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Private & confidential
Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
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Our ref ja/dp

10th October 2014

Dear Sirs

Consultative Document – *Review of the Pillar 3 disclosure requirements*

We appreciate the opportunity to comment on the Consultative Document – *Review of the Pillar 3 disclosure requirements* (the Document) issued by the Basel Committee on Banking Supervision (the Committee) in June 2014. We have consulted with, and this letter represents the views of, the KPMG network.

Support efforts to improve transparency

We welcome the Committee's continuing efforts to improve the transparency and quality of Pillar 3 risk disclosures. We agree with the Committee's position that publication of meaningful information about common key risk metrics to market participants reduces information asymmetry and helps promote comparability of banks' risk profiles within and across jurisdictions.

We also support the establishment of guiding principles for Pillar 3 risk disclosures which are consistent with these objectives.

Cost-benefit analysis and interaction with other disclosure frameworks

The ongoing drive to improve transparency – and the recent experience of financial crises - has led to demands for more and better disclosure. However, it is not necessarily the case that more disclosure is always better disclosure. There is a risk that the sheer volume of data may obscure important information. As the Committee notes, disclosures should be relevant, focused, proportionate and understandable. The Committee's objectives for Pillar 3 overlap with those of accounting standard setters, market regulators and private sector initiatives such as the Enhanced Disclosure Task Force (EDTF). The IASB has recently issued in July 2014 the final version of IFRS 9 *Financial Instruments* (IFRS 9) which includes extensive new disclosure requirements while the EDTF continues to review and refine its disclosure recommendations. These different initiatives create the potential for duplicative or conflicting disclosure requirements and the generation of unnecessarily voluminous

public reports. We agree that it is therefore important for regulators to consider and where possible avoid these potentially negative outcomes, including discussing these issues with other stakeholders.

Before finalising any new disclosure requirements, we believe that the Committee should establish that the benefits of the requirements – i.e. the value of the additional information provided to market participants – outweigh the costs – i.e. the costs incurred by banks in preparing and publishing information and the potential disbenefits to users arising from excessive or boilerplate disclosure. Therefore, to assess whether the benefits from the Pillar 3 disclosures as proposed in the Document would exceed the costs of providing them, we recommend the Committee carry out a cost-benefit analysis. Such a cost benefit analysis should include actively seeking and evaluating information from preparers, users, and other constituents about their expectations concerning the nature and quantity of benefits and costs of the proposed disclosures. We believe that preparers and users of Pillar 3 data are best positioned to provide this information. We note that a more structured approach to the analysis of costs and benefits would match the practices of many market regulators and with the due process followed by the International Accounting Standards Board in developing IFRS 9.

We recognise the Committee's efforts to compare its proposed Pillar 3 disclosures with the EDTF's recommendations on banks' risk disclosures. However, as part of the cost-benefit analysis, we encourage the Committee to actively co-ordinate with the EDTF to work out how to address overlap and differences between Pillar 3 requirements and EDTF recommendations where objectives and scope coincide. We believe that such an active approach that favours alignment – where possible – helps reduce the costs for preparers.

More generally, we support the Committee's view that overlap and conflicts with disclosures required by other standard setters – e.g. accounting standard setters or listing requirements from market authorities – should be minimised. We believe that this helps reduce costs.

We also understand that the proposed reporting frequency for many fixed format templates is quarterly and for many other templates and tables depends on a bank's financial reporting frequency. This would mean a significant increase in reporting frequency and may increase the costs for many preparers. We recommend the Committee incorporate in its cost-benefit analysis this expected increase in costs to assess whether these outweigh the associated expected benefits.

Proportionality

We understand that the proposed Pillar 3 disclosures would form an integral part of the Basel framework and will be applicable to all internationally active banks. As set out in the previous section, we understand that the proposed reporting frequency for many templates and tables will increase. We recommend the Committee apply the concept of proportionality in designing and implementing the scope of application, frequency and timing of disclosures. We believe that the appropriateness of the scope, frequency and timing of disclosures depends on the nature and size of a bank – i.e. what is appropriate for a systemically important financial institution may not be appropriate for a small retail bank (even if it operates internationally).

