American Bankers Association
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Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland

Re: Basel Committee on Banking Supervision Consultative Document:
Review of the Pillar 3 Disclosure Requirements, June 2014[1]

Dear Sir/Madam:

The American Bankers Association (ABA)[2] appreciates the opportunity to respond to the Basel Committee on Banking Supervision's consultative document on *Review of the Pillar 3 Disclosure Requirements* (Consultative Document). The message in this letter was developed through discussions with a working group that includes representatives from all of the banking organizations that are subject to Pillar 3 reporting under the U.S. Basel III rule.[3]

At the outset, we wish to express our appreciation for the openness of dialogue between the Basel Committee's Working Group on Disclosures and the bank, analyst, and investor communities. The industry outreach meetings in London, Hong Kong, and New York last year and in Basel last month provided opportunities for open discussions among interested parties. We look forward to continued collaboration in the work of the Basel Committee on Pillar 3 disclosures.

With respect to the Consultative Document, we support the goal to enhance market discipline for banking organizations using some more standardized templates to improve comparability and consistency. At the same time, we note the challenge in balancing standardized reporting against the need to allow flexibility so that individual banking organizations can present information appropriate to their business models. We are concerned that, unless Pillar 3 reports are aligned with existing regulatory reports, this reporting will create undue burdens on banking organizations based in the United States and will cause more confusion to end users of this information.

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1 Basel Committee on Banking Supervision, Consultative Document: Review of the Pillar 3 Disclosure Requirements, June 2014, www.bis.org/publ/bcbs286.pdf. Comments are due by Sept. 26, 2014.

2 The American Bankers Association is the voice of the nation's $15 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $11½ trillion in deposits and extend $8 trillion in loans.

3 Office of the Comptroller of the Currency and Federal Reserve System, "Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III…," 78 Federal Register (198), October 11, 2013, 62018-62291 (available at www.gpo.gov/fdsys/pkg/FR-2013-10-11/pdf/2013-21653.pdf).

In the United States, the Federal Reserve requires bank holding companies to produce detailed reports covering the balance sheet and income statement, as well as supporting schedules that include breakdowns of regulatory capital, exposures, and risk-weighted assets. Unlike in most other countries, many of these reports (or some schedules therein) are publicly available and are used actively by investors, research analysts, and others.[4] Further, the U.S. Securities and Exchange Commission also requires various risk and capital management disclosures as part of Management's Discussion and Analysis (MD&A) in addition to financial statement disclosures. If Pillar 3 reports do not align with the existing public regulatory reports, this will confuse end users and undermine, rather than promote, market discipline. It would also cause undue burden for reporting institutions, which have devoted substantial resources to developing regulatory reporting processes for Basel III.[5]

We are especially concerned that, where there is overlap between the U.S. regulatory reports and future Pillar 3 requirements, inconsistencies will arise due to differences in the national Basel III rules (*e.g.*, due to the prohibition on use of external credit ratings and version of a Standardized Approach) or due to inconsistent cuts of similar data. We note that the U.S. disclosures are also being updated, expanded, and enhanced to capture the revised risk-based capital and leverage regulations as implemented by the U.S. Banking Agencies (Federal Deposit Insurance Corporation, Federal Reserve System, and Office of the Comptroller of the Currency).

Our thoughts on the Consultative Document are divided into three sections below:

- general comments on the proposal,
- recommendations with respect to all or several tables and templates, and
- reactions per individual table and template.

General Comments

Implementation Timeline

The proposed implementation date of April 1, 2016, which we interpret to be effective for disclosure as of second quarter 2016 results, would pose considerable challenge for U.S. institutions. **We urge that new and significantly different Pillar 3 disclosures be given more adequate time for implementation**.

Many steps will be required before a final rule is in place. First, the Basel Committee must fully digest comments submitted on the Consultative Document, and then finalize a rule before early

[4] The financial statements and regulatory reports produced by U.S. banking organizations quarterly have clear deadlines of 45 days after quarter-end and 60 days at year-end.

[5] Eight U.S. banking organizations exited Basel "parallel runs" in the second quarter of 2014 and issued first Pillar 3 reports in August 2014. Banking organizations required to produce such reports in other nations have been producing these reports for several years.

next year. This will be difficult considering the breadth and complexity of the proposal. Then, following the U.S. Administrative Procedures Act, reasonable time will be required for the U.S. regulators to propose corresponding disclosures for U.S. institutions, provide time for responses, consider these, then issue a final rule. Finally, U.S. institutions must be allowed time to interpret the new U.S. Pillar 3 rule, adopt policies, procedures, and internal and reporting controls to be prepared to assure the reliability of the revised Pillar 3 report. This full process could not be completed by the second quarter of 2016 without abridging the deliberations of regulators and bankers, which would inevitably lead to problems and confusion for reporters and end users.

U.S. banking organizations do not currently calculate the information to file some of the proposed tables and templates. They would need extended time to access the availability of the information requested and make system changes to source that information to facilitate public reporting. Judging by what U.S. institutions have just gone through to issue first Pillar 3 reports – including 12 tables under the U.S. Basel III Advanced Approaches rule – introduction of several times this number of templates in second quarter 2016 would be an overwhelming task.

ABA recommends that staged implementation, allowing extra time to include some of the tables and templates, would allow for a much smoother process and better initial revised Pillar 3 reports. U.S. bankers have recommended a four-quarter delay after initial implementation of revised reporting for some templates, including LI1, LI2, CR10, CCR11 and CR9. We would welcome further discussion of the set of templates for phased implementation.

Excessive Granularity

The granularity of some of the proposed tables and templates goes beyond the intent to be comprehensive (Principle 2), to the point that impedes the clarity and meaningfulness of the disclosures to potential users of the information (Principles 1 and 3). U.S. bankers note that some of the proposed reporting would be more appropriate for reporting to supervisors than for the general public. As discussed below, U.S. bankers note that, while compliance with the proposed disclosure requirements would be onerous and costly, many of the proposed disclosures would be of limited value to end users, including analysts and investors, and several would be considered competitively proprietary. **A more appropriate balance between implementation cost and value to end users needs to be achieved**.

Protection of confidential or proprietary information should be maintained in the final rule. Many of the templates ask for granular and detailed information that could be considered confidential and proprietary. U.S. regulation allows that if a banking organization believes that disclosure of specific commercial or financial information would compromise its position by making public information that is either proprietary or confidential in nature, the banking organization will not be required to disclose those specific items under the rule's periodic disclosure requirement. Instead, the banking organization must disclose more general information about the subject matter of the requirement, together with the fact that, and the reason why, the specific items of information have not been disclosed.

