POSITION PAPER

ESBG Common Response to the EBA Consultation on Draft implementing Standards on Disclosure for the Leverage Ratio

January 2014

Dear Sir/Madam,

Thank you for the opportunity to comment on the EBA consultation on *draft implementing technical standards on Disclosure for the Leverage Ratio*. We welcome the proposal and we very much appreciate the close alignment of the proposed templates to the reporting templates required for the reporting of the Leverage Ratio within the COREP framework whilst also utilising the same referencing as the Basel Committee templates. We would however like to raise some concerns regarding the prominence that the detailed reporting requirements appears to give the leverage ratio as this is a backstop measure which, due to its lack of risk weights gives limited information at best.

We will use this position paper to provide feedback to the questions within the Consultation Paper and we will also take the opportunity to highlight a few specific concerns in relation to the four proposed templates.

The ESBG believes that there are a few key messages that the EBA needs to consider when they push forward with the current consultation:

- The ESBG questions the relevance of reporting the leverage ratio in such details, and especially the qualitative information required to be disclosed, before it is stabilised in 2018. The leverage ratio appears to be given very high relevance for a backstop measure by requiring the detailed reporting. As such the leverage ratio should not be given high prominence as the risk-weighted capital ratios provide a better indicator of an entity's financial health. Indeed a more limited framework for reporting appears to be more appropriate. A very strict level for this ratio can have unintended consequences, forcing many institutions to increase their risk profile in order to remain profitable.

- During the Basel parallel run period from 1 January 2013 to 1 January 2017 it would be most helpful for entities if the EBA clearly and far in advance reported any changes to the reporting requirements. It would also assist reporting entities if changes to reporting requirements are batched and less frequent rather than requested on an ongoing basis throughout the review process.

- The Basel disclosures will not be finalised until 2018 and a lot of entities will therefore need to manually prepare these submissions until the templates are stable. This is resource-heavy and should be taken into account when considering the reporting frequency. By limiting flexibility for national authorities to request more frequent disclosures than the proposed annual disclosures during this period it will be less burdensome on entities during this time of uncertainty.

Questions for consultation:

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

The provisions in these RTS are clear. We understand the necessity of reporting sufficient data to the regulator and supervisor, in order to properly calibrate the leverage ratio during the monitoring period phase, but we are concerned that disclosing an excessive amount of data regarding the leverage ratio calculation during the review period will not provide useful information.

As the leverage ratio is not yet a binding measure we are concerned that the required data are overly demanding. The "LRQua" template for example appears excessive in its request for all processes for managing the excessive risk of leverage together with disclosing data related to encumbered assets or maturity mismatches to be disclosed. We do not understand the necessity to provide the market with such granular information relating to the leverage ratio of institutions. We also do not understand how this measure, which is subject to supervisory review and not subject to quantitative requirements for several years to come, can be assumed to be of such importance to the institutions' risk management so that internal strategic decisions and processes can be directly linked to it.

From a general point of view we are concerned regarding the requirement to publicly disclose such detailed information during the monitoring period.

We ask that the disclosure of the leverage ratio is required at the consolidated level only as the reporting burden on smaller loosely tied networks (a characteristic of many savings banks) would be disproportionately heavy.

Disclosures should also be limited to an annual frequency and not, as it appears in the current consultation paper, left to the discretion of national authorities to request a higher frequency of disclosures.

Q02: Are the instructions provided in Annex II 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?

We have no comments on this section.

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

- Regarding the different weights used for the off-balance sheet exposure in template LRCom (rows15-17) we note that these are different to the weights used in the supervisory reporting templates;
- Regarding the requirement to report both point-in-time and quarterly average leverage ratio we ask the EBA to require only a point-in-time figure until the leverage ratio is finalised and becomes a legal requirement in 2018 as the calculation will be subject to change during the review period;
- Regarding article 499.2 we note that the CRR provide institutions with the option to disclose the information on leverage ratio based on just one or both of the definitions of the capital

measure. However, LRCom limits this choice by only enabling one of the measures to be disclosed;

- Regarding LRQua we ask what needs to be disclosed in terms of internal strategic decisions and processes impacting leverage ratios as there are concerns within the industry that this will require financial industry to disclose information that is difficult to directly link to leverage ratio and which in addition could be sensitive.

  We hope that only general information or information already disclosed is required, for example:

  - General information: disclosing the process that was set up to follow the leverage ratio;
  - Information already disclosed such as strategic decision taken which has led to a change in the leverage (these decisions should normally have already been described in a press release, if significant).

Q04: Our analysis shows no significant impacts incremental to those caused by the provisions in the CRR and CRDIV are likely to materialise. Do you agree with our assessment? If not please explain why and provide estimates of such impacts whenever possible.

If the disclosures will mainly be based on reporting data, we agree that there will not be any large additional costs for setting up this new requirement. There will however be an additional burden on human resources during the period prior to finalisation of the leverage ratio definition due to the manual input to the templates.

About WSBI-ESBG (European Savings and Retail Banking Group)

WSBI-ESBG – The European Voice of Savings and Retail Banking

WSBI-ESBG (European Savings Banks Group) is an international banking association that represents one of the largest European retail banking networks, comprising of approximately one-third of the retail banking market in Europe, with total assets of over €7,631 billion, non-bank deposits of €3,500 billion and non-bank loans of €4,200 billion (31 December 2011). It represents the interests of its members vis-à-vis the EU Institutions and generates, facilitates and manages high quality cross-border banking projects.

WSBI-ESBG members are typically savings and retail banks or associations thereof. They are often organised in decentralised networks and offer their services throughout their region. WSBI-ESBG member banks have reinvested responsibly in their region for many decades and are a distinct benchmark for corporate social responsibility activities throughout Europe and the world.

European Savings and Retail Banking Group - aisbl
Rue Marie-Thérèse, 11 ▪ B-1000 Brussels ▪ Tel: +32 2 211 11 11 ▪ Fax : +32 2 211 11 99

Info@wsbi-esbg.org ▪ www.esbg.eu

Published by ESBG, January 2014