

May 23, 2018

Secretariat of the Basel Committee
on Banking Supervision (BCBS)
Bank for International Settlements
CH-4002 Basel, Switzerland

Dear Basel Committee members:

Re: CBA¹ Comments on the BCBS Consultative Document: *Pillar 3 disclosure requirements – updated framework*

Thank you for the opportunity to provide comments on the BCBS's consultative document *Pillar 3 disclosure requirements – updated framework* ("consultative document"). We also appreciated the opportunity to participate in the outreach meeting that was organized by the BCBS's Working Group on Disclosure.

We believe that the revised and additional disclosure templates related to the Basel III reforms are generally acceptable. Nevertheless, we are concerned with the proposed disclosure of sensitive or proprietary information such as ongoing litigation events and strategic objectives in areas such as operational risk and CVA risk respectively. We also question the need for the proposed new disclosure on capital distribution constraints in jurisdictions where Pillar 2 is not required to be disclosed. We were pleased to learn from the Working Group on Disclosure at the outreach meeting that this template is not mandatory and we request that this be reflected in the final standard.

We also believe that Template CC1: Composition of regulatory capital should only be applied at the consolidated group level. Some components of CC1 (i.e. common shares, shortfall provisions, 10% & 15% threshold deductions, etc.) are not available at a resolution group level. We are also concerned that capital disclosures for different groups of entities (i.e. resolution groups) within a consolidated group could become confusing, especially where such information has never been disclosed publicly.

¹ The Canadian Bankers Association is the voice of more than 60 domestic and foreign banks that help drive Canada's economic growth and prosperity. The CBA advocates for public policies that contribute to a sound, thriving banking system to ensure Canadians can succeed in their financial goals. www.cba.ca

We have provided our responses to the questions posed in the consultative document in the attached appendix along with more detailed comments. Thank you in advance for considering our comments. We would be pleased to discuss our submission at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel Hamel", with a long horizontal flourish extending to the right.

Attachment

cc: Ken Leung, Director, Accounting Policy Division, OSFI
Kathy Huynh, Senior Accounting Advisor, Accounting Policy

**CBA Comments on BCBS's Consultative Document
'Pillar 3 disclosure requirements – updated framework'**

CBA Members' Comments and Requests for Clarification

Question 1: What are respondents' views on the proposed disclosure requirements set out within the Consultative Document? (p. 2)

We believe that the revised and additional disclosure templates related to the Basel III reforms are generally acceptable and provide greater transparency. However, we do have some concerns and have provided further comments below in relation to some of the tables/templates by risk type.

We question the need for disclosing capital distribution constraints in jurisdictions where Pillar 2 is not required to be disclosed as this is sensitive information, as noted in the framework. We believe sufficient information is already being disclosed by Canadian banks to allow stakeholders to determine the risk of coupon cancellations. We were pleased to learn from the Working Group on Disclosure at the outreach meeting that this template is not mandatory and we request that this be reflected in the final standard.

Question 2: What are respondents' views on the advantages and disadvantages of expanding the scope of application of Template CC1 to resolution groups, relative to retaining its current scope of application to the consolidated group? (p. 2)

While we believe that most banks in Canada are under a single-point-of-entry (SPE) resolution strategy, we do not believe that the suggested disclosure for multiple-point-of-entry (MPE) would be effective given the different treatment of insurance subsidiaries under the capital and resolution frameworks.

We believe that Template CC1 should only be at the consolidated group level. Some components of CC1 (i.e. common shares, shortfall provisions, 10% & 15% threshold deductions, etc.) are not available at a resolution group level. We don't see any advantage with having CC1 disclosure at a resolution group level if some of these components have to be pro-rated and are also not comparable if resolution group levels are structured differently amongst the G-SIBs.