To lessen the implementation cost, **sign-posting of elements in the templates to equivalent data and information in other regulatory reports, as is provided for in paragraph 44, should be freely permitted**. We recognize the interest in a separate Pillar 3 report, as per paragraph 17, where prudential-regulation information is collected in one place. However, there appears to be a bias toward an overly rigid Pillar 3 report.

Flexibility in the presentation of information in the context of overall public disclosures, with clear sign-posting, can yield broader perspective on a banking organization. A general statement on linkages in an institution's overall package of disclosures, instead of specific linkages within each document, could help end users navigate. The final rule should permit this approach.

Transitory Disclosures

The Consultative Document provides that "the Committee will periodically consider the … need for additional disclosures to … meet emerging systemic risks that are identified to be of global significance." (paragraph 27) We caution against the burden of new and temporary disclosures. **Any new or temporary disclosures should be coordinated with what is done in different jurisdictions, and banking organizations should be provided sufficient time to implement any changes in Pillar 3 rules**. Considering the time required to develop new disclosures, and the ever-changing global banking environment, the information would likely no longer be meaningful by the time "temporary or *ad hoc*" disclosures are put in place.

Timely adoption of temporary disclosures would be a challenge in jurisdictions. For example, any new disclosure would first have to go through the Basel review process. If approved, it would then go through the public proposal and comment process of the Administrative Procedures Act before being adopted in the U.S. Following regulatory adoption, reasonable time would be needed for institutions to develop, test, and get top-level review for the frameworks needed to compile the new information before commencing the disclosures. In total, the process could take two years at a minimum – which would certainly not be timely.

The Consultative Document sets out in Guiding Principle 4 that disclosures should be consistent over time. We support this principle. Consistent reporting allows users of the information to develop an understanding of what it means and to track it over time and evaluate changes. Adoption of *ad hoc* disclosures would be temporally incomparable and thus of little value, especially as compared with the cost to provide the disclosures.

The proposed tables and templates are sufficiently comprehensive to provide information for analysts and investors on the impact of a range of developments. Moreover, U.S. institutions already provide comments on problem areas in their SEC filings, for example to disclose known material trends, events, and uncertainties that may make historical financial information not indicative of future operations or financial condition, and any other information necessary for an understanding of the firm's financial condition, changes in financial condition, and results of operations. Thus, temporary disclosures may be unnecessary in jurisdictions, like the United States, where significant issues are already subject to disclosure in some format.

These comments do not suggest that the Basel Committee should consider no future changes to disclosures. The value to end users of much of the information currently disclosed, and as proposed, has not been proven, yet is burdensome for reporters to produce. Therefore, consistent with the guiding principles, Pillar 3 requirements should be periodically reviewed and cleansed of outdated elements.

Continued Discussions

We applaud the Basel Committee, through its Working Group on Disclosures, for consulting with banks, analysts, and investors in open forums during development of the Consultative Document. We support continued open discussions as the Basel Committee considers additional changes to the disclosures, as provided for in the Consultative Document. We encourage the Basel Committee's ongoing deliberations with accounting standard-setters (*i.e.*, International Accounting Standards Board and the Financial Accounting Standards Board), the International Organization of Securities Commissions, and national securities agencies to ensure consistency, transparency and avoidance of duplication in Pillar 3 disclosures.

International coordination for disclosures that are meaningful, and that avoid duplicative requirements, is an important consideration in ensuring transparency and avoiding confusion for users. Harmonization of risk disclosures is important at a time when other new disclosure requirements are being introduced. In addition to the Pillar 3 revisions, we note that the Basel Committee has published new disclosure requirements for the Liquidity Coverage Ratio, Leverage Ratio, and for Globally Systemically Important Banks (G-SIBs). We also note that many accounting standards and their accompanying disclosures are changing, and with this the need for coordinated enhanced disclosure is even more relevant. We strongly believe that the Committee should consider a more holistic view such that both accounting and risk frameworks do not merely co-exist but interact with each other with an aim of presenting an integrated view to readers. The Basel Committee, accounting standard setters and regulators should, therefore, work closely with each other and with other stakeholders (including end users) to foster a coherent overall package of disclosures that would suit end users' needs.

We also invite the Basel Committee to engage in an open and transparent dialogue with the user community, preparers, and auditors about the information needs of all stakeholders before issuing its consultation on the forthcoming second phase of the Pillar 3 review. Such an approach would allow preparers to highlight, where needed, the merits of specific data items from a cost/benefit perspective.

General Recommendations for the Proposed Tables and Templates

- Each table and template should include directions for the intended scope of exposures to be included therein, in addition to the purpose, frequency, format and accompanying narrative. Similarly, clear definitions are needed for terms and measurement of items for each table and template.

  We note that, in discussions of the various tables and templates among bankers, there was broad disagreement on the population to cover, and the intended treatment of those items, in many of the tables and templates. Thus, clarification is needed to foster comparability. Notes below under several of the tables and templates identify some of the areas of uncertainty.

- There should be a consistent definition of "exposure" throughout the Pillar 3 report. We recommend that "exposure" be defined as the well understood term "exposure at default" (EAD).

  The term "exposure" is used throughout the proposed tables and templates, but nowhere defined. We seek clarification on this and respectfully suggest that there should be a consistent definition for all the tables and templates. The point would be to avoid confusion among users of this information. We suggest that the consistent definition be EAD.

- The final rule should acknowledge that all tables and templates that involve external ratings will <u>not</u> apply to banking organization based in the United States or any other jurisdiction that bars, in rule or statute, use of external ratings in regulatory standards. This point applies to Templates CR5 and CR6, CRD, CR12, CRF and SEC5.

  U.S. institutions cannot be required to report distributions of exposure in tables and templates based on external rating due to Dodd-Frank Act §939A(b).[6] These institutions could rework their systems to report PD distributions as per Template CR9, as provided in the template instructions. However, the result would be information that could not be compared across national jurisdictions. Moreover, there would be no comparability with distributions reported in risk weights by institutions using the Standardized Approach. In sum, these templates as structured are inconsistent with "Principle 5: Disclosures should be comparable across banks."

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[6] Section 939A(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203) mandates that "[e]ach [U.S. federal] agency shall modify any … regulations … to remove any reference to or requirement of reliance on credit ratings …"

- PD bands for disclosure of results from Internal Ratings-Based (IRB) models should be flexible and set at the jurisdiction level.

  We note that the PD bands in Template CR9 are arbitrary and differ from those used by U.S. institutions internally. Therefore, not only would the data involve substantial and costly reworking of systems to produce, it would be inconsistent with the "Use Test."

- A banking organization should not be required to report a line in any table or template that is based on the Standardized Approach if the institution is authorized to use IRB models for the corresponding portfolio. This point applies to Table CRD and Templates CR7, CR8 and CCR3.

