German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Association of German Banks | P.O. Box 040307 | 10062 Berlin | Germany

Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 BASEL
Switzerland

Ingmar Wulfert
Advisor
Telephone: +49 30 1663-2120
Fax: +49 30 1663-2199
ingmar.wulfert@bdb.de

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Prepared by Wu/Gk

Pillar 3 disclosure requirements – consolidated and enhanced framework (BCBS 356)

8 June 2016

Dear Sir or Madam,

Thank you for the opportunity to comment on the Consultative Document on Pillar 3 disclosure requirements – consolidated and enhanced framework (BCBS 356). Please find enclosed the comments of the German Banking Industry Committee.

Yours sincerely,
on behalf of the German Banking Industry Committee,
Association of German Banks

Dirk Jäger	Ingmar Wulfert
Member of the Management Board	Advisor

Coordinator:
Association of German Banks
Burgstraße 28 | 10178 Berlin | Germany
Telephone: +49 30 1663-0
Telefax: +49 30 1663-1399
www.die-deutsche-kreditwirtschaft.de

Comments on

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Register of Interest Representatives
Identification number in the register: 52646912360-95

Contact:
Ingmar Wulfert
Advisor
Telephone: +49 30 1663-2120
Fax: +49 30 1663-2199
E-mail: ingmar.wulfert@bdb.de

Berlin, 8 June 2016

The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent approximately 1,700 banks.

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Comments on BCBS 356

General comments

We welcome the Basel Committee's intention to review its disclosure requirements with the aim of enhancing the benefit of Pillar 3 reports to users. We also agree that it would make good sense to formalise and standardise the presentation of certain information, since this will improve its comparability.

It is nevertheless striking that the scale of disclosures is continuing to increase – and to do so significantly. We have serious concerns that the sheer amount of information may be more likely to overwhelm users than enable them to better assess the risks carried by the disclosing bank. Our experience to date is that there is little interest in Pillar 3 reports. This is evidenced by the low number of report downloads from banks' websites and the lack of feedback or requests for clarification from customers and investors.

We doubt that the proposed disclosure requirements really reflect users' need for information about small and medium-sized banks, in particular. For the users of Pillar 3 reports of small and medium-sized banks, much of the required information is simply of no interest. It is not clear to us how a number of the proposed requirements are supposed to achieve the Basel Committee's declared objectives of improving market discipline and giving market participants a better basis for making investment decisions. We would also urge the Basel Committee to consider whether the scale of Pillar 3 disclosure is still appropriate. The length of Pillar 3 reports issued by small and medium-sized banks now almost exceeds that of their annual and risk reports. It should also be borne in mind that the requirements cannot be implemented overnight. The proposed implementation date of December 2017 for certain templates and tables is highly ambitious. Disclosures in fixed-format templates, in particular, will require complex and time-consuming adjustments to IT systems so that the required information can be collected. What is more, implementation work can only begin once all the requirements have been finalised. In Europe, for example, this means that the requirements also have to be implemented in European law. Banks are already preparing for a significant amount of new disclosure under the first phase of Pillar 3 and substantial work is underway to implement IFRS 9. Requiring the disclosure of additional information (e.g. on prudential valuation adjustments, countercyclical buffers) by the end of 2017 would generate further costs and further increase the workload. To enable banks to first deal with other competing priorities, we strongly recommend that implementation of the new disclosures currently scheduled for 2017 be deferred until the end of 2018 at the earliest.

To avoid information overload for users, the principles of proportionality and materiality should be applied to all the templates. Banks should only have to disclose the data really needed by users to form an understanding of the bank's situation. The proposed framework also fails to adequately reflect the principle of relevance or the need to avoid disclosing competitively sensitive information. We would ask the Basel Committee to make the extremely rigid and extensive requirements more flexible by at least making it clear that fields in the templates and tables only need to be completed if the information they contain is judged to be relevant and material.

The proposed volume of additional disclosure will also place a significant strain on banks' ability to meet the external reporting timelines required by investors and securities regulators. The suggestion that the Pillar 3 report be published concurrently with the financial reports for the corresponding period exacerbates this challenge. Additional costs (e.g. for information technology) may also be incurred as a result of the more rigorous internal review required for publicly disclosed information and the need to enable the necessary information to be captured for fixed-format templates. For this reason, too, we request greater flexibility in the application of the templates so that reporting deadlines can be met and added value can be delivered to users.

We have the impression that the proposed level of detail and frequency of disclosures are geared primarily to users of Pillar 3 reporting by publicly traded companies. Non-publicly traded small and medium-sized banks would also be affected by the requirements, however. Much of the required information will change only insignificantly over time so it makes little sense, from a relevance perspective, to issue disclosures more frequently than once a year. This also applies to institutions which publish quarterly financial reports. Moreover, quarterly reports are prepared in a much tighter time frame than is the year-end report. Given that regulatory reporting information only has to be submitted to supervisors after 30 working days, we believe it would be inappropriate to require banks to publish some of the data ahead of this deadline in the context of Pillar 3 disclosures. We therefore urge the Basel Committee to allow all templates and tables to be disclosed on an annual basis.

As the consultative document indicates, several points are still under discussion. It is difficult to plan for disclosures before the relevant requirements have all been finalised (as with internal models, operational risk, etc.). There is also a question of interpretation: the consultative document deals extensively with issues that are still open for consultation and debate (e.g. market risk and operational risk); in some areas (e.g. TLAC holdings), we are awaiting the results of the consultation process; and in others (e.g. IRRBB), disclosure proposals have been deferred until the associated regulatory project has been finalised. It is therefore hard to know how to interpret or comment on proposals in areas where matters of substance have yet to be settled. We are concerned, moreover, that disclosure requirements proposed in this consultative document may influence decisions about the underlying regulatory issues. In our view, Pillar 3 disclosures should not be tackled until the underlying substantive requirements have been finalised. It would make more sense to defer disclosure proposals in some areas until the next phase of the Pillar 3 review.

Specific comments

In addition to the above, we also have specific comments on the following templates and tables:

- Tables MRA/MRC: Banks are asked to disclose details on an annual and semiannual basis about matters including desk structure, types of instrument and model methodologies. This will include a large amount of competitively sensitive information and it is unclear how these details will benefit the users of the disclosures.
- Templates Hyp1/Hyp2: These should not have to be published until 2019 when the new standardised approach to credit risk will start to be applied.