Certain Canadian banks will apply the "single point of entry" (SPE) approach which results in the consolidated bank being viewed as the resolution group. However, many Canadian banks also have subsidiaries in different geographic regions which are subject to different regulatory regimes (i.e. in the United States). In the United States, for example, local entities prepare resolution plans for their regulators and the local entity (or entities) may be considered the resolution group for this purpose. It is unclear whether any of these local jurisdictions would be considered a resolution group in the context of the proposed requirements in the consultative document.

Capital disclosures for different groups of entities (i.e. resolution groups) within a consolidated group could become confusing, especially where such information has never been publicly available before. This may lead to inappropriate comparisons of capital across groups of

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entities as well as across jurisdictions, and concerns about capital available on resolution. We also do not calculate regulatory ratios by resolution groups and we do not see any advantage to doing so. On a consolidated basis, we provide disclosure under EDTF Recommendation # 10.

Part 1: Proposals for revised and new disclosure requirements (p. 3)

1. Revisions and additions to the Pillar 3 framework arising from finalisation of the Basel III post-crisis regulatory reforms (p. 3)

1.1 Revised and additional disclosure requirements for credit risk (p. 3 - 4)

These changes are acceptable and reflect the new framework.

1.2 Revised disclosure requirements for operational risk (p. 4 - 5)

Table ORA: We request clarification of the term “operational risk measurement system”? Is this in reference to any specific tools such as RCSAs, KRIs, KRMs, top and emerging risks, risk appetite, etc.?

Template OR1:

Banks provide disclosures on legal events in their MD&A. However, we are concerned with disclosing more than what we currently provide. We believe the proposed disclosures are too detailed. This may lead to undesirable consequences especially for ongoing litigation events. Also, the disclosures would compromise the confidential nature of certain losses. Such disclosure may also be challenging for non-AMA banks that may not have the data.

The following are some examples where the proposed disclosure may reveal the position of a bank or contravene its legal obligations by making information public that is proprietary or confidential in nature:

1. A material provision booked for an ongoing legal event. One could potentially infer the loss amount associated with the event using current and past disclosures. Along with that, the narratives would be detrimental to the bank's position.
2. A material loss booked in a particular year that relates to a legal settlement under a confidentiality agreement with the party involved. The information is proprietary in nature. Thus, the disclosure would contravene bank's legal obligations. The concern is with past as well as current year settlements.
3. Volatility in loss amounts due to a provision booked in one year and reversed in another year. Even if the net loss for the involved event is not material, the bank would still be required/asked to explain the fluctuations caused by the event. One could also

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potentially infer the event that it relates to which would be detrimental to the bank's position if the event is still open.

The internal loss data each quarter also goes through data validation and General Ledger reconciliation to ensure all events and associated impacts are reported correctly in the dataset. The disclosure of loss data on an annual basis needs to factor in sufficient time to complete this process. We recommend that a one quarter lag be allowed for the calculation and reporting of the data (financial as well as loss) and the SMA capital.

We are also concerned with the low levels of the thresholds included in the template and the broad scope of operational losses that internationally active banks would be required to disclose that would not be material.

As per section 5.1.5 of the consultative document, if the banks, concerned with proprietary and confidential information, do not disclose all the losses that drive the operational risk capital calculation, how should the users interpret the disclosed information as it would not reflect the complete view of the bank's loss profile? We question the need for disclosing historical losses under OR1 and recommend removing columns 'a' to 'j' at minimum and keeping column k along with rows 9 to 11.

We would recommend that the BCBS consider including further clarification/guidance for template OR1. For example:

- Accompany Narrative - Is there any guidance or examples on what information would be considered "material" that would help inform users as to an institution's historical losses? More information on allowing banks to define "large losses" and "material" recoveries in the context of their narrative commentary would be helpful.
- Whether timing losses, an operational event resulting in a gain, and credit operational losses are in scope of this template.
- How to report the number of operational losses for loss events that span across accounting years.
- What takes precedent - accounting standards vs. BCBS loss collection standards etc.

Template OR2: We request confirmation that the "Financial Component" (amounts reported in lines 3, 3a, and 3b) follows Basel reporting rather than financial reporting.