  Once an institution is authorized to measure exposures with an IRB model, the authorization certifies that exposures measured under the Standardized Approach are less meaningful than the IRB results. Moreover, the IRB results are reported elsewhere in publicly disclosed regulatory filings. Thus, Standardized Approach results reported in these cases would more likely confuse than inform. Furthermore, the Basel Committee must recognize that differences in the Standardized Approach, as applied the United States and elsewhere, would render results in these cases that would be difficult to compare internationally.

  In the United States, institutions are either authorized to use the Advanced IRB (AIRB) models for all portfolios or they must use the Standardized Approach for all exposures. Therefore, U.S. banking organizations authorized to use Advanced IRB should not be required to report tables and templates based on the Standardized Approach at all.

  We note discussion in the Consultative Document of reporting under a "hypothetical Standardized Approach" (on page 3 and in Template MR5). A Standardized Approach is in place in the United States under the U.S. Basel III rule, and U.S. AIRB banking organizations are required to calculate base capital requirements under this approach. Therefore, a hypothetical approach would not be needed for these institutions, and it would be unreasonable to ask these institutions to perform duplicative calculations under an international version. As a result, unless the Basel Committee and all participating jurisdictions adopt the U.S. Basel III version, the tables and templates that ask for results under a Standardized Approach would not lead to reports that are comparable internationally.

  Moreover, bankers heard during the Working Group on disclosures outreach meeting in Basel last month that a key goal of reforming Pillar 3 disclosures is to build public confidence in IRB models. We do not see how reporting under the Standardized Approach would support this goal.

- The instructions for the templates that involve risk-weighted assets flow data, CR11, CCR7 and MR3, should specify that reasonable estimates of the effects of primary drivers are to be reported therein.

  Material assumptions would be required to develop the data needed to file these templates. In consequence, the data would likely not be comparable across banking organizations, and thus would be of limited informational value. Moreover, bankers note that the effects of the different drivers specified often overlap, and trying to statistically disentangle the effects would involve heroic effort – to the point that the results would strain credibility. Bankers feel that the most credible information they can provide is to attribute changes to primary drivers. Specification that this is what is expected would allow for postings that satisfy standards for internal sign-off in banking organizations.

- Under the U.S. Basel III rules, credit risk-weighted assets, with the exception of credit valuation adjustments, are subject to a 1.06 multiplier. We would like to confirm that the credit risk-weighted assets definition in the proposed disclosure templates is consistent with this measure.

- Equities not subject to market risk disclosures should be moved to Phase 2.

  The Consultative Document does not provide for disclosure of banking book treatment of equity RWA under the U.S. Basel III rule. The proposal would not address exposures to investment funds for which the "simple modified look through" or "full look through" approach is used, instead of the "simple risk weighed approach."

Comments on Individual Tables and Templates

Part 3: Overview of Risk Management and Risk-Weighted Assets

Template OV1: Overview of Risk-Weighted Assets

We request clarification of the term "counterparty credit risk" in row 2 of Template OV1. Should a counterparty credit that requires securitization treatment be included in the line for "counterparty credit risk" or in the line for "securitization positions at the bank"? This question would apply for a derivative to a special purpose entity (SPE).

We recommend flexible formatting for the columns of this template, allowing local jurisdictions to remove columns b and c. Disclosure of "minimum capital requirements" in columns b and c of Template OV1 would be meaningless for U.S. institutions, since the "minimum" standard defined on page 13 of the Consultative Document is irrelevant here. In fact, it is only part of the standard for a bank to be "adequately capitalized" in the U.S. But even that is not the effective minimum. U.S. banks must meet the four parts of the "well

capitalized" standard under Prompt Corrective Action rules, or else be subject to limitations on activities and dividend payments and higher FDIC assessments.[7] (For example, a U.S. bank must hold at least ten percent capital against risk-weighted assets (RWA*10%) as part of the "well capitalized" standard.) The fact that 98.2 percent of U.S. banks, with 99.8 percent of industry assets, meet the "well capitalized" standard demonstrates that this is the effective minimum. And countercyclical and capital conservation buffers are required on top of that in the United States.

Moreover, the elements in columns b and c would not necessarily satisfy the conditions specified in the footnotes relating to "linkages across templates" (page 13). One such footnote indicates that the amount on row 1 column b of Template OV1 is intended to equal the sum of line 14 column g in Template CR7, plus the total of all portfolios in column k of Template CR9, plus the specialized lending total capital requirements for "HVCR"[8] and other than "high volatility commercial real estate" (HVCRE) in Template CR13. However, U.S. Advanced Approaches banking organizations would not report Template CR7, which is for Standardized Approach results, and would not report Template CR13 as proposed. There are similar problems with rows 2 through 6 under column b in Template OV1. Moreover, row 7 under column b is for operational risk, yet only banking organizations authorized to use the Advanced Measurement Approach (AMA) for operational risk exposure calculate a capital charge for operational risk in the U.S. If institutions cannot report column b items as specified, then they cannot report column c items for prior period results.

Part 4: Linkages between Financial Statements and Prudential Exposures

Template LI1: Differences in Financial and Regulatory Scope of Consolidation and Mapping of Financial Statement Categories with Regulatory Risk Categories

The level of detail in this template would be of questionable value to analysts and investors. While some translation between U.S. Generally Accepted Accounting Principles (GAAP) and regulatory accounting principles (RAP) financial reports may be of interest, the potential benefit does not stand up against the significant investment in IT infrastructure and other investment required here.

We request clarification in Templates LI1 and LI2 as to which category to report in for exposures that receive both regulatory banking book and regulatory trading book treatment. Derivative exposures subject to counterparty credit risk treatment or securitization treatment could be subject to reporting under both the regulatory banking and trading books in these templates. Clarification is needed to avoid confusion and double counting.

[7] While the Prompt Corrective Action standards apply only to banks, provisions in the Dodd-Frank Act require a four-part minimum capital requirements for top-tier bank holding companies. See 12 CFR 217.10, www.gpo.gov/fdsys/pkg/CFR-2014-title12-vol2/pdf/CFR-2014-title12-vol2-sec217-10.pdf.

[8] The acronym "HVCR" is not generally understood by bankers.

We also request clarification on the amounts to be included in columns c through g (for the regulatory banking and trading books). The stated purpose of the template is to "[enable] users to see… how the amounts reported in financial statements (in rows) are distributed within the regulatory categories." However, an earlier passage in the Consultative Document "sets out a process to map line items in a bank's financial balance sheet to the exposure amounts used in its Pillar 3 report." These two statements appear contradictory. Distributing the exposure amounts reported in the financial statements among the regulatory categories listed is not consistent with the current Pillar 3 exposure amounts.