Consideration of the concept of proportionality should also therefore be an element of the Committee's cost-benefit analysis – e.g. how relative benefits and costs may differ for different types of institutions. We note that the Committee's Pillar 3 framework review findings are based on the Pillar 3 reports from 21 internationally active banks of which 20 are global systemically important banks (G-SIBs). We recommend the Committee assess whether the proposals give sufficient consideration as to whether all the requirements should apply to internationally active banks that are not G-SIBs.

Lead time to implement the proposals

The Document proposes that internationally active banks are required to comply with the revised Pillar 3 disclosure requirements from the first reporting period on or after 1 April 2016 and encourages large internationally active banks to proceed with earlier implementation. We believe that the proposed effective date may be challenging for banks as there is a myriad of other regulatory and accounting changes that compete for the same resources – e.g. adoption of IFRS 9. Therefore, we recommend that the effective date be further deferred taking into account the time that will be required for the Committee to finalise the revised Pillar 3 disclosures and for preparers to implement the finalised requirements.

Timing

We understand that the proposed timing of publication for Pillar 3 reports is aligned with a bank's financial reporting when the two reporting dates align. Many banks may have accelerated and compressed timelines for their financial reporting in order to provide markets with reliable information on as timely a basis as practicable. We are concerned that a requirement to align the publication for Pillar 3 reports with financial reporting potentially might give rise to an unintended consequence of tending to delay the publication of financial reports and therefore risk reducing the timeliness of reporting. We recommend that the Committee discuss this issue with banks and consider revisiting this proposal.

Detailed comments on templates and recommendation for a master glossary

The Appendix to this letter includes our detailed comments on the clarity and consistency of the templates in Parts 3 to 10 of the Document, including whether the linkages to the accounting information and related instructions are clear and meaningful.

One of the key goals of the revised Pillar 3 disclosures is to improve comparability and consistency. To achieve this key goal, we recommend the Committee introduce a master glossary that identifies, defines and clarifies the meaning of the terms and acronyms used in the templates. Inclusion of a master glossary would have reduced the number of our detailed comments on specific disclosure templates as we noted that some terms may be subject to multiple interpretations and acronyms may be unclear.

If you have any questions about our comments or wish to discuss any of these matters further, please contact Chris Spall at +44 (0)20 7694 8445.

Yours sincerely

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Chairman, Global Financial Services

Appendix – Detailed Observations

The following are our detailed observations relating to the Document, organised by template. They include specific observations where we believe the Document conveys unclear or inconsistent messages. This appendix should be read in the context of the covering letter.

Template/table	Observation
OVA	In the Committee's publication *Principles for effective risk data aggregation and risk reporting* that was published in January 2013, Principle 1 states that a bank's risk data aggregation capabilities and risk reporting practices should be subject to strong governance arrangements. We note that this publication explains, as part of that first principle, that a bank's board and senior management should review and approve the bank's group risk data aggregation and risk reporting framework and that the bank's risk data aggregation capabilities and risk reporting practices should be fully documented and subject to the highest standards of validation. In light of Principle 1 in that publication, we recommend the Committee consider whether it is useful for banks to describe explicitly the controls over the integrity of risk data to fulfil the stated purpose of the table.
LI1	The template should specify what measurement basis is to be used for "off-balance sheet amounts."
LI1	It is unclear why column h) contains both amounts that are not subject to capital requirements according to the Basel framework and those that are subject to deductions from regulatory capital. The nature of these amounts is different. We suggest the Committee consider whether it would be useful to have a separate column for each category.
LI1 & LI2	It is unclear what the meaning of "financial statement amount under regulatory scope of consolidation" is for those entities that are not included in the consolidated financial statements for financial reporting purposes. We suggest the Committee make explicit whether it requires banks to use the same measurement basis as under the GAAP for financial reporting purposes for such entities or whether it permits or requires something else.
LI2	It is not clear whether a separate LI2 template is required for each row in template LI1 or whether a single LI2 template is required for the total amounts from template LI1. If the latter, then it is not clear how total assets and liabilities are aggregated. We recommend the Committee clarify at which level and how template LI2 should be filled in.
LI2	It is not clear what is meant by "explain the drivers" - i.e. it is unclear what type of information banks are requested to provide. We suggest the Committee clarify - examples may be helpful. In addition, it is not clear how the information required on drivers for differences in the valuation when applying the prudent valuation guidance differs from the information that is required to be disclosed in table LIA. We recommend the Committee clarify the difference or eliminate the duplication.
LIA	It is not clear whether the requirements under (a) to (c) relate to both accounting measurements and prudential valuations or only to the latter or only to cases where there is a difference. We suggest the Committee make its intention clear. If they relate to both types of measurement, then we suggest the Committee change the wording under (a) so that it is clear that 'prudent' only applies to prudential valuations as that is not necessarily a characteristic of an accounting measurement. For example, IFRS requires a neutral approach to measuring fair value.
CR1	It is unclear how the terms "irrevocable" and "revocable" should be interpreted for the purpose of template CR1. The Document should define these terms.
CR 1	It does not seem that the definition of gross value is consistent with the

