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**Comments on EBA Consultation Paper on Draft Implementing Technical Standards on supervisory reporting requirements for leverage ratio (EBA/CP/2012/06)**

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as representative of the entire Austrian banking industry, appreciates the possibility to comment on "EBA Consultation Paper on Draft ITS on Supervisory reporting requirements for leverage ratio (EBA/CP/2012/06)" and would like to submit the following position.

We will first respond to the questions posed in the Consultation Paper. Further general comments will be put forward subsequently.

## Questions posed in the CP:

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

We agree with the use of existing and prudential measures, however, we would like to state that this idea has not been continuously achieved with the current proposal.

Further additional ways to alleviate the implementation burden could be achieved through

- o compulsory reporting of end-of-quarter data only (i.e. no average on monthly basis and no derogation by competent authorities),
- o obligation to report derivatives and SFTs only according to one method (instead of 2 parallel methods),
- o inclusion of references to positions in COREP-Forms,
- o uniform application of COREP asset classes for leverage ratio (Form LR6),
- o deletions in LR1-6 (see below).

In the light of upcoming additional reporting requirements (COREP, FINREP, etc.) an optimization of linking between different reports would be very important to the relevant institutions to reduce administrative burdens without reducing the value of the information.

Currently institutions are working on different projects to ensure fulfilment of the new reporting requirements especially on COREP and also on FINREP, where it has to be acknowledged as a reasonable step to set the implementation date for FINREP to 1 January 2014 (acc. to an EBA Press Release from 31 July 2012). As it is known, progress on these projects, especially on COREP, is highly endangered due to possible changes within CRR/CRD that could occur until the final CRR/CRD will be published.

What concerns us particularly is the envisaged date of entry into force. Taking into account that the respective departments are currently confronted with implementation issues concerning COREP (and also FINREP), we would therefore plead for a delay, in particular concerning supplementary information on leverage, which should – in a step-by-step approach – be required after the aforementioned reports will be required for the first time.

Moreover we would like to propose requiring only specific positions which are really relevant and indispensable to calculate the leverage ratio within the first reporting periods.

Furthermore we would like to mention that data for QIS were set up manually and the entire set of reporting included under the leverage ratio part is not available on automated basis. Reporting numerous templates and breakdowns under leverage ratio permanently is therefore unduly burdensome.

Reporting the 3months' simple average instead of end-of-quarter data means an unnecessary burden and will be problematic especially for groups (e.g. for subsidiaries only end-of-quarter data is required, for subholding subject to another supervisory authority monthly averages, while for the holding under still another jurisdiction end-of-quarter data is requested ⇨ monthly data would have to be submitted by subsidiaries).

The thresholds stipulated are actually no alleviation as the calculation has to be performed anyway in order to decide if the threshold is exceeded. Furthermore the consolidated report calls in for non-threshold-exceeding entities in any event.

LR3's risk weight breakdown is not meaningful and should be omitted as there is no benefit in regard to the leverage ratio. The categories set in the table differ from the ones explained in the annex (12 % vs. 10 % bucket, 425 % vs. 400 % bucket). Footnote 3 on page 14 of the Annex II describes a calculation which cannot be done (only 1 of 4 variables given in case of IRB-A).

LR5 requires transitional and fully phased in capital. This could be seen as indirect anticipation of full Basel III rules levelling out the transitional dispositions. Positions 090, 100 and 110 are not properly defined in Annex II (wrongly numbered). A reference to the position numbers used in the CA-templates would be very helpful and facilitate uniform reporting.

LR6 should either be waived or at least be broken down by COREP asset classes. Position 140 holds differing headings in the table and the Annex II description. Furthermore position 250's definition in the annex wrongly refers to "row 290 and 300" (these rows actually do not exist in the table and should be 230 and 240).

LR8: Does position 020 mean synthetic securitisations? The wording "pledged" is not clear in this context.

The validation rules should be available by end of 2012 to allow for correct reports from the beginning (not only from 3Q 2013 onwards as stated on page 7).

The 2$^{nd}$ paragraph on page 8 contradicts § 475 (3) where a national discretion for local authorities is defined.

**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?**

Data is currently not completely available as there is no harmonized requirement for quarterly COREP reporting. Introducing monthly delivery would be a huge effort to institutions as the current systems were developed in anticipation of the trade-off "reduced frequency versus further details" promised to the banking industry by the authority.

An increased reporting burden from the enhanced level of detail should have been alleviated by a reduced reporting frequency. Implementation of monthly RWA and own funds calculation for leverage ratio purposes would mean an indirect re-implementation of monthly COREP calculation.

So it has to be stated that using an average based on monthly figures would miss the target of decreasing operational and reporting burden in any case:
While other reports (FINREP and COREP, e.g. own funds and RWA) will be required on a quarterly basis, the leverage ratio, which we understand as an additional statistical ratio, would cause additional organizational burden if required monthly.
We also want to point out, that COREP covers regulatory reports by the end of the quarter (reporting date: last day of the quarter). Mapping of figures related to the reporting date to the figures related to an average will not be possible for institutions and will not allow a simple approach to cross-check the figures within different reports for the institutions as well as for the relevant authorities.

