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Secretariat of the Basel Committee on Banking Supervision,
Centralbahnplatz 2
CH-4002 Basel
Switzerland

10 October 2014

Dear Mr Coen

CONSULTATIVE DOCUMENT ON *REVIEW OF THE PILLAR 3 DISCLOSURE REQUIREMENTS* (JUNE 2014)

We thank the Basel Committee for Banking Supervision ("the Committee") for the opportunity to respond to the Consultative Document *Review of the Pillar 3 disclosure requirements.* We also appreciated the opportunity to participate in the Basel Outreach meeting on 19 September 2014.

We share the view of the Committee that providing meaningful information to the market is a fundamental tenet of a sound banking system. A well designed framework reduces the information asymmetry and allows for comparisons between banks' risk profiles within and across jurisdictions, and improves the comfort with the published capital requirements and underlying risk-weighted assets.

Our main concerns with the Consultative Document are as follows:

- We do not support the proposal to require **parallel disclosure** of hypothetical capital requirements according to the standardised approach for credit risk.

- The 'standard suite of resilience measures' or **risk dashboards** as proposed by the BCBS could mean that banks would be measured against a set of metrics which may not be relevant leading to an inappropriate regulatory or market response.

- The **implementation timelines** of these proposals should delayed until 31 December 2016 at the earliest including those for internationally active banks.

- **Disclosure frequency** beyond twice a year is not necessary given the granularity of information, the limited change period on period and the time it would take to produce, ensure proper governance and be reviewed by the market.

Standard Chartered Bank
1 Basinghall Avenue
London EC2V 5DD
www.standardchartered.com

Tel +44 (0)20 7885 8888

- **Linkage to accounting information** is helpful but needs to avoid unnecessary duplication.

- Impact of these proposals in respect of **major accounting and regulatory developments** of IFRS 9 Financial Instruments and the Fundamental Review of the Trading Book ("FRTB").

The above points are discussed in more detail below:

Parallel Disclosure

In order for market discipline of banks to be effective, disclosure must be sufficient for users to understand the absolute levels of individual bank's risks, and thus allow for a fair comparison between their levels of risk.

Requiring banks to compare against Standardised rules implicitly endows those rules with a sense of accuracy or legitimacy which is unwarranted. This may lead to the risk sensitive Internal Ratings Based ("IRB") approach calculations made by banks being ignored because market participants are under the belief that banks with the same Standardised risk weights should have similar Risk-Weighted Assets ("RWA").

Inevitably this will lead to banks having to disclose a wide variety of complex reasons, which will differ from bank to bank, as to why IRB RWA differs from Standardised, when essentially the difference between the two outcomes will be the result of reconciliation between two fundamentally different methodologies.

On this basis, the most likely outcome is that market participants become further disillusioned with IRB approaches and will exert market discipline based on the simpler to understand, but less robust and not meaningfully comparable, Standardised RWA. We, therefore, run the serious risk that the outcome will be that banks will have to manage to Standardised rules being preferred by market participants.

Risk Dashboards

We fully agree with the Committee that adequate disclosure can provide the market with 'early warning signals of distress', but are concerned that a 'standard suite of resilience measures' as contemplated by the Committee, unless based on existing regulation, may not be relevant which could lead to an inappropriate regulatory or market response.

Using models to provide a quick and easy schematic to classify banks, in this case to alert the market to potential distress, is inappropriate as such models are inevitably exposed to model risk and prediction errors. While the inherent model risk might yield

a more prudent regime, this potentially undermines existing regulations, and such prediction errors could artificially create distress and market uncertainty.

Therefore, in order to reduce unintended consequences, we suggest the Committee design risk dashboards using existing metrics and relate these to the applicable regulatory thresholds. We would also urge the Committee only to use traffic light systems or qualifying statements for rules which are based on existing regulation.

