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c/o Bank for International Settlements  
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**MIS Comment to Consultative Document: Review of Pillar III Disclosure Requirements**

Moody's Investors Service ("MIS") welcomes the opportunity to comment on the review of the Pillar III disclosure requirements ("Draft Pillar III Disclosures"). As a user of banks' financial and Pillar III disclosures, MIS welcomes the efforts of the Basel Committee on Banking Supervision ("BCBS") to enhance the comparability, timeliness and comprehensiveness of the Pillar III disclosures in order to improve their usefulness to market participants. In this letter, we have included our general observations on the Draft Pillar III Disclosures and specific comments on the tables and templates are contained in Annex I.

**1. Quantitative and qualitative disclosures**

MIS welcomes the dual nature of the templates to allow both quantitative and qualitative disclosures. These disclosures will provide market participants with an equal and more transparent view of a bank's capital adequacy. This consistency will also allow greater comparability between banks and provide a more granular and comprehensive set of information on which the market can perform their credit analysis.

**2. Second Phase of the Review**

Notwithstanding the significant advances made in this review, MIS looks forward to the BCBS concluding the second phase of the review of Pillar III disclosures to incorporate and consolidate all existing and proposed disclosure requirements, including those which have not been covered in

this first phase of the project. In this regard, we would support requirements for greater granularity of capital and liability disclosure at legal entity level as well as disclosure surrounding

the classes of deposits in light of the differing protection and treatment from the point of view of preference under different resolution regimes. In addition, we look forward to additional requirements related to:

- remuneration;
- composition of capital;
- Global Systemically Important Banks (GSIbS);
- updated assessment methodologies;
- higher loss absorbency requirements;
- liquidity coverage ratio;
- Basel III leverage ratio;
- interest rate risk in the banking book and operational risk; and
- additional disclosures within the composition of capital of non-qualifying capital instruments which are being phased out under Basel III.

MIS notes that the requirements relating to the disclosure of Pillar II assessments for the risk types covered in the Draft Pillar III Disclosures have not been incorporated. The lack of Pillar II disclosures hampers the ability of the market to analyse the total amount of regulatory capital banks are required to hold in addition to Pillar I risk-weighted assets ("RWAs"). Although MIS undertakes an independent assessment of a bank's capital requirements and conducts its own quantification of loss absorbing tangible common equity, we also factor regulatory requirements into our analysis. MIS would therefore welcome the inclusion of Pillar II disclosures in the second phase of the BCBS' review, including, at a minimum, the provision of aggregate Pillar II RWA requirements at the level of each asset class.

MIS would like to thank the BCBS for the opportunity to provide its views on the disclosure requirement process. We would be pleased to discuss our comments further with the BCBS.  
Yours sincerely



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## Annex 1

In this Annex, we have included our technical comment on the respective template or disclosure requirement. These are referenced as per the parts set out in the consultation paper or the specific table or template where relevant.

### 1. Part 3: Overview of risk management and risk-weighted-assets (RWA)

#### 1.1 *Table OVA: Bank risk management approach -*

In addition to (a) – (g) of the template, we believe the following would be useful:

- (h) A description of how a firm sets its risk appetite and allocates risk appetite and regulatory capital to its business units and legal entities; and
- (i) A description of how a firm ensures that its risk appetite will not be breached on an on-going basis, including when setting business plans and when considering scenarios and shocks which could affect its business on a firm wide basis.

### 2. Part 4: Linkages between financial statements and prudential exposures

MIS supports the greater provision of information that will enable users of bank disclosures to reconcile risk and regulatory data to financial disclosures. For financial information to be more closely aligned with current risk information, banks that disclose financial information on a quarterly or semi-annual basis should also be required to disclose the financial information in the templates on a quarterly or semi-annual basis.

#### 2.1 *Template LI1: Differences in financial and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk -*

The delta between columns A and B is not quantified. The addition of a delta column to the template would make it easier to identify material differences.

#### 2.2 *Template LI2: Main sources of differences in regulatory exposure amounts compared with amounts in financial statements –*

The “other differences” row would benefit from the balance being broken down such that any amount does not exceed 10% of total.

It would be useful if the order of column C and D were swapped so that they are in line with columns D and E of LI1.

### 3. Part 5: Credit Risk

MIS welcomes the requirement to disclose data specifically in the disclosure report without reference to an annual report and the focus on regulatory definitions as set out in the templates and tables. In particular, MIS supports the standardisation of the content of *Table CRA* as well as *Template CR1* and considers these to be a significant enhancement to the current templates.

#### 3.1 *Template CR2 changes in defaulted loans and debt securities –*

MIS supports the note on the format that “jurisdictions may require further breakdown into the columns.” We believe that further categorisation, not only by counterparty type, but also by creditworthiness, would enhance the transparency of the inherent risk in these classifications.

#### 3.2 *Template CRB: Additional disclosure related to assets subject to credit risk treatment –*

MIS believes that markets would benefit from the disclosure of a transition calculation between their regulatory and accounting assets. Currently there is a wide divergence of term definitions between the regulatory and different accounting frameworks which has substantially suffered from muddled classifications. As an example, asset quality definitions such as non-performing exposures and impaired assets are currently not aligned at an international level between these frameworks. A transition report would support the relative importance of the disclosure report and thereby increase the understanding of regulatory versus economic risk in a bank.