This template should not require reporting of mark-to-market values for derivative instruments in columns c and d. These values, which could be positive or negative, mapped to exposures under the credit and counterparty credit risk measure would provide little insight. Mark-to-market has little meaning relative to actual risk exposure. There is a major difference between GAAP-to-RAP reconciliation and GAAP-to-capital-classification reconciliation, as per Template LI1. RAP and capital are different regimes.

The disclosures for Template LI1would be operationally onerous to compute using current reporting structures. We recommend a phase-in period for this reporting, such that it would not be effective until four quarters after implementation of revised Pillar 3 reporting.

Template LI2: Main Sources of Differences in Regulatory Amounts Compared with Amounts in Financial Statements

The definition of "regulatory exposure" in Template LI2 needs clarification. Does it mean EAD or something else? For example, the row for "differences due to different netting rules" does not necessarily mean EADs. The netting rules lead to differences for repurchase agreement, but there are also differences using "value-at-risk" (VaR) *vs.* "FIN 41" netting.[9] Supervisory haircuts also come into play.

We recommend focusing on narrative description of the differences between balance sheet exposure and EAD. It is not possible to walk from balance sheet view of exposure to modeled EAD (derivatives and securities financing transactions, SFTs). It is not possible (and is illogical) to distribute the differences between financial exposure and regulatory exposure into the trading *vs.* banking book (columns b through f).

Also note the recommendations for Template LI2 listed under Template LI1 above.

Template LIA: Qualitative Disclosures of Differences from Financial to Regulatory Exposures

We request clarification as to whether the intent is a focus on differences in valuation or in exposure metrics.

[9] FIN 41 refers to Financial Accounting Standards Board Interpretation No. 41 on "Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements." (See www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1175801626916.)

Part 5: General Information about Credit

The concept of "protections" for Templates CR3, CR4, CR5, and CR6 lumps together credit risk mitigants that are legally and operationally distinct. For example, netting as a risk mitigant is legally, operationally, and conceptually different from guarantees and collateral, while derivatives, netting, and collateral are integrated in overall risk management and cannot be shown separately – so differential treatment is warranted for derivatives. Refining the disclosures for these types of protection, as suggested below, can make the information more comprehensible as well as less operationally challenging to produce.

Moreover, the "protections" disclosures may mislead to the extent that coverage levels appear to be correlated with the degree of credit risk mitigation. The data misses the concept of credit quality. A high-grade corporate bond can be stronger collateral than some sovereign debt, and a higher-quality unsecured and unguaranteed obligor may be stronger credit than a highly "protected" obligation.

As noted above, we seek clarification that U.S. institutions that use the Advanced Approach will not be required to fill out Table CRD and Templates CR7, CR8, and that the instructions for Template CR11 specify that reasonable estimates of the effects of primary drivers are to be reported therein. We also suggest some rethinking for Templates CR3, CR4 and CR10.

Template CR1: Analysis of Exposures by Product

We recommend that, for Template CR1 under "non-defaulted exposures," column c for "impaired" and column d for "other" should be combined with column d. Technically, an exposure could go impaired without actually defaulting; however, there is no clear distinction under the Basel terms. Therefore, asking institutions to reporting separate balances in these two columns would provide no meaningful information. There is not even a clear definition of "impaired," which is needed. We suggest that institutions be directed to follow their applicable accounting standards so that they do not have to keep two sets of books.

Under current practice, U.S. institutions are not prepared to distribute "allowances" in Template CR3 across column e for over 90 days past due, column f for other defaulted exposures, and column g for non-defaulted exposures. This reporting would require that allowances be allocated at the loan level. However, many allowances are set at a portfolio level. This is typically the case for consumer loans. Moreover, 90 days past due is not standard industry practice in the United States. Here, 90 days past due is a normal standard for past due corporate loans, but 180 days is the norm for consumer loans. Therefore, columns e–g should be reconsidered in light of industry practice.

More broadly, columns a through f in this template are based on gross exposures before write-offs. However, the General Ledger systems for most institutions in the United States track loan exposures only net of charge-offs. We question whether the information to be reported in this template can be justified against the major cost to institutions of having to rework their IT systems.

U.S. banking organizations would not report balances in row 2 for "debt securities" under columns e, f, and g because there is no current concept of allowance for debt securities here.

Finally, clarification is needed for several terms in this table:

- Are accounting or EAD exposures to be reported in this template? The term "gross value" in columns a through d suggests accounting values, but institutions would generally expect to report EAD.
- Since off-balance sheet commitments by definition cannot be past due, is the expectation that institutions identify the off balance sheet commitments related to any obligor with a loan 90-days past due, and put the off-balance sheet commitment amount in the "other" column?
- Are balances subject to "other than temporary impairment" (OTTI) to be included under column h for "write-offs"?
- The term "non-defaulted impaired exposures" in column c needs to be defined. Impaired is an accounting designation which includes non-accrual and troubled debt restructures (TDRs). Since non-accruals are included in defaulted exposures, column c (non-defaulted impaired exposures) would only include performing TDRs. Is that the intent?

Template CR2: Changes in Defaulted Loans and Debt Securities

Line 2 in Template CR2 for "new defaulted loans and debt securities" and line 3 for "transfer from not defaulted" should be combined. The definitions indicate that new defaulted loans would include loans originated or purchased in the current period and in default would be reported on line 2, while those from the prior period would be reported on line 3. U.S. banking organizations do not make this breakout. It is not clear that what this distinction aims to get at, or that it would be worth the effort to reporting institutions or end users.

Clarification is needed for several items in this template, which appears to have been drafted based on International Financial Reporting Standards (IFRS) and not based on accounting principles generally accepted in the U.S. (*i.e.*, U.S. GAAP):

- Is the expectation that off-balance-sheet commitments to any obligor with a loan 90-days past due be reported under row 6 for "other changes"? By definition, off-balance-sheet commitments cannot be past due.
- Reporting of defaulted debt securities should not be required under row 2, at least not for U.S. banking organizations. Under U.S. GAAP, defaults of debt securities are recorded under OTTI.
- Should exposures subject to OTTI be included under row 5 for "amounts written off"?

Table CRB: Additional Disclosures Related to Assets Subject to Credit Risk Treatment

We seek clarification of the term "restructured exposures" in row h, for a "[b]reakdown of restructured exposures between impaired and not impaired exposures." Restructurings that are not "troubled debt restructurings" (TDRs) are not reported under U.S. GAAP. (All TDRs are reported as impaired regardless of whether they are performing.)

