

February 17, 2012

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland
baselcommittee@bis.org

Dear Sir/Madam,

Re: CBA¹ Comments on the Basel Committee's Consultative Document: *Definition of capital disclosure requirements*

Thank you for the opportunity to comment on the Basel Committee on Banking Supervision's (Basel Committee) document entitled: *Definition of capital disclosure requirements* (Consultative Document).

We understand the Basel Committee's objective to improve the transparency and clarity of regulatory capital, and to improve comparability across jurisdictions through standardized detailed disclosures. As a general comment, we are broadly supportive of proposals in which the focus is on the consistency of the information disclosed, but recommend that flexibility be allowed so the formats could vary between jurisdictions.

For your consideration, below is a summary of our key concerns. Additional detailed discussion is included in the attached.

Frequency of disclosure

Canadian banks publish financials statements on a quarterly basis and quarterly Basel Capital Adequacy Reporting (BCAR) is due to our national regulator one month after quarter-end. This is in contrast to reporting cycles in Europe and other jurisdictions which publish semi-annually. The Consultative Document proposes that banks disclose Basel III data with the same frequency as they publish financial reports. This represents an unlevel playing field across jurisdictions.

We therefore recommend that, as an alternative to publishing the proposed capital disclosures with the same frequency as financial statements, all banks be required to publish these capital disclosures on a semi-annual basis. This frequency will align Canada with other jurisdictions and

¹ The Canadian Bankers Association works on behalf of 53 domestic banks, foreign bank subsidiaries and foreign bank branches operating in Canada and their 263,400 employees to advocate for effective public policies that contribute to a sound, successful banking system that benefits Canadians and Canada's economy. The Association also promotes financial literacy to help Canadians make informed financial decisions.

will achieve the goal of increased transparency of regulatory capital. In addition, and given the requirement to publish financial statements and submit BCAR statements during the same period, we would be grateful for additional time to publish the proposed capital disclosure requirements (e.g. Regulatory Disclosures published one month in arrears instead of at the same time as published reports and regulatory filing).

With respect to the Main Features template, we suggest that a Main Features report need not be issued on an ad hoc basis whenever a capital instrument is issued or redeemed for the following reasons:

- in Canada, upon the issuance or redemption of a capital instrument (and in addition to a prospectus upon a new issuance), banks disclose adequate information to the market in the form of a: (i) public press release which details the material terms of a transaction including its impact on capital; and (ii) Material Change Report which is published upon the occurrence of an event that has a material impact on share price (which includes material issuances of capital) and discloses material changes to regulatory capital. We believe this to be sufficient for the purposes of providing transparent ad hoc capital disclosures; and
- Canadian banks typically explain the change in capital arising from issuances or redemptions in their quarterly results.

For these reasons, we believe that our capital disclosures pertaining to issuances or redemptions of capital instruments are adequately transparent and provide clarity to investors. We encourage the Basel Committee to adopt a more flexible approach in this regard and take into account jurisdictional differences. It is our preference that the Main Features report be reported in the same frequency as the periodic capital disclosure and Regulatory Disclosures.

Finally, we request clarification with respect to the frequency of disclosure for the Reconciliation requirement. Section 2 of the Consultative Document makes reference to paragraph 91 of *Basel III: A global regulatory framework for more resilient banks and banking systems*, pursuant to which banks are required to disclose “a full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements”. Given that the banks’ financial statements are audited annually, we would like to confirm that the reconciliation is also an annual requirement, as intended under Basel III.

Transitional requirements

Since some national regulators expect their banks to fully comply with Basel III capital rules by 2013, we question whether the transitional template is appropriate for use during the 2013 – 2018 period. We therefore seek clarification from the Basel Committee with respect to whether the transitional template or the post January 1, 2018 common template should be used by banks subject to early implementation during the 2013 - 2018 transition period. We recommend disclosure using the post January 1 2018 common template for banks fully complying with Basel III capital rules by 2013.

Further and from a disclosure perspective, banks subject to early implementation are likely to have common equity ratios lower than banks in jurisdictions which permit phase-in capital deductions between 2013 – 2018. Therefore and in order to avoid misleading disclosures, the template used by banks complying with Basel III capital rules by 2013 during the transition period ought to: (i) clarify that the resulting capital ratios are based on the full implementation of Basel III capital rules; and (ii) afford banks subject to early implementation with the option to provide Basel III capital metrics using the phase-in rules. This will promote global comparability and will be helpful to market participants.

Transitional and post January 1, 2018 disclosure template

Detailed assessments of capital positions of banks and comparisons of their capital positions on a cross jurisdictional basis will be facilitated by the disclosure requirements outlined in your document. While we believe that consistency of reporting will be helpful for users when comparing institutions across jurisdictions, we are concerned that incorrect conclusions will be reached on the capital strength of different banks due to the varying approaches used in the calculation of risk weighted assets (RWA). We therefore support the Basel Committee's efforts to look at the issue of RWA consistency and how to achieve reasonable convergence across banks and jurisdictions that further promotes a level playing field. In addition, we recommend that explicit disclosure of the method used to calculate RWA be included in the template.

