European Federation of Building Societies
Fédération Européenne d'Epargne et de Crédit pour le Logement
Europäische Bausparkassenvereinigung

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EFBS Comments on the Consultative Document of the Basel Committee on Banking Supervision "Revised Basel III leverage ratio framework and disclosure requirements"

On 26 June 2013, the Basel Committee on Banking Supervision published the Consultative Document "Revised Basel III leverage ratio framework and disclosure requirements". The European Federation of Building Societies (EFBS) is pleased to use this opportunity to make comments.

The EFBS is an association of credit institutions and organisations that assist in and support the financing of home ownership. Its purpose is to encourage the idea of acquiring home ownership in a Europe that is converging, both politically and economically. Bausparkassen grant loans secured by residential property to finance home ownership as a bulk business. In addition to this Bausparkassen business in the stricter sense, Bausparkassen are also allowed to make investments, however only in particularly safe investment vehicles.

I. General comments

In our opinion, the Basel Committee's approach of a non-risk-based capital calculation is extremely problematic. The consequence of a non-risk-based leverage ratio would be that the leverage ratio would determine the minimum capital requirements for low-risk, but high-volume business models.

In our understanding, however, the leverage ratio should serve as an assessment criterion and complement the risk-sensitive rules of Basel II, instead of invalidating them. However, for Bausparkassen and other real estate finance providers, a leverage ratio of three percent would significantly restrict the conduct of their low-risk business. It may become indispensable for Bausparkassen to increase their capital merely due to a positive development of deposits made by savers and the resulting inflation of their balance sheet, although they have not taken higher credit risks.

The application of a single percentage ratio to all the risk categories restricts the system of incentives designed to impose low capital requirements on low risks while imposing high capital requirements on high risks, which is inherent in the Basel II framework. In addition, this undermines the principle that an institution which refines the measurement of its risks can benefit from relief in capital requirements.

The planned leverage ratio would provide the wrong incentives. Institutions would be pressed to reduce their low-risk, but high-volume business and expand business which involves higher risks but lower volumes. Since the same capital requirements would apply to all the businesses, there would be a significant decline in earnings in low-risk business areas with low margins because the higher costs could be passed on to a very limited extent only. As a result, the overall credit supply would decline.

Aside from fiduciary transactions, which will benefit from special treatment, the present Consultative paper does not take into account any other specific business models. As a result, institutions which have specialised in low-risk business areas will be put at a significant disadvantage.

In view of the disparate effects which the leverage ratio has on credit institutions depending on their business areas, the only option we see is to introduce different leverage ratios, instead of a single minimum ratio of three percent. We would therefore like to ask the Basel Committee not only to take into account the various business models when examining the adequacy of the minimum ratio of three percent, but explicitly to define the objective of fixing appropriate ratios within the framework of calibration, based on the various business models.

For the implementation of Basel III within the European Union, Article 511(2) of Regulation (EU) 575/2013 (CRR) stipulates that "...the introduction of an appropriate number of levels of the leverage ratio that institutions following different business models would be required to meet..." should be considered. Bausparkassen are eagerly awaiting this and in particular welcome the assignment given to the European Banking Authority (EBA) to take into consideration the institutions' overall risk profile when considering their business models. "When reviewing the impact of the leverage ratio on different business models, particular attention should be paid to business models which are considered to entail low risk" (CRR recital 95).

In Article 511(4)(b), the CRR also rightly provides that "... the interaction of the leverage ratio with ... the liquidity requirements ..." shall be taken into account. As is well known, the Liquidity Coverage Ratio requires banks to hold substantial volumes of highly liquid assets. Compliance with this requirement is severely hampered by the fact that such assets are not excluded from the calculation of the leverage ratio. However, we believe that it is imperative that they should be excluded.

For the reasons cited above, the leverage ratio is unsuitable as a binding minimum measure. In our opinion, it would therefore not be justifiable to migrate the leverage ratio rules from Pillar 2 to Pillar 1.

II. Comments on disclosure requirements; frequency and location of disclosure

We believe that quarterly reporting of the leverage ratio is not proportionate. In our opinion, annual reporting is sufficient for the low-risk business model pursued by Bausparkassen.

We believe that disclosure in the annual financial statements is not appropriate. Instead, the leverage ratio should be disclosed together with the prudential ratios in the reports required for Pillar 3.