Template CR3: Protections – Overview

We recommend that the final rule clarify the scope of exposures for Templates CR3 and CR4. While the scope of Part 5, as defined on page 18, indicates that counterparty credit risk is out of scope, the definition of exposures secured by collateral in this template includes "exposures benefitting from a netting effect." If counterparty credit is indeed out of scope, there are no exposures in scope that would benefit from a netting effect.

We further recommend that the scope of Templates CR3 and CR4 include off-balance-sheet exposures because protection is applied at the facility level, not the outstanding level.

As such, we also recommend that "exposure" for these templates should be defined as EAD.

Additionally, the Consultative Document indicates that Template CR3 links to Template CR5 but does not mention any linkage between Templates CR3 and CR4. This should be clarified.

We question the informational value of a breakdown between loans and debt securities in rows 1 and 2 of this template. The similarity between syndicated loans and debt securities demonstrates that there is a continuum between these categories. We believe that the breakdown between on- and off-balance exposures provides the information that would be of value to users of this template.

We also request that the template include a granular definition of "financial guarantee" under column d. The definition must clarify whether this term includes guarantees by "eligible guarantors" as defined in Basel rules, and whether it encompasses a performance stand-by letter of credit. To capture all forms of collateral protection, "financial guarantees" must encompass blanket guarantees. For example, the current form does not appear to encompass the situation where a borrower has given a blanket lien (*e.g.*, a super-priority lien in a restructuring) or a broad floating charge on its assets. However, this clarification would complicate this reporting if direct attribution is required, so reporting institutions should be permitted to find the most appropriate way to make the disclosure.

Template CR4: Protected Exposures and Coverage Ratio

We recommend elimination of Template CR4, as it could provide a misleading view of risk and creates more questions rather than answers. We believe a combination of Template CR3 (the amount of exposure covered by protections) and Template CR10 (the RWA impact of protection) would provide sufficient information to explain the impact of protection.

Protected exposures and coverage ratio combines too many asset classes and too many types of protection (collateral, guarantees, and credit derivatives) to provide a meaningful explanation of RWA. For example, the degree of over-collateralization impacts RWA in residential mortgage; yet it is does not impact RWA in wholesale credit. Additionally, the proposed template only presents a partial picture of risk, since it does not reflect the risk rating of obligors. For example, a highly rated obligor without protection could be less risky than a lesser rated obligor with protection.

Template CR5: Protected Exposures by Guarantor Rating Class

As noted above, we recommend that the final rule acknowledge that all tables and templates that involve external ratings not apply to institutions based in the United States or any other jurisdiction that bars in its laws the use of external ratings.

Template CR6: Exposures Protected by Credit Derivatives: Breakdown by Counterparty Rating Class

As noted above, we recommend that the final rule acknowledge that all tables and templates that involve external ratings not apply to institutions based in the United States or any other jurisdiction that bars in its laws the use of external ratings.

Table CRD: Qualitative Disclosures Related to Standardised Approach

As noted above, we recommend that the final rule acknowledge that all tables and templates that involve external ratings not apply to institutions based in the United States or any other jurisdiction that bars in its laws the use of external ratings.

Moreover, as noted above, a banking organization should not be required to report a line in any table or template that is based on the Standardized Approach if the institution is authorized to use IRB models for the corresponding portfolio.

Template CR7: Standardised Approach – Credit Risk Exposure and CRM Effects

As noted above, a banking organization should not be required to report a line in any table or template that is based on the Standardized Approach if the institution is authorized to use IRB models for the corresponding portfolio.

Template CR8: Standardised Approach – Exposures by Asset Class and Risk Weights

As noted above, a banking organization should not be required to report a line in any table or template that is based on the Standardized Approach if the institution is authorized to use IRB models for the corresponding portfolio.

Table CRE: Qualitative Exposures Related to IRB Models

Banking organizations in the United States and any other jurisdiction where either total (with authorization) or no use of AIRB is permitted should not be required to parse the application of different approaches across asset classes in row d. Such institutions should be permitted simply to report simply "100 percent based on AIRB" or the like.

Template CR9: Credit Risk Exposures by Portfolio and PD Range

U.S. institutions appreciate the object of Template CR9, "[t]o provide all relevant parameters used for the calculation of capital requirements for IRB models [and enhance] the transparency of banks' calculations and the reliability of regulatory measures." We offer the following suggestions to help the final version of this template better achieve that goal.

As proposed, AIRB institutions would report the full template for ten portfolios separately. We note that "specialized lending" is not used in the U.S., as elsewhere, and request clarification of the intended breakout of wholesale portfolios. More fundamentally, we believe that providing excessive information publicly can confuse rather than inform users. We feel that some of this information may be appropriate to regulatory reporting but not public disclosure. On that score, much of what is asked for tracks the FFIEC 101 tables U.S. banks currently file[10] – but some of the information is confidential and not made public. We request that the final rule be consistent with the information that the U.S. regulators have previously judged to be of value for public disclosure.

"Original on balance sheet gross exposure" in column a is defined in a footnote as the "amount of the on balance sheet exposure gross of accounting provisions (before taking into account the effect of credit risk mitigation techniques)." An accounting measure "before taking into account the effect of credit risk mitigation techniques" would lead to more confusion than insight. Under U.S. GAAP accounting, mitigants, such as cash collateral, are applied against on-balance-sheet values. Consequently, the requested measures would be inconsistent with published financial statements and would therefore confuse end users and be unnecessarily burdensome for U.S. banking organizations to compute. Moreover, the requested measure would present a false picture in that mitigants are applied against EAD for some products and against LGD for others. To overcome these problems, we suggest use of EAD values in column a.

Should the "weighted average CCF" in column c be weighted by EAD, as per the footnote instructions for "average PD" in column e and "weighted average LGD" in column g?

[10] Federal Financial Institutions Examination Council, "Reporting Forms – FFIEC 101: Regulatory Capital Reporting for Institutions Subject to the Advanced Capital Adequacy Framework," www.ffiec.gov/forms101.htm.

We recommend elimination of column j for "RWA density." The footnote definition for this column says "total risk weighted assets to EAD post-credit risk mitigation," which may mislead due to the variance in applying credit risk mitigation as part of EAD and LGD.

We do not believe that column f, for "number of obligors," has material informational value.

Relative to column h for "weighted average maturity," we note that the distribution by maturity should not be required for retail exposures because this concept is meaningless in several categories: credit card exposures have no stated maturity, mortgage maturity is not meaningful because most mortgages refinance, and maturity is not used in the calculation of retail risk-weighted assets.

"Provisions" in column m is to be "calculated according to paragraph 380 of the Basel framework." However, that definition differs from the U.S. guidance on "eligible credit reserves," which does not permit specific provisions. Banking organizations should be permitted to use definitions for terms in the templates and tables that are consistent with rules and other regulatory reports in their respective jurisdictions.

