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Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Dear Sirs

DEFINITION OF CAPITAL DISCLOSURE ELEMENTS

FirstRand Limited (FirstRand) welcomes the Basel Committee's consultative document titled "Definition of capital disclosure requirements" and the goal to improve transparency of regulatory capital in order to enhance market discipline. FirstRand supports the use of common templates, but would like to highlight some reservations that may not only be applicable to the South African market but to banks in general.

Section 1 – Post 1 January 2018 disclosure template
In terms of the South African Banks Act, banks can only refer to "primary" and "secondary" capital, not "Tier 1" and "Tier 2" capital. Moreover, banks in South Africa will not be allowed to refer to "Common Equity Tier 1" (CET1) or "Additional Tier 1" (AT1) as set out in the consultative paper.

Even though the South African Regulator may encourage banks to use the common template, different wording, to incorporate the South African definitions, may create uncertainty when international investors compare the capital strength of banks across different jurisdictions. This immediately distracts from the initial objective of comparability.

Additionally, banks are required to include an explanation of all capital terminology that is not consistent with the Basel III definitions. Whilst an item disclosed as "Primary Common Equity" by South African banks may have the same meaning as CET1, international investors may immediately interpret the ratio as a derivation of the Basel III definition. A footnote explaining the exact meaning may be overlooked, given the myriad of information proposed in the consultative document.

As a general comment, we are concerned that the template may be providing too much detailed information, which may distract from market participants' understanding of the bank's business. It is questionable whether most market participants would actually be interested in the line by line items required in the template.

More specifically the template proposes in line 56 that "national specific regulatory adjustments" be included separately. It is not certain how a number of regulatory adjustments will be included in a single line. Is it the intention to expand the line, or add a footnote to explain the difference? This line item may reduce the comparability of numbers if left up to national regulators.

Line 68 also requires the National Tier 1 and National total capital minimum ratio to be disclosed. Banks in South Africa are not allowed to disclose the bank-specific (Pillar 2) add-on. National regulators may therefore interpret this line differently, with some jurisdictions including the Pillar 2 add-on and others not. Again, comparability of numbers may diminish given different interpretation.

It is also not clear from the consultative paper how future Basel pronouncements (or changes) will impact the template. It is proposed that the updated template be included as an annexure to every new Basel pronouncement to ensure that all changes are consistently applied to the template. One specific example is the add-on for domestically significant banks – would this be reflected in line 64 or line 68?

Section 2 – Reconciliation requirements

Given the complexity of certain banking groups, the reconciliation between accounting and regulatory balance sheets may confuse market participant. Moreover, different approaches to regulatory consolidation may distract from the original intention of the document to improve "ease of use".

Currently, banks in South Africa provide a high-level reconciliation between IFRS equity and regulatory capital. Whilst this is not a requirement, market discipline has forced banks to disclose this reconciliation. As part of the reconciliation, banks normally unpack significant items, with a short explanation on why the regulatory treatment differs from the accounting treatment. From our interaction with analysts, it appears if this level of information is sufficient to focus their attention on the large items that may influence their assessment of a bank.

More specifically, does the "total assets" under regulatory scope of consolidation refer to the IFRS number or the risk-weighted assets number? Moreover, it is not clear how transitional arrangements are included in the reconciliation template. For example, non-cumulative non-redeemable preference shares may be included in "paid-in share capital" but may not be eligible for AT1. A "non-qualifying" line may have to be added.

It may be advisable to use a common template within a single jurisdiction.

Section 3 – Main features template

It is uncertain how often the main feature template should be updated. The Basel paper recommends that the report be included in a bank's published financial reports or provide a direct link to where the report can be found on a bank's website. If only included in a bank's annual financial reports, the information may only be updated on a six monthly basis; whereas the

information can be updated more frequently if only published on a bank's website. It is proposed that this information be updated on a bank's website only following an issuance or redemption.

We are of the opinion that the current list of items included in the main features template should not be expanded to include more information. It is also questionable whether market participants would find this information useful as banks already include prospectuses that contain the detail features of all instruments issued under a programme on their websites.

Section 4 – Other disclosure requirements
As mentioned under Section 1, banks in South Africa are prevented from using the Basel III terminology of CET1, AT1, etc. It is uncertain whether banks in SA will have to include a comprehensive explanation of how the equivalent CET1 is calculated, even though the ratio is exactly the same. If not, international investors may find any form of uniform template confusing. It is proposed that the Basel Committee encourage national regulators to produce country-specific templates and communicate the fact that it is not a divergence from Basel III proposals.

Section 5 – Template during the transitional period
No specific comments other than those included in Section 1.

We appreciate the opportunity to comment on the consultative document on the capital disclosure requirements. Should you have any questions on the issues raised in this letter, please contact us should you require further information.

Yours sincerely

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