**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?**

Yes, reporting both individual and consolidated data at the same time in tight schedules is problematic. Because of organizational structures and internal processes it is necessary to have a time lag between remittance date for reports on individual level versus due dates for reports on consolidated level. Consolidation workflows need to have a time frame for calculation of group figures. Lean personnel resources can be better allocated if there is more than one remittance date for all reports. Hence, we do defend the existing different timeline for consolidated data.

We would therefore appreciate, if the reporting date for consolidated figures will be fixed a few working dates later than reporting date for solo-companies which are included within the same scope of consolidation. This would allow an appropriate and prudential post-processing on group-level and would ensure higher quality of the relevant consolidated figures within the report on leverage ratio.

**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?**

In general our expectation is that the implementation of the proposed approach and thereby the collection of the required information will lead to a high cost basis. One of the most relevant factors of the costs is the very short timeframe within which institutions will have to implement the reporting templates and the formulas to calculate the relevant figures.

Any changes during the implementation process, e.g. due to changes within CRD/CRR and/or the Implementing Technical Standards on leverage ratio, will cause additional costs and burdens.

In particular we would like to provide you with the cost calculation of one large Austrian bank:

| | |
|---|---|
| Calculated on monthly averages:<br>Personnel expense for regulatory reporting | <br>3 Fulltime-Capacities |
| Calculated at quarter end:<br>Personnel expense for regulatory reporting | <br>1 Fulltime-Capacity |
| Personnel expense for set-up, test,<br>Expense for maintenance and training | <br>0.5 Fulltime-Capacities<br>(no difference between monthly averages or end-of-quarter) |

IT-costs for set-up and maintenance are not included.

**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?**

No, we do not consider the thresholds to be meaningful as the data of “small” subsidiaries has to be provided in the course of consolidation anyway (i.e. the thresholds are no alleviation for groups/small members of groups).

**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?**

Not for groups, see comment on Q6.

In addition, the sum has to be calculated first to check if the thresholds are met. The situation is even more complicated when it comes to thresholds for quarterly values calculated as simple average of three month-values. We do not see any reduction in administrative burden by this kind of threshold.

**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?**

Not relevant, as we see no advantage/reduction of reporting burden in the threshold.

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

Yes.

**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?**

Not relevant for groups, as no advantage/reduction of reporting burden in the threshold is seen by groups.

Moreover we would like to suggest, that the threshold should be defined not only for the relevant reporting date. So, if the average over the last 12 months was below the certain defined threshold, the report of the additional required figures should be omitted for the next reporting periods. This would avoid calculation of the threshold on a monthly/quarterly basis and would reduce organizational burden.

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

Yes.

**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 would this add to complexity and reporting burden?**

No additional contractual features should be considered.

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

We consider the structure, classification and definition of required figures as not sufficiently clear.

The creation of a new composition and structure that will be required based on the leverage requirements is not understandable from our point of view.

We would expect that the introduction of new COREP- and FINREP-requirements would lead to harmonization within the different reports and would ensure a system, which would avoid double-workings and different classification and structure on required figures within the different reports.

After finalizing the evaluation of data sources and possibilities to cross-check additional information required within the leverage reporting template we came to the conclusion that the details requested within this reporting template deviate significantly from the figures requested in other reports. We do not see the reason and the necessity for the classification and structure of template LR6 which deviates significantly from both, the FINREP and the COREP classifications. This is not only relevant for LR6 but for other information, e.g. on derivatives, which also deviates significantly from FINREP-requirements.

For institutions it is very burdensome and not reasonable to create a new type of classification and reporting structure once again. Up to now, the banking industry invested unfruitfully a substantial amount of money and resources just to ensure that the FINREP- and COREP-requirements will be fulfilled by the beginning of 2013.

Moreover neither the FINREP-requirements nor the COREP-requirements are finally defined, so we have to expect changes within the implementation procedures, which will again cost a significant amount of money and resources.

Due to constraints in resources we want to underline that we cannot ensure for all credit institutions to be able to fulfill the requirements of LR6 until January, 1st, 2013 in the expected quality. Small- and medium sized institutions that have never been required to fulfill the QIS-requirements will face even more obstacles in fulfilling the requirements not only but particularly regarding template LR6. Therefore, we oppose the structure and classification of LR6 which at least should be aligned with COREP and FINREP.

So, from our point of view, it is questionable to create reporting burdens due to a different split-definition for leverage purposes.

**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?**

As the split in financial and non-financial could be problematic, we propose a split by exposure asset classes (100 % in line with COREP).

We fully agree that the re-use of information from COREP will keep cost lower, so long as the data segmentations to be provided remain in line with COREP. Therefore we are in favour of using COREP data directly or to waive LR6 at all.

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

Yes.

**<u>Further general remarks</u>**

1. **Calculation and Report of the leverage ratio:**

The main aim of the template on leverage reporting is to show the fundamental data for capital measure and exposure measure. Our expectation is that the leverage ratio, which is the arithmetic result of setting the capital measure in relation to the exposure measure, would also be shown within the template.

The reason is that the ratio is the most fundamental feature given by this report.

