

BBA response to the EBA's consultation on draft Implementing Technical Standards (ITS) on disclosure for leverage ratio

Introduction

The BBA is pleased to respond to the European Banking Authority (EBA)'s consultation on leverage ratio disclosure¹.

The BBA is the leading association for UK banking and financial services representing members on the full range of UK and international banking issues. It represents over 170 banking members 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 as well as a range of other banks from Asia, including China, the Middle East, Africa and South America. 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 of EU and 3rd country banks – all of which will be required to report their leverage ratio under CRR.

Responses to questions

Q01: Are the provisions included in these draft ITS sufficiently clear? Are there aspects which need to be elaborated further?

Subject to our comments below, we agree that the provisions in the draft ITS are generally clear given that they are largely based upon the COREP templates - an approach we welcome. However the EBA should re-issue its consultation based on the revised approach to the leverage ratio framework recently agreed by the Basel Committee on Banking Supervision ('BCBS'). and whether potential subsequent changes (e.g. to replace CEM with NIMM) need to be considered. Suggesting that the templates merely be updated for BCBS270 seems to ignore the need for at minimum a delegated act to change CRR.

¹ <http://www.eba.europa.eu/documents/10180/459196/EBA+CP+2013+41+%28Draft+CP+on+draft+ITS+on+disclosure+of+leverage+ratio%29.pdf>

Whilst we recognise the importance of completing the leverage ratio disclosure requirements soon, in order to give banks and their advisers certainty about what is required, we note that the consultation paper was issued well before the early January Governors and Heads of Supervision meeting which reached final international agreement on the design of the leverage ratio and included proposed templates² to reflect the changes agreed. Furthermore it is not yet clear to us how the recent BCBS changes, as well as the replacement of CEM with NIMM, will be implemented in the CRR – presumably at a minimum via delegated act?

Consequently we believe it is rather early to reach a conclusion about the design of the European disclosure templates. So the EBA should re-issue its consultation based on the leverage ratio framework recently issued by the Basel Committee on Banking Supervision ('BCBS') to take account of the revisions, as well as the likely change to the methodology for capitalising counterparty credit risk exposures.

Q02: Are the instructions provided in annex 2 on the balance sheet reconciliation of LRSum sufficiently clear? Should the instructions for some rows be clarified? Which ones in particular? Are some rows missing?

Subject to our comments below, we generally agree that the template instruction for LRSum are clear and believe that the spread sheet is complete but note a cross referencing error. Paragraph 1.3.c of the template instructions for LRSum refers to column 20 of table LRCom, to us there does not appear to be a column 20 in LRCom. Instead we believe this reference should be to column 20 of LRSum.

The heading for data field LRSum {1;010} includes a reference to collateral. The guidance for the data field does not sufficiently clarify the collateral that should be included here. We would welcome a clarification of the type of collateral that should be captured in this data field and indeed if this is a requirement to gross up for collateral amounts provided against negative derivative fair values.

In addition we are concerned that template LRSum does not fully addresses investor requests for a reconciliation of the leverage ratio exposure measure to the accounting balance sheet. This would most likely result in information being disclosed in a format that addresses investor needs as well as in the prescribed template format which would solely double up information in a less useful format. The final Basel template 'Summary comparison of accounting assets vs. leverage ratio exposure measure' addresses this request from investors and we ask the EBA to reconsider the proposed template in the light of the final BCBS rules.

Q03: Are the instructions provided in annex 2 on the breakdown of leverage ratio exposure of LRCom and LRSpI sufficiently clear? Should the instructions for some rows be clarified? Which ones in particular? Are some rows missing?

Table LR Com requires banks to make extra disclosures about off balance sheet exposures by breaking them down by material product types. This requirement goes over and above what is required in COREP. We question the usefulness of a breakdown by product type given that

² <http://www.bis.org/publ/bcbs270.pdf>

other disclosures in the Annual Report and Accounts or the Pillar 3 report are not generally provided at that level of granularity. We also believe that a weakness of the proposed approach is that each bank can make its own determination about materiality and product type. This will lead to a lack of comparability which could render this additional level of disclosure relatively meaningless. We propose that in light of BCBS's recent revisions to the leverage ratio, the EBA should re-issue its proposals - this would provide a good opportunity for the EBA to work with the industry to develop a breakdown of off-balance sheet exposures that ensures consistency of disclosure as well as providing useful information.

There is room for interpretation of data field LRSpl {EU-30}. We believe that this field relates to the prudential exposure measure. However, in our view the data field description could be clarified to confirm this reading. This could, e.g. be achieved by linking this data field to LRSum {01;20}.

Q04: Our analysis shows that no impacts incremental to those included in the text of the Level 1 text are likely to materialise. Do you agree with our assessment? If not please explain why and provide estimates of such impacts whenever possible.

We generally agree with this assessment but note that a full consideration of the incremental impact of the proposal would only be possible in the context of frequency of the proposed disclosure.

Other comments – LRQua

Table LRQua requires banks free form disclosure on qualitative items to be 'fitted' into two boxes. Whilst we understand the desire to be consistent we do not believe that consistency can be achieved by requiring free text to be presented in a text box. We believe that banks should be free to embed the information required by LRQua with other disclosure to present them in the appropriate context. Cross references between the table and the text could ensure that users would be able to find all relevant information quickly.

Banks have spent much time working with regulators in the enhanced disclosure task force in order to create disclosure templates for derivative PFE calculation. We would encourage the EBA to embed this approach in the revision to the tables we have recommended above.

Other comments – scope of consolidation

It would be helpful if, in its revised ITS, the EBA clarified the scope of consolidation on the templates (regulatory vs accounting) so that they can be reconciled back to the accounting balance sheet. We believe it would also be helpful for investors to understand how much of the difference is caused by scope of consolidation.

Responsible executive

Simon Hills
British Bankers' Association
simon.hills@bba.org.uk
Tel; + 44 (0) 207 216 8861