

Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

10th October 2014

Dear Sirs,

Review of the Pillar 3 disclosure requirements

The BBA welcomes the opportunity to comment on the above consultation document. The BBA is the leading association for banks active in the UK. It represents over 170 banking members, which are headquartered in 50 countries and have operations in 180 countries.

The importance of good disclosure

The BBA fully supports transparent and objective disclosure as a key tenet of market discipline and good practice, and in this context proposals to increase the decision-usefulness of Pillar 3 are welcome. The low level of usage of Pillar 3 disclosures to date suggests that the current form of Pillar 3 does not meet the requirements of users and more therefore needs to be done to develop disclosures that provide useful information. In this regard, UK banks have invested heavily in enhancing the comparability and consistency of their disclosures and have devoted significant resources to adopting the recommendations of the Enhanced Disclosure Task Force ('EDTF')¹. Against this backdrop, we do not believe a sufficient case has been demonstrated for the adoption of the proposals as drafted.

Pillar 3 in the context of the wider disclosure framework

Whilst we can see merit in the Committee's vision for a Pillar 3 branded report as the repository of a bank's risks disclosures we believe that more should be done to embed the proposals in the context of the institution's wider reporting. Greater use should be made of sign-posting and cross-referencing to ensure that the new disclosures sit coherently within the body of the bank's public disclosure.

In this regard, we consider that the proposed approach is too rigid to permit banks to provide appropriate explanation of their business models and risks. In our view, decision-useful information can best be provided if the desire for greater consistency is balanced with flexibility over format and judgments of materiality. This will achieve meaningful comparability which will otherwise be lost in disclosures that are merely ostensibly consistent. Ultimately, banks require freedom to present their risk disclosures in a way which addresses the needs of their key stakeholders.

We are pleased to see that the Committee supports the on-going initiatives of the EDTF and that some templates originating from this forum have been included. We would have welcomed, however, a greater degree of alignment between the Committee's proposals and those developed by the EDTF. This is not least because UK banks have invested considerable time and effort in meeting EDTF recommendations and therefore question the benefits to be achieved by adopting the

¹ The 2014 review of the EDTF banks found that UK banks had the highest level of implementation compared with international peers

proposed templates that cover similar information but require different analysis or apply different definitions. At a minimum, a high premium should be placed on avoiding duplication and inconsistencies between the new proposals and those of the EDTF and other initiators of disclosure requirements, including the accounting standard setters. We believe that the insight of users was central to the success of the EDTF exercise.

Decision-usefulness

As stated above, we share the Committee's objective of enhancing disclosure to provide users with decision-useful information. The extent to which users have shaped the Committee's proposals, however, is not clear. For example, we highlight the proposal to require pre-CRM RWAs, as opposed to CRM in its own right. If implemented, proposed templates CR7 and CR10 would provide data which is not used to generate capital requirements and is not used by management to run the business (in particular for IRB models where CRM is often reflected as an LGD adjustment). The decision-usefulness of such information is questionable.

In our view, decision-usefulness would be enhanced by an explicit recognition of the importance of the principles of materiality and proportionality. We therefore recommend that proposed principle 3 (paragraph 37) be expanded to include a specific recognition of the materiality concept as was included in previous versions of Pillar 3. In particular, we suggest that there should be a statement to the effect that banks are not required to complete templates, or elements thereof, in cases where the disclosure is not applicable or immaterial.

Frequency of reporting

We note that 32 of the proposed templates are required to be reported on a quarterly basis or 'as frequently as financial reporting', which is quarterly for many UK institutions. Our engagement with users leads us to conclude that they value granular annual disclosures and that voluminous interim and quarterly disclosure of items which do not change materially between periods adds little to their understanding, other than for material items such as capital and leverage. For these reasons we consider that the proposed frequency of many templates is unwarranted and for interim disclosures will far exceed the volume of financial disclosure made. We suggest that the Pillar 3 requirements mirror those for financial reporting with the bulk of disclosures provided alongside financial statements and quarterly updates restricted to the most relevant information (e.g. capital and leverage disclosures) and areas of material change during the period.

In addition, the requirement to disclose at the same time as reporting financial results (paragraph 22) is highly unrealistic when considering the shorter timeframes of periods other than the financial year-end. Furthermore, we believe that the Committee should continue with its current guidance which states that, for some small banks with stable risk profiles, annual reporting may be acceptable.

The Annex to this letter details our assessment of the appropriate frequency for disclosing each template.

Implementation

The population of the tables and templates will require changes to, and/or new systems, and processes, with time and effort expended to ensure that outputs are derived from, and reconciled to, underlying data. Once the formats are finalised, banks will then need to assess which of their existing supplementary reports will also need to be revised in order to ensure cross-reference to, and reconciliation with, the Committee's format. It will only be possible to achieve the Committee's ultimate objectives when all banks in all jurisdictions publish the full set of reports.

