German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments

on the European Banking Authority's (EBA)
Consultation Paper "Draft Implementing Technical Standards amending Commission Implementing Regulation (EU) No 680/2014 (ITS on supervisory reporting) with regard to the Leverage Ratio (LR) following the EC's Delegated Act on the LR" (EBA/CP/2014/44)

Register of Interest Representatives
Identification number in the register: 52646912360-95

Contact:
Jana Tschiltschke
Phone: +49 30 20225-5338
Fax: +49 30 20225-5325
E-mail: jana.tschiltschke@dsgv.de

Berlin, 15-01-27

The **German Banking Industry Committee** is the joint committee established by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks; the Bundesverband deutscher Banken (BdB), for the private commercial banks; the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks; the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group; and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent more than 2,000 banks.

Coordinator:
German Savings Banks Association
Charlottenstrasse 47 | 10117 Berlin | Germany
Phone: +49 30 20225-0
Fax: +49 30 20225-250
www.die-deutsche-kreditwirtschaft.de

Comments on EBA/CP/2014/44

Ladies and Gentlemen,

We appreciate the opportunity to comment on Consultation Paper EBA/CP/2014/44 "Draft Implementing Technical Standards amending Commission Implementing Regulation (EU) No 680/2014 (ITS on supervisory reporting) with regard to the Leverage Ratio (LR) following the EC's Delegated Act on the LR" published by the European Banking Authority on 16 December 2014.

I. General comments

We welcome large parts of the present EBA draft, which closely implements the European Commission's new requirements. We would like to address a number of overarching issues before answering the questions that are asked in the Consultation Paper.

Non-simultaneous entry into force of the delegated act and the reporting templates

The European Commission's delegated act amending the way the leverage ratio is calculated was published in the Official Journal on 17 January 2015 and entered into force on the day following its publication. By contrast, according to the Draft ITS the new reporting requirements are expected to be applicable at the later of December 2015 or six months from the date of publication of the final ITS in the Official Journal. There are currently no plans to change the reference dates for the reports and the remittance periods. We are assuming this means that the requirements will already be binding as from the beginning of this year. However, the required information cannot be reported meaningfully using the current reporting formats.

In light of this, it is important that EBA and the European Commission do adequately coordinate the entry into force of the requirements governing calculation on the one hand and the revised reporting requirements, together with the associated reporting templates, on the other. We believe that parallel reporting of the leverage ratio in accordance with both the "old" methodology and the delegated act would not be expedient, nor could correct presentation be ensured. In its FAQ, the European Commission itself makes it clear that the amendments contained in the delegated act will require amendments to the ITS.

We are therefore assuming that only a report using the old methodology in accordance with EU Regulation 575/2013 will have to be remitted, at least until December 2015, and that this will not be replaced by the leverage ratio as calculated under the delegated act before December 2015.

Disclosure requirement

In accordance with the EBA's guidelines (finalised in December 2014) on materiality, proprietary and confidentiality and on disclosure frequency for the disclosure of Pillar 3 reports, certain institutions are required to disclose their leverage ratio quarterly and/or semi-annually starting on 31 March 2015. If the new reporting requirements are not expected to be binding before December 2015 in accordance with the EBA's reporting standard, any leverage ratio to be disclosed quarterly or semi-annually in 2015 would not be comparable with a ratio as at the 31 December 2015 reference date either between institutions or at the level of individual institutions. However, the amendments to the definition of the total exposure measure for the leverage ratio contained in the European Commission's delegated act in accordance with Article 456(1)(j) of the CRR were made expressly with the aim of making the numbers disclosed

comparable. Disclosure of the leverage ratio for the first time should not therefore be necessary before December 2015 (at the same time as the new EBA reporting standard enters into force).

We are also assuming that the necessary amendments to the ITS on disclosure of the leverage ratio will be exposed for consultation by the EBA in the near future.

II. Questions for consultation

Question 1: Would respondents have substantiated arguments to change remittance dates of the current ITS?

If the first time adoption of the revised requirements in accordance with the delegated act would be not before December 2015, we do not see any need at present to depart from the currently valid remittance dates.
Should the European Commission however, in contrary to our understanding, request the reporting of the leverage ratio in accordance with the revised requirements at the reporting date 31 March 2015 and/or 30 June 2015 we see the urgent need to postpone the submission dates clearly (at the earliest 30 September 2015). The preparation of the reporting according to the new requirements need extensive implementation activities, manual interventions and moreover the need to provide explanation from the regulatory perspective (in case of using the old reporting templates).

Question 2: Would respondents have substantiated arguments for an implementation period different from the abovementioned?

It is vital for the institutions to have sufficient time to implement the requirements. Our understanding is that the new leverage ratio reporting formats will not be introduced before December 2015 at the earliest. If this is the case, we do not have any objections as far as the implementation period is concerned.