	preceding sentences regarding guarantees given and irrevocable loan commitments - i.e. the "accounting value" of a loan commitment or guarantee would generally be a net value, not the maximum amount payable. In addition, it may be unclear how to apply the gross value definition or the notion of an allowance to financial assets that are classified as available for sale (AFS) under IAS 39. We recommend the Committee resolve inconsistencies between the definitions and clarify whether and how the template applies to financial assets that are classified as AFS. In addition, many banks today write-off loans to the extent that there is no reasonable prospect of recovery. IFRS 9 will require this, including requiring partial write-offs. IFRS 9 also clarifies that a write-off is a type of derecognition for accounting purposes. The templates require loans to be reported gross of write-offs. This does not seem consistent with the IFRS 9 logic on derecognition. Also, it is not clear when the gross amount of a credit-impaired loan and the associated write-off should or may be removed from the disclosure. This means there is a risk that different banks may take different approaches and that the disclosure will be inflated by amounts that have no continuing economic relevance.
CR1	In the definition of Exposures, it is unclear what the instruction "not take into account the protections received" means since in many cases the effects of credit enhancements of exposures are an integral part of measuring the gross exposure and/or impairment losses for accounting purposes (e.g. a guarantee embedded in a debt security).
CR1	We understand that an exposure that is more than 90 days past due is considered past-due under the standardised approach. However, past due may be defined differently for banks adopting the IRB approach. Therefore we suggest the Committee consider amending the definition of non-defaulted exposures to "any exposure not meeting the Basel definition of default (e.g. [not i.e.] an exposure with less than 90 days to default)." If the Committee intends that amounts related to defaulted exposures that are considered past-due under the IRB approach but which are less than 90 days past due should be presented in columns (a) and (e) of the table (currently headed "Past due (more than 90 days)"), then it should make this clear and consider amending the heading appropriately.
CR2	In the body of our letter, we recommend the Committee carry out a cost-benefit analysis to assess whether the benefits from the Pillar 3 disclosures as proposed in the Document exceed the costs of providing them. The International Accounting Standards Board (IASB) proposed a similar reconciliation of gross carrying amounts as is proposed in Template CR2. However, in the light of the feedback received about the operational burden of the proposed reconciliation and because it considered that information on gross movements is not always the most useful, the IASB decided not to require a reconciliation of gross carrying amounts in IFRS 7 (see IFRS 9 Basis for Conclusions, Appendix B, BCA25 - IFRS 7.BC48P-S - pages 372-3). We recommend that the Committee consider aligning with the IASB's conclusion.
CR2	It is unclear whether and how banks should report: exposures that move from defaulted to non-defaulted and then back again to defaulted (or vice versa) in the same reporting period; and exposures that become defaulted and are repaid in the same reporting period. We suggest the Committee consider how and whether banks should report these movements and clarify this in template CR2.
CR3	Although we assume that "recognised netting effect" refers to offsetting for regulatory (rather than accounting) purposes, this is not entirely clear. We suggest the Committee make this explicit.
CR3	In the definition of "Exposure secured by collateral - of which secured

