JPMorgan Chase & Co.

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

Re: June 2014 Consultative Document – Review of the Pillar 3 disclosure requirements

Ladies and Gentlemen:

JPMorgan Chase & Co ("JPMorgan Chase") appreciates the opportunity to comment on the Consultative Document, *Review of the Pillar 3 disclosure requirements* (the "Proposal"), issued by the Basel Committee on Banking Supervision (the "Committee") and to participate in the outreach meeting held by the Committee on September 19, 2014 in Basel. We strongly support collaboration between the public and private sector as a way to enhance the outcome of regulatory rulemaking.

Our views on many of the technical aspects of the Proposal are consistent with the comment letter on the proposed rule being submitted jointly by The Institute of International Finance, The International Swap Dealers Association and The Global Financial Markets Association as well as the comment letter from the American Bankers Association. As a result, we will not separately comment on all of the points made in those letters. Our comments will focus on areas of the Proposal that are particularly important to JPMorgan Chase.

We support the goal to improve the comparability and consistency of capital adequacy disclosures across banks globally. In addition, we support an approach that balances the need for consistency with flexibility. However, before the Proposal is finalized, we recommend the Committee review the latest risk disclosures in U.S. bank's annual and quarterly financial statements which have incorporated the recommendations of the EDTF, as well as Pillar 3 reports for U.S. banks that have exited parallel in 2014. Also, the Committee should consider the disclosure framework in the United States. The SEC and FASB have generally focused on disclosures for investors, and bank regulators have brought a supervisory perspective in their

own disclosure requirements. The SEC is very focused on initiatives to increase the transparency and effectiveness of disclosures to investors, and we believe the Basel Committee should coordinate closely with the SEC and FASB in finalizing any additional disclosures to ensure alignment and consistency.

Notwithstanding our overall support for better disclosure, we are concerned that the scope of the Proposal goes beyond regulatory capital disclosures. There are a number of *risk disclosures* required in the Proposal that are quite similar to existing disclosures in financial statements, yet with regulatory definitions applied. We are concerned that this may lead to the unintended consequence of disclosure overload for investors and may cause confusion by presenting different views of the same type of information. This is an area where the ability to signpost is critical. It is however important to note that for signposting to be effective it must be flexible enough to allow banks to signpost to financial statement disclosures which use accounting definitions. We strongly recommend that the final rule makes it clear that this would be permitted. Additionally, we are concerned that the requirements related to flexible templates stated in paragraph 43[1] of the Proposal are too rigid and will limit the ability to use signposting. We suggest the wording be modified to "similar granularity."

In addition, there are areas where the Proposal could be improved to create clarity and to present a more accurate representation of a bank's regulatory capital profile. We have summarized the key concerns below, with specific recommendations presented in subsequent sections.

A. Linkages. The Proposal requires banks to effectively reconcile the balance sheet view of exposure to the capital view of exposure. Given the complexities in doing so, modifications are needed to templates LI1 and LI2 to support this objective.
B. Credit Risk Exposure. Templates CRB, CR1, and CR2 require risk disclosures that are already reported in financial statements yet with different definitions applied. As discussed above, the ability to signpost is particularly important for these templates.
C. Credit Risk Mitigation. We recognize the value in disclosing credit risk mitigation that has been recognized for the purposes of reducing capital requirements; however, template CR10 requires banks to calculate RWA on its portfolio as though it were fully unsecured with no guarantees, in other words on a hypothetical portfolio. This does not achieve the objective of improving transparency, and it would create significant operational burden.
D. PD Backtesting. We understand the need for investors to gain comfort in the internal models used to determine a bank's capital adequacy; however, we are concerned that the granularity of information required in template CR12 could reveal proprietary information.
E. Securitization. The securitization templates require information on exposures on which the firm holds capital and on pools of assets securitized by the firm. The

[1] "Where a customised presentation of the information is used, the bank must provide information equivalent to (or greater than) that required in the disclosure requirement (ie at least the same level of granularity as if the template/table were completed)."

