

26 September 2014

Basel Committee on Banking Supervision
Centralbahnplatz 2
4051 Basel
Switzerland

Dear Sir

REVIEW OF PILLAR 3 DISCLOSURE REQUIREMENTS – CONSULTATIVE DOCUMENT

FirstRand (the Group) has reviewed the document as referenced and wish to provide comments to the Basel Committee on Banking Supervision on the proposed requirements. Included in this letter are detailed comments relating to each table/template. Our general comments are the following.

- We support the notion of a separate Pillar 3 report as a readily accessible source of risk data for users, either as an addition to the bank's financial reporting or only as a separate report, for example, published on the bank's website. It should also be published concurrent with the bank's financial disclosure.
- We support introducing prescriptive templates, in the form of either a fixed or flexible format, as appropriate, will introduce more transparency and comparability between banks.
- A mapping approach to link information in the financial statements to the risk disclosure can be performed, although a reconciliation of all line items will not be possible due to the difference between International Financial Reporting Standards (IFRS) valuation in financial disclosure and risk measure valuations prescribed by Basel and the South African Reserve Bank's (SARB) Regulations of the Banks Act, 1990 (Act No. 94 of 1990) as used in risk disclosure.
- FirstRand does have a formal board-approved disclosure policy in place that sets out the internal controls and procedures for disclosure of risk information.
- The document requires quarterly disclosure of the following tables: CR7, CR8, CR9, CR10, CR13, CCR1, CCR2, CCR3, CCR4, CCR8, SEC5, SEC6, MR1, MR2, and MR4. Currently FirstRand discloses this on a semi-annual basis concurrent with financial disclosure. FirstRand is concerned about the practicality of preparing this information on a quarterly basis, but more importantly, whether quarterly disclosure will add any value for the user. More comments regarding frequency are included in the detailed comments below.

4 Merchant Place, Corner Fredman Drive and Rivonia Road, Sandton, 2196 | PO Box 650149, Benmore, 2010, South Africa
T +27 11 282 1808 F +27 11 282 8088 | www.firstrand.co.za | FirstRand Limited registration number 1966/010753/06

Directors LL Dippenaar (Chairman) SE Nxasana (CEO) VW Bartlett JJH Bester MS Bomela JP Burger (Deputy CEO) P Cooper (alternate) L Crouse JJ Durand GG Gelink PM Goss NN Gwagwa PK Harris WR Jardine HS Kellan (Financial Director) RM Loubser EG Matenge-Sebeshe AT Nzimande D Premnaryen (India) KB Schoeman BJ van der Ross JH van Greuning **Company Secretary** C Low

Certain entities within the FirstRand Group are authorised financial services and credit providers

DETAILED COMMENTS

1. Overview of risk management and RWA

Table	Description
OVA	Bank risk management approach
Current disclosure	
FirstRand's annual integrated report currently describes its risk management policies and objectives including: <ul style="list-style-type: none"> • how the risk profile is managed; • an overview of strategic, operational and functional outcomes resulting from execution of strategy, and related risk management focus areas; • risk appetite and scenario planning strategy; • risk governance structure illustrating the roles and responsibilities of key stakeholders in business, support and control functions across the various franchises and the Group; and • the identification and management of risk culture and the parameters impacting the risk rating of the Group's culture. 	
Comments	
Annual disclosure in a flexible format is appropriate.	
OV1	Overview of RWA
Current disclosure	
Included in the quarterly capital disclosure template per SARB Directive 8 of 2013.	
Comments	
Quarterly disclosure required in a fixed format is appropriate, however further work required to prepare information for comparative minimum capital requirements.	

2. Linkages between financial statements and prudential exposures

Table	Description
LI1, LI2, LIA	Reconciliation of information in financial statement with risk exposure, sources of differences in reconciliation and qualitative information on differences.
Current disclosure	
Not included.	
Comments	
Reconciliation can be performed and disclosed, except for market risk, where the fair value disclosed in the AFS cannot be reconciled to the VaR model calculation shown in the Pillar 3 disclosure. This is due to the difference between IFRS valuation and Basel risk measures used for risk disclosure. Line item association between financial statements and prudential exposures can be indicated where reconciliation is not possible.	