1.3 Revised disclosure requirements for leverage ratio (p. 5)

These changes are acceptable and reflect the new framework.

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1.4 Revised disclosure requirements for credit valuation adjustments (CVA) (p. 5 - 6)

Table CVAA: Due to proprietary reasons, would the Committee consider removing the requirement for banks to disclose their strategic objectives and strategies for monitoring hedge effectiveness?

1.5 New disclosure requirements for standardised approach RWA to benchmark internally modelled capital requirements (p. 6 – 7)

These new disclosure requirements are acceptable although we still question the need for A-IRB banks to disclose standardized RWAs as this may distract from internally modelled RWAs and A-IRB banks should not be compared against SA banks. We have some suggestions/requests for clarification below.

Template BEN1:

- We suggest that the BCBS in column heading d insert the requirement that column d equals row b + c for ease of reader understandability.
- For Operational Risk RWA benchmarking (BEN1), "Actual RWA calculated under standardised approaches" (6c) and "RWA under full standardised approach for benchmarking" (6d) will have the same amounts as internal models are no longer applicable. Please confirm.

Template BEN2:

- We suggest that the BCBS in column heading d insert the requirement that column d equals row b + c for ease of reader understandability.
- We also believe that a linkage to BEN1 should be required to ensure that there is no confusion of the placement of Equity investment in funds in row 7 of BEN1 and not as Credit Risk.

1.6 Revised disclosure requirements on overview of risk management, key prudential metrics and RWA (p. 7)

These revised disclosure requirements are acceptable although we have a suggestion below.

Template OV1: We suggest row 26 include reference to the fact that it is a %.

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2. New disclosure requirements on asset encumbrance (p. 7 - 8)

We appreciate the flexibility in the proposed Template ENC: Asset encumbrance that provides supervisors with latitude, for example, on whether or not to require certain columns. However, we would prefer harmonization of asset encumbrance disclosure under one standard. For example, the Canadian banks have implemented asset encumbrance disclosure under the EDTF recommendations which includes both on and off balance sheet assets. Template ENC, however, includes on balance sheet assets only. Furthermore, our banks currently disclose encumbrance separately for Liquid Assets and for Total Assets. We recommend a clear and standardized format for asset encumbrance disclosure that is consistent with the EDTF recommendations.

3. New disclosure requirements on capital distribution constraints (CDC) (p. 8 – 9)

We believe that in jurisdictions where Pillar 2 is not required to be disclosed banks should not be required to disclose this template given the sensitivity of disclosing Pillar 2 information. We note that Canadian Banks already disclose their required minimum capital ratios under Pillar 1 so we do not find this additional level of disclosure requires inclusion as part of Pillar 3. For many banks this would be discussed as part of their qualitative discussion on capital management. We were pleased to learn from the Working Group on Disclosure at the outreach meeting that this template is not mandatory and we request that this be reflected in the final standard.

If this disclosure is pursued further, we would recommend that additional capital rows be inserted to highlight the required frameworks for which additional capital is required to be held (e.g. jurisdictions where Pillar 2a is disclosed, G-SIB loss absorbency requirements and G-SIB leverage requirements) for ease of transparency and reader understandability.

4. Amendments to the scope of application of disclosures on the composition of regulatory capital (p. 9 – 10)

Please refer to our response to Question 2 above.

5. General considerations and presentation (p. 10)

5.1 General considerations (p. 10)

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5.1.1 Scope of application (p. 10)	
Please refer to our response to Question 2 above.	
5.1.2 Frequency and timing of disclosures (p. 10 - 11)	
We recommend that any changes and related implementation timelines should afford adequate lead-time to allow for the development of disclosure templates.	
5.1.3 Implementation (p. 11)	
Please refer to our comment under 5.1.2. above.	
5.1.4 Assurance of Pillar 3 data (p. 11)	
No comments	
5.1.5 Proprietary and confidential information (p. 11)	
Please see earlier comments under sections 1.2, 1.4, and 3 above.	