Exemption from the reporting requirements because of application of the financial reporting consolidation starting on 31 March 2015
The previous requirement to include significant investments in financial sector entities that are contained in the financial reporting consolidation, but not in the regulatory scope of consolidation, was withdrawn by the Basel Committee in BCBS 270 and the deletion of the second sentence of Article 429(4) of the CRR (2014 version) in conjunction with Recital 11 of the delegated act. This removed a significant “design error” in the leverage ratio. The scope of consolidation for the leverage ratio is now consistent with the scope of consolidation for the risk-weighted capital ratio, which makes the two ratios more comparable.

The second sentence of Article 429(4) of the CRR (2014 version) leads to considerable implementation and data identification effort in some cases at groups of institutions. It is common knowledge that this requirement now forces subsidiaries that are not included in the regulatory scope of consolidation to calculate regulatory exposure values. In addition, the existing reporting template C 46.00 (LR6) requires the exposure values to be broken down in detail and to be supplemented by other data (including accounting values, equity and investment accounting values; the data must also be entered for securitisation and commercial entities).

Comments on EBA/CP/2014/44

In light of the complete withdrawal of these requirements at both Basel and EU level, there is no longer any need to collect the data for reporting template C46.00 (LR6). The table that is comparable to this reporting template no longer appeared in the regular "Basel III Monitoring Report" for the monitoring exercise as of 31 December 2013. In light of the considerable data collection effort, we are therefore urging that reporting template C46.00 (LR6) should no longer be required for the next leverage ratio report as at the 31 March 2015 reference date, and that the institutions subject to a reporting obligation should be notified of this in the near term.

Exemption from the requirement to calculate the leverage ratio on a monthly basis (LRCalc)
The template LRCalc requires the calculation of the leverage ratio as a three-monthly average at the end of the month. The delegated act removed this requirement by the reporting of the leverage ratio at the end of the quarterly reporting period and better aligns the leverage ratio with solvency reporting. Therefore and mindful the effort for the data collection we appeal for the removal of the three columns in template C45.00 (LRCalc) and request for the calculation of the leverage ratio at the end of the quarterly reporting period for the next leverage ratio report as at 31 March 2015 reference date.

Question 3: Do respondents agree to the structure and content of the proposed templates and in particular the amendments proposed to Annex X of Regulation (EU) No 680/2014? If not, would respondents have substantiated reasons for not amending or further amending a particular cell or template?

In principle, we agree with the content and structure of the reporting templates. In particular the new convention of using the "(-)" sign to designate cells to be subtracted in the LRCalc reporting template (Annex 1) is helpful because it makes the template easier to understand. We recommend applying this convention to rows 055, 065, 075 and 085 in template LR3 as well. For the most part, the adjustments reported in these cells are likely to be negative values.

We wish to propose the following changes to the LRCalc template:

- The consultation proposal on the LRCalc does not contain any totals line for calculating the exposure. We recommend introducing such a line to make the template easier to read.
- For structural reasons, we recommend relocating rows 290 and 300 after row 260. We believe that this makes sense because the values in those rows are included in the calculation of the exposure.

Additional comments
We remain opposed in principle to the leverage ratio because of its limited informative value about credit institutions' leverage and stability. From our perspective, there are still considerable inconsistencies between the risk-weighted own funds requirements and the leverage ratio, even after the European Commission's delegated act on the leverage ratio. This situation gives rise to considerable potential for management error.

To reflect current technical discussions about the finalisation of the leverage ratio as from 1 January 2018, we recommend incorporating the following points as memo items in reporting template C43.00 (LR4):

- risk exposures within a cross-guarantee scheme that are assigned a 0% risk weight in accordance with the own funds requirements for credit risk under Article 113(7) of the CRR,

Comments on EBA/CP/2014/44

- risk exposures from state-backed development loan programmes that do not result in any credit risk for the reporting institution.

We believe that there are substantiated reasons for not adding these risk exposures to the leverage ratio total exposure measure. The quantitative capture of these risk exposures at an early stage would obviate the need to collect this data at a later stage.

Re risk exposures within a cross-guarantee scheme
If restrictions regarding cash clearing and investments are imposed on institutions in a cross-guarantee scheme because all exposures within the cross-guarantee scheme are counted towards the leverage ratio, very negative effects on funding and thus on a core structural element of these cross-guarantee schemes can be expected. Satisfying the conditions set out in Article 113(7) of the CRR and obtaining the approval of the competent authority ensures that risk and guarantee structures in the cross-guarantee schemes are comparable with those within a group of institutions. Because of the risk to the continued existence of the cross-guarantee scheme structures, we are strongly urging that exposures that are recognised within a cross-guarantee scheme should be exempted from being counted towards the leverage ratio exposure within the meaning of Article 113(7) of the CRR.

