

**Comments on the Basel Committee on Banking Supervision's
Consultative document
*Definition of capital disclosure requirements***

Japanese Bankers Association

The Japanese Bankers Association wishes to express its appreciation for the opportunity to comment on the Consultative document, *Definition of capital disclosure requirements*, released December 19, 2011, by the Basel Committee on Banking Supervision.

We hope that our comments below will assist the Basel Committee on Banking Supervision in finalizing the rule going forward.

【General comments】

The JBA fully recognizes the importance of ensuring market discipline through appropriate disclosure of regulatory capital, and is in agreement with the proposal to introduce a common template in order to increase the comparability of such disclosures.

However, disclosing all the items at the frequency proposed in the Consultative document will not necessarily be beneficial for market participants and supervisors. Consideration should also be given to the excessive practical burden placed on banks and the possibility increasing the difficulties of their funding.

We hope that the following points will be taken into consideration so that regulatory disclosed data function in a truly meaningful way, in terms of appropriateness of disclosure items and frequency of disclosure, based on the principle of materiality.

【Specific comments】

1. Disclosure of *Elements of capital* (Section 1, 2, Annex 1, 2, 4)

Should all disclosure items as proposed in the Consultative document be disclosed, the volume of disclosed data would multiply considerably, putting excessive practical burdens on banks. At the same time, gathering all disclosure items will not always benefit market participants and supervisors.

For example, locating truly necessary data would be difficult when the data contains various items whose amount and materiality are extremely low.

We believe that aggregating minor items and focusing on major items would be

appropriate for banks, market participants, and supervisors alike. Further, since there should be additional or unnecessary items depending on the difference of the accounting standards and capital regulations for individual countries, authorities of individual countries should be able to make their own adjustments to the template.

2. Disclosure of capital instruments' features (Section 3, 4, Annex 3)

Disclosing entire terms and conditions for each capital instruments is not necessarily beneficial for market participants and supervisors.

Major banks issue and redeem dozens of new instruments, including Tier2 capital instruments every year, which imposes excessively frequent disclosure on those banks. Users who analyze and make decision would be obliged to face the mixture of information with different levels of importance if the huge numbers of items are disclosed.

In particular, considering that the number of Tier 2 capital instruments issued is so large, we strongly recommend that Tier 2 capital instruments should be disclosed on a group basis with similar attributes together, rather than on an individual deal basis.

Further, banks conduct marketing and make pricing in raising funds, corresponding to each issue market. Therefore to disclose and/or comparatively analyze the detailed terms and conditions of instruments with different issue markets (domestic/overseas, wholesale/retail, public/private offering) could lead to misunderstanding and confusion among market participants. This could be an impediment to the day-to-day fundraising.

Especially, it is not realistic to impose disclosure requirement every time new instruments are issued both in terms of frequency and volume, and this would also have a huge impact on banks' flexible fundraising. Our belief is that it is sufficient to update the disclosure data when the financial statements are published, rather than updating whenever every new issue occurs.

While we recognize the continued importance of disclosing qualitative data on hybrid Tier 1 capital instruments, Tier 1 and Tier 2 capital instruments should have different levels of disclosure reflecting the difference of importance of the capital structure.

As for the coupon rate, by fully taking into account the adverse impact of disclosing in detail at every issuance, we strongly recommend that these financial instruments should be disclosed on a group basis with similar attributes together and show the range of existing coupon rate within the group.

In addition, considering the features of the negotiated transaction such as private

offering bonds and subordinate loans, it is not appropriate to disclose individual terms and conditions of these transactions. Detailed disclosure of these transactions could arouse investor's cautious attitude toward investments, and this could make banks' fundraising more difficult.

Though Paragraph 32 lists features not currently included in the template, it is not necessary to include these features in the future template, because the typical features are already covered in the current template.

3. Disclosure template during the transitional period (Section 5, Annex 4)

Regulatory adjustments, including the deduction from capital in Basel III, such as intangible assets, defined benefit pension fund assets or investments in the capital of financial institutions, should be disclosed in a form of separated table, not in the template in Annex 4 of the Consultative document. It should be allowed to disclose these adjustments in a simplified way, for example by allowing to group these adjustments (eg., aggregate investments in the capital of financial institutions), rather than showing the amount of each individual adjustment separately.

We are concerned that disclosures using the template format in Annex 4 would make it possible to easily calculate banks' capital ratio at the time of full implementation before the transition period ends. Consequently, market participants will be forced to pay attention to the fully implemented ratio.

It may lead to the market participants' demand for banks to meeting the capital requirement of Basel III at fully implemented basis before the final effective date, and medium to long-term banks' capital management during the transitional period would be impeded. The *raison d'être* of the transitional period, which is intended to ease extreme changes, could be dismissed.

Further, simplified disclosure methods should be allowed at the first year when the regulatory disclosure will become applicable, because some countries are forced to disclose earlier than other countries due to the difference of accounting period and those countries are not adequately prepared for the requirements of this Consultative document. For example, we propose that a simplified method, such as reporting only the total adjustment amount for each tier of capital should be allowed.