Template CR10: Credit Risk Mitigation Techniques

The proposed Template CR10 would require banking organizations to calculate pre-collateral risk-weighted assets. This would present a significant operational burden (even after technology enhancements have been implemented) because it would require production of two complete sets of RWA results quarterly: one with unsecured LGDs for every asset and one with the actual LGDs. A complete set of results entails not only running the calculations but also performing reconciliations, performing adjustments, and obtaining internal attestations from data providers. This would create a significant volume of additional work on multiple groups within the institution for the sole purpose of producing the requested template. It is our understanding that the buy-side community is primarily interested in post-origination credit risk mitigation, in other words, credit derivative hedges. Collateral is not typically used for post-origination credit risk mitigation, nor are guarantees. Further, the collateral is integral to the decision to extend credit; without the collateral, the transaction would not have occurred. Accordingly, it is misleading to report RWA without the collateral and inconsistent with how risk is managed by banks.

Other problems with this template, as proposed, include:

- Counterparty credit risk EAD without collateral in column b is not useful information.
- There is no informational value in a total for collateral protection for LGD when the entire portfolio is unsecured.
- It is not clear how institutions would report an exposure where multiple credit risk mitigants apply. There is no reasonable way to segregate the impacts of multiple mitigants. Similarly, this reporting would be difficult in cases where there is collateral and a guarantee; the collateral applies to LGD and the guarantee to LGD.

- The Foundation IRB Approach was not adopted in the United States, so U.S. institutions would have nothing to report in rows 1, 3, 5, 7, 13 and 15. The same would be true for "retail–SME" in row 15, as that category has not been defined in this country.

To address these concerns, we recommend that Template CR10 be modified to present only the RWA impact of credit derivative hedges. We further request that reporting on this template, once revised, should go into effect four quarters after reporting for the core tables and templates is required.

Template CR11: Risk-Weighted Assets Flow Statements

As noted above, we request that the instructions for templates that involve risk-weighted assets flow data, including Template CR11, should specify that reasonable estimates of the effects of primary drivers are to be reported therein.

We recommend further that row 4 for "model updates" should be combined with row 5 for "methodology and policy" because, in our experience, it would be difficult to separate the overlapping effects of these two sets of drivers.

Template CR12: IRB – Back-Testing and Probability of Default per Portfolio

We appreciate the intent of this template to demonstrate "the reliability of PD calculations" from banking organizations' IRB models. However, we feel that it would not achieve that purpose, as currently drafted, and suggest an alternate format.

The fundamental problem is that the requested back-testing information would not include sufficient data to evaluate model quality. Nor could it conceivably be expanded to provide a full picture, considering that validation of a model involves much judgment and "effective challenge," as detailed in the U.S. regulators' *Supervisory Guidance on Model Risk Management*.[11]

Relative to the column for "PD range," different interpretations of the Basel capital rules can lead to different bucketing of PD estimates that miscommunicate the relative risk of different institutions' portfolios.

The information requested would be considered proprietary by many banking organizations. These institutions would consider the provision in paragraph 36 of the Consultative Document to "balance the needs of key stakeholders with any constraints imposed on banks when disclosing confidential proprietary data or information" and withhold information.

[11] The Federal Reserve's version, SR 11-7, is posted to www.federalreserve.gov/bankinforeg/srletters/sr1107.pdf. The Office of the Comptroller of the Currency's version, OCC 2011-12, is posted to www.occ.gov/news-issuances/bulletins/2011/bulletin-2011-12a.pdf.

We note that the template does not ask for column totals. Nonetheless, there may be some confusion due to the fact that there would be minor differences in the population reported here as compared to the production results. Institutions may not be able to tie all of the totals in this template to other tables and templates for total exposure because back-tested data is not available for some small populations (such as certain mortgages run outside of traditional credit products, with approval to run through existing models).

We do not believe that U.S. institutions could be required to provide data under the column for "external rating equivalent." As noted, Dodd-Frank Act §939A(b) does not allow U.S. banks to use external ratings, so the same should be true for an "external rating equivalent."

To overcome these limitations and provide for usable information to allow for external evaluation of banking organizations' IRB models, we recommend that this template be reformulated to request information similar to that which U.S. AIRB institutions report in "Table 6 to §l.173—Credit Risk: Disclosures for Portfolios Subject to IRB Risk-Based Capital Formulas" in the U.S. Basel III Pillar 3 rule.[12] This information would provide for more effective evaluation of an institution's credit estimation processes.

We note further that the requested "5 year average annual default rate" does not coincide with the period for models used to derive regulatory capital requirements in the United States. At a minimum, we request that sufficient flexibility be provided in the final template to allow banking organizations to use historical data periods that coincide with other regulatory reporting requirements in their jurisdictions.

Table CRF: Qualitative Disclosures Related to Specialized Lending and Equities under the Simple Risk Weight Method

All of the rows in Table CRF deal with external credit ratings. This is true even for row c, for "a description of the process used to infer an issuer or issue credit ratings to comparable assets," since even this row is tied to external ratings. Therefore, this table would not apply to U.S. banking organizations due to Dodd-Frank Act §939A(b).

Template CR13: IRB (page Specialized Lending and Equities under the Simple Risk Weight Method)

We note that this template is "[f]lexible (provided the content and the granularity are equivalent or consistent with national application of the approaches included in the template)." U.S. banking organizations would need to make major adjustments to suit U.S. rules and practices. For example, the template's risk weights are inconsistent with the U.S. Basel III rule. Moreover, the term "specialized lending" in section "1. Specialized Lending," specifically excludes HVCRE, which is not used in the U.S. We believe that the U.S. regulators would have to revise this template for it to apply in the United States.

[12] 78 *Federal Register* (198), October 11, 2013, 62018-62291 at page 62247.

Part 6: Counterparty Credit Risk

Template CCR1: Analysis of Counterparty Credit Risk Exposure by Approach

Under the IMM approach, netting and collateral are integral. Therefore row 4 column b, for potential future exposure/EEPE, should be shaded.

We request clarification as to what is to be reported on rows 5 and 6, for the simple and comprehensive approaches for credit risk mitigation for SFTs. U.S. bankers are unclear on the difference between these two categories within the context of the risk weight substitution and collateral haircut approaches under the U.S. Basel III rule.

Template CCR2: Credit Valuation Adjustment (CVA) Capital Charge

U.S. banking organizations currently report on lines 31 (a) and (b) of Schedule B in FFIEC 101 filings much of the information for Template CCR2 and this information is made public. These institutions should be permitted to sign-post to that information for Template CCR2.

