

Santander's comments on the Basel Committee on Banking Supervision (BCBS) consultative document "*Definition of capital disclosure requirements*"

We welcome the BCBS proposal on the definition of capital disclosure requirements, especially at a time when reducing uncertainty is crucial to recover market confidence. As a bank deeply committed with market transparency¹ we strongly support those initiatives that could contribute to ensure a similar level of transparency across institutions and comparability among them. This would reduce the cost of gathering and processing information for market participants, making easier the assessment of each institution's risk profile and thus allowing proper price discrimination among institutions. We are convinced that **market discipline is instrumental for ensuring the smooth and efficient functioning of the financial markets.**

However, for transparency to improve market discipline, **the definitions on which the information to be disclosed is build upon** should be previously harmonized. Disclosure of the capital ratios without previous consistency in these definitions or without a full disclosure of these differences could give a false sense of comparability that results misleading. Thus we advise regulators to require disclosure of capital ratios only when comparable and encourage them to address pending issues such as consistency in the calculations of Risk Weighted Assets (RWA), accounting rules and other areas of national divergences and to promote equivalent disclosure regarding risk calculations and risk profile before further capital ratios disclosure is implemented. Moreover the set of information to be disclosed **should be a subset of the information required by the supervisors** in order to reduce the burden and enhance comparability.

Moreover, the **definition of capital ratios at national level not fully aligned with Basel III**, such as the "*core capital*" defined by the European Banking Authority (EBA) in the context of the European Stress Test and recapitalization exercises, should be avoided. It is a source of confusion among market participants and institutions that have to comply with different capital rules at the same time. For example, in Spain, we have now three different legal capital ratios we have to comply with: the "*capital principal*" defined in a Royal Decree at national level, the EBA "*core capital*" defined in the context of stress test and recapitalization exercises and the Basel II capital ratios, the two latter presenting large divergences in implementation across jurisdictions.

Against this background our major concern on the proposal is the **additional information to be reported during the transitional period**. We share the concerns of the BCBS regarding the challenges that the Basel III transitional arrangements and the different pace at which different national jurisdictions could implement different aspects, poses from a proper

¹ As an example of Santander's commitment with transparency in 2010 we enhance the disclosure of our real state risk profile providing detailed breakdowns, and in 2011 we started to provide detailed information of our sovereign debt portfolio in our annual statements.

disclosure point of view. However, the current proposal could imply a “*de facto*” anticipation of the Basel III final requirements, **making inoperative the transition arrangements**, with the consequent negative impact on the real economy. The BCBS estimates only a mild impact on real growth if implementation is progressive but anticipates much more dramatic effects otherwise, that’s why transitional arrangements are introduced. Markets shall automatically adjust capital ratios calculations by the full “*amounts subject to pre-Basel III treatment*” showed in the template, ignoring the effect of banks active management during the transition phase. The active management will result in a progressively lower impact of Basel III as banks adapt their policies and strategies in response to Basel III incentives (e.g. impact on the generation of deferred tax assets).

With respect to the **reconciliation template** we share the view of the IBFed industry association that especially for larger, complex banking groups the output of this particular exercise may more likely confuse users than enlighten them. This is because the resulting template would itself be complex, with a large number of 'many-to-many' linkages between the accounting and regulatory balance sheets, including a lack of one-to-one correlation in many instances. This complexity is mainly due by the algorithms established by the Basel text for some calculations. We can take as an example the reconciliation exercise for shares in the trading book and in the available for sale category of the same instrument issued by a financial institution on which the group has participation above 10%. The reconciliation between the amounts showed in the balance sheet with the amount to be deducted for prudential purposes entails a high degree of complexity, both from the point of view of its elaboration and from the viewpoint of its understanding by the final user. The effort expended in preparing this template would therefore be disproportionate to the value added. More helpful to users from the outset would be: a) to provide figures for the principal differences, both in terms of material amounts and significant topics that we know to be of interest to investors, and b) narrative to explain that data meaningfully to them.

With respect to the detailed “**Main features template**” in Section 3 we are concerned by the fact that the document encourages national authorities to require the disclosure of additional information if deemed important. This could open the door for large divergences across jurisdictions raising issues of level playing field and impairing comparability. Some of the information that was considered during the BCBS discussions and is not currently included in the template, e.g. the governing laws of the instrument, events of default, covenants, etc merits to be part of the set of minimum common information. We are in favour of a common template that reduces the room for national discretion.

Moreover, the prohibition to refer to Basel III capital ratios if they are not calculated according with national implementation rules would imply presenting as similar, capital ratios that could mask large divergences due to national divergences. Provide the assumptions behind the capital ratios calculations are fully explained, **institutions shall be allowed to present the ratios in comparable international basis**. A solution could be to present the ratio as

required under the national law, and also the ratios, decided by the BCBS, relevant for peer comparisons clarifying that these ratios comply with Basel III minimum requirements but not with the stricter national implementation rules.

In addition, in order to ensure similar quality standards we think that **disclosure requirements should be limited to audited financial statements**. As quarterly financial statements are not generally audited, we take the view that **yearly publication** represents the best trade off between quality and timeliness, in line with the current “*Information of Prudential Relevance*” under the Basel Pillar III requirements.

Finally, the **timeline for implementation of the disclosure requirements is too short**. The implementation of the proposed disclosure requirements requires IT developments that constitute an investment in time and resources. Enough time should be given to the institutions to properly develop those systems and avoid inefficient short term solutions that go in the detriment of information quality.