

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

10 October 2014

Ref:
Your ref:

Direct line: 020 7951 2000

Dear Sir

Invitation to Comment – Review of the Pillar 3 disclosure requirements

Ernst & Young Global Limited, the central coordinating entity of the global EY organization, welcomes the opportunity to offer its views on the *Consultative Document - Standards - Review of the Pillar 3 disclosure requirements* (Consultative Document) issued by the Basel Committee on Banking Supervision (the Committee) in June 2014.

We support the Committee's efforts to address some of the challenges that have been identified to date with Pillar 3 disclosures by banks and bank holding companies. We have been active in, and supportive of, the efforts of the Enhanced Disclosure Task Force (EDTF) of the Financial Stability Board (FSB) and it is reassuring to see that the Consultative Document aligns quite well with the recommendations of the EDTF.

We were asked to comment specifically on Part IV of the Consultative Document. We are supportive of the reconciliation in Part IV as we are of Recommendations 10 and 22 of the EDTF to which this aligns very strongly. We note, however, as indicated by our own assessment and that of the EDTF second implementation report that implementation of the EDTF recommendations has varied. We have attached to this letter some practical observations as regards both Part IV and the Consultative Document more broadly.

We welcome the opportunity to discuss the contents of this letter at any time. Please feel free to contact Keith Pogson on +852 2849 9227.

Yours faithfully

Ernst & Young Global Limited

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Appendix

Observations on Part IV

The audit community has specifically been requested to consider and comment on Part IV of the Consultative Document. This part focuses on linkages between the financial statements and prudential exposures and is effectively reconciliation between the balance sheet for financial reporting purposes and the balances used in the capital calculations for prudential purposes. The disclosure is in essence a combination of EDTF recommendations 10 and 22. We are supportive of the good work that the EDTF has undertaken since its formation and given the similarity between what is suggested in the Consultative Document and what has been recommended by the EDTF, we have no specific technical comments about the disclosure.

However, we have some observations of practical issues that have or are likely to arise:

- a. At present, it is predominantly large Canadian and certain European regions' large preparers who are disclosing the information recommended by EDTF Recommendations 10 and 22. There has been less adoption by large US preparers and large preparers in certain European regions and much less adoption by institutions that are not G-SIB's.
- b. Given that most jurisdictions do not require an internal control certification around these disclosures, there may not be as robust a control framework surrounding the production of such disclosures.
- c. Many banks must use both finance and risk management systems to produce the required data. Often these are legacy systems which may not have fully aligned data populations and calculation assumptions, potentially leading to a lower consistency of data and challenges in reconciling.

It is likely that in order to comply with the disclosures, many banks will either need to enhance their internal systems and processes or accept a lesser level of assurance on those disclosures as would be given if such disclosures were in the financial statements and related disclosures.

Other Observations

1. Implicit within the requirements is a quarterly release of quantitative information into the public domain (Paras 22-23). In some jurisdictions, companies are not subject to quarterly financial reporting or may do so in a simplified (generally qualitative) way. Though the templates do not directly disclose the Profit & Loss details, a bank analyst would be well equipped to deduce it. This becomes an increase in cost and effort for such banks as local listing requirements will likely require additional information be provided to support such disclosures and additional efforts will be required to deliver such information to the public markets.
2. In the templates, there is a requirement to potentially calculate values based on standardized approaches as well as the models used by the business for evaluating and modelling risk scenarios. The Consultative Document suggests that management's assurance over the process should be at a level similar to that of MD&A. However, our experience suggests that the underlying data management uses is where it tends to focus its effort, and data used solely for compliance purposes may receive less attention. Correspondingly, we would expect that to achieve a suitably high level of internal assurance with the preparer, additional controls, processes and explanation processes will need to be established, with the corresponding cost considerations to the banks.

3. Recently issued IFRS 9, “*Financial Instruments*”, contemplates substantive changes to the manner in which loan loss provisions are calculated, and correspondingly, the amount at which impaired assets are carried, amongst other matters. The introduction of such changes will have a considerable impact on the amounts being reported in a number of the schedules suggested as part of the Pillar 3 disclosures. We believe substantial work will be needed to ensure that the schedules are updated to reflect the consequences of the updated IFRS 9 appropriately. The IFRS 9 revisions have an implementation date in 2018. In order to not potentially confuse users during the transition between the different accounting standards, there could potentially be merit in having a consistent implementation date between the modifications to IFRS 9 and the new Pillar 3 disclosure formats.
4. The templates proposed in the Consultative Document are a significant step forward in providing consistent information to users. However, we have reservations whether a “one size fits all” approach to such disclosures is appropriate in all scenarios. Specifically;
 - a. Though the templates are highly relevant to most G-SIB's, it seems likely to us that many prudential regulators will apply the requirements more widely, and that for many smaller banks, the disclosures are likely too detailed, focused on areas in which they have limited activity or are at a level of sophistication to which they have not yet fully evolved.. As such, an approach of appropriate proportionality might be appropriate, for example, reducing the requirements for frequency of production to annually and allowing an approach to materiality that allows for those templates or disclosures which are not relevant to be omitted in the disclosures made.
 - b. There remain substantive differences between the regulatory and accounting frameworks globally (for example between the regimes in the US and Western Europe). As a result, a number of the proposed disclosure templates will be different from those already in common use, but often only subtly so. We would support a concept of materiality and flexibility where disclosures that are made show materially the same information but may not be exactly under the same headings or buckets as required by the templates.