



To the European Banking Authority

Reference: EBA/CP/2012/06

CONSULTATION PAPER ON DRAFT IMPLEMENTING TECHNICAL STANDARDS ON SUPERVISORY REPORTING REQUIREMENTS FOR LEVERAGE RATIO

The EBA has published a consultation paper on draft Implementing Technical Standards (ITS) on supervisory reporting requirements for leverage ratio.

The Federation of Finnish Financial Services (FFI) welcomes the opportunity to respond to the EBA consultation on this topic. FFI is a member of European Banking Federation, whose comments we also support.

1 General remarks

The FFI supports the goal of uniform reporting templates and the Single Rule Book for all credit institutions in EU member states. It will ensure a level playing field and will streamline the reporting for cross-border groups.

Given that CRD4/CRR texts have been delayed and the draft ITS CP/2012/06 is based on current CRR texts, we propose that there would be a new consultation of the industry after the final texts of CRR and ITS have been introduced.

In general, FFI considers the leverage ratio to be a soft measure totally insensitive to risk, as it ignores the quality of the assets and therefore is a very simplistic measure. The introduction of the leverage ratio as a supplementary measure will increase the complexity of the regulatory capital framework as several measures must be managed simultaneously.

Furthermore, FFI encourages EBA to establish sufficiently low reporting frequency of leverage ratio (e.g. semi-annual) to ensure sufficient time for supervisors to review the figures. Reporting frequency is to be determined in ITS according to CRR art 417. Semi-annual reporting based on end quarter figures (instead of monthly averages) would give institutions sufficient time to develop systems for leverage ratio reporting. This would give EBA the necessary data for the review of leverage ratio and would considerably ease the burden on the institutions.

1.1 Application dates

According to the draft ITS reporting should be applicable already from March 2013. EBA intends to submit the finalized ITS to the Commission for approval in late autumn of 2012, assuming that a final CRR will be available beforehand. This means that reporters would have only a few months to build and test all reporting templates once the final ITS is ready. Since the calculation has to be made on monthly basis, the infrastructure will have to be ready in January 2013. It should also be noted that during the year-end there can be no



massive IT-changes going on since banks will have to concentrate on producing their financial statement figures etc. IT-systems should be already tested and ready prior to the year-end.

Taking into account the IT changes this reporting implementation requires, it would seem reasonable to postpone the liquidity reporting to January 2014, depending on the final version of the CRR and the final ITS.

2 Response to Consultation questions:

2.1.1 Questions from the ITS:

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

Overall, FFI supports the goal of authorities to reduce the reporting burden by integrating reports and thus avoiding double reporting. However, if the leverage ratio has to be calculated on monthly data, the integration into COREP will be difficult and there will be no actual synergies. We are worried that it would only cause confusion and might put additional burden on COREP reporting processes. This is why we would rather propose reporting on separate reports at least for the transitional period. Above all, we would prefer end-quarter figures for leverage ratio reporting. If the reporting would be based on end-quarter figures, we could see clear benefits in integration into COREP. Thus the reporting burden would be substantially alleviated by allowing end-quarter reporting.

To further alleviate the implementation burden, FFI strongly recommends that any memorandum items not used in actual leverage ratio calculation are excluded from the reporting framework, at least for the first couple of years. We would rather recommend that this additional information (for example table LR6) would be handled in direct contact with the national supervisors.

It would also be beneficial for reporters if the tables would actually calculate the leverage ratio so that reporters could better monitor their figures.

We would also like to point out that clear instructions are needed for the reconciliation between the template LR6 (Alternative decomposition of leverage ratio exposures measure components) with other tables. We are concerned that the different calculation of memorandum items (derivatives and repos) makes the reconciliation between templates impossible.

Furthermore, template LR8 (asset encumbrance) contains FINREP information. We do not see the benefits of including this template in the leverage ratio reporting framework.

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?

All reporters do not have all the data necessary for monthly calculation of leverage ratio



since most of the external reporting such as capital adequacy reporting is performed on quarterly basis. Introducing monthly calculation requirements will have a huge impact on the reporting process as it requires involvement of different functions in the bank in terms of accounting data (balance sheet data), group credit data (provisions for shortfall calculation in the capital base) as well as capital adequacy data (derivative and SFT exposure). The transition period provided in the Article 475 (3) is absolutely essential.

