



Americans for Financial Reform
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June 10, 2016

Bank of International Settlements
Secretary
Basel, Switzerland

RE: Comments on Consultative Document Concerning Pillar 3 Disclosure Requirements – Consolidated and Enhanced Framework

To Whom It May Concern,

Americans for Financial Reform (“AFR”) appreciates the opportunity to comment on the above-mentioned Consultative Document. AFR is an American civil society coalition of more than 200 national, state and local groups who have come together to reform the financial industry. Members of our coalition include consumer, civil rights, investor, retiree, community, labor, faith based and business groups.¹

Given the increasing complexity of the major global banks, as well as the new regulations now applying to them, a comprehensive new set of disclosures is absolutely necessary in order to help both investors and civil society organizations such as ourselves understand bank activities. A clear and consistent set of public disclosures should also be helpful for those financial regulators who do not have direct access to all bank supervisory data relevant to the markets they oversee.

We therefore support the enhancement and consolidation of bank disclosure requirements laid out in this Consultative Document. However, we have two specific concerns we would like to bring to your attention:

- First, we are concerned that the trading desk level disclosures have been significantly narrowed as compared to earlier proposals made as part of the Fundamental Review of the Trading Book.
- Second, we are concerned that the remuneration disclosures do not include information on the actual exercise of any downward adjustment or clawback options in connection with losses or misconduct.

¹ A list of coalition members is available at <http://ourfinancialsecurity.org/about/our-coalition/>

Trading Desk Level Disclosures

The desk level market risk disclosures proposed in Part 11 of this Consultative Document appear to have been narrowed fairly significantly as compared to the disclosures proposed in the October 2013 BCBS Consultative document addressing the Fundamental Review of the Trading Book. In the October 2013 document, banks were required to release the standardized capital and default risk charges for all trading desks, as well as various quantitative Internal Models Approach (IMA) calculations for any trading desks using the IMA methodology. These disclosures were required for each trading desk and also at the summary top level.

In this Consultative Document, the approach appears to be that banks need not disclose standardized charges for any desks, and in the case of IMA banks are permitted to select a subset of desks for which to disclose desk-level quantitative information. The selection of these desks is apparently at the discretion of the bank but subject to the requirement that the desks be ‘representative’ of the banks activities. Banks must give a qualitative explanation of why they believe selected desks are representative of their activities, but what it means to be ‘representative’ is not precisely defined.

We believe it is far preferable to take the approach in the October, 2013 document and apply the disclosure template to all trading desks in the bank, for both standardized and IMA calculations (so they can be compared). Leaving the choice of desks to be disclosed to the bank itself will likely render the data non-comparable across banks and possibly non-comparable at the same bank over time. In addition, the choice of which desks are ‘representative’ is likely to be highly subjective in the absence of clear quantitative standards for representativeness.

A comprehensive release of a comprehensive set of quantitative disclosures for each desk (as in Table MR-2 in the document) will make this data much easier to use to understand bank trading activities. In light of the central role of specific trading desks (such as CDO desks) during the financial crisis, as well as new rules limiting bank trading activities, such as the Volcker Rule in the United States, a granular understanding of bank trading activities is particularly important. We urge the BIS to return to the October 2013 approach of requiring disclosures for all desks.

Remuneration Disclosures

We support the remuneration disclosures in Part 14 of this document. However, we urge the BIS to add required disclosures on the actual exercise of downward adjustment for deferred compensation or clawback provisions for compensation granted. While the Part 14 disclosures include information on total deferred compensation at risk for reduction, it appears to include no information on actual reductions that have taken place.

If a bank does not have adequate governance policies in place to actually reduce or claw back compensation in cases where such reductions are justified, then supposedly deferred compensation may be a mere formality and not actually have the desired incentive effect. The information that is most material for investors and most effective in terms of market discipline is not simply the amount of compensation formally deferred, but the willingness of the bank to actually reduce compensation in response to failures in risk governance.

Strikingly, the Part 14 disclosures require no information on such actual exercise either in the general qualitative disclosures or in the specific quantitative disclosures. Analysts could attempt to infer some information about this issue by comparing compensation figures between different years, but this would be difficult, complex, and not conclusive in any case, since a number of factors could lead to changes in reported compensation at risk in different years.

The BIS should add Part 14 disclosures on the actual exercise of downward adjustment or clawback provisions, including the quantitative amount of compensation reduction.

Thank you for the opportunity to comment on this Consultative Document. If you have any questions, please contact Marcus Stanley, AFR's Policy Director, at 202-466-3672 or marcus@ourfinancialsecurity.org.

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