



**Andres Portilla**

Director, Regulatory Affairs Department  
*Institute of International Finance*

**Eli K. Peterson**

Vice President & Regulatory Counsel  
*The Clearing House Association L.L.C.*

February 17, 2012

The Honorable Stefan Ingves  
Chairman  
Basel Committee on Banking Supervision  
Centralbahnplatz 2  
Basel  
Switzerland

**Re: Comments on the BCBS' Consultative Document on the Definition of  
Capital Disclosure Requirements**

Dear Chairman Ingves:

The Institute of International Finance (IIF) and The Clearing House Association L.L.C. (TCH) would like to thank the Basel Committee for the opportunity to comment on the consultative document on the *Definition of Capital Disclosure Requirements*. The IIF and TCH are supportive of the main goal of the consultative document, which is to improve transparency of regulatory capital in order to enhance market discipline. We are also generally supportive of the use of common templates to achieve comparability in disclosures, especially if these templates use terminology consistent across jurisdictions and with other reporting initiatives already in place. The common templates, if implemented appropriately, can lessen the burden on global banks' reporting systems and can assist market participants and supervisors in making more accurate cross-jurisdictional comparisons of banks' capital positions.

However, while the data required in the proposed template are generally available to banks, we question whether providing too much detailed information in banks' published financial reports would actually be useful to most market participants. We propose that for such detailed information, banks have the option to make such information available only on their websites (with direct link in the published financial reports), and that the published financial reports be required to focus only on giving summary analyses (directing users to the website for further detailed information). These summary analyses should include management's views as well as key information that should be disclosed to the market. We believe therefore that the Basel capital disclosure requirements would benefit from the inclusion of a general guidance as to the types of information that should be highlighted in

the published financial reports' summary analyses, rather than focusing solely on the detailed templates.

We would also like to express our concern about the proposed date on which the proposed capital disclosure requirements would become effective. It should be noted that banks would still need guidance from national regulators once these proposals are finalized internationally, leaving them with very little time to prepare for the final form of these requirements at the national level. As noted in the Basel Committee's *Progress Report on Basel III implementation* (October 2011), a number of jurisdictions have yet to publish draft regulations to implement Basel III. The 2013 implementation date of the new disclosure requirements therefore seems to be unrealistic. In this regard, we would recommend that the Committee provide sufficient lead time for the national implementation of the new requirements.

If the goal of comparability and consistency of disclosed information is to be achieved, the Basel Committee should ensure that the disclosure requirements are strictly enforced across jurisdictions. Hence, we are assuming that this will form part of the Basel Committee's planned peer-review process to assess the implementation of Basel III.

In addition to these general comments, we have discussed these proposals with our members and submit the comments on each of the main elements below.

- **Post 1 January 2018 disclosure template (Annex 1).** Providing the detailed information required in this template will not be a problem for banks since this is already required for Basel III monitoring purposes. However, it is questionable whether most market participants would really be interested in the line-by-line items required in the template. The important information could be lost in the details, rendering the template less useful. For published financial reports, the disclosures should be limited to important headline items to reduce the clutter and improve market participants' ability to identify and understand relevant information. We propose therefore that banks have the option to make this template publicly available only on their websites, and that the published financial reports provide a direct link to the website.

On the specific items in the proposed template, we wish to clarify whether the G-SIB capital surcharge (or the domestic SIB capital surcharge), where applicable, would also be reflected in item 64. The explanation of item 64 in the consultative document limits it only to the capital conservation and countercyclical buffers, but there seems to be no other item where the G-SIB surcharge can be included.

The template may still mask some divergences in the local implementation of Basel III. In cases where local divergences are not captured by the template, accompanying explanations must be required of what these are and their effects on the resulting capital level/ratio. This will enable market participants and supervisors to effectively make cross-jurisdictional comparisons of banks' capital positions.

We also note that, as stated in the consultative document, the proposal is limited to the disclosure of the composition of capital and capital ratios of banks, and that further

work may be undertaken on the required disclosures for capital requirements (i.e. RWA). We believe this is the right direction in order to achieve a fuller picture of banks' capital strength and to improve the comparability of capital disclosures across banks. This effort should be coordinated with the FSB work on risk disclosures, as well as the BCBS SIG work on RWA.

