



COMMENTS FROM THE ASSOCIATION OF SUPERVISORS OF BANKS OF THE AMERICAS (ASBA) TO THE CONSULTATIVE DOCUMENT

“Pillar 3 Disclosure Requirements – Consolidated and Enhanced Framework”

(ISSUED BY THE BASEL COMMITTEE ON BANKING SUPERVISION FOR COMMENTS BY 10 June 2016)

I. Background and Purpose of the Revision

The Basel Committee on Banking Supervision issued the consultative document on “Pillar 3 Disclosure Requirements – Consolidated and Enhanced Framework” as part of its objective of ensuring that disclosure requirements in the Pillar 3 framework continue to be relevant and meaningful to users in light of recent regulatory developments. To this end, this consultative document incorporates proposed disclosure requirements arising from the total loss-absorbing capacity (TLAC) regime for global systemically important banks (G-SIBs), as well as the Committee’s proposed revisions to the operational risk framework, and its revised standard on market risk.

Also, the consultative document introduces a proposal to develop a dashboard of key regulatory metrics that would help investors compare relevant measures across banks, as well as over time. Other elements of the proposal include the use of standardized approaches to benchmarking internally modeled capital requirements for credit risk, market risk, counterparty credit risk, and the securitization framework. Finally, the proposal introduces disclosure requirements for prudent valuation adjustments.

The following sections set forth the comments made by members of the Association of Supervisors of Banks of the Americas (ASBA).

II. General Comments

- ASBA’s Associate Members welcome the process of updating and consolidating the disclosure requirements with the latest regulatory developments, as this process reinforces the minimum capital requirements and the supervisory review. The recently introduced and modified disclosure requirements, as well as their standardization, will improve stakeholders’ ability to conduct their analysis and will enhance market discipline. An additional item to note is that the greater detail in banks’ disclosures, the more useful this information will be for conducting analysis and comparisons.
- Albeit the above, the Association suggests to include language encouraging banks to disclose in as much detail as possible, especially, whenever it discloses qualitative requirements.
- Also, the requirement for banks to disclose hypothetical risk-weighted assets based on the standardized approach will reduce the opacity of the internally modeled capital requirements, as well as increase the comparability among banks for credit risk, market risk, counterparty credit risk, and the securitization framework. Associate Members consider the introduction of these requirements as positive and adequate.
- Although the scope of application determined by the proposed Pillar III disclosure requirements is for internationally active banks, Associate Members recognize these



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requirements are of interest to the wider financial system. Thus, the Association suggests that the Committee analyzes the application of disclosure requirements in other entities of interest, under the consideration that disclosure is not only a mechanism that supports risk management, but also improves the efficiency of markets and institutions, as well as it promotes better services for financial consumers.

- In the case of disclosure requirements for total loss absorbing capacity, these are focused on G-SIBs; however, the Association suggests assessing the possibility of designing a disclosure approach for total loss absorbing capacity applicable to domestic systemically important banks (D-SIBs). A disclosure framework for D-SIBs would provide regulators with prudential mechanisms to preserve financial stability when facing a potential adverse scenario, which should be reported to the market. It is important to consider that adopting disclosure requirements at the domestic level would depend on the progress of each jurisdiction's macro-prudential regulation and capital requirements for loss absorption capacity of locally systemic institutions.
- The disclosure requirements included in the proposal adequately provide comprehensive information on the performance of an entity from a risk management perspective. However, members consider that additional information related to financial performance indicators, in particular, those related to profitability are necessary to conduct a holistic analysis of an entity's performance. As long as an entity has an adequate risk management framework, its profitability is expected to show positive results. Performance indicators such as return on asset, return on equity, and the DuPont analysis would provide further information on the efficiency of a bank's operations. These metrics could be included in the dashboard.
- Finally, for jurisdictions that have not yet implemented the Pillar 3 standards and whose related regulation is under development, as in the case of most Latin American countries, the proposal will serve as a reference or starting point. In this light, it would be useful for the Committee to develop “best practice” guidelines for the implementation of the Pillar 3 framework. The need to have a best practice reference is relevant when considering the large volume of information required under Pillar 3, as well as the effort it represents for banks when these are in the initial stages of adapting their information systems and procedures, and when most entities in the financial system are not internationally active banks. In this sense, regulators in each country face the same challenge of adopting an interactive communication process between regulators, banks, and users; a process under which shared experiences and “benchmarks” are of general interest.



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III. Specific Comments

- Dashboard (Section 1.1) - the Association’s members value the Committee’s proposal of introducing a dashboard of key regulatory metrics. Considering that this section will be most useful to the general public, the Association suggests encouraging banks to provide any additional quantitative information they deem relevant, as well as supplementary explanatory comments using a clear and concise language. Also, it would be useful for the template to be accompanied by a glossary containing the main definitions and meaning of the terms and acronyms used. This would promote access and use of the disclosed information by less-sophisticated users.
- Implementation dates (Section 4.3) – In addition to the criteria set out to determine the different implementation dates, the Association considers that the implementation of Pillar 3 requirements will depend upon the regulatory agenda in each jurisdiction. Furthermore, several jurisdictions in the Americas are in the process of implementing International Financial Reporting Standards and will have to adjust their agendas accordingly.