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FRENCH BANKING FEDERATION RESPONSE TO BCBS **CONSULTATION ON PILLAR 3 DISCLOSURE** **REQUIREMENTS –CONSOLIDATED AND ENHANCED** **FRAMEWORK**

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

The FBF welcomes the opportunity to respond to the consultation paper on the Pillar 3 disclosure requirements –consolidated and enhanced framework.

Key messages

The Committee made some efforts to improve investors understanding. However, even if we noted that “the Committee believes that the disclosure requirements strike an appropriate balance between the need for meaningful disclosure and the protection of proprietary and confidential information”, we consider that in certain cases, the level of granularity of the information requested is overwhelming.

We are concerned with competitive implications, particularly when the requirements do not apply to all banks (e.g. information disclosure relative to prudent valuation) or when the disclosure requirements are so granular that it may lead the banks to disclose proprietary and confidential information (e.g. desk-level information).

From our perspective, the **disclosure comparing the internal models based results with the standardized approach**, in templates HYP1 and HYP2 for instance, **will not help at all investors in their analysis. On the contrary, this disclosure could be dangerously misleading.**

Very similarly, the **proposed templates on Market Risk by desks cannot be used by investors**. These templates will generate a useless extra work burden for banks with no benefit for investors.

The consultation should not concern data stemming from standards that are not finalised, this may unduly affect ongoing policy debates in addition to requiring banks to publish data on non-stabilised regulation, hence prone to errors –e.g. the TLAC, the Standardised Approach for credit risk, the constraints on the use of Internal Model Approaches for credit risk and Operational risk. It would be more appropriate to wait that those reforms, including impact studies (like QIS), are fully completed and/or analysed, hence to incorporate these topics as part of a new consultation: Pillar 3 disclosure requirements – phase III.

1. Hypothetical RWA calculated according to the standardised approaches as benchmarks to internally modelled RWA by risk type and asset class for credit risk (HYP1 and HYP°2):

- **Benchmarking against the Standardised Approach will undoubtedly generate the risk that investors will misleadingly discredit internal models and consider that SA is necessarily the “correct” measure**, given that it is a much rougher and less-risk sensitive measure. **We fully disagree with the BCBS proposal. The disclosure should not enable the SA to serve as a benchmark, and de facto a floor for capital.**
- The proposed disclosure could misleadingly establish the Standardised Approach as the true capital requirement.
- Hypothetical RWA under standardised approach would provide neither more transparency on internal models nor more understanding of internal models. It would not reflect the risk profile of bank using internally modelled RWA
To provide information on an hypothetical RWA under standardised approach would bring more complexity in reading the Pillar 3 data. It would be difficult for the users to understand the relevance of the standard RWA compared to internal models based RWA.
- Tremendous efforts by **the EBA are underway, notably through its benchmarking exercises** and multiple consultations (launched by the 2015 discussion paper “Future of IRB approach”). The EBA work is leading to more convergence and hence comparability of internal model calculations and parameters.
- In addition, the **SSM/ECB has also launched a targeted review of internal models (TRIM)**. It will start with the review of Low Default Portfolios.
- Finally, internal models have been developed and constantly enhanced by banks for more than 15 years. They are used to calculate Pillar I and Pillar II regulatory capital requirements and are subject to continuous supervisory control.
- Internal models are back-tested and adjusted accordingly if necessary: back-testing is provided to regulators for models validation.

2. Disclosure of desk-based data in order to fulfil new trading book requirements

- Discussion on FRTB are not fully completed (standard has been published on Jan. 16, on the basis of the feedback received from industry, guidelines are expected) .. It would be appropriate to defer this section as part of a revised Pillar 3 consultation Phase III.
- **General comments** on template MRA, MRB, MRC and MR2: A review of the granularity of disclosure is necessary. We explain our position on the basis of the following arguments:
 - **Confidentiality & Competition :**
 - The data to be published fall within the scope of the confidentiality of the Business Model. Its publication is likely to harm the competitive position of the disclosing bank; these data disclosures to competitors would decrease the value of the investments made by the institution. Moreover, the volume of information could be large.
 - The publication of desk-level data would jeopardize the bank in relation to its competitors: aggressive and unfair solicitation of customers, disclosure of the performing components for the traders , disclosure of the business model and the Group's strategy.
 - These templates are in conflict with the Basel Committee's instructions that are recalled in this consultation in paragraph 4.5 (page 12). Moreover, The European Union extended the principle of confidentiality in the context of the CRR (Article 432). This article protects banks from disclosing any confidential or sensitive information. Consequently, if these templates were to remain in their current state, they would be inapplicable in the European Union.
 - **Relevance of granularity :**
 - The publication of desk-level data does not provide any relevant information because the structure of the desks can vary from one bank to another. This disclosure, on the contrary, could be a source of misinterpretation.
 - Concentration of hedging transactions in specific trading desks is allowed in some cases. Indeed, because of the correlation between desks, the sum of the risks at desk level is different from the risk at Group level. Thus, the analysis desk by desk would not allow an appropriate view of the capital charge under the IMA in standalone trading desk.
 - **Impossible comparison over time and between peers :**
 - **A bank may change its structure from one year to another.** With a disclosure at the desk level, this change could generate more confusion than clarification in terms of comparability both over time and between peers.
- **MRC:** The structure of desks for banks using IMA
 - This table requires qualitative information. The number of desks (single desks or desks aggregations), already designed for the Volcker rule, the French Banking Law or other banking structural laws could be around 50-110, hence 50-110 rows in the table.
 - **We are much concerned by the BCBS proposal to introduce the “Typical desk category”. From our perspective, banks are free to design their desk structure and architecture, as it is a full part of their strategy and management framework. We consider that the examples proposed in the consultation are only examples and not prudential requirements.**