Proposal does not clearly differentiate between these two types of information, which is confusing for both the reader and the preparer.

F. Clarifications. Finally, there are many areas that would benefit from further clarification of definitions and requirements. In particular, we suggest clarity would be improved if each template had an explicit "scope statement" explaining exactly what population is to be included.

Our detailed comments on these items follow below. Additionally, we urge the Committee to extend the effective date to January 1, 2017 to allow sufficient time for the rulemaking process in individual jurisdictions and to allow one year for implementation subsequent to the publication of a final rule at the local level.

A. Linkages

We recognize and support the need to help investors understand how exposure on the financial balance sheet relates to exposure used for capital calculations. The current structure of the linkage templates, however, needs to be modified to achieve this objective.

Specifically:

- It is unclear why off-balance sheet exposures are included in LI1 when the purpose of LI1 is to reconcile financial and regulatory balance sheet consolidation views and to demonstrate how balance sheet amounts map to trading book and banking book classifications for purposes of calculating RWA. We believe it would be more effective to include the off-balance sheet exposures, specifically off-balance sheet exposure at default (EAD), in LI2 so the reader can see a complete picture of EAD.
- The objective of LI2 is to demonstrate the main differences between balance sheet amounts and EAD. Since EAD is not relevant for market risk, we recommend eliminating the market risk column (column e). Further, for derivatives in the trading book, it is not meaningful to add EAD for counterparty credit risk to the market value of the derivative. The sum of these two measures is not a total regulatory exposure amount. Such a sum effectively double-counts exposure as they are two different dimensions of risk for the same product.

Finally, we assume, but suggest the Committee clarify that since LI1 and LI2 are required annually, the first time they will be required will be in the Annual Report following the effective date of the rule.

B. Credit Risk Exposure

Pillar 3 disclosures should provide transparency into how firms translate risk positions into capital in a way that makes it easy for stakeholders to understand the information provided. The inclusion of risk disclosures that are similar to information already reported in financial

statements, yet follow a different set of definitions, adds to disclosure complexity and disclosure overload. We believe users will find the information more confusing than helpful.

Specifically:

- Template CRB (flexible format) requires credit exposure by geography, industry, and maturity. For U.S. banks, the requirement to report these measures on the *Basel-defined* portfolios of wholesale credit and retail credit creates a third set of risk disclosures on top of existing disclosures in financial statements and regulatory reports.
- Template CR1 (fixed format) requires credit exposure, allowance, and write-offs by product. Again, similar information is already disclosed in financial statements. Additionally, CR1 overlays accounting definitions (e.g., impaired, write-offs) on regulatory definitions (e.g., default, EAD) creating added complexity.
- Template CR2 (fixed format) requires a defaulted loan rollforward that is similar to existing disclosures for non-accrual loans. By following a Basel definition of default versus an accounting definition of non-accrual, the information presented will be slightly different, yet close enough to cause confusion.

We suggest the elimination of templates CR1, CR2, and CRB from Pillar 3. As an alternative, we recommend banks include narrative in Pillar 3 directing the user to credit risk profile information contained in their public financial statements. We believe this approach is preferable because financial statements present the risk disclosures in the context of how banks manage their risk, one of the key principles of EDTF.

C. Credit Risk Mitigation

We acknowledge the value in disclosing credit risk mitigation that has been recognized for the purposes of reducing capital requirements; however, we are concerned that the templates relating to credit risk mitigation actually do not achieve the objective of improving transparency, and would create significant operational burden.

For example:

- Template CR4 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 does not impact RWA in wholesale credit. Additionally, CR4 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. We believe CR4 could provide a misleading view of risk, creating more questions than it answers.
- Template CR10 requires banks calculate pre-collateral RWA as though its positions were fully unsecured with no guarantees, in other words on a hypothetical portfolio. It is counterintuitive to present risk in this way as the collateral in these transactions is integral to the structure of the transactions and cannot be viewed as a separate

component. Said simply, the transaction would not have been done without the collateral; hence, reporting RWA without the collateral is misleading and is not reflective of how we manage risk. Additionally, reporting pre-collateral RWA requires producing two complete sets of RWA results each quarter: 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 attestations. This creates a significant volume of additional work on multiple groups within the firm for the sole purpose of producing this table. Further JPMorgan Chase does not prepare or use such information in connection with its management of credit risk.

