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REVISED LEVERAGE RATIO FRAMEWORK AND DISCLOSURE REQUIREMENTS

RESPONSE TO BASEL COMMITTEE CP 251

Introduction

The Building Societies Association (BSA) is pleased to comment briefly, at a high level, on the Committee's proposals in CP 251. We represent mutual and cooperative banking in the UK including all 46 UK building societies. Mutual lenders and deposit takers have total assets of nearly £380 billion and, together with their subsidiaries, hold residential mortgages of over £250 billion, 20% of the total outstanding in the UK. They hold nearly £260 billion of retail deposits, accounting for 21% of all such deposits in the UK. Mutual deposit takers account for 30% of cash ISA balances. They employ approximately 50,000 full and part-time staff and operate through approximately 2,000 branches.

General comments

We welcome the clear reaffirmation in paragraph 8 of the CP that the Capital Measure to be used in reporting, and from 2015 in disclosing, the leverage ratio (LR) is **Tier 1 capital**, as defined in the Basel III standard, **taking account of the transitional arrangements**. We agree that inconsistent disclosures should be avoided, as these will simply muddy the water and confuse the market. We therefore urge the Committee to rein in those national supervisors who are already proliferating and promoting different versions of the leverage ratio calculation for their own purposes. For instance, early use of the leverage ratio as a supervisory tool often seems to involve "fully-loaded" or "end-point" calculations – i.e. using the Capital Measure but *without* taking account of the transitional arrangements – so in direct contradiction of paragraph 8. Even more questionable are the attempts to use the LR with CET 1 only as the Capital Measure – again, in flat contradiction of paragraph 8. If these practices by national supervisors continue unchecked, consistent reporting and disclosure of the LR – the objective of this CP – will be totally undermined. We have no objection to the Committee continuing to collect data on alternative metrics, as mentioned in paragraph 9, *provided* this information is not used or released in a way that confuses the reporting of the LR.

The observation period until 2018 provides a sensible timeframe within which banks can prepare to meet the LR as a Pillar 1 requirement without undue transitional strain that would stimulate rapid deleveraging and cause credit contraction. But it is also important that, if any material changes to the LR were to be introduced, that make it more difficult for banks to meet the LR – e.g. either a higher minimum ratio, or a more restrictive Capital Measure - a further transition period is built in. If significant adverse changes were to be introduced during 2017, it would be unreasonable for banks to be expected to meet the revised requirements from 1 January 2018. Even minor adjustments to the LR calculation need to be finalised early in 2017 so that banks have time to implement changes properly.

Detailed comments

Since the Basel leverage ratio templates will – especially within the European Union - have wider effect than the narrow list of "Basel banks" i.e. large, internationally active banks, it is important that the burden of reporting is kept to a minimum. In that context, the requirement for reporting a quarterly average of three individual month-end calculations of the leverage ratio places an unnecessary burden on non-systemic banks during the observation period :

reporting the end-quarter ratio would be quite sufficient. For EU banks, the requirement for the averaging of month-end LRs can already be waived until 31 December 2017 – it would be sensible for the Basel Committee to recognise the same.

The requirement in paragraph 52 for disclosure of an on-going archive of previous LR information does not specify a start date – the Committee should confirm that this archive does not need to go back beyond the first systematic disclosures made after 1 January 2015 – i.e. there is no requirement to include previous internal calculations, or previous ad hoc disclosures.

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