3. Credit risk

Table	Description
CRA	General qualitative information about credit risk
Current disclosure	
<p>The Group's annual integrated report currently includes the following of the proposed disclosure on credit risk:</p> <ul style="list-style-type: none"> • how the business model determines the overall credit risk profile; • organisational structure and governance of the credit risk management and control function; and • the scope and main content of the reporting on credit risk exposure and the credit risk management function to the executive management and to the board risk committees. 	
Comments	
<p>The additional disclosure required on the criteria for the definition of the credit risk approach and credit risk limits; and the relationships between the credit risk management, risk control, compliance and internal audit functions can be disclosed. Annual disclosure in a flexible format is appropriate.</p>	
CR1	Analysis of exposures by product
Current disclosure – not included	
Comments	
<p>The following questions with respect to this table are:</p> <ul style="list-style-type: none"> ○ The Bank is required to disclose the gross value of non-defaulted exposures that are “impaired” and “other”. <ul style="list-style-type: none"> - In this instance may we interpret “impaired” as referring to exposures that are in arrears or deemed to be high risk on which portfolio impairments are held? - Other non-defaulted exposures in this context would be interpreted to refer to exposures which are neither past due nor impaired. ○ The document proposes disclosure of allowances on debt securities. These instruments are accounted for at fair value in terms of IAS 39. Changes to the fair value are accounted for in profit and loss in the year in which they arise. No allowances are created for the profits or losses. ○ The document proposes disclosure of write-offs. Write-offs are defined in the document as partial write-offs against impaired exposures and it is required that they should be stated net of recoveries. <ul style="list-style-type: none"> - Are impaired exposures in this context defaulted exposures on both defaulted and non-defaulted but impaired (i.e. in arrears or at high risk, please refer to query 1 above) exposures? Or does the term impaired refer only to non-defaulted exposures reflected under the table? - Clarification on the nature of recoveries envisaged under this requirement i.e. whether these are recoveries of amounts previously written off and the class of exposure that the recoveries relate to is needed. <p>Semi-annual disclosure in fixed format is possible, except with respect to issues highlighted.</p>	

3. Credit risk (continued)

Table	Description
CR2	Changes in defaulted loans and debt securities
Current disclosure – not included	
Comments	
This is additional disclosure which can be presented in the required format and frequency. However, splitting out new defaulted loans and debt securities (line 2 and 3 of the table), and transfer from not defaulted amounts would be very onerous. The value add of such disclosure is uncertain.	
CRB	Additional disclosure related to assets subject to credit risk treatment
Current disclosure - this disclosure is currently presented in a different format	
Comments	
Quantitative disclosure of residual maturity would require additional work and the Group will need to determine the feasibility of preparing the information.	

4. Protections available for credit risk exposures

Table	Description
CRC	Qualitative information on credit risk mitigation
Current disclosure	
Information on protections is disclosed in terms of the SARB's Regulation 43 of the Regulations relating to Banks. The availability of required information is limited.	
Comments	
Annual disclosure in a flexible format is appropriate.	
CR3	Reduction of exposure due to collateral.
Current disclosure – not included	
Comments	
Semi-annual disclosure in fixed format appropriate.	
CR4	Protected exposures and coverage ratio
Current disclosure – not included	
Comments	
Availability of collateral values is limited.	
Table	Description
CR5	Protected exposures by guarantor rating class.
Current disclosure – not included	
Comments	
Semi-annual disclosure in flexible format appropriate.	

4. Protections available for credit risk exposures (continued)

CR6	Exposures protected by credit derivatives: breakdown by counterparty rating class
Current disclosure – not included	
Comments	
Semi-annual disclosure in flexible format appropriate.	

5. Credit risk under standardised approach

Table	Description
CRD	Qualitative disclosures related to standardised approach
Current disclosure – not included	
Comments	
Annual disclosure in flexible format appropriate.	
CR7	Credit risk exposure and CRM effects
CR8	Exposures by asset classes and risk weights
Current disclosure – Some of required information currently included in Pillar 3 report.	
Comments	
Flexible format is appropriate. However, semi-annual disclosure more appropriate than quarterly as we do not see the value-add in more frequent disclosure. Available information for detailed rows in some entities of the Bank limited as information is prepared on aggregate level based SARB regulatory return requirements.	

6. Credit risk under internal risk-based approaches

Table	Description
CRE	Qualitative disclosures related to IRB models
Current disclosure – not included.	
Comments	
Annual disclosure in a flexible format is appropriate.	
CR9	Qualitative disclosures related to IRB models
Current disclosure – Not included.	
Comments	
The requested disclosure amounts are not expected to be volatile. We suggest that the PD scale/ buckets be aligned to the BA200 PD bands to minimise what would be significant additional development and work. The Bank currently does not report on-balance sheet exposure, off-balance sheet exposure, CCF and number of obligors by PD band in the regulatory returns and that would require significant development. The gross exposure and EAD (pre-CRM) is reported on and we propose to rather use these. The Bank believes that these changes will not reduce the value of the disclosure. Semi-annual disclosure in fixed format is appropriate.	

