

Division Bank and Insurance
Austrian Federal Economic Chamber
Wiedner Hauptstraße 63 | P.O. Box 320
1045 Vienna
T +43 (0)5 90 900-DW | F +43 (0)5 90 900-272
E bsbv@wko.at
W <http://wko.at/bsbv>

Your ref., Your message of

Our ref., person in charge
BSBV 189/Horvath

Extension
3141

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Basel Committee on Banking Supervision Consultation on Pillar 3 disclosure requirements

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as representation of the entire Austrian banking industry, appreciates the possibility to comment on the above cited consultation paper and would like to submit the following position:

Part 1: Proposals for revised and new disclosure requirements

In view of disclosure requirements relating to upcoming regulatory changes (new OpRisk SMA, FRTB) we believe the implementation dates of the disclosure requirements in relation to these new regulatory requirements should be aligned with the material implementation dates of the proposed changes. We deem it appropriate to implement the changes step-wise, depending on the finalization of the different review projects. As a general rule the new disclosure requirements should not get into force earlier than the material changes itself.

Point 1.1 Proposal for a dashboard of key regulatory metrics:

Even if the marginal costs for banks, as set out in the documents, seem to be rather low because anyway these figures seem to be existing already in the public domain, we would like to underline that this is an additional requirement, which needs additional efforts, additional check-routines, and: it is information already existing, so it is duplicating of information. We would like to point out that the regulator should carefully assess if this additional disclosure requirement is really necessary.

Point 1.2 Use of standardized approaches to benchmark internally modeled capital requirements:

We would like to underline that the use of the word “opacity” in view of data generated based on IRB- or MR-models does not really seem to be appropriate, as this data is being scrutinized and validated by several internal and external parties. We believe that disclosing STA figures do not change much in view of the strengthening of the interpretation of the IRB- or MRM-figures as these figures are based on another methodology. We would also see the risk of misinterpretation and misunderstanding if these figures were being directly made comparable without detailed information/explanation, because not every reader will be an expert in the field of RWA-computation. It can also be questioned if this really is useful information to be provided to the market.

Part 2: Overview of risk management, key prudential metrics and RWA

Templates HYP1 and HYP2:

From the instructions it remains unclear where to report exposures in permanent or temporary partial use, meaning that for these exposures RWA are already calculated in Standardised Approach. For sake of comparability either these exposures should be excluded from both columns or included in both columns. What should be avoided is, to in-/exclude it from one column but at the same time not in-/exclude it from the other.

Part 4: Composition of capital

Point 4(c) Step 1: According to accounting, IFRS, and regulatory requirements there is no obligation to disclose the scope of consolidation on entity level. Therefore, any list of entities which show the difference between the two scopes does not add any value for external readers.

Template CC1: We assume that for entities applying the phase in requirements until 2018 this template is not relevant.

The provisions on TLAC holdings will need to be adjusted for the final TLAC holdings rules (lines 52-55 and footnote 34). The present versions do not reflect necessary changes recommended in industry comments on the TLAC holdings proposals. .

In line 64, the definition of the buffer requirement is not appropriate: *“Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets)”*. It should be restricted to the components of the combined buffer. The minimum CET1 requirement should be excluded.

Template CC2: The CC2 template does not correspond to the currently valid FINREP structure and should be adapted to the balance sheet structure which is in accordance with IFRS 9. This standard will enter into force starting with 1 January 2018.

As credit institutions have to disclose their balance sheet according to IFRS and analysts and investors are familiar with this structure, the pillar 3 structure should be in line with IFRS. A creation of a new balance sheet structure will not enable reconciliation between IFRS and regulatory requirements. Thus, unification between the IFRS balance sheet and the regulatory publication should be guaranteed.

Entities which disclose according to local GAAP should adjust their balance sheet structure to IFRS.

Template CCA: It is not clear whether this table is intended to be at the group consolidated level or not. It is also not clear whether it excludes internal TLAC. The working assumption is that it applies to external issuances only, but this needs to be confirmed.

In principle, TLAC is not relevant for the Austrian Banking Industry. Nevertheless, given the ongoing discussions about expanding the TLAC regulatory reporting requirements to MREL, we would like to comment the following on the KM2 and CCA template:

Template KM2: KM2 is required on a quarterly basis, which is out of synch with other TLAC templates, required on a semiannual basis. KM2 should therefore be put on a consistent basis with the other TLAC templates. There is no obvious value added from the quarterly frequency of KM2. MPE banks have multiple resolution groups and the proposal would result in frequent, extensive disclosure under KM2. It is suggested that only material resolution groups should (with appropriate narrative on the basis on which such groups are selected) be disclosed and only on a semiannual basis

Template CCA: Line 34a appears to require an instrument-by-instrument response where the applicable types of subordination differ. Reasonable aggregation should be allowed. More generally, as Table CCA is required for each instrument, the reporting volume will be a concern to users as well as issuers. The volume will be substantially greater than for Tier 2. It would be

very useful to introduce a materiality threshold for CCA reporting (or include only benchmark issuances). Transactions below a threshold could be aggregated.

