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17 February 2012

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

Re: Comments on the Consultative document: Definition of capital disclosure requirements

Dear Secretariat,

The Global Financial Markets Association (GFMA)¹ welcomes the opportunity to comment on the consultative document; Definition of capital disclosure requirements, 19 December 2011. GFMA would like to express its support for the work that the Basel Committee has undertaken to implement clear and comparable disclosure of regulatory capital following the implementation of Basel III, which entails a substantial redefinition of capital. As pointed out in the consultative document, at present, there is no consistent format across all jurisdictions for disclosure of the composition of capital. Moreover, as Basel III introduces significantly more precision in the definition of eligible capital it is appropriate to revisit the existing Pillar 3 disclosure requirements.

Summary of views

In what follows, we outline some of the concerns we have with the specific elements of this proposal and make suggestions for moving forward. Our overall view is that the BCBS should focus on post-2018 capital disclosures, taking more time to agree on the specific

¹ The Global Financial Markets Association (GFMA) brings together three of the world's leading financial trade associations to address the increasingly important global regulatory agenda and to promote coordinated advocacy efforts. The Association for Financial Markets in Europe (AFME) in London and Brussels, the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian and North American members of GFMA.

modalities of that disclosure, and not implement the transitional template. Our reasons include:

- The value of the transitional templates are compromised by the uneven pace of implementation of rules governing Basel III, as well as revisions to and uncertainties about risk-weighted asset calculations.
- It is difficult to evaluate the impact of this proposal without understanding the bigger picture of upcoming Pillar 3 revisions, as well as additional reporting and disclosure that will result from other international policy initiatives.
- This proposal, as with any other reporting and disclosure proposals, should be subject to a cost/benefit review. One step that clearly reduces costs and enhances benefits is to ensure data definitions are harmonized where possible, within and across templates.

Detailed comments

We support the Committee's approach to ensure regulators have a common understanding of financial institutions' regulatory capital positions and to enhance market discipline by creating globally consistent disclosure standards. However, GFMA is concerned that the transitional templates will not have the comparability that would make them useful to the marketplace. First, while a reasonable, fully understood and vetted disclosure framework could likely be in place by 1 January 2018, it seems likely that many jurisdictions will not have completed their Basel III implementation processes by early 2013, in which case institutions would not have detailed national guidance on which to base their disclosures. Even when jurisdictions have completed implementation, comparability will not be achieved prior to 2018 due to the national discretion that is allowed on transitional arrangements.

Moreover, the meaningfulness of the disclosures will be compromised if there is not consistent implementation and disclosures of capital ratios, in particular, risk-weighted assets. While risk-weighted asset disclosures are now embodied in Basel II Pillar 2 standards, there remains concern about the consistent implementation of the calculation of risk-weighted assets, something an impending BCBS peer review is going to assess. We understand that an interim report will be provided to Finance Ministers in June, although we do not yet know the findings or how long it will take to ensure that risk-weighted asset calculations are consistently implemented. In addition, Basel III contains certain revisions to risk weighted assets and market risk assets. Until the consistency of risk-weighted asset

calculations is assured, and revisions to risk-weighted assets are implemented, disclosures of capital components will not be particularly meaningful.

Setting aside the transitional template also allows the BCBS to take more time to agree on the final form of the capital disclosure templates, which will yield some important benefits. First, GFMA considers it critical to step back and consider the totality of the emerging reporting and disclosure framework before finalizing any components of this framework. For example, it is unclear to us how the proposed disclosures relate to Pillar 3 disclosure under the Basel framework. Without knowing the extent to which the current Basel II Pillar 3 disclosure requirements will change, it is next to impossible to evaluate the impact of the proposal. Moreover, while national regulators have in many cases implemented additional minimum disclosures beyond those in Basel II Pillar 3, it is not clear how those various national requirements compare to these expanded BCBS proposed requirements. Before finalizing a disclosure framework for capital components, the BCBS should specify the broader framework that these disclosures would fit into, and establish some principles for implementing the proposed templates into existing domestic disclosure requirements and other emerging international disclosure regimes in order to prevent imposing duplicate reporting exercises. Once that is achieved, attention should also be paid to ensuring that the individual components of capital, including deductions, are sufficiently well-defined so that there is no room for inconsistent interpretation between individual institutions or national regulators. In that regard, we welcome the ongoing FAQ process.

GFMA recommends that in addition to clarifying for the industry its plans for additional reporting and disclosure guidance, the BCBS should articulate how it is ensuring that appropriate cost/benefit analysis is conducted to understand the impact the proposals may have on the participating financial institutions. One aspect in particular that will cut down the potential burden on institutions – as well as improve the benefit to the users -- is a focus on common definitions of data elements, not just within these templates as noted above, but across reporting frameworks. We would like to note our response to the Financial Stability Board regarding the consultative document Understanding Financial Linkages: A Common Data Template for Global Systemically Important Banks, 6 October 2011, in which we emphasize the need to focus on consistency of data definitions before implementing new data reporting requirements for G-SIBs. A similar approach is needed here, where a firm commitment is made to align the various reporting and disclosure regimes where at all possible, rather than layer on potentially redundant requirements. Standardization of definitions is tedious and can take time, but yields great benefits for both providers and users of information.

GFMA believes the best course of action vis-à-vis disclosures of capital elements is to dispense with the transitional template and take enough time to develop the most effective and efficient method of disclosing the new capital requirements, including building in another consultation once a more complete proposal is developed. The BCBS should continue with its QIS monitoring during the interim, and use that process to evaluate the usefulness of the information and clarify and align definitions of the reported data. In addition, many jurisdictions are implementing requirements that will result in improved capital transparency during the transition to Basel III. For example, in the U.S. many banks will begin in 2012 and 2013 disclosing the results of capital stress tests under a variety of stress scenarios, and government-run stress tests results are being disclosed in the U.S. and EU.

GFMA would like to reiterate our support for initiatives which could assist supervisors and market participants in analyzing and comparing financial data across a number of jurisdictions. The GFMA looks forward to working with the BCBS in advancing this work with a view to reducing risk and fostering financial stability. We appreciate the opportunity to provide these comments. Should you require further information, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Simon Lewis".

Simon Lewis
CEO
GFMA