Reconciliation requirements

We note that paragraph 4 of the Consultative Document which summarizes the proposed reconciliation requirements states that the approach *"is not based on a common template because the starting point for reconciliation, the bank's reported balance sheet, will vary between jurisdictions due to the application of different accounting standards"*. We are very supportive of this flexible approach and firmly believe that banks should have the option to provide a presentation format that is aligned with their existing balance sheet disclosures.

We are, however, concerned that the reconciliation proposal in the Consultation Document may require banks to provide reconciliations at a granular level of detail to align with the level of detail in the regulatory capital disclosure template. This is problematic for the following reasons:

- for large banking groups, this process would result in a large number of linkages between the accounting balance sheet and the regulatory capital template and we are concerned that this is more likely to confuse market participants rather than provide clarity; and
- matching regulatory capital elements to balance sheet amounts is not straightforward and would require certain assumptions and accompanying explanations. For example, own credit risk adjustments to the fair value of liabilities are required to be derecognized from regulatory capital despite not being separate and verifiable accounting elements.

We suggest that it would be more beneficial to users if banks are required to explain the links between their balance sheet and regulatory capital at a summary level designed to provide market participants with useful information rather than the forced mapping and technical comparison in Annex 2. In the alternative, banks should provide their own summary level information in addition to the mapping to assist the user, and we would appreciate flexibility in situations where there are minimal differences between the financial statement balance sheet and the regulatory balance sheet in view that there is very little value for line by line reconciliation if there is no substantive difference to explain.

Main features template

We note that while the main features template addresses non-viability contingent capital (NVCC) contractual type instruments, it does not seem to clearly address the disclosure requirements for instruments under a statutory resolution regime. We believe that the template should address the following:

- NVCC contractual/statutory resolution - we believe that this will help the market to better understand that instruments are exposed to loss via statutory mechanisms; and

- triggering authority at the point of non-viability - this is different than the resolution authority in many cases, including Canada, where the national supervisor might be pulling the trigger, but the resolution authority is another agency.

In addition, we do not see the need for individual jurisdictions to add other items in the main features template. The other capital features set out in paragraph 32 that individual jurisdictions may require in addition to what are proposed in the main features template (and hence sets out the possibility of gold-plating in disclosure requirements), only defeats the purpose of the consultative document which is to achieve comparability of disclosures across jurisdictions. We would ask that the Basel Committee discourage local regulators from requiring additional detail.

In conclusion, we question whether it is possible to improve the transparency and comparability of regulatory capital through standardized disclosures due to existing differences within generally accepted accounting principles (GAAP) financial statements. We recommend that any final capital disclosure templates disclose that figures may not be completely comparable due to GAAP differences.

We thank you for taking our comments into consideration and would be pleased to discuss these issues further at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to be "J. G. ...", written in a cursive style.

CBA comments on BCBS Consultative Document – Definition of capital disclosure requirements

CBA Members' Comments and Requests for Clarification	
OVERALL COMMENTS	
<ul style="list-style-type: none"> ▪ We assume that reconciliation between the pre 2018 and post 2018 ratios is not required. ▪ The Consultation Document proposes that banks comply with the proposed disclosure requirements from the date of publication of their first set of financial statements on or after January 1, 2013. Given that many countries, including Canada, are only in the process of developing national Basel III guidelines, we would appreciate flexibility and national discretion with respect to the adoption date. 	
Section 1: Post 1 January 2018 disclosure template	
<ul style="list-style-type: none"> ▪ We assume that the template will be modified to reflect new/revised Basel guidance (e.g. line 14 of the proposed common disclosure template in Annex 1 which refers to gains and losses due to changes in own credit risk on fair valued liabilities to include the derecognition of DVA gains and losses, line 64 which concerns institution specific buffer requirements to include the G-SIB buffer). 	
Section 2: Reconciliation requirements	
<ul style="list-style-type: none"> ▪ We note that Step 3 of Annex 2 proposes the addition of a column post January 1, 2018 to show the source of every capital input. Could the Basel Committee confirm whether this additional column is required during the transitional phase? 	
Section 3: Main features template	
<ul style="list-style-type: none"> ▪ The main features template should simply contain the principal features in view that the full terms and conditions will be required to be disclosed on a bank's website (as per Section 4). As such, we believe that the additional features outlined in paragraph 32 are not required. ▪ The addition of common shares to the template would not add any value. This is because most of the lines noted in the main features template do not apply to common shares (e.g. common shares do not have a par value, there is no perpetual/redemption date etc). The few lines that do apply are disclosed globally in a fairly standard manner. As such, we do not believe that common shares should be included in the template. 	

CBA Members' Comments and Requests for Clarification

- The "Amount recognised in regulatory capital" at an instrument level could be problematic during the transition phase should a bank's actual Additional Tier 1 or Tier 2 amounts be in excess of their respective caps. Only aggregated Tier 1 and Tier 2 are required for capital adequacy reporting. We are therefore of the view that allocation to an instrument level is unnecessary and not useful to market participants. We further believe that its inclusion may be misleading and cause market confusion. As such, it should not be included.

Section 4: Other disclosure requirements

- We note that paragraph 52 of Annex 3 directs banks to insert "NA" if questions in the main features template are not applicable. We believe that this will raise more questions than clarifications and recommend the disclosure of lines that are applicable only.