the reporting burden by spreading the effort over longer period of time.

Q4: „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?"

The implementation will result in significant system impact, requiring changes to the IT infrastructure.

Questions from Annex II:
Q5: „Is the calculation of the derivatives share threshold sufficiently clear?"

Yes

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

Yes

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. The effort caused by monitoring the compliance with the threshold is equivalent to reporting the requested fields. If the threshold test would be less frequent (e.g. once a year) than the reporting requirement and the administrative burden could be reduced.

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?"

A higher threshold could alleviate the reporting burden, but the data is required for COREP in any case. Hence, higher threshold would not significantly reduce the burden.

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

No. A numerical example would be helpful.

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?"

Nederlandse Vereniging van Banken

A higher threshold could alleviate reporting burden.

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

No. An example would be helpful.

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

No. An example would be helpful.

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?“

A clear definition of a credit derivative should be provided.

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

Yes.

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?“

For IRB banks the requirement to use exposure classes based on SA will cause additional reporting burden, as the systems are geared towards IRB reporting and SA exposure classes were not previously required. Combined with the COREP, there is 4 different 'exposure classes' required (SA total, IRB, IRB GB and Leverage ratio). Alignment of these various exposure classes would be very welcome and will certainly reduce the implementation/reporting burden.

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

Yes

Nederlandse Vereniging van Banken

Annex II

The calculation of the leverage ratio has, so far, to a great extent been based on the IFRS-balance sheet and a number of off balance sheet exposures. The practical conditions IFRS places on offsetting of debit and credit positions are very strict. An important issue in regards to offsetting relates to debit and credit positions on current accounts of the same client. Debit and credit positions in current accounts of the same client are managed on a holistic basis, among others for risk management purposes. In the solvency reporting, Basel 2 as well as Basel 3, compensating these positions is allowed. IFRS only allows offsetting if the intention to offset (both by the bank and the client) is visible in practice. This means that all the debit and credit positions on current accounts of the same client have to be concentrated at least once a year. Besides the administrative burden that this imposes, the requirement impacts clients' business practices as it creates an administrative burden.

For example there are pension funds with separate current accounts per asset manager they have given a mandate. Because they want to have control of and an insight in the positions, as well as the performance (per asset manager and per mandate), such clients usually have several current accounts. In our view off setting of debit and credit positions on current accounts of the same client should be included in the calculation of the leverage ratio, irrespective of the way it should be treated according to IFRS. Another example is an offsetting issue regarding reversed repo's; the provided money is included on the asset side of the balance sheet, it is not clear yet whether the collateral in the form of securities can be taken into account as compensation for calculating the leverage ratio. The same can be said regarding term securities lending (with a longer lending period of the lended securities compared with the period of the securities that serve as collateral).

In conclusion, by taking the IFRS balance as a basis, the leverage ratio does not take into account relevant offsetting issues that are evident for determining the position of the bank and their clients. Some obvious offsetting's have to incorporated in the calculation of the leverage ratio to bring the leverage ratio more in line with business practice, risk management and solvency reporting and to avoid that the leverage ratio will become a mechanism to set limits for the business based on wrong measurement.