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BANCAIRE
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*Banking supervision
And Accounting issues Unit
The Director*

Paris, July 27th 2012

FBF Response - EBA Consultation Paper on Draft Implementing Technical Standards on Supervisory reporting requirements for leverage ratio. (CP 2012/06)

Dear Sir,

The French Banking Federation (FBF) is the professional body representing over 450 commercial, cooperative and mutual banks operating in France. It includes both French and foreign-based organizations.

The FBF welcomes the opportunity to comment on the proposed ITS on leverage ratio. We appreciate the concern of the EBA as stated in the consultation paper of the leverage ratio to be reported as part as the COREP framework.

Nevertheless, we would like to highlight the following points:

- As a simplified ratio, reporting quarterly averages of monthly data will be highly costly for a questionable benefit and would not allow the re-use of accounting and prudential measures already existing. Calculating monthly the leverage ratio over a quarter will make impossible any reconciliation with the COREP or the FINREP which are reported on a quarterly basis.
- As a new reporting, leverage ratio reporting would substantially raise costs due to granularity of the data, frequency, shortened remittance dates and data gaps with similar information already collected and reported. In order to avoid undue additional reporting burden on banks, we would favor this reporting capitalizes on already available data. As such, the ITS on leverage ratio should be based on the Basel QIS templates and replace them. We also advocate deleting the LR6 and LR8 templates as the former reproduces information already available through COREP while the later should rather be collected via the reporting on liquidity.

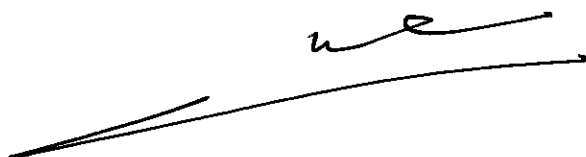
**Mr Adam FARKAS
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- Reporting leverage ratio only on a consolidated basis would be more relevant as it would be consistent with how banks are managed (cash pooling / central corporate treasury, cooperative and mutualistic groups...).
- Moreover, reporting this ratio both on individual and consolidated basis would require producing at the same time data on an individual basis (under local GAAP) and data on consolidated basis (under IFRS GAAP). This would imply therefore duplication of collection work and control of data.
- The main data collection objective of the banks is to report high quality data as required by supervisors, for whom, we believe that it is also a key point to meet their monitoring, supervisory and statistic objectives. Sufficient time is needed to collect, control, aggregate and report the appropriate data. Thus, remittance dates should be aligned with the remittance dates of the COREP and FINREP templates, that is to say, a remittance deadline of 45 working days

Finally, as the ITS on the leverage ratio is understood as an addition to the CP50 ITS and as the CRR is still likely to change, we believe it would be useful to have an overall view of the global framework of the reporting when final versions of the CRD IV and the CRR will be published. Furthermore as such, we support that the implementation date for the ITS on leverage ratio follows the implementation date of the CRR and CRD IV.

You will find in the appendix attached our responses to the questions of the consultation paper. We hope you find these comments useful and remain at your disposal for any questions you might have.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'JP Caudal', is written over a long, thin horizontal line that spans across the width of the signature.

Jean-Paul Caudal

Appendix

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 principle to use the existing and prudential measures available in FINREP or COREP as proposed within the consultation paper in order to alleviate the reporting burden of banks on the leverage ratio reporting requirements.

Nevertheless, we believe that this re-use of existing data which is limited could be improved, in order to meet the EBA's objectives, for example on the following items:

- Calculating the leverage ratio as the simple arithmetic mean of the monthly leverage ratios over a quarter over a quarter will make impossible any reconciliation with the COREP or the FINREP which are reported on a quarterly basis. Moreover, such frequency will be highly costly for a questionable benefit for a simplified ratio and for a non-risk type measure.
- Valuation methods proposed (in particular those related to the calculation of the "leverage ratio" exposures of derivatives) do not necessarily correspond to the practices developed by banks (EPE approach for example) following measures proposed in CRR / CRD 4 projects related to solvency ratio. On this basis, reconciliation with COREP templates will be difficult.
- The breakdown by CCF (credit conversion factors) of the off-balance sheet is requested on the basis of CCF under standard approach, while numerous banks apply the IRB approach.
- Equally, the breakdown of the exposures with the associated RWA (LR 6) requires RWA under the standard approach, while numerous banks apply an IRB approach.

As a consequence, double systems of calculations (standard and IRB approaches or, as far as derivatives are concerned, "Current Exposure Method" (Mark-to-Market + add on) and EPE approaches) would need to be maintained. This will be very heavy operationally and will generate significant costs.

Another way to alleviate the implementation burden would be to only require a leverage ratio reporting on a consolidated basis (please refer to question 3).

This would be consistent with how banks are managed (cash pooling / central corporate treasury, cooperative and mutualistic groups...).

Besides, a major part of the information required by the leverage ratio ITS templates integrates what is already provided to European authorities through the QIS exercises conducted within Basel requirements. To avoid double reporting and thus double burden for banks, we believe that, in this context, the ITS on leverage ratio should be based on the Basel QIS templates and replace them.

Finally, during the period of observation, in order to avoid too expensive developments, the format of reporting should remain simplified without entering into the complexity of COREP taxonomy.

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?'

The main data collection objective of the banks is to report high quality data as required by supervisors, for whom, we believe that it is also a key point to meet their monitoring, supervisory and statistic objectives.

Given the necessary changes in the process of collections and data security to be able to supply the required quality information, the leverage ratio cannot be delivered currently on a monthly basis.