Template CCR3: Standardised Approach - CCR Exposures by Asset Classes and Risk Weights

As noted above, a banking organization should not be required to report a line in any table or template that is based on the Standardized Approach if the institution is authorized to use IRB models for the corresponding portfolio.

Template CCR4: Counterparty Credit Risk Exposures by Portfolio and PD Scale

We request clarification for the intended scope for Template CCR4. Are all counterparty credit exposures or only derivatives in scope? Should client-facing centrally cleared transactions be included?

We recommend elimination of columns a through c in this template. Zero values would be reported under column a because there is no counterparty credit risk for exposures carried at fair value – *e.g.*, derivatives. The credit conversion factor is not relevant to counterparty credit risk, so columns b and c involve no useful information.

U.S. institutions should be allowed to report this template using the PD ranges from the FFIEC 101 report. In general, the final rule should permit a banking organization to report in a PD range that is consistent with its national regulatory filings.

We seek clarification as to how to count the number of obligors under column f for a qualified master netting agreement with multiple clients. Would this count as a single obligor or as the number of clients that roll up under the agreement? More importantly, we do not believe that the data in column f has material informational value.

Template CCR5: Composition of Collateral for Counterparty Credit Risk Exposure

As drafted, Template CCR5 leaves a number of open questions that would undermine the usefulness of information to be reported therein. The instructions indicate that this template would be partially flexible, yet the issue of collateral for counterparty exposures seems too complex for simple disclosures. We suggest that simplification and additional flexibility would allow reporting institutions to present information that is more revealing.

As with many templates, we request clarification on the intended scope. For example, is collateral provided to, and received from, central counterparties in scope, as well as that from bilateral trades; or is the former to be considered only in Template CCR8? Should initial and variation margin provided to central counterparties be included?

The template intends to inform about collateral posted with, or received from, derivative counterparties and SFTs. However, we question the value of splitting currency and debt by domestic and foreign, and expect that banking organizations would use the flexibility provided in the template instructions to adjust the row categories. More fundamentally, collateral segmented by type is of questionable value; it obscures the fact that low-rated sovereign debt could be riskier than high-rated corporate debt.

As to the columns, "segmentation" has different meaning in different contexts,[13] so clarification would be needed for the purpose of this template. However, we recommend that the breakout of collateral as "segregated" or "unsegregated" would provide little insight. Institutions do not necessarily partition collateral this way in either usage or tracking. Collecting this information to report would require review by contract. The questionable information value could not justify the time and cost of reporting it. Further, the trend to central clearing of derivatives may justify simplifying the columns of this template.

Template CCR6: Credit Derivative Exposures

As elsewhere, we request clarification on the intended scope for Template CCR6. Should the scope include credit derivative exposures in both the banking and trading books?

Template CCR7: RWA Flow Statements- Exposures under Internal Model Method

As elsewhere, we request clarification on the intended scope for Template CCR7. In particular, we believe that Simple VaR for SFTs is not in the intended scope and would appreciate confirmation. This is an issue for U.S. banking organizations because Simple VaR for SFTs is not separate from IMM under the U.S. Basel III rule.

As noted above, we request that the instructions for templates that involve risk-weighted assets flow data, including Template CCR7, should specify that reasonable estimates of the

[13] For example, does segregated *vs.* unsegregated refer to collateral bankruptcy remoteness?

effects of primary drivers are to be reported therein. Moreover, U.S. bankers consider the primary drivers for their IMM models to be proprietary information. Institutions generally use a limited set of factors as drivers for their internal models and would prefer not to reveal these to competitors.

We appreciate that the rows of the template are to be flexible. Nonetheless, we question why foreign exchange movements would be singled out in row 7. This is only one market risk factor, and more often than not, it is not a dominant one.

Template CCR8: Exposures to Central Counterparties

The scope of Template CCR8 relates to that of Template CCR5. As noted above, we request clarification as to whether exposures reported in CCR8 are also to be included in CCR5. We note that CCR8 would go into effect in 2017 and request that these two templates be revisited before that time to ensure that they are distinct and separate.

As for Template CCR5, we question the usefulness of the partitioning by segregation and not in rows 7 and 8, and again in 17 and 18. Again, at the least a definition of "segregation" would be needed, as there are many types of segregation.

We also recommend that rows 9 and 10 and rows 19 and 20, for pre- and unfunded default fund contributions, should be combined. The recovery and resolution framework for central counterparties is currently under reconsideration, so this partitioning is not currently available.

Part 7: Securitization

The scope of the proposed securitization disclosures includes general information on securitization positions, such as assets securitized by a firm, as well as more detailed disclosures on those securitization positions that attract capital charges. The templates do not clearly differentiate between these types of information, creating confusion among preparers and users.

We recommend that, rather than looking at securitizations as one item, the disclosures differentiate between a bank's securitization activity and its investment in third party securitizations. We believe that a clear break-out of activity as originator, sponsor, and investor would provide more insight to analysts and investors.

We further recommend that the securitization templates should focus on securitizations that are relevant to regulatory capital calculations under the securitization framework. This methodology would avoid double-counting where a risk transfer has not yet been achieved (which would therefore also be included in a credit or market risk template). Alternatively, we suggest a separate column for "exposures in the pipeline."

The purpose statements in the proposed templates do not seem aligned with the actual requirements, mixing terms such as "securitisation exposures" and "exposures securitised." The activity of "exposures securitized" focuses on the transfer of risk and should be kept clear and distinct from "securitization exposures," which requires capital. More specifically, we recommend that Templates SEC2 and SEC4 focus solely on the activity of securitizing assets, with the investor column removed.

Audited P&L figures are publicly reported in banking organizations' financial statements. We recommend that this is where this information should be disclosed. Templates SEC2 and SEC4 ask for income statement information; we recommend that these requirements be pulled because this information is not relevant to capital. Furthermore, several institutions note that the detail requested would involve information that they consider to be proprietary.

Table SECA: Qualitative Disclosure Requirements for All Banks

We recommend that the term "affiliated entities" be further defined and clarified to ensure comparability across the banking organizations.

Template SEC1: Securitisation Activities in the Banking Book – Balance of Securitised Product Exposures at the End of Each Reporting Period (Stock Measure)

As noted above, we recommend that the scope of Template SEC1 should be securitizations that are relevant to regulatory capital calculations under the securitization framework in order to avoid double counting exposures.

We believe that this template is not looking for "securitisation activities" – as per the title – but instead for exposures held on a bank's books at the end of the reporting period. We base this belief on observation that the intended scope for the template appears to be disclosure of exposures, and observation that the title refers to the "balance of securitised exposures at the end of the period." We therefore recommend that the term "activities" should be removed from the title.