- **Reconciliation requirements (Annex 2).** The proposal requires drilling down into the balance sheet to the level where it can be readily mapped to the regulatory capital disclosure template. For large, complex banking groups, this would result in a large number of linkages between the accounting balance sheet and the regulatory capital template, which will more likely confuse rather than enlighten users. In addition, simply drilling down the balance sheet to the desired level of detail to match the regulatory capital template could be done but understanding the relationships of often-different requirements would be a challenge to market participants without explanations of the differences. This could only lead to the unintended consequence of users of information drawing erroneous conclusions.

We believe therefore that rather than requiring banks to do line-by-line mapping of the capital disclosure template and the balance sheet (which is difficult to do without making numerous assumptions, and hard to understand without complex explanations), it would be more useful to market participants if banks were to provide narrative explanations of the most significant differences between the regulatory capital template and the balance sheet. This will meet market participants' need for high quality, summarized information that is immediately relevant and understandable. Recent discussions with analysts also indicate that what they are really interested in is to understand the key differences between the different scopes of consolidation across jurisdictions. These differences are more easily explained using material figures plus supporting commentary rather than through the proposed line-by-line mapping.

The basis of the reconciliation proposal is paragraph 91 of the Basel III rules text, which states that banks should disclose "*a full reconciliation of all regulatory capital elements back to the balance sheet in the **audited financial statements.***" The consultative document, however, proposes that this requirement be done with the same frequency as the publication of banks' financial statements (i.e. quarterly or half yearly). We note that quarterly financial statements are not audited; hence, this requirement should be limited to audited financial statements only as originally intended under Basel III.

It should also be clarified as to whether this requirement would apply in the case of restated financial statements. If it does, the restatement of the reconciliation (or, as we propose above, the restatement of the explanations) should only be required if clearly material to a user's understanding of the capital position of the firm.

- **Main features template (Annex 3).** As with the regulatory capital disclosure template, there should be an option to allow the main features template to be made publicly available only through banks' websites in order to streamline the information provided in the published financial reports. It should also be made clear that this requirement should in no way replace the prospectus or form part of the prospectus for legal purposes.

In addition, we do not see the need for individual jurisdictions to add other items in the main features template. These additional items as provided in paragraph 32, which raise the possibility of gold-plating in disclosure requirements, only defeat the purpose of the consultative document of achieving comparability of disclosures across jurisdictions. This is apart from the fact that some of these additional items are too detailed. For example, covenants and events of default are too lengthy to summarize accurately and they tend to be standardized in different markets so the value of disclosing these items is limited. Jurisdictions should be discouraged from requiring disclosures that add or differ from those in the template; if, however, they nonetheless make other requirements, they should be kept separate from the Basel-mandated disclosures.

- **Other disclosure requirements.** The consultative document proposes that banks should be prohibited from using Basel III terms (e.g. Tier 1, Tier 2, Total Capital and their ratios) if not used in accordance with the Basel III minimum requirements as implemented under national law. It should be noted that the terms Tier 1, Tier 2, and Total Capital are terms used under the Basel I, II, and III frameworks. Hence, the implications of this proposed requirement in cases where there is a delayed implementation of Basel III in a jurisdiction should be clarified.

We recognize that the Basel III rules text already requires the disclosure of the full terms and conditions of all instruments included in regulatory capital. However, as with the main features template above, it should be made clear that this requirement should in no way replace the prospectus or form part of the prospectus for legal purposes. In addition, we would like to reiterate a concern we raised before that this could prove problematic particularly in the case of some forms of capital. While full disclosure to the firm's supervisors of all terms of capital instruments is of course essential, market disclosures should be limited to material, general, essential terms, and not to full details in order not to adversely affect access to potentially important sources of capital.

- **Template during the transitional period (Annex 4).** This template is just a slightly modified version of the post 1 January 2018 template; accordingly, we have the same comments as we indicated above. In addition, it should be clarified that this template will replace the currently required Basel III monitoring template.

Once again, 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 the undersigned ([aportilla@iif.com](mailto:aportilla@iif.com), +1 202 857 3645; [Eli.Peterson@theclearinghouse.org](mailto:Eli.Peterson@theclearinghouse.org), +1 202 649 4602) or Jermy Prenio ([jprenio@iif.com](mailto:jprenio@iif.com); +1 202 682 7455).

Best regards.



Andres Portilla



Eli Peterson