

## **Response to the BCBS consultation on the “Review of the Pillar 3 disclosure requirements”**

WSBI welcomes the opportunity to react to the consultation launched by the BCBS on the review of the Pillar 3 disclosure requirements aimed at promoting greater consistency in the way banks disclose information about risks, as well as their risk measurement and management and to enable market participants to compare banks' disclosures of the capital ratio's denominator (i.e. RWA) and to assess more effectively a bank's overall capital adequacy.

### **General comments**

WSBI welcomes the Basel Committee's initiative to revise the Pillar 3 disclosure requirements in order to improve the provision of meaningful information for users of Pillar3 reports and to require a more formal structure for certain disclosures and to standardise them since this will improve the comparability of information.

Overall, WSBI welcomes the move to **standardise** the required information. However, we are concerned about the **excessive volume of information to be disclosed** and the amount of tables and templates that institutions will have to comply with and its **level of detail**, which we consider is too great. We believe that this will have a negative impact in two sides: on the one hand, it will require a huge effort by institutions in terms of IT developments, compliance, etc. since the current procedures will have to be adapted or new ones will have to be developed; on the other hand, new tables and templates could make the Pillar 3 information more difficult to understand and compare by market participants. This abundance of information might overwhelm users, rather than helping them to obtain a better understanding of the risk exposures faced by individual institutions. Moreover, the experience of WSBI members shows that interest in Pillar 3 reports tends to be rather low, exemplified by the small number of reports downloaded from the internet and the small amount of queries and feedback from investors.

**For these reasons we propose a reduction of the number of tables and templates in order to not overload institutions with more disclosure requirements.**

Moreover, at the moment, institutions have to comply with **several disclosure and reporting requirements that in a lot of cases are overlapped**. In order to avoid this, the BCBS will probably allow institutions to signpost clearly in their Pillar 3 report where the disclosure requirement has been published but it is only permitted for the templates/tables with flexible





format. However, we consider that this is not enough and we would like to propose to the BCBS the possibility of **evaluate a future merger of Pillar 3 report with Annual Report in a unique report** since they cannot be read as separate documents and it will avoid the use of signposting, which sometimes complicate their assessment by market participants.

WSBI members also have doubts as to whether the exposure draft of the disclosure requirements will meet their information needs. We suggest to proceed along the same lines as for the Enhanced Disclosure Task Force (EDTF) recommendations and to **identify the information requirements in an interactive process involving the preparers and users of the reports**. Ultimately, however, the package of requirements should only stipulate mandatory disclosure for information that is highly relevant for the majority of the users.

Additionally, although the revised Pillar 3 framework is applicable to all internationally active banks (paragraph 19), under the European regulation (CRR/CRD IV) all institutions will have to comply with it. Due to this, is important to simplify as much as possible the tables and templates proposed by the BCBS, in order to **take into account the proportionality principle** and not prejudice small and medium size institutions.

Regarding the **frequency of publication** of Pillar 3 reports, the consultative document proposes that an important volume of information has to be reported on a quarterly basis, which means that almost  $\frac{3}{4}$  of all tables will have to be disclosed. It will be burdensome for institutions since they will have to produce additional reports, their management body will have to approve them, etc. Moreover, during the course of three months much of the information will only change insignificantly, so considerations of relevance mean that **more frequent reporting than an annual cycle does not appear to make sense**. Moreover, quarterly reports are prepared in a much tighter time frame than the year-end report. Given that the supervisory reporting information only has to be transmitted to the supervisory authorities after 30 working days, we believe that it is not appropriate to publish part of this information in advance as part of the Pillar 3 disclosures. **We are therefore advocating allowing annual disclosure** for the templates listed in the column 'As frequently as financial reporting'.

For all the facts mentioned above, **WSBI claims for a proper cost/benefit considerations**, a proper analysis should be examined carefully at all times by assessing the frequency and the costs of compiling this information and its relevance for the potential users.

In accordance with paragraph 8, banks will be required to comply with the public disclosure requirements from the first reporting period on or after 1 April 2106. First of all, WSBI asks for clarification in the text to know whether this means that the first Pillar 3 disclosure with the new requirements will be the correspondent to year 2016 to be published in 2017 or if it will apply to information correspondent to year 2015 to be published on April 2016. Anyway, WSBI sees the timeframe unrealistic and disadvantageous and prefers that Pillar 3 framework review apply as late as possible, but **never before beginning of 2017**.



On the one hand, WSBI thinks that the Pillar 3 revision should be used to develop a framework that is focused on the interests of users, and **quality should take priority over time-to-market**. In this respect, we strongly urge the Basel Committee to step up its dialogue with preparers and users and to identify the actual information needs.

