

## **KFB comments on Review of the Pillar3 disclosure requirements**

The Korea Federation of Banks (KFB) is a bankers' association that represents and promotes the interests of the Korean banking industry as a whole. Our membership comprises banks both domestic and international, operating in Korea.

The Korea Federation of Banks has collected, and hereby submits Korean banks' views on the Review of the Pillar3 disclosure requirements announced by BCBS on June.24, 2014. This document is to request correction of errors and clarification of unclear parts specified in the Pillar 3 disclosure requirements, reflecting opinion of Korean banks.

### ☐ **Part 1. Introduction**

#### **IV. Summary and Findings**

##### **F (Assurance of Pillar 3 data)**

- Paragraph 28 and 29 specify that the information provided by banks under Pillar 3 should be subject to the same level of internal review and internal control processes as the information provided by banks within their financial reporting and that the board of directors should approve disclosure policy for Pillar 3 information that sets out the internal controls and procedures.
- We request that a bank should not be obligated to have extra audit for Pillar 3 by an external auditor if the bank has put its own internal accounting regulations for financial statements in place under the Act on External Audit of Stock Companies and established evaluation system for internal controls to regularly report the evaluation results for external review to management, internal accounting control committee, audit committee, and the board of directors.
- We request that it should be allowed for each nation to autonomously determine whether Pillar 3 disclosure internal control system is considered as a part of "risk" under the current "internal control system for financial reporting", leading to a simple expansion of the control activity list, or a separate "risk reporting control system" should be established while control system remains to be governed by the risk management committee.

### ☐ **Part3. Overview of risk management and RWA**

- Table OVA demands description of qualitative elements such as objective of risk management, policies, etc. However, it is short of a detailed explanation on how it should be described.
- We request a detailed explanation on a scope and contents for its comparability among banks.

□ **Part4. Linkages between financial statements and prudential exposures**

- Template LI1 demands analysis of the difference between the financial and the regulatory scope of consolidation as well as how the amounts of each category in financial statements are distributed within the regulatory categories. However, Comparability among banks can be hindered because there is a substantial difference in terms of calculation standards and rationale between amounts in the financial statement under the current financial reporting system and those under the regulatory context.
- Also, such tables could be burdensome for banks particularly when their efficiency compared to costs is uncertain. Therefore, we request Linkage between financial statements and regulatory scopes of consolidation should be removed.

□ **Part5 Credit Risk**

- With regards to template CR4, it is impossible to calculate coverage ratio of the amount that exceeds the amount of protected exposure. Also, such calculation appears to be unnecessary to validate adequacy of protection. Therefore, we request the template should be changed to allow disclosure of fully protected exposure only.
- For the portfolio description in template CR9, additional columns should be added under the “Sub-total” for those without PD scale.
- For template CR10, calculation of RWA pre CRM is needed. But, if the system for such calculation is not in place, additional costs are required to establish a new system. Moreover, QIS should be conducted to do so.
- Accompanying Narrative of template CR11 demands qualitative information that explains change in amounts and main drivers behind these changes. Guideline is needed since it is difficult to reflect changes and main drivers of all accounts.
- Regarding template CR11, RWA movements are based on EAD, default rate(credit rating), LGD, and maturity, making it difficult to pinpoint one factor as the main reason of the movement. Therefore, a clear standard to categorize asset size, asset quality, acquisition, and disposals is required.

□ **Part 6. Counterparty Credit Risk**

- Template CCR1/2/4 demands results of all calculation methods for CCR and CVA calculation in addition to the current methods. In this regard, an article that eliminates the need to input required capital calculated by methods not in use is required. When comparing with the previous report, a standard to determine whether to input description of main drivers or not is requested.
- Template CCR3 demands risk weights of each asset type, which brings about worries over the possibility of banks' confidential business information exposure. Hence, we request calculation of total amounts for each asset type.

- Template CCR5 demands classification of “Segregated” and “Unsegregated” for collateral used in derivative transactions. A detailed explanation on those items is required.
- Template CCR7 demands calculation of exposure amounts for main drivers of changes in RWA according to the Internal Model. Nonetheless, it is difficult to do an accurate exposure calculation for qualitative drivers. Therefore, we request a change from the amount calculation method to main driver selection method.

□ **Part 7 Securitisation**

- Currently, securitization regulation is going through amendment process. Hence, Pillar 3 disclosure requirements should reflect the amendment when it is completed.

Thank you for providing the opportunity to industry stakeholders to comment on BCBS’s *“Review of the Pillar3 disclosure requirements”*. The KFB and its members shall continue to closely follow future developments regarding this work stream.

Yours sincerely



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