Brussels, 13th March 2019

EACB comments

BCBS consultative document

Revisions to leverage ratio disclosure requirements

General comments

The members of EACB appreciate the opportunity to comment on the Basel Committee's consultative document on revisions to leverage ratio disclosure requirements.

We understand the aim to design disclosure requirements that provide relevant information while preventing risks of regulatory arbitrage, however we believe that the proposals of the Committee are not fit for purpose and will likely only lead to an increased complexity of the framework.

In general, reporting measures based on averaging consistently increase the complexity of reporting, which is already a significant burden and even more so in proportion for less significant institutions. The increased complexity will provide negligible additional information especially regarding banks that are not active in the derivatives and SFTs market.

This is also the case for small banks with derivative positions that are basically covering the interest rate risk of the loan portfolio, and which do not tend to move much as they are intertwined with their commercial banking activity. Therefore, we see that more appropriate rules for such institutions, or a de minimis threshold, should be envisaged. This would help institutions to focus their efforts in building a solvent business rather than dedicating excessive time to reporting/disclosure. Reporting and disclosure for banks, and especially so for less complex institutions, should be lean, focused and always relevant to the business activities that they are conducting.

We would also highlight the fact that the Committee does not seem to have assessed the impact of its 18th October 2018 statement on leverage ratio, which urged supervisors to heighten their attention in this regard and rightly pointed to possible supervisory actions stemming from individual cases. It also does not seem that possible indications from QIS have been taken into account to justify policy making rather than supervisory dialogue.

We believe that alternative and more targeted and cost effective solutions are possible to address window dressing concerns.

Specific issues

- *The reporting burden of daily averages is out of scale*

An obligation to publish an average of daily values would lead to additional costs for leverage ratio disclosure, which are completely out of scale. The banks would have to extend the capacities of data processing systems (data flow and calculation) to a high degree, because calculation processes, which are usually operated on a monthly or quarterly basis, would have to be

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conducted on a daily basis. Furthermore, a daily process would bind considerable human resources. Procedural complexity would become exponential with an increasing number of subsidiaries which have to report to their parent company.

We see that the proposal is trying to solve a compliance issue by asking additional requirements in Pillar 3. In our view the BCBS should rather set principles for supervisors to monitor and eventually engage in supervisory dialogue as we agree that "window dressing' the LR (and other ratio's) is not appropriate. Supervisors should assess by means of deep dives whether banks are in non-compliance with the BCBS principles. In cases of non compliance we believe that the supervisors would likely set Pillar 2 requirements, depending on the violation.

Solving "window dressing" by rule based reporting requirements seems an overkill for the issue at stake.

Furthermore, conceptually the LR was introduced as a backstop, i.e. as a limit to RWAs under representation. Requiring detailed reporting measures in the LR seems hardly in line with the original objective of the LR.

- *Suggesting the introduction of a threshold for average value calculation*

Stakeholders of mostly retail-funded banks usually get no valuable additional information with averages of daily values. Additionally, these banks usually hold a low amount of derivatives, SFTs and central bank reserves. Thus, we strongly recommend to at least introducing moderate thresholds for the obligation to disclose (or report) such average values. This would reduce the operating burden for many banks significantly. A threshold could be a certain percentage of the sum of derivatives, SFTs and central bank reserves in relation to the balance sheet value or the leverage ratio exposure.

- *A possible alternative solution*

We understand the Committee's aim to address window dressing behaviours. However, we disagree with such rule based approach of the BCBS.

Nevertheless, if such an approach were to be identified, we believe it should be at the very least significantly adjusted. We see that a calculation on a daily basis is not necessary in order to gather sufficient data for analysis. An adequate alternative solution could be the stipulation of several days of a month for the calculation of average values, which would save human and technical resources to a large degree. For example, if supervisors determine the 6th, 12th, 18th and 24th of each month for calculating average values, banks will gather 12 values each quarter (compared to more than 60 values). A determination like this is bound neither to the end of the month nor to a certain weekday. Thus, we expect that 12 values each quarter are sufficient for analyses of window dressing behaviour.

Moreover, if some items were to be calculated eventually on a daily basis, and publicly released as quarter averages, this should only be required:

- for the asset exposures that could generate 'window-dressing';
- on a best effort basis with 'management data'.

Only the securities financing (SFT) assets have been identified as the asset class that could generate presumed 'window dressing'.

From the short list proposed by the BCBS, only the repos/reverse repos transactions (SFTS) are exposures that may be subject, allegedly, to rapid reduction via short- term trades at quarter end.

In recent months, several studies have pointed out some presumed “window-dressing practices” by banks, as a source of liquidity drying up at end of quarters. Such comments pointed out the repo market only and were based on the Box III, A ‘Banks’ window-dressing: the case of repo markets published in the BIS Annual Economic Report 2018 (Graph IIIA Banks’ window-dressing through the lens of US repo markets’).

The other Exposure classes should be excluded for the calculation of the leverage ratio on a daily basis:

Replacement cost (RC) of derivative exposures

Derivative contracts are based on contractual agreements governing netting and the cash variation margin. These agreements are mainly concluded for a long period of time. The bank therefore has little opportunity to carry out window dressing to the extent that the effects on the leverage ratio are noticeable. Moreover, the volatility of the replacement cost of derivatives exposures is mainly driven by market parameters volatility and not by bank or client decision. Accordingly, we do not see how the disclosure of average values at replacement costs can lead to a reduction in window dressing.

Central bank reserves that are included in on-balance sheet exposures

We do not share the BCBS’ views that any window dressing and regulatory arbitrage could be related to central bank reserves.

The public disclosures of an average of daily calculations should only be done with management data on a best effort basis, as evidenced by UK and US banks experience and allowed by UK and US regulators.

As there might be difficulties in valuing the assets, applying the leverage ratio netting rules and even eliminating intra group transactions (for the group consolidated ratio) at the end of each day, the best way would be to adopt a pragmatic approach.

- *Disclosure ought to concentrate on the most important information for stakeholders*

The values that are actually disclosed for the leverage ratio are a subset of the supervisory reporting, which are the most important information for stakeholders. In our opinion, a bank that does not conduct window dressing practices (that should be the normal case) should not disclose a set of values to prove it, as they would be data of minor relevance compared to the wider supervisory reporting exercise. Banks could give a detailed evidence by reporting average values in the course of the supervisory reporting. Only if a bank breaks certain thresholds (which could be for instance an impact of 5 basis points on the leverage ratio), it should then disclose a detailed set of average values.

Besides, it should be noted that new process of information disclosure could diminish the highly liquid feature of the repo markets and, consequently, a slowdown of one of the transmission channels of monetary policy.

- *Key metrics*

The inclusion in the key metrics of rows 14c and 14d in template KM 1, containing mean values of individual exposure components, is counter-productive. The purpose of the key metrics template is to provide a compact overview of the really significant information required in the context of disclosure. This has become necessary because the large number of disclosure requirements and their degree of detail overwhelm most readers of disclosure reports. The inclusion of ever-new and, in our view, not really significant information means losing the focus on the key metrics here as well. We therefore recommend deleting these additions.

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