On the other hand, this timeframe will be difficult to follow because of the **interaction with other ongoing regulation**, for example:

- CRR will have to be adapted to the BCBS' review of the Pillar 3 and it will happen in a very short time from its entry into force (CRR 1 January 2014 and Pillar 3 review 1 April 2016);
- The rules for determining RWAs are currently being revised (Basel IV: Fundamental Review of the Trading Book, counterparty credit risk, standardised approach to credit risk) and the amendments resulting from this revision will entail further modification of the disclosure templates.
- Granular data is now required in a new format in many places (for example in templates LI1 and LI2), which will also trigger corresponding implementation activities.

In addition, these requirements cannot be implemented within a short period of time. In particular, for example, the use of fixed template formats means that IT systems will have to be modified at considerable effort to allow the necessary information to be captured. In turn, the banks can only start their implementation projects once the final rules are known. In Europe, for example, these will also have to be transposed into EU law.

Overall, we therefore suggest a **phase-in approach**. During this phase, the decision-usefulness of the disclosures could be validated by the Basel Committee and the information needs discussed in the course of a dialogue with the preparers and users of the reports. The aim here should be to eliminate duplication or excessive disclosures and granularity.

WSBI considers that the **principles of relevance and materiality**, as well as non-disclosure of information that is sensitive for competitive reasons, are **not adequately reflected in the package of requirements**. We therefore ask the Basel Committee to relax the rigid requirements at least by clarifying the general principle that fields in a template or table need only to be completed if the information is deemed to be relevant and material. We would also like to draw attention to the fact that equivalent concepts are already applied in financial accounting and banking supervision disclosures. For example, the European Banking Authority (EBA) has recently published draft guidelines on materiality and the protection of proprietary and confidential information. We are therefore urging a **close exchange of information between the regulators** in this respect so as to ensure conceptual consistency.

We are also concerned about the proposal to **require banks to disclose hypothetical capital requirements** based on the standardised approach to credit risk. This makes a nonsense of the use of internal models and will not help improve transparency about an institution's risk exposures. Equally, disclosing the results of applying the standardised approach to credit risk does not say anything about the quality of a model. Rather, it should be borne in mind that internal models are considerably more risk-sensitive than standardised approaches can be. They are also subject to



regular backtesting exercises and are sufficiently validated. To this extent, **we are firmly against calculating and disclosing such hypothetical results.**

As regards the **reconciliation from financial statement to prudential exposures required in Part 4** (Linkages between financial statements and prudential exposures), we are arguing in favour of revising the definitions and objective of the templates currently being proposed. In this context, we wish to draw attention to the fact that a comprehensive reconciliation (differences in the scope of consolidation, definitions, impairment, treatment of off-balance-sheet items, etc) would entail a considerable implementation effort without producing any significant increase in understanding for users. As far as disclosure template LI1 is concerned, we are also uncertain whether financial statement carrying amounts or exposure values should be entered in columns c to g. Based on our current understanding, the reconciliation from financial statement amounts to regulatory exposure amounts proposed in disclosure template LI2 would mean that significant differences, for example FV changes of AFS or HfT securities, would have to be reported in 'Other differences'. We therefore propose reviewing whether the structure of the two templates matches the information objective. As an alternative to the granular reconciliation, we believe that a qualitative explanation of the main differences would be more useful for the users.

Regarding the **credit risk templates contained in Part 5: Credit Risk**, we would like to start by commenting that certain of the new disclosure templates would trigger an implementation effort at the institutions that is entirely disproportionate to the disclosure objectives, because it would be necessary to create and maintain new databases solely for disclosure purposes. This refers in particular to disclosure templates CR4, CR5, CR9, CR10, CR11, CR12 and CCR8. From our perspective, these templates should be considerably reduced.

Please note in addition the following **comments on the individual templates**:

Our understanding is that the value to be analysed in template CR1 is the regulatory EAD; however, the template calls for gross values to be disclosed, ie before credit risk mitigation. Because this will result in considerable additional implementation effort, we are requesting clarification as to the Basel Committee's information objective in defining gross values here.

In disclosure template CR3, the Basel Committee is using a new, broadly defined concept of 'protections'. Institutions will have to compare the exposure before and after protections and net of provisions and impairments. However, guarantees directly affect the PD in the (basic) IRB approach, for example, so 'deducting' this credit risk mitigation would again result in considerable additional implementation effort. We are therefore asking for clarification in this respect that 'deducting' and disclosing this credit risk mitigation is not what is intended by the Basel Committee.

Disclosure template CR4 calls for a highly detailed breakdown of the way the coverage ratio is calculated. In light of the information on asset quality and in view of template CR3, we suggest examining the extent to which the information needs of the users can also be met by ratios instead of granular specific data.



To avoid information overload for the users, the principle of materiality should apply to the very comprehensive information requirements being proposed in template CRE (eg rows e and f), and only information that is actually necessary for an understanding of credit risk should have to be disclosed.

Template CR10 requires an overview of the effects of credit risk mitigation on RWAs under the IRB approach. Because the data are unlikely to change much from quarter to quarter, we are firmly against quarterly disclosure and in favour of annual disclosure.