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 do not see any problem with similar timeline for individual and consolidated levels. However, we would prefer that the time for reporting leverage ratio should be after the capital adequacy reporting in order to ease the reporting burden.

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?

Overall, the required data that is actually needed for the leverage ratio calculation is reasonable. However, all the memorandum items will be very time consuming and enhance the reporting burden. In addition, if monthly calculation of leverage ratio is required, it will have an extremely high impact on costs since involvement from accounting, group credit and capital adequacy functions will be needed.

Furthermore, due to the required mark-to-market method for derivatives to be applied (see also questions 5–7), double reporting of derivative exposures will be needed for banks with an IMM approval for derivatives.

2.1.2

Questions from Annex II:

Q5: Is the calculation of the derivatives share threshold sufficiently clear?

Calculation of the threshold as such is clear. Unfortunately, the threshold is based on mark-to-marked method and not the bank's approved internal models method for calculating derivative exposure (see also question 4).

Please also note that $\{LR2;070;5\}$ is deducted twice in the total exposure measure formula. We assume it should be $\{LR2;090;5\}$ instead.

Instruction of $\{LR3;090\}$ "defaulted exposures" states that no breakdown between on and off balance sheet items is needed, but the draft reporting templates shows it differently.

Furthermore, in the total exposure measure formula the link is unclear regarding 20% and 50% CCF as only 10% CCF is applied. EBA should clarify why the split between the Standardised Approach CCF classes is needed if it is not separately considered in the calculation of the total exposure measure in leverage ratio. Under the AIRB and RIRB approaches there is no CCF allocation according to SA available. This will cause a double reporting, and thus a separate system has to be maintained in order to fulfil this reporting requirement.



Template LR2 “derivatives and off-balance sheet items” also contains new reporting requirements “drawn amounts on unconditionally cancellable credit card commitments” and “cancellable commitment” compared to the existing QIS amounts. The purpose of the reporting of these figures is not entirely clear. Furthermore, it would alleviate the reporting burden if QIS templates would be synchronized with EBA templates.

Q6: Do you believe this method captures institutions derivatives exposure in a sensible way?

We think that the method for calculation of derivative exposures in leverage ratio should follow the same approval the bank uses in the rest of the capital adequacy reporting (see also question 5).

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?

Yes, for some reporters the reporting burden would most likely be reduced. However, as stated above in question 5 and 6, as the threshold is based on mark-to-market method, it will be irrelevant level if the bank has internal model approach (IMM) approval for 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?

The main concern is how reporters should calculate the derivative share (see also Q7). We assess the level to be too low given the method used, i.e. mark-to-market. It would be more appropriate if reporters would be allowed to use approved models as the basis for the calculation.

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

It is not absolutely clear whether the calculation is based on netted amounts or gross amounts. We strongly support a netting approach.

Q10: Preliminary internal calculations by supervisors suggest that the nominal threshold value should be in the range of €200–500 million. Would you suggest a different threshold level, if yes, please justify this?

The threshold should be set based on the bank’s balance sheet size and not fixed nominal amounts. For example, the threshold level could be credit derivatives in relation to total exposure measure.

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

Yes, we interpret this to be the underlying name.



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

The need to report RWA figures in the template LR6 is very unclear. It is not clear how should these figures be derived, when the handling of, for example, off-balance sheet exposures differs between leverage ratio and CAD reporting.

Monthly average calculation would also require a completely new reporting application in order to report RWA figures in leverage ratio template LR6. Our assumption is that RWA includes all trading book risks while the amount column only includes derivative and SFTs, but we would like to get that clarified. There are no formulas in the template that would provide us with that clarification.

As a general comment, this information should not necessarily be provided as part of the Leverage Ratio report since it will be included in the future COREP and can be found in those reports. We are strongly encouraging authorities to avoid double reporting as far as possible.

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?

It is hard for IRB banks to understand why the split is based on the standardised approach exposure classes. We think it should rather be adapted to the bank's approval. Using another approach as basis for exposure class distribution, (other than that used in the capital adequacy reporting), will increase the reporting burden substantially.

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

These classifications are ok.

FEDERATION ON FINNISH FINANCIAL SERVICES

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