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Dear Sir/Madam,

Coventry Building Society response to EBA consultation on Draft Implementing Technical Standards on Supervisory requirements for leverage ratio (EBA/CP/2012/06)

Coventry Building Society welcomes the opportunity to comment on the proposals set out in EBA/CP/2012/06. We have also responded to consultation EBA/CP/2012/05 separately, but have repeated the background and general comments here for your convenience. If you would like any further information on any of our responses or any other matter, please contact us via the details above.

Background to Coventry Building Society

Coventry Building Society is a mortgage lender and deposit taker, established in 1884, that is mutually owned by its customers. It is the third largest building society in the UK with mortgage assets of £21.0 billion (€26.0 billion) and retail savings balances of £19.3 billion (€23.9 billion). As a building society, Coventry is required to raise at least 50% of its funding from retail deposits and hold at least 75% of its assets (excluding liquid assets and fixed assets) in loans fully secured on residential property. It is prohibited from trading in currencies or commodities or entering into derivatives other than for the purpose of hedging.

Gross mortgage lending in the first half of 2012 was £2.5 billion (€3.1 billion), which represented 3.8% of new mortgages in the UK and 18% of lending by building societies and mutual banks. Retail savings have grown by over £11.0 billion (€13.4 billion) since the financial crisis began in 2007.

In addition to retail savings, the Society has issued £1.7 billion (€2.1 billion) of mortgage-backed covered bonds since 2011 and raised £800 million (€1.0 billion) in its inaugural Residential

Mortgage Backed Securitisation programme in May 2012. This follows successful issuances of long term unsecured wholesale funding in 2009 and 2010 totalling £750 million (€0.9 billion).

At 21.9%, the Society's Core Tier 1 capital ratio remains the highest reported by any UK building society, illustrating the high quality of assets. Coventry continues to be one of the most highly rated banks or building societies in the UK, being 'A' rated by both Fitch (A) and Moody's (A3). In fact, Coventry is now the only UK high street bank or building society not to have been downgraded by either of these agencies over the last three years.

With a cost to mean assets ratio of 0.37%, Coventry is the UK's most cost-efficient building society. Improved income, low costs and low impairment charges combined to produce a profit before tax in the first half of 2012 of £52.8 million. (€65.5 million).

Reflecting our focus on treating our members fairly, Coventry is the largest high street bank or building society never to appear in the UK's Financial Ombudsman Service (FOS) tables of complaints. Over £6.7 million (€8.3 million) has been raised for the Royal British Legion's Poppy Appeal since October 2008. Coventry has been awarded Gold status by Investors in People, just one of two large banks or building societies in the UK to have reached this standard.

General Comments

The Society is generally supportive of efforts to introduce global standards of liquidity and solvency for deposit takers and appreciates the need of regulators for accurate, comparable, relevant and timely information to enable them to supervise and monitor risks. Liquidity is a key risk that is managed by the Society. Regulatory requirements are a key pillar of our liquidity risk management process, alongside our internal tolerance, maintenance of public confidence and operational effectiveness.

We understand the emergence of the European Banking Authority as a key rule-writer, with the transfer of some authority from the UK Financial Services Authority and other national regulators. We are keen to engage with the EBA to ensure that our business is understood, in particular our low-risk business model and mutual ownership structure. We are keen to help the EBA achieve their express aim of a common rulebook but where rules are proportionate to different financial institutions.

Regulatory reporting is a key process in ensuring that our regulators, both national and at the European level, retain confidence in our risk management processes and are a fundamental element of doing business in our sector. However, we are also aware of the significant costs involved and recognise that these costs are ultimately borne by our members, the mortgage borrowers and depositors who are our customers. We are therefore keen to avoid incurring unnecessary on-going expenses where this is inappropriate or is disproportionate to the nature of the business that we undertake.

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

Coventry participated in the QIS study and agrees that the templates used in that exercise are a good starting point for the regulatory reporting requirement. However, we note that many of the fields requested are not strictly required in order to calculate the leverage ratio and in some cases are already included in other regulatory reporting (e.g. LR3, 4, 6 & 8). In particular, LR8 is focussed on encumbrance rather than leverage so the inclusion in this template seems unnecessary. We would propose that these fields are removed from the required template, which would support the EBA's aim of limiting the reporting burden for institutions.

If a policy decision is made to expand the requested fields beyond those that are required to calculate the leverage ratio we would ask that the costs of this decision are separately calculated and disclosed in the Impact Assessment.

In addition, it would be useful for firms if the EBA could incorporate a general principle allowing firms not to populate fields that are clearly immaterial to the EBA and allowing them to adopt a simplifying calculation where the difference would not be material to the EBA. For example, the requirement to include mortgage interest receipts or operational expenses could result in significant additional costs for firms without providing any significant benefit for the regulator.

As noted below in the answer to Q4, the decision to require xBRL submissions will result in significant additional costs. Allowing alternative submission methods such as XML or via a website would significantly reduce costs.

Finally, the UK's Financial Services Authority has developed a user-friendly online handbook that brings together all relevant rules and guidance in a single place. Given the likely volume of Binding Technical Standards that the EBA is likely to publish in the near future, it would be useful if the EBA could adopt a similar approach. In addition it would be helpful if the text of the relevant Directives and Regulations could be integrated into this library. In addition to reducing the implementation burden on individual firms, this would also promote competition and diversity in financial services by enabling smaller firms, who may have less access to regulatory and legislative experts, to compete with larger firms on a more level playing field.

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?

Generally yes, although some data may require development to match the precise requirements (see also our answer to Q1). New systems are also required for submitting the data in xBRL.

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?

No.

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?

We expect the main costs to be in systems set up and ongoing costs in the preparation, maintenance and review of reported data. We estimate our incremental costs to implement the new regulatory reporting requirements to be ca. €80,000 initially plus €50,000 per year thereafter. The main driver of costs is the decision to require reporting in xBRL, which requires significant systems work in implementation and processing.

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?

This calculation focuses on the gross market value of derivatives, which is sensitive to the movement in market prices. Where derivatives are collateralised, the gross market value does not have a significant impact on the leverage ratio as the change in market value is matched by an exchange in collateral. Therefore, we would suggest that the threshold should reference the net market value.

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.

However, if an institution finds itself generally close to the threshold, it may find that it is under the threshold in one period and over the threshold in a subsequent period. In this case there would not be a significant cost saving as the firm would still be required to incur the set up costs to cater for the occasional instances when they are over the limit. Therefore it is important to set this threshold at a level that includes an appropriate buffer.

Q8: Preliminary internal calculations by supervisors suggest that a threshold value [for derivatives reporting] should be in the range of 0.5% to 2%. Would you suggest a different threshold level, if yes, please justify this?

We believe that a fundamental distinction should be made between institutions such as building societies who use derivatives exclusively for risk reduction and those who also write derivatives as risk takers, with only the latter required to report these items.

We would expect to be in the range of 1-2%, meaning we may sometimes be above the threshold depending on movements in market values. We would suggest 5% as a reasonable measure of significance for this data item and aligned with the philosophy above.

Q9: *Is the calculation of the nominal amount threshold [for credit default swaps] sufficiently clear?*

Yes.

Q10: *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?*

No.

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

Yes

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

Yes

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?*

Due to our regulatory restrictions as set out above we are not able to write derivatives and therefore have no comments on this question.

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

Yes

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 noted above, many of the fields requested are not strictly required in order to calculate the leverage ratio and in some cases are already included in other regulatory reporting. Therefore we would suggest that this split is unnecessary.

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

Yes