FÉDÉRATION BANCAIRE FRANÇAISE

2019.03.13

FBF RESPONSE TO BCBS CONSULTATION PAPER ON REVISIONS TO LEVERAGE RATIO DISCLOSURE REQUIREMENTS

I- General comment

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

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II- Comments on the consultation

The FBF appreciate the opportunity to express their views on the BCBS consultative document "Revisions to leverage ratio disclosure requirements".

We believe it is necessary to gain further understanding of the observations and data that have led to the Committee's decision to propose enhanced leverage ratio disclosures. Indeed, the concern about potential window dressing has gained momentum based on an observation focused on repos with US Money Market Fund. There was no attempt to analyse the dynamics of this specific market, before jumping to the conclusion that the quarter-end moves were due to "window dressing by some market participants". In addition, there was no analysis of the broader repo market including €, yen and other major currencies.

The BCBS proposes to require banks to calculate leverage ratios for the following exposures as an average of daily values for the entire quarter:

- Adjusted gross securities financing (SFT) assets recognised for accounting purposes (as calculated per paragraph 51 (i) of the leverage ratio standard);
- Replacement cost (RC) of derivative exposures; and
- Central bank reserves that are included in on-balance sheet exposures.

We are concerned about the increasing amount of information that needs to be disclosed by banks. So, we believe that the short list of assets proposed by the BCBS, that would deserve a daily calculation for leverage ratio disclosure, should be carefully assessed in relation with the presumed 'window-dressing' monitoring objective. We believe that replacement costs of derivatives and central bank reserves should not belong to this scope.

We also strongly advocate that any calculating items on a daily basis, and publicly releasing these items as quarterly averages, should only be required within the following conditions:

- on a best effort basis with ‘management data’
- for the asset exposures that could generate presumed ‘window-dressing’
- meeting the proportionality rules entered into force in the jurisdiction.

The public disclosures of an average of daily calculations should only be done with management data on a best effort basis, as evidenced by UK and US banks experience and allowed by UK[1] and US regulators.

Should daily Values to be used for the calculation of leverage ratios, they should not be based on accounting values, but they should be based on management data and on a best effort basis.

Even if EU banks are in capacity to calculate their positions of repos/ reverse repos in the trading book on a daily basis, **best estimates** should be considered as acceptable for the computation of the daily averaged components of the leverage ratio provided that they are measured **consistently (within the quarter and with the accounting-based end of quarter figures) and prudently.**

As there might be **difficulties** in **valuing** the assets, applying the **leverage ratio netting rules** and even **eliminating intra group transactions** (for the group consolidated ratio) **at the end of each day**, the best way is to adopt a pragmatic approach.

When banks close their books at quarter-end, it requires many adjustments which are almost impossible to mimic on a daily basis. Hence, we propose to apply a ‘materiality’ concept, by passing the smaller adjustments and focusing only on most material ones (possibly based on sensitivity of the leverage ratio).

It should also be noted that the calculation of averaged leverage ratios based on daily values would impose significant one-off and ongoing costs on banks, as internal processes and IT systems would need to be adjusted to the new disclosure requirements.

Only the securities financing (SFT) assets have been identified as the asset class that could generate presumed ‘window dressing’

From the short list proposed by the BCBS, only the repos/reverse repos transactions (SFTS) are amenable exposures to rapid reduction via short- term trades at quarter end.

In addition, in recent months, several studies have pointed out some presumed “window-dressing practices” by EU banks, as a source of liquidity drying up at end of quarters. Such comments pointed out the repo market only and were based on the Box III, A ‘Banks’ window-dressing: the case of repo markets published in the BIS Annual Economic Report 2018 (Graph IIIA Banks’ window-dressing through the lens of US repo markets’).

Besides, it should be noted that new process of information disclosure could diminish the highly liquid feature of the repo markets and, consequently, a slowdown of one of the transmission channels of monetary policy.

[1] According to SS45/15 The UK leverage framework: *3.4 The PRA recognises that there might be difficulties in valuing certain accounting assets at the end of each day and therefore intends to adopt a pragmatic approach to the implementation of the averaging requirement. The PRA considers that ‘best estimates’ are acceptable so long as they are measured consistently and prudently*

The other Exposure classes should be excluded for the calculation of the leverage ratio on a daily basis and should be incorporated only on a quarter-end basis.

Replacement cost (RC) of derivative exposures

As a rule, derivative contracts are based on contractual agreements governing netting and the cash variation margin. These agreements are mainly concluded for a long period of time. The bank therefore has little opportunity to carry out window dressing to the extent that the effects on the leverage ratio are noticeable. In addition, the measures are limited by the current valuation of the contracts. The increase in the leverage ratio due to the termination of a derivative contract is contrary to the realisation of a negative market value due to the termination.

In particular, in the case of sovereign and corporate non-collateralized counterparties, movements (usually non-significant) in the measure are **market driven** and do not relate to changes in the volumes of bank transactions, and therefore do not conduct to any potential window dressing. Similarly, in the case of collateralized counterparties, a difference in timing between the PV and the collateral received/posted (usually a few days) could generate some replacement cost evolutions even if the bank has not changed its positions. Once again, the replacement cost volatility is not related at all to window dressing.

Accordingly, we do not see how the disclosure of average values at replacement costs can lead to a reduction in window dressing.

Central bank reserves that are included in on-balance sheet exposures

We question the BCBS' views that any window dressing and regulatory arbitrage could be related to central bank reserves. The variability of CB reserves is not due to proactive management decisions. Rather, the amount of CB reserves is the **net result of daily business flows** that, by construction, can be very volatile. Moreover, this disclosure could deter banks being agent of the financial system and of the monetary policy implementation. The disclosure of daily average CB deposit would not provide significant added value to investors.

In addition, we are concerned that the disclosure of central bank reserves could be quite sensitive and that it could cause unnecessary procyclical market reactions in certain market circumstances. It is highly important that disclosure requirements do not discourage banks from accessing central bank facilities and that as such we suggest that the associated disclosure requirements should be deleted.

The only case where disclosure of CB deposits may be relevant would be the case where the exemption from leverage exposure may be activated, under exceptional monetary policy circumstances.

Proportionality rules should be respected

Given the high costs generated by the implementation of the proposed disclosure requirements, we suggest that the final standards of the BCBS should be implemented according to proportionality rules in each jurisdiction.

In Europe, for instance, CRR2 legislation is requiring specific components of the leverage ratio to be based on average of daily positions over the reporting period to '**large banks**' only (G-SIBS, O-SIIS, one of the three largest institutions in terms of total value of assets in each Member State, institutions with total value of consolidated assets over EUR 30 billion).