We believe the intention of disclosure on credit protection should be to show the impact of post-origination credit risk mitigation on RWA and capital. It is our understanding that the buy side community is also primarily interested in post-origination credit risk mitigation; in other words, credit derivative hedges. As a result, we recommend template CR10 be modified to present only the RWA impact of credit derivative hedges. Furthermore, we recommend elimination of template CR4 due to the points discussed above.

D. PD Backtesting

We understand the need for investors to gain comfort in the internal models used to determine a bank’s capital adequacy. We are concerned, however, that different interpretations of the Basel rules may lead to different levels of PD estimates that do not necessarily mean one firm’s portfolio is riskier than another’s. For this reason we question the value of disclosing this type of information to the investor community as it may be misleading. Additionally, we are concerned about the competitive impact of disclosing portfolio-specific backtesting results (e.g., sovereign, bank, corporate, residential mortgages, qualifying revolving, etc.) from which one could infer information about underwriting standards or portfolio strategies.

On balance, if backtesting results must be disclosed to support the IRB approach, we recommend template CR12 be modified to present results at an aggregate level (one row for “wholesale” and one row for “retail”) to protect proprietary information. Separately, it is important to note that U.S. firms are not allowed to report the external rating equivalent (column three) under U.S. regulations (i.e., Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which prohibits referencing using external ratings.

E. Securitization

The securitization templates as currently proposed would be confusing for both the reader and preparer because the purpose statements are not consistent with the information

requested in the templates, and the templates mix information on “securitization exposures” and “exposures securitized.”

To address this concern, we recommend the templates align information by business activity rather than the proposed “stock” and “flow” distinction. The activity of securitizing assets (“exposures securitized”) transfers risk and should be reported separately from “securitization exposure” which requires capital. Specifically, we recommend SEC2 and SEC4 focus solely on the activity of securitizing assets, and thus, we recommend removing the investor column.

As a separate matter, we do not believe “net profit or loss” (P&L) is relevant for Pillar 3 because P&L is not an input to the capital calculation. The requirement to report P&L on securitizations is inconsistent with requirements for other banking book positions. We believe both P&L from securitizing assets and P&L from selling positions should be removed from templates SEC2 and SEC4.

In the U.S., assets pending securitization do not meet the definition of a covered position; and therefore, all assets securitized come from the banking book. As such, U.S. firms would not have anything to report in SEC4. Finally, we recommend explicitly defining “bank acts as investor” to only refer to positions in third-party deals, consistent with Basel rules. Retained positions in deals originated by banks should not be reported in the investor column.

F. Clarifications

Standardized Approach
We seek clarification on whether U.S. institutions that use the Advanced Approach will be required to disclose the templates specifically designated as Standardized Approach: CRD, CR7, CR8, CCR3, and MR1.

External Ratings
We seek clarification on whether U.S. institutions will be exempt from presenting templates that require information by external rating category, which is prohibited under U.S. regulations as previously discussed: CR5, CR6 and CR12.

OV1: Overview of RWA
We seek clarification on which line the CVA capital charge should be reflected, and on which line counterparty credit risk RWA *calculated under the securitization framework* should be reflected. Additionally, we request clarification on how the 1.06 scalar should be applied (e.g., on a line-by-line basis, or as a separate row).

Part 5: Credit Risk

The following points relate to all of the quantitative tables in Part 5:

- We recommend where the term “exposure” is used throughout part 5 that it be designated to mean “exposure at default (EAD)” for Advanced Approach banks.
- We recommend the scope throughout section 5 include off-balance sheet exposures.
- It is our understanding that counterparty credit risk is excluded from all tables in Part 5. We recommend that scope statements be included at the top of each table to confirm this exclusion.

