14 March, 2019

Mr. William Coen
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Dear Mr. Coen

**BCBS Consultative Document on Revisions to leverage ratio disclosure requirements**

The Global Financial Markets Association (GFMA), the Institute of International Finance (IIF), and the International Swaps and Derivatives Association (ISDA), (the 'Associations') welcome the opportunity to provide comments on the Basel Committee on Banking Supervision (the 'Committee' or 'BCBS') Consultative Document on Revisions to leverage ratio disclosure requirements.

As you know, the Associations support the objectives of the Pillar 3 framework and we would be pleased to continue to contribute to the development of effective and meaningful disclosures. The Associations are supportive also of the policy objective of the leverage ratio and supervisory actions aimed at addressing concerns about potential window dressing activities by banks. The Associations and our members are also very aware that regulatory ratios are to be met at all times. However, there is a divergence of views among our members in relation to the proposals contained in the Consultative Document.

Some of our members believe that 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 disclosure. They are particularly concerned that the analysis may have focused on some specific markets without fully evaluating the wide range of market practices and the complex interaction between regulatory and non-regulatory factors.[1] These members also feel that this approach would assist in increasing their understanding of the proposals but would also assist in determining whether the further Pillar 3 requirements are warranted or whether national supervisory (Pillar 2) measures are a more appropriate approach to address possible issues.

On the other hand, other member banks are supportive of the proposals put forward by the BCBS for these additional disclosures as a Pillar 3 requirement. It has been noted that there is market volatility in some product classes and it is important to monitor those areas thoroughly[2]. Those members are also concerned about global consistency and the issue of a level playing field (and note that in some jurisdictions the averaging methodology has been applied to Pillar 1 requirements).

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[1] In this regard, these members fully endorse the FSB and other standard-setting bodies' statement that further analysis is warranted to untangle the various factors that drive markets participants' behaviours. See FSB, CPMI, BCBS, IOSCO, Incentives to Centrally Clear OTC Derivatives, November 2018 (https://www.bis.org/publ/othp29.pdf). These members also fully endorse CGFS Paper No. 59, Repo market functioning (https://www.bis.org/publ/cgfs59.pdf) which recommends that a further study of repo market be undertaken.

[2] We refer to the analysis in GFMA and ICMA's recent Repo Market Study which notes volatility in the US MMF Treasury repo market as well as well as discussing the impact of other factors that have driven volatility and behaviour in the repo market.

Due to the diverging views of member banks, the balance of this letter is focussed on the technical additions to the disclosure template, including the question in relation to the disclosure of values of central bank reserves.

However, we would be very keen to continue further and more detailed dialogue with the BCBS to provide greater insights into the relevant issues on both sides of the debate and hope that we might have an opportunity for further interaction with you and your colleagues along these lines in the coming weeks.

Data requirements should be proportionate

With regard to data requirements in Pillar 2 supervisory monitoring or Pillar 3 disclosure, it is essential to apply appropriate proportionality with respect to the scope and granularity of these requirements (e.g. major entities within a group should be in scope, but non-material entities can be scoped out). The requirements should also reasonably account for jurisdictional practices. This would ensure that authorities' policy objectives would be achieved in an efficient and timely manner.

Disclosure of central bank reserves

The Associations would note that the disclosure of central bank reserves could be quite sensitive and that it could cause unnecessary procyclical market reactions in certain market circumstances. The Joint Associations considered it important that disclosure requirements do not discourage banks from accessing central bank facilities and that as such we suggested that the associated disclosure requirements should be deleted. This is in accordance with the observations we made in relation to the disclosure of central bank exposure in the industry response to the BCBS consultation on updated Pillar 3 requirements in May 2018.

In addition, the variability of central bank reserves may not always be owing to proactive management decisions and instead the result of daily business flows that can be very volatile. We do not consider therefore that the disclosure of the daily average of central bank deposits would normally provide any significant additional value to investors or other stakeholders. A unique exception to this could involve the disclosure of central bank deposits in the case of their exemption from the leverage ratio under exceptional monetary policy.

Further observations in relation to proposed disclosure template

- In relation to the 'accompanying narrative' in Annex 1, page 3 of the consultation document, the term 'any material differences' could be considered vague and subject to different interpretations across firms. At the most detailed level, this could lead to the disclosure of many types of differences owing to normal banking and customer activities. The BCBS may consider therefore a more granular definition of 'material impact', including those that could raise a concern about a firm meeting the necessary leverage standard.

- Line 29: refers to "cash variation margin". The language may have to be updated depending on the outcome of the BCBS project on client clearing, which might extend the range of margin types that can be used for offsetting.

- Line 30: Lines 31 and 31a are clear that they differentiate between exposures including and excluding the impact of applicable temporary exemptions of central bank reserves. Line 30a is worded in a consistent manner. However, the wording in Line 30 is different and is not clear. This could be streamlined with the wording in the other lines ('Mean value of central bank reserves including the impact of any applicable temporary exemption of central bank reserves').

More generally, the rationale for the requirement for firms to disclose replacement costs associated with derivatives contracts is not clear. In particular, volatility in the measure is driven by market volatility and does not relate to changes in the volumes of bank transactions, and could not therefore relate to any potential window dressing activity. In the case of transactions with collateralised counterparties, a difference in timing between the calculation of the present value and the inclusion of collateral received or posted (usually a few days) could generate some replacement cost fluctuations without the bank having changed any of its positions.

We would note also as a wider point that there may be potentially misleading differences between daily averaged Pillar 3 disclosed leverage ratio figures and non-averaged Pillar 1 figures.

The Associations would be very pleased to discuss any of our observations in further detail and to be of any further assistance to the BCBS in relation to work on Pillar 3 disclosures as needed.

Yours sincerely

| Allison Parent | Richard Gray | Panayiotis Dionysopoulos |
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| Executive Director | Deputy Director | Head of Capital |
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