	amount", it is not clear what "amount that the collateral can be settled for" means - does it refer to the fair value or the settlement value of the collateral, the amount of the exposure that the debtor would have to settle in order to be able to reclaim the collateral, or something else? We recommend the Committee clarify the definitions. We note that the IASB decided to limit quantitative information on collateral based on a cost-benefit analysis (IFRS 9 Basis for Conclusions, Appendix B, BCA25 - IFRS 7.BC48AA, BB). Therefore, we also recommend the Committee carry out a similar cost-benefit analysis to assess whether the cost of providing quantitative information on collateral exceeds the cost of providing that information.
CR3	We suggest the Committee clarify: what amounts a bank is required to disclose in columns b)-g) for exposures that are secured by more than one of the following types: collateral, financial guarantees and credit derivatives; and how this interacts with the various requirements not to report over-collateralisation and excess value.
CR3	It is not clear what "amount that the credit derivative can be settled for" means. Does it refer to the nominal amount that the protection buyer has bought protection on, the fair value, the settlement value, or something else? If a fair or settlement value, then we point out that a credit derivative may be net settled and, if so, the settlement amount may not serve the template's purpose - i.e. to disclose the extent of the credit risk exposure. We suggest the Committee clearly define which amounts banks are required to disclose in relation to credit derivatives.
CR4, CR7, CR9, CR13, CCR4	It is unclear how the exposure values are determined - e.g. it may or may not be on the same basis as GAAP for financial reporting purposes. Also it is not clear whether these amounts are on the same basis as in template CR1, column i). We recommend the Committee explicitly clarify the basis for the exposure values.
CR4	We note that the term "actual amount of the protection" is not defined. Therefore, it is not clear which amounts a bank should use to fill in template CR4. We suggest the Committee provide the definition and takes into account the definitions that accompany template CR3.
CCR4	We assume that the amounts that banks are required to provide in the off-balance sheet exposure pre-conversion factor column are gross amounts before netting for regulatory purposes and exclude any value adjustments - e.g. CVA, PVA, DVA, provisions, credit risk mitigation (CRM) techniques and collateral adjustments, and conversion factors. However, it is not entirely clear based on the description provided. We suggest the Committee further clarify the column description.
CCR6	It is unclear what distinguishes "gross fair values" from fair values. We expect the intention is to require disclosure of the fair value before any adjustments associated with credit risk mitigation or the creditworthiness of the obligor. We suggest the Committee make explicit what is meant by "gross fair values."
CCR6	We assume that the row headers "gross positive fair value" and "gross negative fair value" represent the summation of credit derivative assets and credit derivative liabilities respectively. Therefore, it is not entirely clear why the row headers "gross positive fair value" and "gross negative fair value" are in the singular. We suggest the Committee consider these row headers so that it is more clear what amounts should be disclosed.
SEC1-SEC4	It is not clear to us whether based on the proposed templates, the disclosures are aligned with the proposed purpose. The templates require banks to disclose information on securitised products where the bank acts as originator or sponsor separately from information on these products where the bank acts as investor. However, the stated purpose in the templates only refers to securitisation activities where the bank acts as sponsor or as originator. We suggest the Committee reconsider the alignment of the templates and

	purpose.
SEC1, SEC2, SEC3, SEC4, SEC5, SEC6	It is unclear on what measurement basis "securitised product exposures at the end of the reporting period" in templates SEC1 and SEC3, the "exposures securitised" in templates SEC2 and SEC4, and "exposure value" in template SEC5 should be determined - e.g. it may or may not be on the same basis as GAAP for financial reporting purposes. We recommend the Committee explicitly specify the measurement basis for these exposure values.
SEC2, SEC4	The terms "realised net profit and loss" and "unrealised net profit or loss" are not defined. Therefore it is unclear whether the Document is referring to the difference between: gains and losses that are recognised in profit or loss versus those that have not yet been recognised in profit or loss yet; gains and losses on items that have been derecognised from the balance sheet versus those on items that continue to be recognised in the balance sheet; or something else. We suggest the Committee define "realised" and "unrealised" for the purposes of templates SEC2 and SEC4.