We suggest that this template should follow the operational criteria for recognizing the transfer of risk found in paragraph 141 of 12 CFR Parts 208, 217, and 225 of the U.S. Basel III rule.[14] This would ensure alignment with existing U.S. Pillar 3 disclosure requirements.

Template SEC2: Securitisation Activities in the Banking Book – Origination/Sponsoring Activities and Related P&L (Flow Measure)

The stated purpose of Template SEC2 is "to present flows of originator or sponsoring securitization activities in the banking book during the reporting period" with a focus on

[14] See U.S. Basel III rule, 78 Federal Register (198), October 11, 2013, 62018-62291 at page 62232 (available at www.gpo.gov/fdsys/pkg/FR-2013-10-11/pdf/2013-21653.pdf).

banks acting as either sponsor or originator. We therefore recommend removing the "bank acts as an investor" column to avoid confusion as to the purpose of the template.

As mentioned under Template SEC1, the definition of "exposures securitised" is confusing and we suggest rewording following the definition in paragraph 141 of 12 CFR Parts 208, 2017, and 225 to identify reportable exposures. Exposures in the pipeline to be securitized and exposures not receiving risk transfer recognition under the Basel definition are reported as wholesale or retail exposures and should not be included in this template, as this would result in double counting. Additionally, we recommend rewording the definition of "exposures securitised" as follows: "Exposures securitised includes assets securitised by the bank, whether generated or originated by the bank or purchased into the balances sheet."

We also recommend removing the columns for "realized net profit or loss" and "unrealized net profit or loss" from this template. Income statement information is generally a financial reporting measure, which can be found in an institution's financial statements. Additionally, we would like to highlight that information at this level of detail is highly unusual under existing U.S. GAAP and could involve more information than competitively advisable.

Furthermore, the definition of "securitised product exposures" seems to include exposures in the pipeline as well as items not receiving risk transfer recognition. These exposures would already be reported in other templates and therefore should not be reported again here.

Template SEC3: Securitisation Activities in the Trading Book – Balance of Securitised Product Exposures at the End of Each Reporting Period (Stock Measure)

Our comments regarding Template SEC1 apply equally for Template SEC3.

Template SEC4: Securitisation Activities in the Trading Book – Origination/Sponsoring Activities and Related P&L (Flow Measure)

Our comments regarding Template SEC2 apply equally for Template SEC4.

Template SEC5: Securitisation Positions in the Banking Book and Associated Regulatory Capital Requirements – Bank Acting as Originator or as Sponsor

As noted above, we recommend that the final rule acknowledge that all tables and templates that involve external ratings, including Template SEC5, not apply to institutions based in the United States or any other jurisdiction that bars in rule or statute use of external ratings in regulatory standards.

The template columns should focus on exposure values and risk-weighted assets, further broken out by risk-weight groupings. This would allow for comparability despite the use of different approaches for securitization exposures in the various jurisdictions.

We further note that it is unclear whether the "senior" and "non-senior" rows refer to wholesale or retail exposures or both. We seek further clarification if the terms "senior" and "non-senior" are related to the respective tranches (in the case of investors) or the underlying securitization exposures (in the case of originators or sponsors).

Template SEC6: Securitisation Positions in the Banking Book and Associated Capital Requirements – Bank Acting as Investor

Our comments regarding Template SEC5 apply equally for Template SEC6.

Part 8: Market Risk

Market risk disclosures requirements for U.S. banking organizations with large trading books are already in place.[15] There is major overlap between this reporting and the proposed market risk templates. If there are multiple reports on the same data, but cut in different ways, this can only serve to confuse users of the information and complicate their analysis. We request that the final templates align as much as possible with what is already in place in the United States and other jurisdictions.

Moreover, more detailed market risk reports for U.S. institutions, with elements that would be made public, have been proposed.[16] At the same time, the Basel Committee is pursuing a "Fundamental Review of the Trading Book."[17] Differences between these projects will need to be worked out. It seems likely that the Basel Committee will need to reconsider market risk disclosures after these revisions are finalized, in that the revisions may lead to significant policy and methodology changes. Therefore, revision of market risk disclosures seems premature at this time. We suggest that implementation of revised market risk disclosures should be aligned with revision of the market risk regulatory framework.

Very granular disclosures regarding market risk modeling have been proposed. Much of this information would not be comparable between banking organizations, and we question its value to users. We recommend that the market risk disclosures include only information regarding the primary modeling choices that drive risk-weighted assets.

[15] See Office of the Comptroller of the Currency and Federal Reserve System, "Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, … Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule," 78 Federal Register (198), October 11, 2013, 62018-62291, at 62128-62131 (available at www.gpo.gov/fdsys/pkg/FR-2013-10-11/pdf/2013-21653.pdf).
[16] Office of the Comptroller of the Currency, Treasury; Board of Governors of the Federal Reserve System, and Federal Deposit Insurance Corporation, "Proposed Agency information Collection Activities: Comment Request," 79 Federal Register (169), September 2, 2014, 52108-52111. (See www.ffiec.gov/forms102.htm.)
[17] See Basel Committee, Fundamental Review of the Trading Book, www.bis.org/publ/bcbs265.htm.

Table MRB: Qualitative Disclosures for Banks Using the IMA

While banking organizations support an objective to enhance clarity and transparency with respect to IRB models, we feel that the level of detail in the Table MRB surpasses the technical understanding of potential users of the information. Moreover, the substantial increase in volume of disclosures would inevitably lead to confusion, not clarity.

Template MR3: RWA Movement by Key Driver

As noted above, we request that the instructions for templates that involve risk-weighted assets flow data, including Template MR3, should specify that reasonable estimates of the effects of primary drivers are to be reported therein.

Template MR4: Internal Models Approach (IMA) for Trading Portfolios

Based on our experience with the information to be reported in Template MR4, we believe that average and maximum values for the proposed categories may provide insight, but we question the informational worth of minimum values.

Template MR5: Comparison of VaR Estimates with Gains/Losses

We request clarification regarding the meaning of “actual” and “hypothetical” trading outcomes in Template MR5. Some would interpret these terms to include trading fees and commissions, although these elements are not relevant for these purposes and could be considered proprietary. To avoid confusion, we suggest that the comparison in this template should be between estimated with actual VaR, as is used in back-testing.

Moreover, we do not believe it would be meaningful to provide a comparison between actual VaR and hypothetical P&L, as this is not how banks manage risks, and, thus, the figures would definitely not be comparable between banks.

* * *

ABA appreciates the opportunity to share our views. Thank you for taking the time to consider them. The undersigned would be pleased to discuss any point in this letter at your convenience.

Sincerely,

Robert W Strand

Robert W. Strand