6. Credit risk under internal risk-based approaches (continued)

Table	Description
CR10	IRB - credit risk mitigation techniques
Current disclosure – not included.	
Comments	
The likelihood of the requested disclosure is low as CRM is generally allowed for in LGD and will be very difficult to split out, however, the Bank will investigate. The information will already come through implicitly in the detail in table CR9. Semi-annual disclosure in fixed format is appropriate.	
CR11	IRB – RWA flow statements
Current disclosure – Not included.	
Comments	
The Bank will be able to report on changes in the book (risk migration, new business, business rolling off all combined), model updates and forex movements. There is significant interaction between some of the others, e.g. when a book grows it will come through in growth as well as asset quality. Therefore it makes this nearly impossible in its current form. Although it must be understood where the changes come from, quantifying the exact numbers from each contributing factor is impractical.	
CR12	IRB – Back-testing of probability of default (PD) per portfolio
Current disclosure – not included.	
Comments	
Performing this within different PD buckets will create significant volatility which may leave readers very uneasy. The Bank already perceives this happening in some of our asset classes and this will only exacerbate this. We suggest performing on an overall asset class level, which we currently do in a similar form. Annual disclosure in flexible format is appropriate.	

7. Specialised lending and equity risk

Table	Description
CRF	Qualitative disclosures related to specialised lending and equities under the simple risk weight method
Current disclosure – not applicable	
Comments	
For investment risk external rating agencies are not used in the assessment of potential unlisted company investments.	
CR13	IRB (specialised lending and equities under the simple risk weight method)
Current disclosure – not included	
Comments	
Semi-annual disclosure in a flexible format is appropriate, as we do not see the value in quarterly disclosure.	

8. Counterparty credit risk

Table	Description	Current disclosure	Comments
CCRA	Qualitative disclosures related to counterparty credit risk	Included in different format	Quarterly disclosure in fixed format is appropriate.
CCR1	Credit valuation adjustment (CVA) capital charge		
CCR2	Standardised approach - CCR exposures by asset classes and risk weights		
CCR3	IRB - CCR exposures by portfolio and PD scale		
CCR4	IRB - CCR exposures by portfolio and PD scale		
CCR5	Composition of collateral for counterparty credit risk exposure	Included in different format	Disclosure with AFS in flexible format is appropriate.
CCR6	Credit derivative exposures		
CCR7	RWA flow statements- exposures under Internal Model Method	Not applicable	The Bank has not applied for Internal Model Method dispensation. Disclosure not applicable.
CCR8	Exposures to central counterparties	Included in different format	Quarterly disclosure in fixed format is appropriate.

9. Securitisation

Table	Description	Current disclosure	Comments
SECA	Qualitative disclosure requirements for all banks	Included in different format	Annual disclosure in flexible format is appropriate.
SEC1	Securitisation activities in the banking book – Balance of securitised product exposures at the end of each reporting period (stock measure)		
SEC2	Securitisation activities in the banking book – origination/sponsoring activities and related P&L (flow measure)	Not included	Further clarity on the definitions outlined in Template SEC2: Securitisation activities in the banking book – origination/ sponsoring activities and related P&L (flow measure), is needed.

Securitisation (continued)

SEC3	Securitisation activities in the trading book – Balance of securitised product exposures at the end of each reporting period (stock measure)	Not applicable	The Bank does not have securitisations in the trading book
SEC4	Securitisation activities in the trading book – origination/sponsoring activities and related P&L (flow measure)		
SEC5	Securitisation positions in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor	Included in different format	Quarterly disclosure in a fixed format is appropriate.
SEC6	Securitisation positions in the banking book and associated capital requirements – bank acting as investor		

10. Market risk

No additional comments on required market risk disclosure.

Contact myself or Mr Jaco Grobler, Chief Risk Officer, should you require any additional information in this regard.

Yours sincerely



Mine van Zyl

Head of Portfolio Risk and Risk Reporting

Cc.: Ms Yvette Singh – Public Policy and Regulatory Affairs Executive
Mr Jaco Grobler – Chief Risk Officer