ASSOCIATION DES BANQUIERS CANADIENS | CANADIAN BANKERS ASSOCIATION

Darren Hannah
Senior Vice President
Financial Stability & Banking Policy

Tel (647) 730-4760
dhannah@cba.ca

January 31, 2024

Basel Committee on Banking Supervision
Centralbahnplatz 2
4051 Basel, Switzerland

Re: CBA[1] Comments on BCBS Consultative Document – Disclosures of cryptoasset exposures

CBA members appreciate the opportunity to comment on the Basel Committee on Banking Supervision's (BCBS) consultation on Pillar 3 disclosures of cryptoasset exposures.

We recognize consistency in cryptoasset disclosure is essential and appropriate, however, we believe the BCBS qualitative disclosure requirements presented in the consultation document are excessive and not consistent with existing Pillar 3 disclosure requirements for other frameworks (e.g., credit risk, market risk, operational risk). Specifically, we recommend BCBS consider other approaches to disclosure requirements put forward in Annex 2 for Group 1 classification conditions. For example, suggesting these be best practices on qualitative disclosures versus mandated discussion items or alternatively providing this guidance by way of an FAQ within the cryptoasset framework.

Given the limitation on banks engaging in cryptoasset activities we believe the disclosures should only be required if considered material (e.g., approaches close to 1% Group 2 exposure limit or Group 1 exceeds a minimum amount). CBA members believe that determining materiality level for individual cryptoassets exposure disclosure is best left with each bank and suggest that national regulators instead amend their regulatory reporting requirements to capture any additional information required for supervisory monitoring purposes.

In addition, we believe the Committee should not consider requesting disclosures based on daily averages in addition to period end values for template CAE1 given lack of consistency with other frameworks disclosures and that it is counter to the principle that Pillar 3 disclosures should be reflective of Basel framework requirements.

Finally, we suggest that the first disclosure requirements be delayed from January 1, 2025 to January 1, 2026 to allow sufficient for time for banks to allocate IT and other resources required to implement the proposed disclosures.

[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 provide our detailed comments in the attached Comment Template. Please feel free to contact me with any questions.

Sincerely,

cc: Kathy Huynh, Office of the Superintendent of Financial Institutions

CBA comments on BCBS Consultative Document – Disclosures of cryptoasset exposures

CBA Members' Comments
Classification condition assessment detail: For Group 1 cryptoasset exposures, Table CAEA requires banks to disclose the approach they have used to assess compliance with each of the four Group 1 classification conditions, including any public information used but excluding any confidential and proprietary information. The Committee is considering whether to add more detail on the information that banks should disclose for each classification condition. This additional information is set out in Annex 2, and the Committee would welcome feedback from stakeholders on the usefulness of this potential addition to Table CAEA.
We believe the extent of the disclosure of information in CAEA and Annex 2 is excessive and not consistent with existing Basel Pillar 3 disclosure requirements. We believe CAEA should be managed by way of suggested disclosure requirements vs exhaustive detailed qualitative requirements as proposed in CAEA and Annex 2. While we believe the requirement as stated under CAEA (f) is sufficient to ensure disclosure of details in relation to Group 1 cryptoassets, we are concerned about the extent to which disclosure of public data used must be discussed. Both internal and external data are used for determining classification conditions. We believe given the evolving nature of cryptoassets, other options such as disclosure of high-level risk management activities centering on the classification of cryptoassets might provide more useful information at this point.
Window-dressing: The period-end amounts that banks report under the proposals may not give an accurate picture of the risk to which banks are exposed if the exposure values during the reporting period are significantly different to the period end values. As such, the Committee sees merit in requiring banks to disclose the amounts in Template CAE1 using daily average values in addition to the period-end values.
We appreciate the concern on period-end values. However, all capital ratios per the Basel framework are measured as spot figures. The requirement for daily averages would therefore only be driven by this Pillar 3 disclosure requirement which we believe is counter to the principle that Pillar 3 disclosures should be reflective of Basel framework requirements. As well, we do not see a need to disclose daily average values, which for cryptoassets would not give an indication of the actual current risk. Discussions on quarter-over-quarter changes, we believe, are sufficient for communicating volatility concerns. We believe concerns over window-dressing are not applicable to cryptoassets given it is an evolving product market. Any concerns on window-dressing by the BCBS should formally be dealt with through framework changes that are supported by data and not by way of disclosure requirements.