This leads us to conclude that the proposed timeframe of publication with effect from 1st April 2016 (that will require compilation of a material set of reports as at 30th June 2015 in order to report comparatives and movements) is too early. Also, it does not make sense to commence a new set of

reports as at the half year. The timing should coincide with year-end reporting. We suggest that if final formats were agreed by 30th June 2015 the first mandatory set of reports should be produced no earlier than 31st December 2016. Serious consideration should be given to a phased approach, with deferral of the effective dates for those requirements requiring the most development or significant changes to systems. This timeframe would also allow appropriate time for competent authorities to agree with their regulated entities local refinements. The Annex to this letter identifies those templates we believe should be implemented on a longer timeframe and the reasons for this.

Comments on the proposed templates

We include our high-level observations on the proposed templates in the Annex to this letter. In addition, we highlight that a number of BBA members have submitted their own detailed responses to the consultation, as have other industry associations. We draw the Committee's attention to these and endorse in particular the response of the International Banking Federation to which we have contributed.

Phase two of the project

We look forward to engaging in discussion of the proposed second phase of the project and note below our comments on the discussion in the consultation document of the work related to the disclosure of hypothetical capital requirements and key metrics.

We note that reference is made to the possibility of requiring banks using IRB approaches for credit risk to disclose hypothetical capital requirements according to the Standardised approach. We believe that this would be counter to the stated purpose of enhancing comparability. The fundamental flaw in the Standardised rules is that they do not provide sufficient differentiation between portfolios on the risk factors that inform overall capital adequacy. Indeed, disclosure of parallel Standardised RWAs would only serve to confuse any comparison between banks – high risk portfolios become indistinguishable from low risk portfolios. We agree that there is a degree of opacity in the IRB approach, but the correct way to address this problem, in our view, is through the underlying rules and models themselves, with consistency of implementation across jurisdictions, rather than through additional disclosure. It is only through reform of the prudential risk assessment framework that informs regulatory capital requirements on a global scale that trust can be restored in the calculation as a strong measure of capital adequacy.

On key metrics, we fully agree with the Committee that adequate disclosure can provide the market with 'early warning signals of distress', but are concerned that a 'standard suite of resilience measures' as contemplated by the Committee, unless based on existing regulation, may not be relevant which could lead to an inappropriate regulatory or market response.

Using models to provide a quick and easy schematic to classify banks, in this case to alert the market to potential distress, is inappropriate as such models are inevitably exposed to model risk and prediction errors. Therefore, in order to reduce unintended consequences, we suggest the Committee design risk dashboards using existing metrics and relate these to the applicable regulatory thresholds.

Conclusions

In conclusion we believe in light of the significant reservations of both the industry and other market users about major aspects of the current consultation, particularly in relation to utility, frequency and granularity, in addition to a high volume of technical comments and suggestions, that it will be necessary to issue a revised consultation for further review during 2015.

We strongly recommend that the content of such a further consultation be subject to joint preparer/user/policymaker review, to ensure that the proposals will deliver relevant and useful information in a manner which balances costs and benefits.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Adam Cull', with a stylized flourish at the end.