- **MR2:** Market risk IMA per desk
 - This table provides public disclosure on desks which succeeded to the eligibility tests for IMA. We would like to highlight the fact that line 1 “Total”, interpreted as the sum of all the desks, would not make sense and should not be compared to the Group Market Risk IMA (MR3).
 - Because of the correlations between desks, **the sum of the risks at desk level is different from the risk at Group level.**
 - The allocation of capital by desk is theoretical and doesn’t correspond to the Bank’s management.
 - To promote transparency and comparison between the banks and changes over time, **it would be more appropriate to replace the concept of trading desk by asset classes (interest rate, Commodity, FX...).** This concept is more stable over time and compares similar activities for banks of similar size and provides more information on the evolution of business over time.
- **MR4:** RWA flow statements of market risk exposures under an IMA
The definitions and instructions of rows should be clarified. What does it mean ‘Movement in risk levels: changes due to position changes’? Evolutions in market parameters or changes in portfolio composition? Another example for which clarification would be welcome is what row to use when a desk is transferred from IMA perimeter to SA perimeter, in case of back-testing test / PNL attribution test failure.

3. TLAC disclosures

- Templates **CC1:** Composition of regulatory capital and **TLAC 1:** Capital and TLAC composition for G-SIBs:
 - TLAC and Solvency are ratios whose purposes are different and TLAC provisions are still being discussed. **TLAC should be disclosed in a different template.** Common disclosure creates undue complexity and confusion, may prove more difficult to adapt and is more prone to errors.
 - Points 52 to 55 in TLAC1 (and 52 to 54 in CC1) are still under another ongoing consultation. Both need to be aligned.
 - Point 64, the definition of the buffer requirement is not appropriate: “Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement, expressed as a percentage of risk weighted assets). It should be restricted to the components of the combined buffer. The minimum CET1 requirement should be excluded.
- Template **CCA** Main features of regulatory capital instruments and other TLAC instruments:
 - **Volumetry:** As Table CCA is required for each instrument, the reporting volume will be a concern. It would be very useful to **introduce a materiality threshold.** Transactions below this threshold could be aggregated.

- **Private Placements (non listed) should be excluded from the public disclosure templates.** The disclosures of private placement are very sensitive from a competition perspective. Alternatively, it could be appropriate to aggregate the concerned private placements indicating the bucket of the main features (e.g.: maturity=> from 01/12/16 to 31/12/20).
 - **Event type triggering public disclosure on the bank's website:** The consultation paper (Page 8) requires that "Table CCA should be updated on a bank's website whenever the bank issues or repays a capital or TLAC instrument or whenever there is a redemption, conversion, write-down or other material change in the nature of an existing instrument." **We believe that it is useful to clarify that debt redemption at contractual/expected maturity, which intervenes in the normal life of the transaction, should not be considered as a material change in the nature of an existing instrument, and thus should not trigger a website update.** More broadly, on-going updating of TLAC debt is not very useful when estimating ratios since RWAs are only computed on a quarterly basis. In particular, debt issuances are prone to high seasonality (debt is preferably issued at the beginning of the year, and largely depends on market conditions). In this regard, special events such as large liability management exercises, forward-looking decisions, ad hoc information are probably more relevant to investors (e.g. expected impact on solvency and TLAC ratios). **Semi-annual information is sufficient and consistent with other Pillar 3 disclosures.**
 - **Frequency:** In footnote 18, the consultation paper states "In this context, "other TLAC-eligible instruments" refers to instruments other than regulatory capital instruments that meet the TLAC eligibility criteria." In order to meet this requirement, banks would need to daily update their public disclosures. As stated above, we do not see the value added for investors.. In addition, the frequency mentioned in Page 42 is not clear: It should be mentioned that the frequency of this disclosure is semi-annual (and not whenever a change is noticed).
 - **Disclosure of non-stabilised contractual information:** we would like to draw the Committee's attention that a non-stabilised contractual information disclosure (when TLAC emissions contractual details are under negotiation for instance) may create potential litigation risks for the publishing bank.
- **TLAC 2:** Material subgroup entity – creditor ranking at legal entity level and **TLAC 3:** Resolution entity – creditor ranking at legal entity level
 - It is critical to differentiate TLAC eligible instruments from bail-inable instruments: for example, emissions with a maturity below 1 year are not eligible to TLAC requirement compliance whereas they can be used in the event of resolution (i.e. they are a bail-inable instrument)
 - Both templates should be enriched with bail-inable instruments.