CBA Members' Comments
Materiality: Table CAEA and Template CAE1 include disclosure requirements for banks' "material" cryptoasset exposures. The Committee is considering whether to define what constitutes a material exposure in this context of cryptoasset exposures disclosure and, if so, the appropriate threshold. For example, an exposure could be considered material if it exceeds 5% of the bank's total cryptoasset exposures. The Committee would welcome feedback on the usefulness and specification of any potential materiality definition.
We believe a specific materiality threshold is not needed as most Pillar 3 disclosures are based on the requirement to disclose if material. We believe the materiality level is best determined by each bank for individual cryptoassets held. We also note the BCBS's prudential treatment of cryptoassets already specifies a concept of materiality given the requirement that Group 2b not exceed 1% of Tier 1 capital.
Annex 1: Proposed text of DIS55 - Table CAEA Qualitative disclosures on a bank's activities related to cryptoassets and the approach used in assessing the classification conditions.
As mentioned, we believe the qualitative disclosure requirements are excessive and not consistent with existing Pillar 3 disclosure requirements for other capital frameworks such as credit risk, market risk, and operational risk. CAEA (d) requirement of disclosing the significant current risk associated with the bank's cryptoasset activities would be captured by the prudential framework utilized and disclosed per requirement CAEA (b) and (c). We suggest CAEA (d) be removed as it would be captured by other qualitative sections. CAEA (e) requirement of disclosing the most significant emerging risk with respect to a bank's cryptoasset activities needs to be balanced with the ability of banks to make forward-looking statements. Forward-looking statements are not a requirement for existing Pillar 3 disclosures. As such, we disagree with inclusion of this disclosure requirement. We believe banks' risk management discussion related to cryptoassets should be sufficient.
Annex 1: Proposed text of DIS55 - Template CAE1 Cryptoasset exposures and capital requirements.
Instructions: We believe the requirement for disclosure on the template using daily average values over the reporting period is excessive and is not consistent with other Pillar 3 disclosure requirements for credit risk for the period - please refer to our earlier comments.

CBA Members' Comments
To ensure consistency in Pillar 3 disclosures (i.e., with respect to credit risk and market risk disclosures) the requirement to disclose on this template should be based on materiality, if the portion of the cryptoassets held is a material exposure class for a bank, as defined under the BCBS SCO60 – Cryptoasset exposures. We appreciate the exclusion of CCR and CVA from the template given they are calculated on a portfolio basis. **Columns:** Column (a) "Exposure"– we suggest the heading should be gross carrying value consistent with credit risk disclosure requirements (e.g., CR1). Column (c): "Credit risk RWA" – please clarify in the instruction of column (a) if the gross exposure of Group 2b market risk items required by the framework should be included as credit risk, or alternatively a footnote specifying the exclusion should be provided. Based on guidance for Column (d): "Market risk long exposures" and (e) "Market risk short exposures" we understand the long and short for Group 2b must still be reported in these respective columns. Column (f) "Market risk RWA" – we agree with only disclosing the RWA related to Group 2a market risk with associated greyed out cells for Group 1 and Group 2. **Rows:** Row 6: "Operational risk losses" – we note that disclosure of the operational losses for cryptoassets will not directly have a one-to-one impact on operational risk capital requirements given the 10 year average of losses utilized under the operational risk framework. We request that disclosure of operational risk losses specifically related to cryptoassets not be required to avoid banks having to build specific Pillar 3 disclosure related operational risk processes for loss items that likely will not be material. We believe the BCBS operational risk framework sufficiently captures all types of losses and will do so for cryptoassets as well. If still required, we suggest prospective application of the requirement for disclosure of losses related to cryptoassets as banks may not have been individually categorizing the losses specifically as cryptoasset related losses. Row 7: "Group 2 exposure limit – direct holding" and Row 8 "Group 2 exposure limit – indirect holding" – we suggest insertion of a row to provide visibility into the actual threshold amount allowed at 1% so the reader can understand the methodology of the calculation.
Annex 1: Proposed text of DIS55 - Template CAE2 Accounting classification of exposures to cryptoassets and cryptoliabilities.

CBA Members' Comments
We suggest the format of CAE2 allow for reporting of the actual Balance Sheet values (similar to Pillar 3 table CC2: Reconciliation of regulatory capital to balance sheet). This will allow the requested carrying values under the scope of regulatory consolidation to be appropriately tied back to bank's financial statements facilitating transparency.
Annex 2: Potential additional qualitative disclosures
We suggest the additional qualitative disclosures in Annex 2 related to Group 1 assets with stabilization mechanisms not be mandatory, but be considered by banks as examples in developing their qualitative risk management discussions related to cryptoassets.