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Credit Suisse AG

Paradeplatz 8
P.O. Box 1
CH-8070 Zurich

Telephone 41 44 333 11 11
Telefax 41 44 332 55 55

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Submitted via website upload

michael.buschhueter@credit-suisse.com
Michael Buschhüter (TGGP75)
Tel.: 0044 20 7883 1404

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Credit Suisse response to the Consultative Document "Revisions to leverage ratio disclosure requirements" (d456)

Dear Sirs,

Credit Suisse Group AG (Credit Suisse) would like to thank the Basel Committee on Banking Supervision (BCBS or Committee) for the opportunity to comment on the Consultative Document 'Revisions to leverage ratio disclosure requirements' (BCBS d456 or Consultative Document). Credit Suisse endorses the technical recommendations provided in the joint IIF/ISDA/GFMA associations comment letter on the Consultative Document. Our comment letter discusses additional aspects of the BCBS proposals that we would ask the Committee to consider as part of its deliberation process.

Paragraph 2 of the Leverage Ratio requirements under the finalized Basel III framework states that the leverage ratio is intended to:

- restrict the build-up of leverage in the banking sector to avoid destabilising deleveraging processes that can damage the broader financial system and the economy; and
- reinforce the risk-based requirements with a simple, non-risk based "backstop" measure.

Credit Suisse agrees with the Committee's view that any form of window dressing behaviour exhibited by banks, would be in conflict with those policy objectives and would risk disrupting the operations of financial markets.

Furthermore, we agree with the Committee that the disclosure of average values of selected balance sheet exposures in addition to end-of period values would help investors and regulators to identify potential window dressing activities and, as a consequence, act as a disincentive for banks to engage in such behaviour. We believe that the proposed disclosures are most effective if required at the highest consolidated group level, while there is less benefit to duplicate the disclosure requirements at a sub-consolidated group or legal entity level.

Consistent with the Committee's mandate as the primary global standard setter for the prudential regulation of banks, we believe that such disclosure requirements should be developed by the BCBS at a global level, rather than by national supervisors. We note that many regional jurisdictions, including the USA, the EU and the UK, require the calculation, reporting or disclosure of average leverage ratio information. However, a direct comparison of this data across jurisdictions is impossible due to the varying requirements in each jurisdiction and this raises concerns as to whether a level playing field exists with respect to the leverage ratio requirements.

In the USA, the Supplementary Leverage Ratio exposure measure (denominator) requires an average of on-balance sheet assets calculated on a daily basis plus the average of off-balance sheet exposures calculated using the last day of each of the most recent three months. The Supplementary Leverage Ratio is then defined as the end-of quarter Tier 1 capital divided by the average exposure measure. In the UK, the PRA requires, in addition to the calculation of a quarter end leverage ratio, the disclosure of average leverage ratio information. Under the PRA requirements, the average exposure measure is calculated in the same way as the Supplementary Leverage Ratio in the USA. However, in deviation from the US approach, the PRA average leverage ratio is defined as the average of a firm's Tier 1 capital using the last day of each month in the quarter divided by the average exposure measure. In the EU, the CRR2 package will require institutions to calculate a quarter-end leverage ratio and additionally report specific components of the leverage ratio to their competent authorities based on averages, including the data used to calculate those averages. The document directs the EBA to develop implementing technical standards that will specify which components of the leverage ratio should be reported using day-end or month-end values.

In light of those differences, we hope that the development of global disclosure requirements by the BCBS will help to harmonize this important area of prudential regulation.

We have the following specific comments with respect to the measurement methodology that the Committee proposes in the Consultative Document:

- We commend the Committee's approach to focus its proposal on selected balance sheet items with perceived high volatility, rather than requiring the disclosure of average values of total leverage exposure. As such, we agree that the proposed disclosure requirement should focus on derivatives and securities financing transactions. However, we are concerned that the prescribed calculation should be based on daily averages. Even though we would expect that many banks have this information available for their most volatile transactions, we would also expect that daily amounts are not readily available for other positions and would require significant implementation efforts. In order to mitigate such potentially significant implementation costs, we recommend that the Committee amend its proposal to permit banks to use a lower measurement frequency such as the calculation of weekly averages.

- We disagree with the treatment of central bank deposits in the final Basel III leverage ratio framework (BCBS 424) and therefore question the inclusion of such deposits into the proposed disclosures. Paragraph 26 of the finalized leverage ratio framework provides a national discretion, according to which a jurisdiction may temporarily exempt central bank deposits from the leverage ratio exposure measure in exceptional macro-economic circumstances. We consider the conditions for the use of the national discretion to be overly limiting and recommend that the BCBS consider replacing the requirement by a more general and unconditional scope exemption for central bank deposits.

  We agree with the industry view as most recently expressed in the AFME/ISDA Position Paper "CRD 5: Leverage Ratio" that Central Bank deposits cannot contribute to leverage at a bank or system-wide level because a central bank deposit, as the ultimate settlement asset and unit in which banking assets and liabilities are denominated, are by definition (assuming no currency mismatch) entirely risk-free from both capital and liquidity perspectives. The inclusion of central bank cash balances in the leverage exposure affects the ability of the banking system to cushion shocks, take on client deposits and to draw on central

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bank liquidity facilities as necessary to maintain the supply of credit and support for market functioning, including in times of stress. Moreover, the effectiveness of monetary policy could be reduced if central banks' transactions with banks attract significant capital charges. Therefore, we recommend that the Committee consider a general scope exemption for central bank deposits from the leverage ratio, rather than imposing additional disclosure requirements on those deposits.

In our view, the limited value of the disclosure of central bank deposits is exacerbated by concerns of the unintended consequences of a public disclosure of central bank deposits. In this context, we agree with the joint association comment letter by IIF, ISDA and GFMA on the BCBS Consultative Document on "Pillar 3 disclosure requirements – updated framework" (BCBS d432), which was submitted on May 25th, 2018. In this comment letter, the joint associations recommend that banks should not be required to disclose public information on their use of central bank deposits, as this information could be sensitive and might cause unnecessary pro-cyclical market reactions.

- The disclosure of intra-period averages requires the use of estimates and/or unaudited amounts. To avoid any uncertainty regarding this point in discussions with regulators, auditors or other third parties, we suggest that the Committee explicitly acknowledge in its final text that the disclosure of intra-quarter averages will require banks to use internal estimates and unaudited financial information.

- Banks will need time to implement robust data collection processes to support the new disclosure requirements. Therefore, we agree with the Committee's proposal to align the effective date of the new disclosures with the effective date of the final Basel III requirements on January 1st, 2022. In light of these data sourcing demands, we would discourage any earlier adoption of the new disclosure requirements.

If you have any questions or would like any additional information on the comments we have provided herein, please do not hesitate to contact Mr. Andrew Gutmann (+41 44 332 46 97) or Mr. Michael Buschhueter (+44 20 7883 1404) in our Regulatory Assurance Group.

Yours sincerely,

Credit Suisse AG

Robert Arbuthnott
Managing Director
Head of Group Finance

Todd Runyan
Managing Director
Group Accountant

cc: FINMA, Uwe Steinhauser