Reporting institutions and authorities should have access to the same data, while inconsistencies in respect to the leverage should be avoided.

The only way to ensure that the reported leverage ratio, which also has to be published by institutions within the disclosure requirements, is the same as used by authorities is to incorporate a separate reporting-position for the ratio.

2. **Very limited timeframe for implementation of the leverage templates and evaluation of data-sources:**

2 a) We want to point out, that the reporting template for the leverage ratio has been changed significantly in some areas compared to the previous report of leverage within the Quantitative Impact Study (e.g. LR5, LR6; LR8 is a completely newly introduced template within the report).

2 b) Furthermore, the structure of the leverage template required within the QIS is only known to banking-groups which are already required to report the QIS to the EBA/BCBS. For small and medium sized institutions which are not familiar with the QIS-template and the timeframe to implement the reporting template and which have to ensure data availability in the required timeframe (until beginning of 2013), compliance with the new reporting requirement is simply undoable.

We appreciate that EBA considers own thresholds to reduce the reporting burden for these companies, but we do not believe that implementation of thresholds for details on derivatives will be the adequate solution to unburden these institutions.
Therefore we want to propose, that:

- Especially for small- and medium sized institutions only the relevant positions that are used to calculate the ratio shall be reported in 2013. Furthermore we are of the opinion that generally reporting should be reduced to the level absolutely necessary.
- Institutions that are included as fully consolidated companies within the regulatory scope of consolidation and covered by group-figures shall be exempted from the requirement to report the leverage ratio on solo-level ("waiver") (especially in case, where the institution is required to report figures based on local standards and the relevant group-figures are based on International Accounting Standards); fully consolidated companies should be exempted especially in case they are located in the same country as the relevant parent bank. We want to point out that chapter seven (leverage ratio) seems to be the only one without a waiver possibility (comp. Art 6, 7 for solvency, liquidity, large exposures etc.). This does not seem to be reasonable.
- We consider it as necessary that all institutions, or at least small- and medium sized institutions should have more time than the remaining few months until year end 2012 (or less, considering that the current leverage-template is anyway only based on a draft) for implementation of the new requirements. We propose a minimum period of six months after receiving the final requirements on the leverage ratio, published in the Official Journal. A sufficient implementation time is necessary for an appropriate and prudential implementation.

### 3. Definition of required information in the leverage ratio template:

For institutions applying IFRS it would be beneficial if EBA will provide the appropriate standards to which the required information refers (e.g. detailed information required on derivatives and SFT`s ).

### 4. Question on the calculation of total exposure measure as defined in pt.13 of Annex II:

We found out, that there is a double deduction required for Unconditionally cancellable credit cards commitments (LR2;70;5) within the formula explaining the composition of total exposure measure:

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;110;5} + {LR2;120;5} + {LR2;130;5} - {LR5;080;1} + {LR5,070,1}

We assume, that the double deduction of underlined position is possibly not correct and instead of LR2;70;5 position LR2;90;5 (Other unconditionally cancellable commitments) should be deducted. From our point of view the formula should be defined as follows:

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;090;5}) + {LR2;110;5} + {LR2;120;5} + {LR2;130;5} - {LR5;080;1} + {LR5,070,1}

## 5. Comments on LR5 - Capital and calculation of the leverage ratio:

5 a) As stated previously, the leverage ratio is not part of the leverage reporting template. Clarification should be provided why the ratio is not included within this reporting table.

5 b) From our perspective it is not sufficiently clear, why the following additional information is also required within the template LR5:

- Common Equity Tier- 1 – fully phased-in definition
- Common Equity Tier-1 – transitional definition
- Total regulatory Capital – fully phased-in definition
- Total Regulatory Capital – transitional definition
- Regulatory adjustments – CET-1 and
- Regulatory adjustments – Total regulatory Capital

Within the CRR and in particular within Annex II (instructions) on the Implementing Technical Standards on leverage ratio, it is clearly stated that the Tier-1 capital will be used as a capital measure to calculate the leverage ratio.
Therefore only the Tier-1 (based on a fully phased-in definition and based on transitional definition) should have to be reported by institutions.

Therefore NSAs and EBA should, in this context, only use the tier-1 capital as a capital measure for internal and external purposes.

5 c) Finally it should be mentioned that all relevant information on other capital levels is anyway available within the COREP-templates on regulatory capital. So, we assume that reporting of all respective positions within the new report on leverage would make no sense in this respect.

## 6. LR8, row 30:

6 a) The instructions regarding required information within row 30 of template LR8 are misleading from our point of view.
Position in the template: Assets pledged for repo and other securities lending activities.
Description within the instructions: Assets pledged as collateral for securities financing transactions.
It should be clarified which information is actually required in this position.

6 b) For securities lending transactions in our opinion there is a need to report the amounts by borrowers in the line “Assets that pledged for SFTs” merely when collateral is pledged against the borrowing.

If the bank lends the securities, the transfer of securities to the transferee cannot be considered as a pledge. There is no basis for reporting assets pledged by the lender. Therefore for securities lending, the borrower would not report anything in the line “Assets that pledged for SFTs”.

Yours sincerely,

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