#### 3.3 *Templates CRC: Qualitative disclosure requirements related to protections; Template CR3: Protections – overview; and Template CR6: Exposures protected by credit derivatives: breakdown by counterparty rating class -*

We believe it would be useful to extend these templates to incorporate the impact of exposure reduction through the netting of debt securities and securities financing transactions (SFTs) versus a simulation of not-netting these instruments (i.e. securities not covered by a Master Netting Agreement (MNA)). As the data requirement for this illustration would be similar to the templates released for the reporting of the leverage ratio, a duplication of reporting requirements should therefore be avoided.

#### 3.4 *Templates CR5 Protected exposures by guarantor rating class and CR6 Exposures protected by credit derivatives –*

We believe that a breakdown by counterparty creditworthiness would benefit this reporting if subdivided by asset class or counterparty type so as to be able to differentiate between hard collateral and market asset protection (cash and credit derivatives).

3.5 *Templates CRD, CR7-13: Credit risk under standardised approach; and  
Table CRE: Qualitative disclosures related to IRB models -*

We would welcome the general requirement to report regulatory exposures by geographic segments given the multitude of macroeconomic risk profiles and the relative importance of the operating environment which has emerged over the past years, particularly in the euro area. In addition, we would find it useful if the proposal includes the requirement to provide additional information on geographic exposures in times of macro or microeconomic stress in certain locations in order to increase market transparency at these times.

3.6 *Template CR11: IRB – RWA flow statement; and  
Template CCR7: RWA flow statements – exposures under Internal Model Method -*

We welcome the requirement to provide this comprehensive reconciliation in order to identify the core drivers of RWA volatility.

#### **4. Part 6: Counterparty Credit Risk**

4.1 *Template CCRA: Qualitative disclosure related to counterparty credit risk -*

*Item (b):* Banks are required to provide “the method used to assign the operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures.” This additional disclosure would be helpful if it also includes an indication of whether the method itself, or any limits (or the aggregate limit) used were changed in the past year, and an explanation of why. Furthermore, it would be helpful if there was a way to relate the internal capital alluded to in this item with regulatory capital.

*Item (e):* Banks are required to provide “the impact in terms of amount of additional collateral required to be posted given a credit rating downgrade.” MIS believes that any mechanistic use of ratings within regulation should be removed. Where the use of ratings remain, the “impact” should be provided separately per notch downgrade (including downgrade to non-investment grade), as well as where the rating action may result in contract termination or substitution. In addition, an indication of the number of credit rating agency downgrades required before the impact was felt would be useful.

4.2 *Template CCR5: Composition of collateral for counterparty credit risk exposure –*

A breakdown of the price volatility of the collateral types listed (other than cash) should be provided.

4.3 *Template CCR6: Credit derivative exposures –*

The “*format*” states that the rows depicted are “flexible”, however we would think these should be fixed given the importance of this information. In addition, a further breakdown would also be useful, for example, single name credit default swap (“CDS”) by credit rating range and index CDS broken out by tranches.

#### 4.4 *Template CCR8: Exposures to Central Counterparties –*

In column (a), it would be helpful if there was a further breakdown of the components contributing to this figure such as the customer relationship management techniques, credit valuation adjustments and specific wrong way adjustments as cited in the definitions.

### 5. Part 7: Securitisation

The required disclosures in the securitisation tables do not, in our view, capture the different exposures faced by the role of sponsor, originator and investor. We believe it would be more useful for the requirements to fully break down exposures by the:

- role of the bank rather than aggregating the exposures;
- geographic mix of exposures, and
- currency of the exposures.

The importance of this disclosure is highlighted by the fact that during the crisis, US RMBS performed, and had book values, considerably out of line with most European RMBS.

In addition, we believe that securitisation related exposures not covered in this disclosure should also be included such as interest rate or foreign exchange swap providers and liquidity providers (other than full ABCP type liquidity wraps). Counterparties to a structured finance transaction face unique risks which may not be clear if disclosed elsewhere. For example the one-way contingent liability to post collateral or fund liquidity facilities given certain events.

#### 5.1 *Template SEC1: Securitisation activities in the banking book; and Template SEC3: Securitisation activities in the trading book – Balance of securitised product exposures at the end of each reporting period (stock measure) -*

These templates imply that synthetic transactions can offset traditional exposures if included in the sub-total column as proposed. However, unless investors have named protection on a particular exposure to offset the risk, the short position will not typically be a perfect match.

#### 5.2 *Template SEC5: Securitisation positions in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor*

If the bank is acting as sponsor or originator, it is not clear how the position could be defined as “senior” or “non-senior”.

- 5.3 *Template SEC5: Securitisation positions in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor; and*  
*Template SEC6: Securitisation positions in the banking book and associated capital requirements – bank acting as investor –*

The phrases “retail underlying”, “of which senior” and “of which not senior” are not defined and could overlap. i.e. a transaction could contain largely retail exposures yet the counterparty may have only a senior position in the structure. It is also unclear how an originator would disclose their position as senior or non-senior.

## **6. Part 8: Market Risk**

- 6.1 *Template MR5: Comparison of VAR estimates with gains/losses -*

We believe the actual profit and loss (“P&L”) should exclude fees and commissions, assuming that value at risk (“VaR”) does not incorporate those items.

Although technically not part of Basel III, an additional template containing a standardised histogram of daily trading P&L, using data already included in Template MR5 would be useful.