

UniCredit Group reply to the BCBS Consultation Paper:**Definition of Capital Disclosure Requirements****February 16, 2012**

UniCredit is a major international financial institution with strong roots in 22 European countries, active in approximately 50 markets, with more than 9.500 branches and more than 161.000 employees. UniCredit is among the top market players in Italy, Austria, Poland and Germany. In the CEE region, UniCredit operates the largest international banking network with around 4.000 branches and outlets. UniCredit Group is a market leader in the CEE region. Furthermore UniCredit were recently recognized as Global Systemically Important Bank.

Executive Summary

Unicredit welcomes the effort to improve the consistency in format and information disclosed, so to allow a proper and desirable level of comparability and consistency of the information disclosed by Banks.

Generally speaking, we see neither critical issues on data required, nor any critical reporting difficulties. Nonetheless, the amount of information to be provided for market disclosure purposes is a cause of concern, since we doubt that all the required detailed information could be really of interest to market participants/stakeholders. In fact, stakeholders would really benefit from key information when it is quickly available and comparable, avoiding too many details that would inevitably make the templates far less effective. Furthermore we would suggest that a material threshold – regarding differences between accounting and regulatory perimeters – should be applied, in order to make the entire process worthy for all involved parties.

If the object of the consultative document is to establish high level disclosure requirements in order to improve transparency of regulatory capital and enhance market discipline, we believe that it is necessary not only to target the amount and the level of disclosure of truly loss-absorbing equity, but also to verify the reliability and comparability of the calculation of risk-weighted assets.

In addition, we doubt if it is really helpful for market participants/stakeholders to have all the information on each and every single item. Therefore we would suggest to take into due account (even in terms of frequency of the Templates) the costs/effort to produce certain detailed information with the ability to offer really relevant and comparable information to stakeholders. Rather than providing what we deem an un-



necessary and cumbersome data overload, it could be worth providing descriptive explanations of relevant differences between the regulatory capital and the balance sheet templates.

Finally, with reference to the proposed date of implementation of the capital disclosure requirements, it is important to provide Banks an adequate time-lag between the time at which the proposal is finalized at global level (Basel Committee) and the time at which the requirements are eventually transposed at national level.

Specific answers

• Section 1: Post 1 January 2018 disclosure template. *A common template is proposed for banks to use to report the breakdown of their regulatory capital when the transition period for the phasing-in of deductions ends on 1 January 2018. It is designed to meet the Basel III requirement to disclose all regulatory adjustments, including amounts falling below thresholds for deduction, and thus enhance consistency and comparability in the disclosure of the elements of capital between banks and across jurisdictions.*

Regarding the disclosure template described in Annex 1 there are no relevant issues or critical reporting difficulties, as it does not contain any additional data requirement for the calculation of the supervisory capital than those included in the definition of capital under Basel III.

Nonetheless, the amount of data to be collected for market disclosure represents a source of concern as it is not proportionate to the amount of interesting information provided to market participants/stakeholders. UniCredit would therefore suggest to consider i) disclosing in a fully disaggregated format only the main supervisory capital elements; ii) disclosing minor items (e.g. prudential filters) by using an aggregated format.

Moreover, in case of relevant “national specific regulatory adjustments” (e.g. rows 26, 41, 56, etc. of the Scheme reported under Annex 1) the scheme will become more complex than the one currently envisaged. In this case, we wonder whether such an amount of disclosed data would be really useful to markets’ participants/stakeholders for comparison purposes or if rather, a properly selected set of information would better suits such aim.

If the object of the consultative document is to establish high level disclosure requirements in order to improve transparency of regulatory capital and enhance market discipline, we believe that it is necessary not only to target the amount and the level of disclosure of truly loss-absorbing equity but also to verify the reliability and comparability of the calculation of risk-weighted assets. Investors are often unable to compare reported capital adequacy ratios across banks because of the large number and high degree of complexity of models employed by banks. For example, banks might be financing portfolios with similar risk with widely varying levels of equity capital.

From a stakeholders’ perspective, rather than receiving what we deem an un-necessary and cumbersome data overload, it could be worth receiving descriptive explanations of relevant differences between the regulatory capital and the balance sheet templates.

With reference to the proposed date of implementation of the capital disclosure requirements, it is important to provide Banks an adequate time-lag between the time at which the proposal is finalized at global level (Basel Committee) and the time at which the requirements are eventually transposed at national level,. This is even more compelling considering the technical standards that EBA is going to issue with reference to capital requirements.

• **Section 2: reconciliation requirements.** *A 3 step approach for banks to follow is proposed to ensure that the Basel III requirement to provide a full reconciliation of all regulatory capital elements back to the published financial statements is met in a consistent manner. This approach is not based on a common template because the starting point for reconciliation, the bank's reported balance sheet, will vary between jurisdictions due to the application of different accounting standards.*

Step 1, i.e. the disclosure of the reported balance sheet under the regulatory scope of consolidation, is not a critical issue. Nonetheless, we express some concerns with reference to the following topics:

- the reconciliation scheme to be applied would need to be realized according to the National accounting schemes (e.g. those defined by Bank of Italy for UniCredit). Otherwise the Authority shall ideally provide a new accounting re-classification in a short time frame, which does not seem to be feasible (under section 26 of the consultative document the Basel Committee states the same concern: *“it does not feel that this would be possible at this stage given that banks balance sheets are not reported in a common way across jurisdictions due to the application of different accounting standards”*);
- a material threshold – regarding differences between accounting and regulatory perimeters – should be unambiguously applied in order to avoid showing data that are only slightly different, or even basically similar;
- we doubt if it is really helpful for market participants/stakeholders to have all the information on each and every single item. Therefore we would suggest to take into due account (even in terms of frequency of the Templates) the costs/effort to produce certain detailed information with the ability to offer really relevant and comparable information to stakeholders. We deem relevant from a market perspective only the disclosure of the major differences in relation to the most relevant items;
- considering that the template comes into effect in Jan 2013, guidelines would be highly welcome on the level of disclosure required in order to explain possible discrepancies due to differences in national treatments of the residual regulatory adjustments (it seems that such information is not provided within the text of this consultation). Our concern is that if not adequately explained, many data wouldn't be comparable;
- as the Financial Reporting currently issued according to the Italian regulation already contains a full set of information especially when compared to information required in other jurisdictions, we would deem advisable to have information on such reconciliation exclusively within the Pillar III market disclosure document, without adding further complexity by introducing a new format to be filled within financial reporting document.



With reference to Step 2 and Step 3, we assume that they would cause additional costs in terms of dedicated time and resources. These additional costs would be justified if the additional disclosed data actually add really significant / material information to market participants/stakeholders.

Generally speaking, we have some concerns in relation to the opportunity to provide a disclosure on a quarterly basis since:

- many supervisory capital items do not significantly change period over period and
- for quarters ending on March, June and September, timeline for issuing documentation to the Market is very tight.

We wonder whether it is really advisable to disclose these data with the proposed frequency. Hence, we would suggest:

- avoiding a heavily modified quarterly disclosure in periods ending in March June and September;
- providing on the other hand a deeper disclosure in periods ending in December, if a suitable timeframe is allowed for banks to meet such requirements;
- limiting the step 2 disclosure only to the most relevant supervisory capital items;
- introducing specific thresholds that allow financial institutions to avoid the publication of those items which are deemed marginal when compared with the supervisory capital overall amount.

• **Section 3: main features template.** *A common template is proposed for banks to use to meet the Basel III requirement to provide a description of the main features of capital instruments.*

Most of the information listed under the required data-set are already currently gathered and immediately available. Nonetheless, regarding their full-disclosure to the Market, we believe that the data for disclosure should be limited only to those information effectively relevant for supervisory capital purposes. In particular, our proposal also to provide market participants/stakeholders with a feasible and comparable data-set would be as follows:

- including in the template only the fields that are necessary to ensure that the features really relevant for eligibility / computability purposes are disclosed. We would suggest to limit the features to be reported for market disclosure, coherently with the original aim of the Pillar III document, mainly concerning capital adequacy, risk exposure and the general characteristics of the systems established to identify, measure and manage such risks;

- differentiating the template – and related fields – according to the characteristics of each class of issued capital instrument, as related computability may vary accordingly;
- limiting the disclosure to particular events in the lifecycle of instruments (e.g. buyback). Considering that many of the data never change period over period, their publication every quarter could end up not being so relevant to market participants/stakeholders, since it would not give any new material and significant information.

For all the above reasons, with reference for instance to the Template proposed in Annex 1, we deem the request of granularity an excessive requirement, especially with reference to “regulatory adjustments”. Should the Basel Committee really deem necessary such a level of granularity for the “regulatory adjustments”, we would suggest to keep it only for Common Equity Tier 1 Capital.

In case the disclosure were limited only to those elements that are relevant for eligibility / computability purposes, we would not have any concern in relation to the proposed timetable.

• **Section 4: other disclosure requirements.** *This section proposes how banks should meet the Basel III requirement to provide the full terms and conditions of capital instruments on their websites and the requirement to report the calculation of any ratios involving components of regulatory capital.*

No main issues from UniCredit’s perspective would emerge on this matter, other than those already mentioned under Section 3 above (with reference to the section 39 of the consultation document).

• **Section 5: template during the transitional period.** *This section proposes that banks use a modified version of the post 1 January 2018 template in Section 1 during the transitional phase. This proposal aims to meet the additional Basel III requirement for banks to disclose the components of capital that are benefiting from the transitional arrangements.*

As already stated under Section 1 above, the proposed disclosure template does not entails critical issues in relation to the proposed scheme and it does not imply any critical reporting difficulties from a timeline perspective, given that the proposed scheme does not contain any additional data requirement for the calculation of the supervisory capital than those included in the definition of capital under Basel III.

The rationale behind the proposed transitional disclosure template is understandable. However, we are concerned that the complexity of the format proposed and the amount of data disclosed to the Market could result in a misleading communication. In particular, we are referring to the disclosure of the amount of each regulatory adjustment that is subject to the existing treatment during the transition phase. This kind of double reporting is rather complex and can cause an undesirable confusion in the marketplace, leading to “double” valuations and in the end causing unintended uncertainty. In addition, with reference to the template proposed in Annex 4 and by taking into consideration that the market already “discounts” Basel III even when currently evaluating data released by banks, we would erase from the related Template the column on “Amount Subject to pre Basel III Treatment”.



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