CR9: IRB – Credit risk exposures by portfolio and PD range

We seek clarification on whether the weighted average CCF should be weighted by EAD, similar to the instructions for weighted average PD and LGD. We also seek clarification on how the 1.06 scalar should be handled in this table. Additionally, we recommend maturity not be required for retail exposures because it is not an input to RWA. [Qualifying revolving] exposures have no stated maturity, and contractual maturity is not a meaningful measure of risk for mortgages because most mortgages refinance long before their contractual maturity date.

CCR5: Composition of collateral for counterparty credit risk exposure

With respect to SFTs, we request definitions for “collateral received” and “collateral posted.” It is not clear whether to follow the accounting definition or the Basel definition of collateral. For the purposes of calculating EAD, Basel defines collateral as “the sum of the current fair values of all instruments, gold, and cash the [BANK] has borrowed, purchased subject to resale, or taken as collateral from the counterparty under the transaction (or netting set).” The Basel definition of collateral includes cash borrowed in a repo transaction; whereas the accounting definition does not.

CCR7: RWA flow statements - exposures under Internal Model Method

It is important that the disclosure does not imply a level of precision beyond what is practical operationally. We want to emphasize that the amounts presented will be estimates based on the predominant driver of the change.

SEC1 and SEC3: Securitization product exposures

For clarity, the term “activities” should be removed from the description of templates SEC1 and SEC3 since the information reported is exposure, not activities. Additionally, the definition of “securitized product exposures” indicates that pipeline exposures and items which do not get risk transfer recognition should be reported in SEC2 and SEC4. Both of these items are reported as loans under Basel rules, and thus, should not be reported in SEC2 and SEC4 as this would result in double-counting exposures.

SEC2 and SEC4: Origination/sponsoring activities

The definition of “exposures securitized” is unclear and inconsistent with Basel rules. As mentioned above, exposures in the pipeline *to be securitized* and exposures that do not get sales treatment or risk transfer recognition under the Basel definition are reported as loans,

and thus should not be reported as “exposures securitized.” The definition would be clearer if it were revised as follows: “Exposures securitised includes assets securitized by the bank, whether generated/originated by the bank or purchased into the balance sheet.”

SEC5 and SEC6: Capital requirements for securitization positions in the banking book

The rows in SEC5 and SEC6 appear to be mixing exposures by underlying asset type (e.g., retail underlying) with exposures by tranche level (e.g., senior/non-senior). This approach is confusing because the sum of the rows would not add up to the total exposure, and it is unclear where exposures with wholesale underlying would be reported. We request clarification on the rows for SEC5 and SEC6. We recommend eliminating the senior/non-senior distinction since it is not relevant to the RWA calculation under the U.S. Basel III rule.

MR3: RWA movement by key driver

The purpose of MR3 states, “To present a flow statement that *reconciles* the movements for the period in the market risk-weighted assets due to the internal model approach, distinguishing the key drivers of changes for each type of regulatory model.” The term “reconcile” implies a level of precision that is not practical operationally. The amounts presented will be estimates based on the predominant driver of the change. As such, we recommend removing the word “reconcile.”

We also recommend combining the rows for “movement in risk levels” (i.e., position changes) with “market movement.” Differentiating the RWA impact of one from another requires running two sets of calculations, isolating one variable from another. Since VaR and Stress VaR calculations are performed daily and involve dozens of calculators with large volumes of historical market data, running two sets of calculations is not practical. Furthermore, the Fundamental Review of the Trading Book is likely to result in methodology changes that could impact the columns in this table significantly. As such, it is not prudent to invest in systems enhancements on the current methodology.

Lastly, we recommend the row for “Methodology and policy” changes be defined solely to include rule changes. Internal methodology changes should be combined with model updates.

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In closing, we thank you for your consideration of our comments and reiterate our willingness to work with the Committee to elaborate on these recommendations and to provide input that would help ensure the new Pillar 3 requirements contribute to creating an effective capital disclosure framework. If you have questions on the points made in this letter, please contact Amy Kabia at 212-270-7748 or amy.a.kabia@jpmchase.com.

Respectfully,

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