ASSOCIATION OF RUSSIAN BANKS
(Moscow, Russia)
URL: http://arb.ru/

September 20, 2013

Basel Committee on Banking Supervision
Email: baselcommittee@bis.org

Dear Sirs,

Basel Committee on Banking Supervision Consultative Document
Revised Basel III leverage ratio framework and disclosure requirements

On behalf of the Association of Russian Banks (ARB), and particularly Committee on Basel II and Risk Management we would like to thank the Basel Committee on Banking Supervision for the opportunity to deliver our opinion on the Consultative Document 'Revised Basel III leverage ratio framework and disclosure requirements' published by the Basel Committee on Banking Supervision on June 26, 2013 at http://www.bis.org/publ/bcbs251.htm.

We hope our comments would be of use for further development of the prudent international regulatory framework and stimulate Basel III implementation.

In case of further questions, please, do not hesitate to get in touch with us through email (z.adam@arb.ru or arb@arb.ru), telephone (+7.495.690.30.00) or fax (+7.495.690.31.38).

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Paragraph-wise comments

1. **Par. 6 – "The basis of calculation is the average of the three month-end leverage ratios over a quarter".**
   - Calculating three-month-end average has two major problems.
   - First, by construction average of three-month-end figures demonstrates the indicator of interest evolution during 2 months (not a quarter). If one indeed wants to monitor indicator dynamics over the quarter, it is necessary to estimate average of 4 months.
   - Second, leverage ratio (LR) framework was designed to be a non-risk-based measure that is comparable to risk-based one of capital adequacy ratio (CAR). No one doubted the appropriateness of measuring CAR as of reporting date. Though everyone understands that between the reporting dates CAR fluctuates, as LR would do. Even if daily average for CAR and LR were measured they would not bring as broad picture as the whole distribution of values attained during the period of investigation.
   - This is why for consistency set as core principles between CAR and LR it is proposed to limit LR reporting as of reporting date.

2. **Par. 31 – "footnote 16. The effective notional amount is obtained by adjusting the notional amount to reflect the true exposure of contracts that are leveraged or otherwise enhanced by the structure of the transaction".**
   - It would be nice if the Basel Committee could have, please, elaborate more on the definition of effective collateral as of now the presented one seems to be a very general one. Examples of particular deals would be of value.

3. **Par. 42 – "for any commitments that are unconditionally cancellable at any time by the bank without prior notice, banks must apply a CCF of 10% to include such commitments in the Exposure Measure. Footnote 25. Commitments that effectively provide for automatic cancellation *only* due to deterioration in a borrower's creditworthiness do not qualify for the exceptional treatment described under this paragraph."**
   - We consider the proposed setting to violate the principle of consistency between risk-based (CAR) and non-risk-based (LR) measures when it comes to the treatment of "any commitments that are unconditionally cancellable at any time by the bank without prior notice". The key reason is that Basel II (please, see citation below) suggests to use CCF=0% for such exposures for CAR, whereas for leverage ratio framework the same would receive CCF=10%. This implies disbalance in incentives for banks to go for that products.

     "83. However, any commitments that are unconditionally cancellable at any time by the bank without prior notice, or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness, will receive a 0% CCF"
   - Our suggestion is to preserve CCF=0% for "any commitments that are unconditionally cancellable at any time by the bank without prior notice".