Private Placements (both for subordinated and senior debt) should be aggregated, both to manage down the volume of disclosures and to provide reasonable confidentiality, both as to the firm's financing strategy and for lenders. The principles of aggregation need to be discussed, but reasonable aggregation should allow other lenders to see the general position of private placements in the stack. Private-placement lenders are presumably in a position to negotiate comprehensive disclosure of their exposures as part of the placement process and so would not need to rely on public disclosures to ascertain their own exposures to bail-in.

The frequency requirement of Table CCA is that "Table CCA should be updated on a bank's website whenever the bank issues or repays a capital or TLAC instrument or whenever there is a redemption, conversion, writedown or other material change in the nature of an existing instrument." Given that CCA requires including "the main features of a bank's regulatory capital instruments and other TLAC-eligible instruments," the frequency requirement would amount to daily or nearly daily updating of public disclosure. This would surely be burdensome and it is difficult to see any value added for investors, while the complexity of website disclosure would increase substantially, which should be taken into account. This is especially the case for debt redemption at contractual or expected maturities. Except for material and extraordinary events that would have to be disclosed in any case under other bodies of regulation and law, it should be entirely sufficient to provide the CCA disclosures on a semi-annual basis consistently with the bulk of Pillar 3 as proposed.

As in Austria there is no G-SIB institute the TLAC templates are generally not of relevance for the Austrian banking industry, but we have a general remark: We find it difficult to opine on the templates related to TLAC disclosure as the final scope and form of the TLAC holdings proposals are still outstanding. We would prefer to review a final set of disclosure templates on TLAC once all outstanding questions on TLAC definition and TLAC holdings have been settled.

Part 7: Liquidity

a.) Liquidity Coverage Ratio (LCR)

Banks in the EU are obliged to calculate and submit the LCR based on the Delegated Act (Commission Delegated Regulation (EU) 2015/61 of 10 October 2014) to the local regulators on a monthly basis. The daily reporting is only required if the limit on the LCR is breached or is expected to be breached in the near future. Therefore, the proposal on the quarterly publishing of the LCR, based on the latest BCBS regulation (<http://www.bis.org/publ/bcbs238.pdf>), as an average of the daily ratios on both, solo and consolidated level, would require significant additional effort from banks.

Moreover, as the calculation methodology for the Basel III LCR and LCR, based on the Delegated Act, are different (especially in the classification of the HQLA assets, but also in the definition of stable retail deposits and of deposits with operational relationships, as well as the treatment of less stable deposits, contingent liabilities other than committed credit and liquidity facilities etc.), the disclosure of the Basel III LCR for the EU banks could lead to misleading conclusions from investors and clients, as the EU banks focus on the steering of the LCR based on the Delegated Act. Therefore, a situation can occur, where a bank complies with the EU regulations and limits, but its Basel III LCR would be significantly lower than 100%, which could raise doubts about the soundness of its liquidity risk exposure. This possibility would force these banks to focus also on the steering of the Basel III LCR figures parallel to the one based on the Delegated Act, which is hopefully not desired by the EU regulators.

b.) Net Stable Funding Ratio (NSFR)

On the proposals regarding the (i) postponement of the implementation of the NSFR disclosure requirements until the final European Regulation and the related ITS are implemented, or the (ii) disclosure of the quarterly NSFR on a semi-annual basis based on the CRR and the EBA template using the latest Basel III NSFR weighting factors:

Banks in the EU are obliged to fill and submit the NSFR template from EBA based on the CRR (Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013) to the local regulators on a quarterly basis. As

- the calculation methodology and the template structure for the Basel III NSFR (acc. to <http://www.bis.org/bcbs/publ/d295.pdf>) and NSFR based on the CRR and the EBA template are largely different (especially in the classification of the HQLA assets),
 - there is no final regulation how exactly to calculate the NSFR in the EU (there are no prescribed weighting factors in the EBA template),
 - the limit on NSFR is expected to be implemented not before 2018,
 - there is currently less focus on the steering of this ratio compared to the LCR. Therefore, the proposed regulation on the NSFR Pillar 3 disclosure would force EU banks to implement a new NSFR report by the end of the half of 2018, which will be most probably replaced by the final EBA template for NSFR calculation. To avoid the cost for this temporary solution, our proposal is either
- (i) to postpone the implementation of the NSFR disclosure requirements until the final European regulation and the related ITS are implemented, or
 - (ii) to allow for a disclosure of the quarterly NSFR on a semi-annual basis based on the existing rules (here: CRR and the EBA template using the latest Basel III NSFR weighting factors).

Part 11: Market risk

Template MR4: RWA Flow Statement: The separation of Market Risk RWA into the categories 2-7 is ambiguous due to the non-additive nature of IMA-models. We would recommend providing a qualitative description of the major changes that impact the RWAs. Additionally we propose to set the frequency to semi-annual (in alignment with the frequency for the other detailed templates).

We ask you to give our remarks due consideration.

Yours sincerely,

Dr. Franz Rudorfer
Managing Director
Division Bank and Insurance