4. Operational risk

- **The WGOR is still working on the substance of the Operational Risk Standardised Measurement Approach proposal**, which will replace the Advanced Measurement Approach. Difficult to focus on disclosures when so many substantive issues are pending.. **We propose to postpone the public disclosures to a revised Pillar 3 phase III.**
- **Loss disclosure** in OR1 and OR3, even on an aggregated basis, **would raise many key concerns: it could highlight specific events that would require some confidentiality** (for instance, sensitive information regarding a customer or a employee, on going trial, domino effect...) Information about pending legal cases and the associated losses is very sensitive. **Even if paragraph 4.5 in the consultation aims to allow the bank not to publicly disclose any confidential information, it requires banks to provide public explanation...which is totally in contradiction with confidentiality. Therefore, we suggest to delete the two templates to postpone them to a revised Pillar 3 phase III**
- Another concern related to the loss disclosure is that **a same loss may evolve during the 10 year period** (loss provision implementation or decrease, loss recovery...). This would not enable an appropriate understanding and interpretation by the users.

5. Remuneration

No specific comments on **REM1** and **REM2**. Regarding **REM3**:

- **Column a)** : we **would suggest defining it at the attribution date** (and not reporting date as proposed), which would help to evidence the transition between attribution, ex post adjustments and the amount effectively paid, and be consistent with other data provided in REM1 and REM2
- In **column b)** we note that the amount subject to ex post adjustments will be equal to the amount in col. a), by virtue of the provisions of the CRD IV (cf. Art.94 point n): “The variable remuneration, including the deferred portion, is paid or vests only if it is sustainable according to the financial situation of the institution as a whole, and justified on the basis of the performance of the institution, the business unit and the individual concerned.” **We would suggest a simplification by removing column b).**
- The **NEW column (d)** “Total amount of reduction during the year due to ex post implicit adjustments” does not seem appropriate. In column d) banks are expected to indicate the “reduction during the year due to implicit adjustment”. The implicit adjustments being exclusively linked to the evolution of the share value, the adjustment may be upwards as well as downwards, and the word “reduction” does not seem appropriate. We do not understand the purpose/use of column d) **and suggest removing it.**
- The **NEW column (e)** “Total amount of deferred remuneration paid out in the financial year” **needs clarification**: we would appreciate a precision on what would be the appropriate data to provide: (i) deferred remuneration which was effectively paid during the reporting year Y, i.e. based on the achievement of performance conditions of the year Y-1, or (ii) deferred remuneration which will be effectively paid in the year Y+1 following the reporting year Y, after the statement of the achievement of performance conditions relating to the reporting year.

6. Net Stable Funding Ratio:

LIQ2: We believe that it is not useful to publicly provide too many details. We are in favour of **a format alignment with the LCR disclosure template** (twenty lines and two columns), For LIQ2, **we propose to keep only the subtotals** (lines 1, 4, 7, 10, 11, 14, 15, 16, 17, 25, 26, 30, 31 and 32) and to keep only four columns instead of five ('No maturity' column and 'below 6 months' one could be merged).

7. Prudent Valuation Adjustements

PV1: We agree with its general shape. We would like however to point the following potential improvements or clarifications:

▪ **The definition of “Prudent Value Adjustment” :**

We point here the specific EU regulation on prudent value, which is set to obey the European regulation (EU) no 575/2013 known as Capital Requirements Regulation or CRR. The article 105 of the CRR tasked the European Banking Authority (EBA) to “develop draft regulatory technical standards to specify the conditions according to which the requirements of article 105 shall be applied for the purpose of paragraph 1 of this Article”. On 28 January 2016 the Commission published this technical standard “delegated regulation (EU) 2016 / 101 of 26 October 2015 [...] with regard to regulatory technical standards for prudent valuation under Article 105(14)”.

We believe that without further clarity on what the Prudent Value Adjustment means, there is room for confusion in interpreting the disclosure requirements. Indeed, the European regulation defines the concepts of APVA and AVA respectively as the “The valuation exposure level AVA after adjusting for aggregation”, and “The total category level AVA after adjusting for aggregation¹”.

