

Sent by e-mail to: EBA-CP-2012-6@eba.europa.eu

**Reference: EBA/CP/2012/06**

European Banking Authority  
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24<sup>th</sup> August 2012

Dear Sir or Madam,

We are pleased to provide our response to the European Banking Authority's ("EBA") consultation paper on "*Draft Implementing Technical Standards on supervisory reporting requirements for leverage ratio*" (EBA/CP/2012/06). It is interesting to note the way in which the original proposal from the Basel Committee on Banking Supervision ("BCBS") to implement the leverage ratio as a simple backstop measure to supplement the risk-based capital requirement has evolved into a rather complex set of information requirements that form the basis of this EBA consultation. Whilst we acknowledge the role envisaged for the leverage ratio when it was originally proposed by the BCBS, i.e. to constrain leverage in the banking sector and to introduce additional safeguards against model risk and measurement error, we are concerned about the extent of reliance that is being placed on this new measure. We believe that the prominence of the risk-based capital ratio should not be compromised by developing the leverage ratio beyond its intended role, particularly as it is a rather blunt instrument which does not recognise the underlying risks faced by banks. There is a risk of unintended consequences if banks focus their efforts on managing their leverage, e.g. by switching to riskier assets. Therefore, the supervisory reporting requirements for the leverage ratio should only require the components specified by the BCBS.

We set out below our views on the key issues which we believe need to be addressed before these new supervisory reporting requirements can be finalised.

**Timeline for implementation**

The new reporting requirements, based on the finalised provisions of the Capital Requirements Regulation ("CRR"), will take time to implement and the current uncertainty on the date of application of the CRR makes planning for system and other changes challenging. We welcome the EBA's statement of 31 July 2012 in which it recognised the practical challenges likely to be faced by financial institutions to immediately comply with all of the supervisory

reporting requirements and proposed the need for flexibility through phase-in provisions or a delay in the implementation date. We believe that implementation of the supervisory reporting requirements for the leverage ratio should be delayed until 1 January 2014, and that in the interim, information on the leverage ratio should continue to be collected by Quantitative Impact Studies. This would seem to be the most appropriate approach given that the leverage ratio is still under development and not expected to be finalised until 2017, following the parallel run period and subsequent review and calibration.

### **Quarterly averaging**

We note that the proposed requirement for the leverage ratio to be reported based on quarterly averages of monthly data is inconsistent with COREP which requires quarter end reporting. The capital adequacy ratio is not reported on a quarterly average basis, so it is not clear why an averaging approach should be applied for the leverage ratio. We would not expect it to be a particularly volatile measure and we believe that it would be more helpful to track point-in-time data. We would recommend that the supervisory reporting of the leverage ratio should be aligned with COREP and reported quarterly which should help to avoid reconciliation issues.

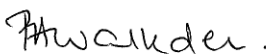
### **Extent of data requirements being proposed**

The data requirements specified by the EBA are more extensive than are required for the calculation of a simple backstop measure. Requiring banks operating under one of the Internal Ratings Based (“IRB”) approaches for credit risk to have to also prepare calculations under the Standardised approach for the leverage ratio does not seem appropriate. The calculation of exposures under the Standardised approach for derivatives and securities financing transactions (“SFTs”) would increase the reporting burden for IRB banks. Reporting should be consistent with a bank’s IRB waiver, and those with permission to do so should calculate derivative and SFT exposures under the advanced approaches. This should act as an incentive for non-IRB banks to seek IRB permission, encouraging them to develop their modelling of risk and leverage, particularly where leverage appears excessive under the Standardised approach.

### **Concluding remarks**

We respectfully request that the EBA limits the data set that it intends to collect for the leverage ratio to only the items required for the actual calculation of this metric and that adequate time is provided to enable banks to make the necessary system and process changes.

Yours faithfully,



Pam Walkden  
*Group Treasurer*

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