German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments

on

Revisions to leverage ratio disclosure requirements

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The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent approximately 1,700 banks.

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General comments

The Basel Committee's additional leverage ratio disclosure requirements are designed to reflect its concerns about "window-dressing". We understand the Basel Committee's intention to ensure that the leverage ratio requirements are met at all times. This is already enshrined in the framework. Furthermore, window-dressing transactions are, by definition, legally allowed transactions. Evidence that window-dressing is actually used by every bank and to the same extent is missing. After reading through the consultative document, we find that various aspects which should, in our view, be looked at prior to implementation of measures to reduce window-dressing are not addressed:

Empirical proof needed

The consultative document refers to heightened volatility in money markets and derivatives markets around key reference dates. This reference is the sole justification given for expanding the disclosure requirements. The Basel Committee fails to deliver any empirical proof, however. Without sufficient explanation of the basis for its decision, i.e. the facts and figures evidencing both window-dressing by all banks in said markets, at said dates, in said product groups, as opposed to normal market movements, and non-compliance with minimum requirements, we are against any general expansion of the disclosure requirements. The effectiveness of the measure chosen cannot be judged on this basis.

Process-related burden ignored

The averages that the Basel Committee would like to see disclosed on the basis of values calculated daily are currently not available to banks in the desired form. The calculation and reporting processes used at present are based on the current supervisory requirements. These stipulate quarterly calculation for leverage ratio purposes and monthly calculation, where necessary, for other supervisory purposes. This means that not only an additional disclosure requirement is involved. In actual fact, the frequency of calculation of partial leverage ratio exposures is being changed, which means a considerable extra process and personnel-related burden for banks. The tightening of the disclosure requirements must be assessed on the basis of a cost-benefit analysis. In view of the additional burden it would impose, we are against any general expansion of the requirements.

Alternative disclosure measures not considered

We do not rule out that a reduction in business volume at year-end may lead in individual cases, depending on bank's business model, to a significant reduction in the leverage ratio exposure. Yet we believe that giving supervisors an instrument to penalise any excessive window dressing by banks on an individual ad hoc monitoring basis would be more appropriate. Delivery of detailed performance figures should therefore take place – in justified individual cases – within the scope of supervisory reporting and not in the course of market-based disclosure.

Relief from daily calculation

In our view, averaging on the basis of month-end values or by taking certain days of the month would be an economical alternative. For example, the 6^{th}, 12^{th}, 18^{th} and 24^{th} of a month could be set as reference dates used for calculating an average of 12 values on a quarterly basis. Such an arrangement could reduce the investment and process-related burden substantially, with virtually the same degree of transparency compared with averaging on a daily basis.

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Daily calculation methodology open

The quarterly average value is to be based in principle on daily calculation of the initial values. The Basel Committee does not provide any further explanation or guidance on this point. For example, no technical or other constraints with regard to daily calculation are included in the discussion. We therefore suggest that, in case this measure is adopted, “best knowledge” estimates should be allowed as a practical approach to implementing the requirements.

Detailed comments

Replacement cost (RC) of derivative exposures

Derivatives contracts are usually based on contractual agreements governing netting and cash variation margin. The agreements are mostly concluded for a long period. In this case, it is therefore scarcely possible for banks to perform window-dressing to such an extent that it has a noticeable impact on the leverage ratio. Furthermore, the measures are limited by current valuation of contracts. The increase in the leverage ratio through termination of a derivatives contract is offset by realisation of negative market value through termination. Therefore, these contracts are not suitable for use in balance-sheet management. From this overall perspective, we fail to see how disclosing mean values for replacement cost can lead to a reduction in window-dressing. We are therefore against this requirement.

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

The level of central bank reserves depends on many different factors that are only partly influenced by banks. For example, fluctuating customer deposits or a high volume of customer payments are reflected in fluctuating central bank reserves. Furthermore, as prime, highly-liquid assets, central bank reserves are a major component of the LCR and proactive liquidity management. This is why we have been calling for some time now for central bank reserves to be exempted from calculation of the leverage ratio. With this in mind, it is not clear to us what added value isolated consideration of mean values of central bank reserves delivers in assessing alleged window-dressing. Because of the volatility of this position, for which there may be many different reasons, deviation of mean values from reference date values in no way constitutes window-dressing. Such presentation can in fact lead to false conclusions. Central bank reserves may, moreover, be temporarily exempted from leverage ratio exposures. In our view, this option is at odds with the tightening of the disclosure requirements for this position. For the aforementioned reasons, we are against any additional disclosure of mean values of central bank reserves.

In individual cases, disclosing mean values of central bank reserves may well lead to a change in utilisation of central bank liquidity facilities. This depends, however, on the specific situation of a bank and the associated costs.

Template KM1: Key metrics

The inclusion in the key metrics of rows 14c and 14d, containing mean values of individual exposure components, is counter-productive. The purpose of the key metrics template is to provide a compact overview of the really significant information required in the context of disclosure. This has become necessary because the large number of disclosure requirements and their degree of detail overwhelm most readers of disclosure reports. The inclusion of ever-new and, in our view, not really significant information means losing the focus on the key metrics here as well. We therefore recommend deleting these additions.