Brussels, 27/08/2012

Dear Madam,
Dear Sir,

Subject: CP on draft ITS on leverage ratio reporting. Your reference EBA/CP/2012/06

First of all, Febelfin would like to share with you a few general considerations and an overall suggestion.
In the second part of our letter we are pleased to reply to the questions of the consultation paper.

1) General comments and overall suggestion

a) Present delay

Today, the banking industry is confronted with a lot of open issues in connection with – amongst other things- the leverage ratio requirements.

- First of all, the trilogue on the CRR appears not having been finalised yet, meaning that the time scheduling of the final vote is quite hazy
- Consequently, the publication by EBA of the final ITS on supervisory reporting requirements (COREP and FINREP) is delayed as well. Indeed, based upon EBA’s press release of 31 July 2012, the finalisation and publication of the EBA draft ITS has been pushed back pending the adoption by the EU legislators of the CRR.
Febelfin finds it fortifying to read in EBA’s press release that on the one hand, as financial institutions may, due to the delay, face challenges to comply already as of 1 January 2013 with all the reporting requirements included in the ITS, some flexibility will need to be given through phase-in provisions or on the implementation date of the new requirements, and that on the other hand similar practical provisions for phase-in arrangements or elements of flexibility may be considered in
the implementation of other technical standards on a case-by-case basis and depending on the final date of entry into force of the CRD IV/CRR package.

In this context Febelfin which represents 252 members or a very large sample of undertakings active in the Belgian financial industry (among its members are credit institutions, asset managers, investment funds, portfolio managers and investments advisers, stock brokers as well as lease companies, factoring companies, venture capital and private equity undertakings), would like to mention that it advocates respect for this diversity and is thus strongly in favour of the application of the Principle of Proportionality within the scope of regulation and supervision. However, Febelfin would like to repeat as well that there exists a genuine need for a framework defining and recognizing equivalent and proportionate measures. These equivalent and proportionate measures may thus not represent any preferential treatment of the institutions concerned or impede to reach the same prudential goals.

- In connection with the foregoing, Febelfin would like to stress that the delay may in no event shorten the foreseen monitoring period of the leverage ratio by EBA. Indeed, as the leverage ratio represents a new supervisory tool which differs thoroughly from the risk weighted assets-approach and ignores as such the quality of assets, we would like to stress that the Belgian banking industry insists to have an absolute respect of the observation period and the period for the normally scheduled detailed impact assessment by EBA.
- We would like EBA to organize the observation period in such a way and with respect of a duration that would ensure the effectiveness of the monitoring process.
- Furthermore, we are in favour of a continuous consultation between EBA and the banking industry.

b) **Alignment with COREP and duplication of reporting to be avoided**

- Febelfin is fully in favour to base the leverage ratio reporting as much as possible upon the quarterly COREP reporting.
- Therefore, it would be recommendable to have the leverage ratio reporting fully aligned with COREP in order to to avoid a multiplication of reporting.
- Indeed, apart from templates LR1 and LR2, the other LR templates (e.g. LR3, LR 6 and LR 9) contain additional breakdowns that are in our view already reported elsewhere under COREP.
- We would also like to see the leverage ratio reporting limited to the consolidated level.
- The remittance date for the leverage ratio reporting should be scheduled after the COREP remittance date.

c) **Trade Finance**

- Some of the issues raised by Trade Finance stakeholders since the release of the first Basel III proposals in December 2009 have been taken over by Rapporteur Othmar Karas in his December 2011 draft report on CRD IV proposals. Equally, other MEPs raised the need to take into consideration the impact on the trade finance in their proposals of amendment to the European Parliament. The Trade Finance business also comprises a number of off-balance sheet instruments such as Letters
of Credit (L/C’s) and Letters of Guarantees (L/G's) which have in practice an extremely low risk profile.

- The economic and social drawbacks of not solving the Trade Finance issues are so devastating that we propose EBA to take them into consideration in an appropriate way.
- EBA needs to be adequately informed about the volumes and related risk profile of Trade Finance off-balance sheet commitments in time.
- We therefore recommend to have specific lines for covering the off-balance sheet activities of Trade Finance. However, it is not clear to us whether e.g. LR6 – line 10 also relates to off-balance sheet transactions.
- Since the very low level of failures and liquidity impact in this business, not all banks are organized to produce statistical material in the short run. For this reason, we propose to leave those lines open for reporting on Trade Finance on a voluntary basis during the observation period.

**d) Overall suggestion**

- For all these reasons mentioned here above and referring to EBA’s press release of 31 July 2012, we are deeply convinced of the need for a further delay of the entry into force of the new leverage ratio reporting requirements until 2014. This suspension seems to be totally justified and even indispensable in our view.

### 2) Responses to the questions of the consultation paper

**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?“**

- **Febelfin** is fully in favour to base the leverage ratio reporting upon the quarterly COREP.
  Indeed. Only some of our members are able to deduct monthly data (averages) based upon COREP and they admit that the quality of these monthly data is of course less than the one of the quarterly COREP. Consequently, the quality of reporting would not match the degree of reliability that is necessary during the observation period.
- As written, we fully agree to templates LR1 and LR2, but the other LR templates contain additional breakdowns that are already reported elsewhere (e.g. on and off balance items; breakdown of available capital; trading/banking book…).
- For instance: **LR6 has in our view no added value and could thus be excluded.** Nevertheless, in the event EBA prefers to continue with the template LR 6, Febelfin would like to make some observations (see our answer to question 15).
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?“

- See Q1.

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?“

- When the reporting at a solo level has to be remitted before the reporting at consolidated level, the quality of its data is less assured!
- Furthermore, we would like to emphasize that we prefer to keep the leverage ratio reporting limited to the consolidated level.

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?“

- It seems to be very difficult to give a precise estimate of the costs. However, there is an obvious cost linked to the use of the leverage ratio reporting templates, since they are additional to the COREP templates (duplication of reporting …).

→ Questions from Annex II: (only answers to questions that are considered as relevant)

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

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?“

- The calculation is not totally clear. Does the total represent the nominal amount of the purchased and sold credit derivatives?
- Febelfin is in favour of the use of a netting approach.

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

- Not really
Q14: „Is the classification used in template LR6 sufficiently clear?“
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?“

- LR6 has in our view no added value. Nevertheless, in the event EBA prefers to continue with the template, Febelfin would like to observe that:
  - the 2nd column “RWA” seems to be quite contradictory, the leverage ratio being a prudential tool different from the risk weighted assets-approach;
  - as far as it concerns the breakdown of exposures in banking book, we propose to make a clear distinction between assets treated under the standardized approach and assets treated under the IRB approach for credit risk, with a further breakdown according to the specific asset classes of both approaches. This breakdown is already used in the current COREP CA table, meaning that the different elements to make the classification are readily available for all banks.
- It seems that there is a contradiction between Annex I and Annex II with regard to rows 140 of template LR6
  - Template in Annex I: LR6, row 140: PSEs not guaranteed by central government but treated as a sovereign;
  - Instructions in Annex II: LR 6, row 140, Public sector entities which are not treated as exposures to central governments.

We sincerely hope that this letter with its comments and suggestions can assist you in the further development of the ITS.

Yours faithfully,

Michel Vermaerke
Chief Executive Officer

Daniel Mareels
General Manager