Re development loans
Development loans are an extremely important instrument for improving long-term financing for the private sector in the European Union. They are granted for non-competitive purposes in order to support the political goals of the Union and/or the central or regional government of a Member State, and serve in many cases to promote environmental and climate protection, reflecting social and ecological requirements. In Germany, development loans are normally extended via borrowers' key relationship banks. In other words, the funds are frequently not lent directly by the originating development bank to the end client, but are rather channelled through commercial banks for onward transmission to the ultimate borrower. As a consequence, all institutions involved in this chain recognise a loan in their accounts. In Germany, development loans are actually charged on multiple occasions because they are transmitted via a number of banks. A way should be found to exclude development loans that are transmitted via borrowers' key relationship banks and thus merely represent pass-through transactions when calculating the exposure amount for the leverage ratio.

Comments on EBA/CP/2014/44

Question 4: Do respondents agree to the structure and content of the proposed instructions and in particular the amendments proposed to Annex XI of Regulation (EU) No 680/2014? If not, would respondents have substantiated reasons for not amending or further amending a particular paragraph or cell description?

Part II: Template Related Instructions

No 2 Formulas for leverage ratio calculation

With regard to the formulas for calculating the leverage ratio – transitional definition – in No 5, it is our understanding that exposure {LRCalc;140;1} should be added and not subtracted. Our proposed change to the formula is shown below (change shown in red and bolded):

> Leverage Ratio – transitional definition = {LRCalc;280;1} / [{LRCalc;010;1} + {LRCalc;020;1} + {LRCalc;030;1} + {LRCalc;040;1} + {LRCalc;050;1} + {LRCalc;060;1} + {LRCalc;070;1} + {LRCalc;080;1} + {LRCalc;090;1} + {LRCalc;100;1} + {LRCalc;110;1} + {LRCalc;120;1} + {LRCalc;130;1} **+** {LRCalc;140;1} + {LRCalc;150;1} + {LRCalc;160;1} + {LRCalc;170;1} + {LRCalc;180;1} + {LRCalc;190;1} + {LRCalc;200;1} + {LRCalc;210;1} + {LRCalc;220;1} + {LRCalc;230;1} + {LRCalc;240;1} + {LRCalc;250;1} + {LRCalc;260;1} + {LRCalc;300;1}]

No 4, C47.00 – Leverage ratio calculation (LRCalc)

In the explanation on cell {LRCalc;170;1}, the sentence was expanded as follows: "This includes liquidity facilities and other commitments to securitisations incorporating the changes according to the Enhancements to the Basel II framework. That is the CCF for all eligible liquidity facilities in the securitisation framework is 50% regardless of the maturity." It is not clear to us here how the term "eligible liquidity facilities" is defined for the purposes of the LR report. Does this refer to liquidity facilities that meet the requirements of Article 255 of the CRR? Please provide a precise definition.

The references in the explanations on cells {LRCalc;310;1} and {LRCalc;320;1} contain errors. The references should read as follows:

> {310;1}: "This is the leverage ratio as calculated under paragraph **4** of Part II of this Annex."
> {320;1}: "This is the leverage ratio as calculated under paragraph **5** of Part II of this Annex."

No 8, C43.00 – Alternative breakdown of leverage ratio exposure measure components (LR4)

In our opinion (compare LR Exposure LRCalc with LR Exposure LR4), the equation given in paragraph 30 is not logical. We recommend using the following equation with certain amendments (shown in red and bolded, or struck through, as appropriate):

> [{LRCalc;010;1} + {LRCalc;020;1} + {LRCalc;030;1} + {LRCalc;040;1} + {LRCalc;050;1} + {LRCalc;060;1} + {LRCalc;070;1} + {LRCalc;080;1} + {LRCalc;090;1} + {LRCalc;100;1} + {LRCalc;110;1} + {LRCalc;120;1} + {LRCalc;130;1} + {LRCalc;140;1} + {LRCalc;150;1} + {LRCalc;160;1} + {LRCalc;170;1} + {LRCalc;180;1} + {LRCalc;190;1} + {LRCalc;200;1} + {LRCalc;210;1} + {LRCalc;220;1} + {LRCalc;230;1} + {LRCalc;240;1} + {LRCalc;250;1} + {LRCalc;260;1}] = [{LR4;010;1} + {LR4;040;1} + {LR4;050;1} + {LR4;060;1} + {LR4;065;1} + {LR4;070;1} + {LR4;080;1} + **{LR4;080;2}** + **{LR4;090;1} + {LR4;090;2}** ~~+ {LR4;100;2} + {LR4;110;1} + {LR4;120;2} +~~ {LR4;140;1} + {LR4;140;2} + {LR4;180;1} + {LR4;180;2} + {LR4;190;1} + {LR4;190;2} + {LR4;210;1} + {LR4;210;2} + {LR4;230;1} + {LR4;230;2} + {LR4;280;1} + {LR4;280;2} + {LR4;290;1} + {LR4;290;2}]

Comments on EBA/CP/2014/44

Question 5: Do respondents agree to the impact assessment? If not, would respondents have substantiated reasons why they would foresee a different conclusion?

No comments.