These quantities are meant to designate the amounts to be filtered out from the CET1 (article 34 of the CRR) such as own funds based on a prudent value. as such: these are additional adjustments on top of those reserves that have been taken under the IFRS accounting standard, and after having applied the aggregation formulae in the EBA technical standard.

We welcome clarity from BCBS as to whether the amounts to be reported are relating to:

- 1. The Additional Valuation Adjustments that are needed to adjust the fair value amounts to meet the prudence purpose (i.e. the AVA above),**
- 2. The total amount of valuation adjustments underlying the CET1 (i.e. the fair Value adjustments plus the Additional Valuation Adjustments referred to as AVA above) or**
- 3. The pre-diversification valuation adjustments**

¹ From annex 2 to the RTS PruVal : Formulae to be used for the purpose of aggregating AVAs under Articles 9(6), 10(7) and 11(7) Method 1 $APVA = (FV - PV) - 50\% \cdot (FV - PV) = (50\% \cdot (FV - PV))$ AVA = $\sum APVA$ Method 2 $APVA = \max\{0, (FV - PV) - 50\% \cdot (EV - PV)\} = \max\{0, FV - 50\% \cdot (EV + PV)\}$ AVA = $\sum APVA$ Where: FV = The valuation exposure level fair value after any accounting adjustment applied in the institution's fair value that can be identified as addressing the same source of valuation uncertainty as the relevant AVA, PV = The valuation exposure level prudent value determined in accordance with this Regulation, EV = The expected value at a valuation exposure level taken from a range of possible values, APVA = The valuation exposure level AVA after adjusting for aggregation, AVA = The total category level AVA after adjusting for aggregation.

We stress out that there are pros and cons in each option:

The first option provides the soundest definition, but the comparability of the reported amounts will be lowered as the AVA amounts typically depend on the fair value choices and applicable GAAPs.

The second option provides a sound basis of comparison, modulo the divergence in the implementation of the Basel III framework (in particular the diversification effect),

The Third option provides the soundest basis for comparison; however it might not correspond to the amounts reported in CET1.

- **The Risk Factor split:**

The prudent value framework is typically built off a risk axis (market or counterparty or model). This isn't an obvious correspondence between these axes and the columns of the template.

If the intention of the Committee is to provide a view by portfolio, classified by dominant risk axis we would indeed welcome this requirement as long as **flexibility** is given to the reporting institutions to perform a **mapping between their existing business line hierarchies and the BCBS columns**.

We would however welcome a column “other” to ensure that there is always a possibility of mapping, pending the relevant narrative is provided.

- **The banking book / trading book split:**

In general terms, the distinction between the banking and trading book is native in the Prudent Value framework. However, such split is not natural for the funding and investing cost and for the unearned credit spread categories, given that the underlying exposures cross the TB/BB boundary.

Given that in a typical institution it is easy to assess whether the CVA/FVA exposures are mostly due to the banking or trading book businesses, **we would welcome a simplification allowing that these PVAs are allocated to either of the columns i or j**.

8. Other points:

- **Part: 1 : Proposals for revised and new disclosure requirements**

- **General considerations, 4.5 “ Proprietary and confidential information”:**

The section is unchanged from the previous version of Pillar 3, whereas the new version of Pillar 3 added disclosure requirements at a much more granular level raising challenging issues of proprietary and confidential information, especially for Market Risk and Operational Risk items. If requirements on those two topics remain as granular as proposed (eg desk-level risk exposures) therefore the “exceptional cases” qualification should be removed from the final version of the Section 4.5 and the text should clearly stipulate that only the “more general information” should be disclosed.

- **Frequency of each disclosure requirements.**

The rationale for allocating annual, semi-annual or quarterly disclosures is not very clear. We would advocate that frequency of each disclosure should be aligned with frequency requirements that are defined within the EBA reporting framework. For example, LR1 and LR2 templates are required quarterly whereas EBA require leverage ratio information on semi-annual basis.

- **Part 5: Macroprudential supervisory measures**

GSIB1: Inconsistency on the frequency instruction: on one side, the Pillar 3 report is published within 2 or 3 months of the financial year end; on the other side, the disclosure on GSIB is due within 4 months of the financial year end; by consequence, this template cannot be included in the Pillar 3 report.

CCyB1: From our perspective, CCyB disclosure should be on an annual basis instead of a semi-annual basis.

- **Part 11: Market risk**

MR4 RWA flow statements of market risk exposures under an IMA: It seems that there is an anomaly on the column letters ('b' missing) and on the instruction relative to "other adjustments" below the template ($f=a+b+c+e$). It seems that there is also another anomaly on the second column title which should be NMRF (non-modellable risk factors) instead of NMR.

MR3 Market risk IMA per risk type: We would welcome more details on the calculation methodology for column b. What is the basis for "average of the previous 12 weeks"? Is it an average of daily data or weekly data? Currently the VaR is calculated on a 60 days basis.