Implementation Timelines

We are concerned that an implementation date of 1 April 2016, does not leave sufficient time for banks to implement the comprehensive proposals given the number of initiatives that are already in progress from the European Banking Authority (COREP, FINREP, LCR, NSFR and the Additional Liquidity Monitoring Metrics) and the Financial Stability Board (revisions to Phase 1, implementation of Phase 2 in June 2015 and plans for Phase 3 implementation during 2016) and the resultant impact on resources and systems development. We would, therefore, request that the implementation date should be delayed until 31 December 2016 at the earliest including internationally active banks.

We are also concerned that national competent authorities might mandate the proposed disclosure standards at an earlier stage and would encourage a unified introduction across internationally active banks. We would, therefore, request the Committee to highlight the need for a consistent adoption of the proposed disclosure requirements into national requirements and to resist from encouraging early implementation by internationally active banks.

Disclosure Frequency

We reiterate our full support of the objective of Pillar 3 disclosures as 'the provision of meaningful information about common key risk metrics to market participants' and that this is a 'fundamental tenant of a sound banking system'. However, we do not understand what benefit an increased reporting frequency of RWA will achieve given that soundings of our investors reveal no appetite for quarterly reporting and the general concern that this will lead to short-termism.

On this basis we would suggest to allow banks a disclosure frequency in parallel with half-yearly results as of June and December.

Linkage to Accounting Information

We note that although the proposed templates have similarities to the corresponding Enhanced Disclosure Task-Force ("EDTF") templates, which itself have posed

significant implementation challenges for many banks; they are much more granular and burdensome to produce.

Accounting values are in general on-balance sheet and do not easily compare with regulatory measures such as Exposure at Default, owing to the different treatment of collateral, netting and off-balance sheet items. Even though reconciliation between regulatory and accounting values could be defined at the required level of granularity, it would require numerous adjustments, which would add complexity and possible confusion. Most importantly, the type of information displayed in templates LI1 and LI2 is not prima facia relevant for internal risk management and thus does not contribute to informing users as to how risk is managed or the actual risks faced by a given bank.

We would, therefore, suggest the Committee critically review these templates and, in particular, remove the references to liabilities, as these bear limited relevance to the regulatory calculations, and postpone the break-down of the trading book until the FRTB is completed.

Major accounting and regulatory developments

There will undoubtedly be significant changes required to Pillar 3 disclosures as a result of the implementation of IFRS 9 Financial Instruments and the FRTB and are concerned that changes in Phase 1 may have to be revised once these significant accounting and regulatory changes have been made.

We, therefore, urge the Committee to consider the future impact of these proposals and delay any related changes in Pillar 3 until IFRS 9 and FRTB have been implemented.

Revised Disclosure Market Risk Requirements

We have the following specific concerns with respect to the implementation and feasibility of the revised disclosure requirements:

- **Template MR2 'Market risk under internal model approach'**: The proposed template includes some elements of standard rules for specific risk which are also captured in MR1. Therefore, the standard rules requirements should be removed from template MR2.

- **Template MR3 'RWA movement by driver'**: Model driven MRWA results are based on 60-day/12-week averages. Analysis of changes would therefore require multiple runs of the model each day/week to capture the difference in outcome driven by the five different risk factors. This would require disproportionate

computing resources and, therefore, we recommend that template MR3 should be withdrawn from the proposed Pillar 3 requirements.

Technical Comments on Disclosure Templates

As part of our review of the proposed disclosure templates, we have identified the need for clarifications and certain technical operational issues. In this respect, we would like to refer the Committee to the technical comments reflected in the responses of the Institute of International Finance and the British Bankers Association to which the Group has contributed.

We are concerned that qualitative commentary for significant changes in every template might not be useful for readers and could result in information overload. We would, therefore, request the Committee to define more precisely under which scenarios qualitative commentary is required.

We appreciate this opportunity to provide our comments on the Consultative Document and would be pleased to discuss the contents of this letter, and related matters, with you at your request.

Yours sincerely

Peter Roberts
Head, Group Regulatory Reporting
Group Finance