Adam Cull, Senior Director, International & Financial Policy
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Template	Description	BCBS Proposed frequency	BBA Recommended frequency	BBA Implementation recommendation	Comments
OVA	Bank Risk Management and RWA	A	A	31.12.16	
OV1	Overview of RWA	Q	FR	31.12.16	
LI 1	Differences in financial and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	A	A	31.12.16	<p>Amendments are required for this as follows:</p> <ul style="list-style-type: none"> • There appears to be inconsistency between the explanation for the purpose of the table and the footnote relating to the breakdown of categories for columns (c) to (g). Specifically, we understand columns (c) to (g) should include accounting balance sheet values rather than exposure values so as to provide information on how accounting balance sheet items are distributed within the regulatory risk categories. Our view is that either the footnote should be amended/deleted or it should be used in the reconciliation Template LI2. • The inclusion of two columns for counterparty credit risk and market risk exposures in the spreadsheet will lead to 'double counting' where certain types of exposure attract market and counterparty credit risk. As a result non-additive totals will lead to confusion in the interpretation of the table for readers of the accounts. Therefore the table should be either amended and/or clarification should be provided in a footnote, to reflect that certain assets may attract both counterparty credit risk and market risk requirements. We believe a solution could be to show one column for the regulatory trading book that includes both Market risk and CCR and then a 'thereof' column for CCR. This would still allow a reconciliation of CCR in LI2 but would avoid the problem of double counting in LI1.
LI 2	Main sources of differences in regulatory exposure amounts compared with amounts in financial statements	A	A	31.12.16	
LIA	Qualitative disclosures of differences from financial to regulatory exposures	A	A	31.12.16	
CRA	General qualitative information about credit risk	A	A	31.12.16	
CR 1	Analysis of exposures by products	FR	A	31.12.16	Clarity on whether this template requires disclosure of gross accounting balance sheet and full OBS commitments - not EAD? Credit exposure is reported in ARA but net of provisions. Disclosure table refers to Basel definition of default (>90 days) to split defaulted and non defaulted, what about 180days per CRR permission? Where would mortgage defaults be reported?
CR 2	Changes in defaulted loans and debt securities	FR	A	Phase	Requires comparatives. IFRS 9 implementation will drive systems development. Movement schedule in Impaired Loans is currently provided in the ARA in a similar format but based on a different definition.
CRB	Additional disclosure related to assets subject to credit risk treatment	A	A	31.12.16	Rows d & h: What is meant by 'restructured'? The purpose appears to be to distinguish between commercial restructuring & forbearance. Reporting of forbearance is already being required under FINREP and IFRS 9/7 will introduce disclosure of 'modified' assets. Would be better to align with these, rather than creating another, potentially similar but not quite the same, disclosure.
CRC	Qualitative disclosure requirements related to protections	A	A	31.12.16	
CR 3	Protections – overview	FR	A	31.12.16	Few movements expected between quarters therefore recommend Annual disclosure. What is the definition of exposure for this template: COREP - Exposure value of collateral, Pillar 3 Exposure secured by collateral? Unclear whether the proposed split (Loans, Debt Sec and OBS) will give sufficient granularity - current P3 CRM disclosures split by Regulatory Asset Class.
CR 4	Protected exposures and coverage ratio	FR	A	31.12.16	From a presentational perspective suggest that this table is simplified – the flip between exposure/protection and protection/exposure is confusing. Suggest one basis (exposure/protection) throughout which would also eliminate double counting on fully protected exposures.
CR 5	Protected exposures by guarantor rating class	FR	A	31.12.16	This not part of the regulatory framework and the use of external ratings appears destined to decline. We question the usefulness to the market.
CR 6	Exposures protected by credit derivatives: breakdown by counterparty rating class	FR	A	31.12.16	
CRD	Qualitative disclosures related to standardised approach	A	A	31.12.16	
CR 7	Standardised approach - credit risk exposure and CRM effects	Q	A	Phase	Do not currently calculate pre-CRM RWA and strongly question the value of the concept. Timing of implementation will be dependent on revisions to template
CR 8	Standardised approach – exposures by asset classes and risk weights	Q	A	Phase	Risk weights for CCPs and DTAs etc may not fit the table.
CRE	Qualitative disclosures related to IRB models	A	A	31.12.16	

Template	Description	BCBS Proposed frequency	BBA Recommended frequency	BBA Implementation recommendation	Comments
CR 9	IRB - Credit risk exposures by portfolio and PD range	Q	FR	31.12.16	Development work required to isolate CCFs in certain IRB models. PD banding is different to COREP requirements which would cause issues in reporting the data. Under EDTF recommendations, banks have established granular PD scales tied to each notch of an external rating scale. CR9 proposes less granularity which seems a backward step from the EDTF recommendation. In addition, as banks will continue to comply with EDTF, this could lead to two sets of PD tables being produced. What value does 'Number of Obligators' add?
CR 10	IRB - credit risk mitigation techniques	Q	A	Phase	Pre CRM RWAs not currently calculated. Timing of implementation will depend on revisions to template
CR 11	IRB – RWA flow statements	FR	A	Phase	Will require detailed guidance to aid consistency & comparability. Question the value of tabulating this information and how meaningful it would be when reported at an aggregated level.
CR 12	IRB – Back-testing of probability of default (PD) per portfolio	A	A	Phase	Should be completed on a selective basis subject to materiality & proportionality. As for CR9, what level of granularity / portfolio breakdown will be required?
CRF	Qualitative disclosures related to specialised lending and equities under the simple risk weight method	A	A	31.12.16	Would require new data but not considered impracticable
CR 13	IRB (specialised lending and equities under the simple risk weight method)	Q	A	31.12.16	System rework required
CCRA	Qualitative disclosure related to counterparty credit risk	A	A	31.12.16	
CCR 1	Analysis of counterparty credit risk exposure (CCR) by approach	Q	A	31.12.16	
CCR 2	Credit valuation adjustment (CVA) capital charge	Q	A	31.12.16	Question value of disclosure as overlaps with MR2 & CCR1. Recommend deletion of column (f) capital requirements
CCR 3	Standardised approach - CCR exposures by asset classes and risk weights	Q	A	31.12.16	We question the value of quarterly disclosures given the exposures are relatively static. Default fund contributions & exposures to CCPs are not being picked up
CCR 4	CCR exposures by portfolio and PD scale	Q	A	31.12.16	<ul style="list-style-type: none"> • We question the value of providing such granular information on a quarterly basis. Columns a to c add limited value, and therefore we propose they are removed as “EAD post CRM” in column d is sufficient. • It is unclear what is required as CCF in the context of counterparty credit risk- under columns (b) and (c). It would be useful to see an example of an off balance sheet exposure under CCR where CCF would apply. • Our view is that this template should be flexible so as to allow banks to align it to their own PD rating bands • It is unclear what the purpose is for column (f) (Number of obligors) • Column (m) (provisions) at this level of disaggregation could be confusing without lengthy explanation. Slotting equivalent is missing
CCR 5	Composition of collateral for counterparty credit risk exposure	FR	A	31.12.16	<ul style="list-style-type: none"> • We question whether this adds value at a portfolio level and it may be more useful in the context of Annual Reports and Accounts (currently captured by IFRS 7 disclosures). • Given the trend to central clearing of derivatives, this may justify simplifying this disclosure template. • It is unclear whether this includes collateral provided and received from CCPs or just bi-lateral trades. • Should collateral information be provided for bi-lateral trades or also Initial & Variation Margin that is provided to CCPs? • While differentiation of segregation provides only limited insight for received or posted collateral no disclosure information is given for associated asset encumbrance. • Require clarity on why a segregated / unsegregated split is required.
CCR 6	Credit derivative exposures	FR	A	31.12.16	Derivatives information already provided under IFRS disclosures. Scope of requirement should be clarified
CCR 7	RWA flow statements- exposures under Internal Model Method	FR	FR	31.12.16	Complex to prepare & would not result in comparability unless significant implementation guidance provided It is recognised that users find this a useful disclosure

