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Recommendations from China Banking Association on the Consultative Document Pillar 3 disclosure requirements – updated framework: February 2018

The China Banking Association[1] (CBA) appreciates the opportunity to comment on the BCBS consultative document on the updated framework of Pillar 3 disclosure requirements and highly values the related arduous efforts the BCBS has made over the past years.

To ensure that the comments are relevant and practical, we invited multiple participants representing both the largest banks and the medium-sized joint stock commercial banks to meet and discuss on the document. Based on the feedbacks, we sorted out the major comments as below. We respectfully expect that our recommendations will be conducive to the finalization of this framework.

Recommendations from China Banking Association

China's banking sector supports the issuance of the Consultative document of Pillar 3 Disclosure Requirements - Updated framework, and agrees with the disclosure requirements in general. Specific suggestions are as follows:

[1] The China Banking Association is a nationwide non-profit self-regulation organization of China's banking sector, representing 656 member banks and other financial institutions in China.

I. Longer transitional period

We suggest that longer transitional period should be granted out of two reasons: (a) the new disclosure framework largely enhances requirements on disclosure frequency, content and granularity. To achieve the goals, relevant IT systems must be updated and even revamped accordingly. Consequently, large amount of time and resources are required. (b) The finalized Basel III framework is to be implemented as of Jan 1st, 2022, same as the implementation date of pillar 3. However, in terms of rule making process, the localization of Pillar 1 requirements should be accomplished first, and then followed by drafting of Pillar 3 framework, since the finalization of disclosure requirements should be based on the localized requirements of RWA measurement approaches.

II. Part 2: Credit risk

1. Template CR4: Standardized approach – credit risk exposure and credit risk mitigation (CRM) effects. For column a, it is clear in the definitions that banks must disclose the regulatory on-balance sheet exposure amount (net of specific provisions, including partial write-offs) gross of CRM. But it is not clearly stated in the definitions for column b. Please clarify if the column b (Exposures before CCF and CRM - Off-balance sheet amount) also refers to the exposure amount net of specific provisions.

2. Template CR5: Standardized approach – exposures by asset classes and risk weights

(a) For the last table, definition for each column is not provided. Please clarify if the 2nd column (On-balance sheet gross exposure) refers to the exposure amount gross of provisions or net of provisions, and if it is gross of or after the effect of CRM techniques. The same clarification is needed for the 3rd column (Off-balance sheet gross exposure (pre-CCF)) and the 5th column (Exposure (post-CCF and post-CRM)) of the table.

(b) Recommend adding 'linkages across templates' in the footnote to show that the total amount of 'Total credit exposure amount (post-CCF and post-CRM)' for each asset class in Template CR5 should be identical to the sum of column c (Exposures post-CCF and post-CRM - On-balance sheet amount) and column d (Exposures post-CCF and post-CRM - Off-balance sheet amount)for corresponding asset class in Template CR4.

III. Part 3: Operational risk

1.Template OR1: Historical losses.

(a) Statistical standards for the number of operational risk loss event should be specified. Total number of operational risk loss event is required to be disclosed in the Template OR1: Historical losses, and if one certain loss event resulted into losses in several branches, please specify how to calculate the number.

(b) In the "Accompanying narrative", it says that "banks must describe recent large losses from operational risk, their context and management. If recoveries are material, banks should make additional disclosures regarding such recoveries, including their amount." Since neither the definition of recent large losses, nor the standards of material recoveries, are clearly defined here, it is suggested that relevant accompanying narrative is to be deleted, or the relevant definition to be clarified.

IV. Part 4: Leverage ratio

1. Template LR1

We suggest that an additional column is added after column a, representing for values in period T-1, which is consistent with LR2. Accordingly, there will be a "linkage across templates", i.e. '[LR1:13/b] is equal to [LR2:24/b]'.

V. Part 5: CVA

1. Template CVAA, CVAB, CVA1, CVA2, CVA3, CVA4

(a) We suggest that national discretion should be granted regarding Part 5 CVA. The level of maturity of CVA businesses and products vary enormously among countries. Currently Chinese banks have less significant CCR and market risks, and only few risk factors matters. Therefore, it will be more efficient if national supervisors could decide whether or not to disclose CVA information, as well as contents of disclosures.

(b) If no national discretion is allowed, we suggest the contents of CVA2 and CVA3 to be less granular.

(c) If the quantitative disclosure formats remain unchanged, we suggest that a material threshold could be considered. Only banks above the threshold need to disclose CVA information.

VI. Part 6: Benchmarking

1. Template BEN1

We suggest that the frequency should be modified to "semiannual" so as to be consistent with Template BEN2 and other related templates, e.g. Securitization exposures in the banking book, CVA, etc. In addition, the current FRTB framework requires trading desks using internal models to get back to standardized approach if they fail the P&L attribution tests on a monthly basis. This may result in fluctuations in bench-marking between two consecutive quarters. Disclosures at the interval of semiannual may reduce the effects and therefore avoid unnecessary misunderstandings.

VII. Part 7 Overview of risk management, key prudential metrics and RWA

1. Template OV1

Please verify the RWA definitions in Page 51, "risk-weighted assets according to the Basel framework, including the 1.06 scaling factor". As pointed out in the BIII finalization framework, 1.06 scaling factor that applies to the RWA amounts for credit risk under the IRB approach will no longer apply.

VIII. Part 8 Asset encumbrance

Template ENC: Asset encumbrance

Please clarify the definition of "encumbrance", i.e. the differences between unencumbered/encumbered assets in this part and those in LCR and NSFR standards.

IX. Part 10 Template CC1

We suggest that the scope of application remains at the level of regulatory consolidated group, rather than expanding to resolution groups. Reasons are: (a) there are no capital requirements at the level of resolution groups according to Basel III capital framework; (b) Template TLAC1 and TLAC2 already provide information of capital and TLAC of each resolution group. Therefore, the additional benefits of expanding the scope of application of Template CC1 are just marginal.

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