Mailing list Supervision/ Accounting/ Money Laundering

Brussels, 17 October 2014
BL

Draft delegated Regulation amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio and draft delegated Regulation to supplement Regulation (EU) 575/2013 with regard to liquidity coverage requirement for Credit Institutions

Dear Madam or Sir,

On 10 October 2014 the European Commission has published the draft delegated Regulations with regard to the leverage ratio and to the liquidity coverage ratio.

1. **Leverage ratio**

Pursuant to the Regulation on prudential requirements for credit institutions and investment firms (CRR) all credit institutions of the EU shall disclose the leverage ratio by 1 January 2015. According to article 429 (2) the leverage ratio shall be calculated as an institution's capital measure divided by that institution's total exposure measure. In order to prevent incoherent and not comparable calculations for the disclosure because of the differing understanding and interpretation of the CRR provisions in the different member states, the European Commission is mandated in article 456 (1) (j) of the CRR to provide a consistent implementation through a delegated act. In fact, the European Banking Authority (EBA) has discovered differences in several EU-member States. As a consequence, the European Commission has elaborated the enclosed draft. It provides that the leverage ratio shall be calculated at the reporting reference date. A three-months-average shall not be considered. Furthermore, the scope of consolidation will be the regulatory scope of consolidation which is used for the risk-based framework instead of the accounting scope of consolidation.

The European Parliament and the European Council are now in the position to object within three months. Otherwise, the delegated Regulation is published in the official Journal of the EU and enters into force the next day. It will then apply directly and be binding in the member states. The European Commission announces as well in the delegated Regulation that the consistent format for the supervisory reporting and for the disclosure needs still to be adapted.

However, the delegated Regulation will remain without further effect on the possible obligation to apply a single minimum ratio. As provided for in article 511, the EBA shall present a report on the impact of the leverage ratio to the European Commission by 31 October 2016, also with regard to different business models. The subsequent report of the European Commission shall be transmitted to the European Parliament and the Council, if considered necessary accompanied by a legislative proposal for the introduction of the leverage ratio as an own fund requirement.

2. **Liquidity coverage ratio**

The Basel Committee on Banking Supervision has released in January 2014 detailed liquidity coverage ratio requirements in order to concretize the Basel III provisions which apply to globally systemically important institutions. The European Commission has the intention to adapt these requirements to the characteristics of the EU financial market with its 8,000 credit institutions and its different business models. In particular, the fact shall be accommodated that assets can be more liquid in the EU as on international level. Moreover, in the draft the European Commission deals with the liquidity of credit institutions which are organized in a cooperative and institutional protection scheme. The deposits are treated as level 2B with a minimum haircut of 25 % (article 16). When it comes to outflows the basic outflow rate for stable retail deposits is 5% (provided that they are covered by a deposit guarantee scheme) or respectively 10 % (when there is no coverage by a deposit guarantee scheme) as foreseen in the CRR. However, the future delegated Regulation shall also allow in article 24 for an outflow rate of 3 %, if this has been authorized by the European Commission on request of a member state. Moreover, an outflow of 10-15 % or 15 – 20 % shall apply to other retail deposits depending on the criteria which is listed in article 25 (volume, remuneration, domicile of the depositor or the currency in which the deposit is denominated).

The liquidity coverage ratio shall be introduced according to the delegated Regulation by 1 October 2015 step by step with an initial 60 %. By 2018 it shall reach 100 %. The European Parliament and the Council have now the right to assess the draft and object it if necessary. Otherwise, the delegated Regulation can be published in the Official Journal.

Please find enclosed as an annex the two draft delegated Regulations as well as the annex for the liquidity coverage ratio with relevant formulae for calculation. If you have any comments or remarks on the documents we would be grateful if you would send them to the EFBS office by **30 October 2014**.

If you have further questions, please contact us at any time.

Yours sincerely,

Andreas J. Zehnder
Managing Director
European Federation of Building Societies

Annex:

- Draft delegated Regulation amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio
- Draft delegated Regulation to supplement Regulation (EU) 575/2013 with regard to liquidity coverage requirement for Credit Institutions and annex