Moreover, current COREP templates are not requested on a monthly basis. Therefore, it would not be possible to capitalize on COREP figures that could be used for the leverage ratio purposes if the reporting of this ratio were kept on the basis of quarterly averages of monthly data.

Thus only a quarterly reporting is possible and relevant.

We advocate also for French banks to benefit from the derogation provided in article 475(3) of the CRR and to be allowed to report the leverage ratio quarterly instead of on a monthly basis. Moreover, we believe the derogation should be set as a principle.

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 question the relevance to report the leverage ratio on an individual level.

Reporting leverage ratio on both individual and consolidated basis would require producing at the same time data on an individual basis (under local GAAP) and data on consolidated basis (under IFRS GAAP). This would imply therefore duplication of work of collection and control of data.

In our view, reporting the leverage ratio only on consolidated basis under IFRS GAAP (as for the FINREP) would be more relevant. The homogeneity of the accounting standard of reporting would also allow better comparability.

We strongly advocate basing the ITS on a leverage ratio on a consolidated basis only. This makes sense as banks are managed at a consolidated level.

As far as remittance dates are concerned, the remittance date of 30 business days is too short to perform all the reporting process and to provide high quality data.

Regarding big sized banks, such as French banks, they consolidate very numerous entities of varied activities. It is consequently much more difficult for these banks to reach a high level of detail and quality when the timelines are short (this would be emphasized should the leverage ratio be reported both on an individual and consolidated basis, implying duplication of work). Sufficient time is needed to collect, control, aggregate and report the appropriate data.

Accordingly and as the leverage ratio should be reported as part as the COREP framework, we believe that remittance dates should be aligned with the remittance dates of the COREP and FINREP templates, that is to say, a remittance deadline of 45 working days, as we advocated in our comments to CP50.

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 leverage ratio reporting is a new reporting. As such it implies to collect new data that are currently not yet available, notably as it requires double systems of calculation (Please refer to question 1 and our concern on standard approach vs IRB approach). Thus, it would generate undeniable costs, which would even be hardly computable as far as monthly reporting costs are concerned.

In any case, it would require very heavy investments on behalf of banks and considered of limited benefit.

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?'

We believe that taking into account the net amount of derivatives is more accurate than the notional amounts.

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?'

There is an inadequacy between the proposed threshold and the information to be reported. Indeed, the objective of the threshold is to measure the part of derivatives within total risks while the information to be reported requires a distinction on the basis of the type of derivatives (e.g. CDS and the other derivatives).

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?'

We would favor a higher threshold value. Actual calculations show a derivative exposure on total exposure ratio above 2%. This ratio is calculated under actual market conditions, i.e. within a general trend of deleveraging, hence with already very limited derivative exposures on banks' books.

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

Yes.

10: '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?'

The threshold value from 200 to 500 M€ seems to us rather low (especially since it is calculated by adding nominal bought and sold). Indeed, holding only a few CDS would be sufficient to reach this threshold.

Q11: 'Is the term "reference name" and the distinction from "reference obligation" sufficiently clear?'

No specific issues have been identified.

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

No specific issues have been identified.

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 comments at this point.

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

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 mentioned in the consultation paper, the classification proposed is mainly based on the classes of exposure of banks using the standard approach. It cannot be duplicated by banks having chosen to apply the IRB approaches.

Therefore, in order to meet the LR6 template requirements, IRB banks will have to develop and produce information based on a standard approach which will lead them to produce twice the data requested and which will be burdensome for them with a questionable added value.

We do not see the rationale to apply standard RWA while institutions calculate RWA according to the IRB approaches. Moreover, we do not understand the use of reported data which is not needed for the actual calculation of the leverage ratio. We would appreciate EBA to provide some clarification on this point.

Besides, a major part of the data requested in the LR templates is available in COREP templates. Replicating already available information adds burden to IT developments and then to the reporting process. To avoid this double reporting burden, we suggest that supervisors refer directly to COREP templates.

Accordingly, we strongly advocate deleting the LR6 template.

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

No specific issues have been identified.

Others comments

- We do not believe that the LR8 template is relevant within the framework of the ITS on the leverage ratio. Such information should rather be collected via the reporting on the liquidity. Accordingly, the LR8 template state should be deleted.
- Page 20 of the Annex II of the consultation paper (Template LR5, cell {070,1}). The example provided is from the instructions of the Basel QIS. This example is not consistent with the formula displayed in article 416.4 of the CRR, which refers to Tier 1 amount when determining the percentage of assets to be added to the exposure. The formula reported in the ITS, however, never refers to Tier 1 amount. We also noticed that the wording of article 416.4 is misleading, as it refers to "deduction" of assets, instead of "addition" of assets (as the starting point of the exposure calculation is the prudential perimeter)..
- Page 3 of the Annex II of the consultation paper, point 13. The cell {LR2; 070; 5} is deducted twice. Should rather cell {LR2; 090, 5} be deducted?
- Page 3 of the Annex II of the consultation paper, point 13. Could you confirm the use of cell {LR2; 050; 4} in the calculation?
- Page 8 of the Annex II of the consultation paper, cells {LR1; 050; 3} and {LR1; 050; 4}.
We read "(i.e. the accounting criteria for derecognition are not puts) shall be included in fields {060, 1} and {060, 2}. Any cash received via the aforementioned transactions shall be included in fields {060, 1} and {060, 2}".
We suggest instead :
"(i.e. the accounting criteria for derecognition are not puts) shall be included in fields {070, 1} and {070, 2}. Any cash received via the aforementioned transactions shall be included in fields {070, 1} and {070, 2}".