World Council

March 13, 2019

***Filed electronically***
William Coen
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002
Basel, Switzerland

Re: Consultative Document: *Revisions to leverage ratio disclosure requirements* (December 2018)

Dear Mr. Coen:

World Council of Credit Unions (World Council) appreciates the opportunity to comment on the Basel Committee on Banking Supervision's consultative document *Revisions to leverage ratio disclosure requirements*.[1] Credit unions are cooperative depository institutions and World Council is the leading trade association and development organization for the international credit union movement. Worldwide, there are over 89,000 credit unions in 117 countries with USD 2.1 trillion in total assets serving 260 million physical-person members.[2]

World Council urges the Committee to make the use of daily averages in leverage ratio disclosures optional for non-complex depository institutions, such as credit unions and other community-based mutual depository institutions, that follow standardized risk-based capital rules.

While we understand the impetus for this proposal—especially when internationally active, publicly traded banks reduce their balance sheets to engage in "window dressing" for end-quarter and end-year disclosure purposes that have obvious macroeconomic effects and provide misleading information to investors—our members are cooperative depository institutions that are not publicly traded, rarely operate on a cross-border basis and do not typically engage in the "window dressing" behavior that this proposal seeks to address.

We are concerned that mandating the use of daily averages in disclosures issued by community-based depository institutions following standardized risk-based capital approaches may result in disproportionate reporting burdens on non-complex institutions. We do, however, support community-based depository institutions having the <u>option</u> to use daily averages for reporting purposes.



[1] Basel Committee on Banking Supervision, *Revisions to leverage ratio disclosure requirements* – Consultative Document (Dec. 2018), *available at* https://www.bis.org/bcbs/publ/d456.htm.
[2] World Council, *Statistical Report* (2017), *available at* https://www.woccu.org/impact/global_reach/statreport.

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Our members report that, in general, using daily average net assets or similar daily averages for disclosure purposes would typically result in their reporting higher leverage ratios, not lower ones.

This is because their physical-person members and legal-person members (which are usually small and medium-enterprises) often increase their deposits at the end of each quarter, which drive these institutions' leverage ratios down for end-quarter or end-year reporting purposes.

While our members would like to have the option to report their leverage ratios using daily averages for that reason—i.e. because community-based depository institutions using daily averages typically results in their reporting higher leverage ratios rather than lower ones—we are concerned that the computer system upgrades necessary to track daily averages could result in disproportionate compliance costs, especially in the case of small credit unions. Worldwide, the average credit union is approximately USD 24 million in total assets.

Some prudential regulatory agencies are proposing to limit compliance burdens on community-based depository institutions by only requiring the use of average assets for calculating the leverage ratios of complex banking institutions, or have already adopted such an approach.

In Australia, for example, the Australian Prudential Regulation Authority is proposing only to require institutions using internal-ratings based (IRB) risk-based capital approaches to utilize daily averages for reporting purposes in order to limit disproportionate regulatory burdens on community-based mutual authorised deposit-taking institutions.[3]

Similarly, in the United States of America, using daily average net assets for regulatory capital reporting purposes is only required for "corporate" credit unions that serve as bankers' banks for other credit unions.[4]

We support the Committee's efforts to address "window dressing" behavior by internationally active, publicly traded banks in order to promote macroeconomic stability and to provide better disclosure information to the investors of listed banking institutions.

We urge the Committee, however, to make the use of daily averages in disclosures optional for credit unions and other community-based depository institutions



[3] Australian Prudential Regulation Authority, *Reporting Standard ARS 110.1: Leverage Ratio* at 7-8 (proposed Nov. 2018), *available at* https://www.apra.gov.au/sites/default/files/draft_reporting_standard_ars_1101_leverage_ratio.pdf
[4] 12 C.F.R. § 704.3 ("Corporate credit union capital."), *available at* https://www.law.cornell.edu/cfr/text/12/704.3.

following standardized risk-based capital approaches in order to avoid imposing disproportionate reporting burdens on non-complex institutions.

World Council appreciates the opportunity to comment on the Basel Committee's consultative document *Revisions to leverage ratio disclosure requirements*. If you have questions about our comments, please feel free to contact me at medwards@woccu.org or +1-202-843-0702.

Sincerely,

Michael S. Edwards
SVP and General Counsel
World Council of Credit Unions