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AEB's comments on BCBS Consultative Document "*Revisions to leverage ratio disclosure requirements*"

The AEB (Spanish Banking Association) would like to thank the Basel Committee on Banking Supervision (BCBS) for the opportunity to comment on the consultative document "Revisions to leverage ratio disclosure requirements".

We share the concern of the Basel Committee to reduce as much as possible window dressing transactions that may exist in some firms. We are of the opinion that there are different alternatives to achieve this goal.

In our opinion, the alternative proposed by the Basel Committee requiring Banks to provide average leverage ratios based on daily values will not necessarily allow supervisors to achieve this goal.:

First of all, this alternative is not consistent with BCBS requirements for Pillar 3:

- This approach (based on daily basis information) is not consistent with the periodicity set up in the revised Pillar 3 disclosure requirements. **Therefore, daily figures will not reconcile with the entity´s accounting information, which is produced on a monthly basis.**

  This raises the additional problem of being required to explain the differences between the outcomes of two different sources of information every time the Leverage Ratio is disclosed. This check is not efficient in the supervisory process since it is an additional burden for supervisors.

- Also, it is not consistent with the BCBS disclosure requirements regarding to internal control[1] processes requirement. **Therefore, it raises the problem of a lack of coherence with internal control processes.**

  The revised Pillar 3 disclosure requirements, specifically requires that the information provided under Pillar 3 must be subject to the same level of internal control as their financial reporting. In this regard, most of the banks close its accounting balances on a monthly basis and reports them on a quarterly basis.

  Imposing average of daily values for the calculation of the leverage ratio implies the use of management daily information that is not audited neither (in the majority of banks) supported by the same internal controls as for accounting reports. The provision of the same internal controls to daily figures will be extremely challenging since it implies almost an "online" conciliation between front desk and back office data.

[1] BCBS Revised Pillar 3 disclosure requirements guidance: "The information provided by banks under Pillar 3 must be subject, at a minimum, to the same level of internal review and internal control processes as the information provided by banks for their financial reporting (ie the level of assurance must be the same as for information provided within the management discussion and analysis part of the financial report)."

<u>Secondly, the proposed alternative would imply significant compliance costs for entities since it is going to require banks to implement additional, not necessarily required for management purposes</u>

- The use of daily consolidated figures to build averages for disclosure purposes requires banks to **put in place new processes in order to obtain and treat the information, which are not necessarily required for their own management purposes or accounting obligations.** This may be especially relevant for those banks that have Leverage Ratio levels well above the required thresholds, that do not consider this ratio a key variable/restriction in the management of their balance sheet.

- The setting up of these new processes introduces an **additional factor to be taken into consideration in the case of banks with presence in different jurisdictions, as the processes will become by nature, more difficult**

<u>Finally, this alternative might not be the most efficient alternative for other stakeholders since the information requirement proposed could not be clear, comprehensive and meaningful to users.</u>

BCBS also requires under its Revised Pillar 3 disclosure requirements that information is clear, comprehensive and meaningful to users.

i. We are not sure that providing several leverage ratios (quarterly-end, average based on daily values including/excluding temporary exemption to central bank exposures) will be clear to users. On the contrary, those different ratios about the same metric are likely to lead to confusion for investors: which one will be the relevant ratio to users in order to take relevant decisions?

ii. In addition, there is a template (KM1) that allows users to get an overview of risk management, key prudential metrics and RWA where the leverage ratio is disclosed. Which one should we disclose from now on if average ratios are required?

As an alternative, we propose that the practices of window dressing should be identified and addressed on a case-by-case basis with a supervisory approach.

If there is a suspicion of window dressing in some firms and monthly figures are not enough to prevent it, supervisors could directly monitor window dressing by requiring more frequent reporting to those firms (supervisors already have tools to deal with these practices, such as the Pillar II tools in Article 104 1) of the CRD IV).