Template	Description	BCBS Proposed frequency	BBA Recommended frequency	BBA Implementation recommendation	Comments
CCR 8	Exposures to central counterparties	Q	A	31.12.16	<ul style="list-style-type: none"> We question the usefulness to investors of such granular information and therefore the purposes of the disclosure. Capital requirements for exposures with CCPs are very low and are based on regulatory coefficients. Our view is that the cost of completing this information exceeds the benefits of doing so. Please clarify how banks should distinguish between rows 3, 4, 5 relative to row 6 and whether row 6 is a component of rows 3, 4, 5, or if rows 3-6 are expected to tally to row 2.
SEC A	Qualitative disclosure requirements for all banks	A	A	31.12.16	
SEC 1	Securitisation activities in the banking book – Balance of securitised product exposures at the end of each reporting period (stock measure)	FR	A	31.12.16	Requires further development. Discussions underway between industry & BCBS WG lead
SEC 2	Securitisation activities in the banking book – origination/sponsoring activities and related P&L (flow measure)	FR	A	31.12.16	
SEC 3	Securitisation activities in the trading book – Balance of securitised product exposures at the end of each reporting period (stock measure)	FR	A	31.12.16	
SEC 4	Securitisation activities in the trading book – origination/sponsoring activities and related P&L (flow measure)	FR	A	31.12.16	
SEC 5	Securitisation positions in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor	Q	A	31.12.16	More meaningful to split bucket BB to CCC- into two buckets - BB+ to BB- and Below BB-. Below CCC- as default
SEC 6	Securitisation positions in the banking book and associated capital requirements – bank acting as investor	Q	A	31.12.16	
MRA	Qualitative disclosure requirements for all banks	A	A	31.12.16	
MRB	Qualitative disclosures for banks using the IMA	A	A	31.12.16	MRA and MRB will significantly increase the length of disclosures where there is limited evidence that they are used currently, in addition to information disclosed in the AR&A information where there is considerable overlap.
MR 1	Market risk under standardised approach	Q	A	31.12.16	
MR 2	Market risk under internal model approach	Q	A	31.12.16	
MR 3	RWA movement by key driver	FR	FR	Phase	Requires clarification in relation to standardised exposures
MR 4	Internal models approach (IMA) for trading portfolios	Q	A	31.12.16	Clarification is needed on whether Stressed VaR includes Stressed VaR RNIV and VaR includes VaR RNIV <ul style="list-style-type: none"> Question the value of providing minimum as average and maximum are more informative. Furthermore it is unclear how this template would be applied for banking groups which are subject to multiple regulatory VaR approvals and therefore have different max/min values for the different periods and days
MR 5	Comparison of VaR estimates with gains/losses	FR	A	31.12.16	

BOLD highlight indicates templates requiring greatest level of development by the BCBS prior to adoption by the industry