mediterraneanbank
wealth management - savings - investments

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Response to EBA Consultation Paper on Draft Implementing Technical Standards on Supervisory reporting requirements for leverage ratio

(EBA/CP/2012/06)

Mediterranean Bank plc welcomes the possibility to express its views with regard to the EBA Consultation Paper on Draft Implementing Technical Standards on Supervisory reporting requirements for leverage ratio.

Mediterranean Bank plc is a specialist Maltese bank focusing on wealth management, savings and investments.

We would like to provide the following comments:

- We support the position of the European Banking Federation (EBF) set out in their response, dated 27 August 2012, to the EBA, in particular with regard to:
    - the implementation date (i.e. 1 January 2013) / remittance period (i.e. 15 days after reporting dates) for the reporting requirements for the leverage ratio;
    - necessity to alleviate the leverage ratio reporting burden by removing non-essential data items in Leverage Ration template, sections LR3, LR6 and LR8;
    - The provision of quarterly calculations of the leverage ratio instead of monthly calculations over the quarter; and
    - Whilst welcoming the EBA proposal to reduce the reporting burden in respect of derivative items for institutions with low involvement in derivative activities, we however, share the EBF's view that the introduction of a threshold will not reduce the reporting burden significantly as calculations will still have to be carried out to assess whether threshold has been exceeded or not.

- We suggest that high quality liquid assets, especially cash and cash-like instruments, are excluded from the 'exposure measure' as credit institutions have the capacity to extinguish liabilities and consequently improve their leverage ratios in the very short term.

Mediterranean Bank plc., company registration number C34125, is licensed by the Malta Financial Services Authority under the Banking Act (1994) and the Investment Services Act (1994).

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- Tier 1 capital as 'capital measure' incorporated in the Leverage Ratio does not recognise interim unaudited profits. Based on the provisions of Articles 23 to 58 of the Proposed CRR, Other Comprehensive Income (OCI) is recognised as part of Tier 1 Capital. Credit institutions that do not employ hedge accounting (International Accounting Standard 39, 'Financial Instruments: Recognition and Measurement') may be under a disadvantageous position as illustrated in the appendix attached hereto. This potential disparity arises from merely accounting treatment. This can be addressed by allowing the recognition of unaudited profits in the 'capital measure' (timing difference).

We truly hope you will find our comments useful.

Yours faithfully

Edward Jaccarini
Chief Financial Officer
Mediterranean Bank plc

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Appendix

Hedge accounting examples

<u>Example 1 assumptions:</u>

AFS debt security is purchased at 100 against cash

fair value movement before introduction of Hedge Accounting is +16

After introduction of hedge accounting fair value on AFS moved +7

After introduction of hedge accounting fair value of derivative (hedging instrument) moved -18

Assumed effective hedge rules are met

Using hedge accounting

Period 1

		Dr	Cr
Dr	Debt security AFS	100	
Cr	Cash		100

Purchase of debt security

		Dr	Cr
Dr	Debt security AFS	16	
Cr	OCI		16

Fair value move pre-adoption of hedge accounting

Period 2

		Dr	Cr
Dr	Debt security AFS	7	
Cr	Profit and loss		7

Fair value move after adoption of hedge accounting

		Dr	Cr
Dr	Profit and loss	18	
Cr	Derivative		18

Fair value of derivative move

Result:

OCI	16	
PL	-11	loss recognised
Tier 1	5	

Not using hedge accounting

		Dr	Cr
Dr	Debt security AFS	100	
Cr	Cash		100

Purchase of debt security

		Dr	Cr
Dr	Debt security AFS	16	
Cr	OCI		16

Fair value move pre-adoption of hedge accounting

		Dr	Cr
Dr	Debt security AFS	7	
Cr	OCI		7

Fair value move on AFS

		Dr	Cr
Dr	Profit and loss	18	
Cr	Derivative		18

Fair value of derivative move

Result:

OCI	23	
PL	-18	loss recognised
Tier 1	5	

	Using hedge accounting	Not using hedge accounting
Accounting capital	5	5

Appendix (continued)

Example 2 assumptions:

AFS debt security is purchased at 100 against cash

fair value movement before introduction of Hedge Accounting is +16

After introduction of hedge accounting fair value on AFS moved -7

After introduction of hedge accounting fair value of derivative (hedging instrument) moved +18

Assumed effective hedge rules are met

Using hedge accounting

Period 1

		Dr	Cr
Dr	Debt security AFS	100	
Cr	Cash		100

Purchase of debt security

		Dr	Cr
Dr	Debt security AFS	16	
Cr	OCI		16

Fair value move pre-adoption of hedge accounting

Period 2

		Dr	Cr
Dr	Profit and loss	7	
Cr	Debt security AFS		7

Fair value move after adoption of hedge accounting

		Dr	Cr
Dr	Derivative	18	
Cr	Profit and loss		18

Fair value of derivative move

Result:

OCI	16
PL	11
Tier 1	16

interim profit not recognised

Not using hedge accounting

		Dr	Cr
Dr	Debt security AFS	100	
Cr	Cash		100

Purchase of debt security

		Dr	Cr
Dr	Debt security AFS	16	
Cr	OCI		16

Fair value move period 1

		Dr	Cr
Dr	OCI	7	
Cr	Debt security AFS		7

Fair value move on AFS period 2

		Dr	Cr
Dr	Derivative	18	
Cr	Profit and loss		18

Fair value of derivative move

Result:

OCI	9
PL	18
Tier 1	9

interim profit not recognised

	Using hedge accounting	Not using hedge accounting
Accounting capital	27	27