Dr. Max Gutbrod
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Answer to Request for Consultation on Machine-readable Pillar 3 disclosure

Question 1: What are your views on the scope of the requirements for machine readable Pillar 3 disclosure in particular the proposed initial focus on quantitative disclosure regarding the templates marked as “Maybe” in table 4?

ANSWER MAX GUTBROD: The current approach of the Basel Committee on Banking Supervision (the “BCBS”), as presented in the Request for Consultation, is not suited to increase comparability of Pillar 3 disclosure, further the current focus on elements of Pillar 3 disclosure that make cross checking of the elements of Pillar 3 disclosure more difficult and thereby exacerbate tendencies which, because of the manner AI is progressing, are increasingly distorting the market, and therefore in general is counterproductive. I am summarizing a couple of reasons for this assessment in the below:

1.1.- Following or Adding to National Disclosure Standards

Based on its Request for Consultation, it remains unclear to which extent the BCBS intends to double up national disclosure or, in addition, establish a standard of its own with a view to assemble information additional to what has been disclosed on a national level. The difference becomes evident assuming there is a dispute about whether disclosure and in particular third party participation in this disclosure[1] has been fraudulent: BCBS mandated disclosure might simply implement decisions by the issuers of regulators taken on the national level, but may also to the reverse, and in particular if there are doubts on the impartiality of the national regulator, fully or partially implement an additional procedure, which may include different judicial procedures.

[1] Reference to auditors or ratings may be wrongful or misleading

Beyond to what is further explained below, the above example should not be deemed as being irrelevant because the number of Fraudulent Disclosures as compared to the whole number of disclosures is likely to be small because the consequences of cases involving Fraudulent Disclosure can be substantial and players are likely to take rules designed to prevent Fraudulent Disclosure into account.

1.2. - Using AI to in Particular for Quantitative Disclosure

In addition, similar to what the BIS is considering for Scope 3 Emissions Reduction Disclosure[2], AI should on a continuous basis be evaluated and made productive for the assessment of all type of Pillar 3 information, in particular insofar as quantitative information and the interaction between players with different roles in the public discourse and different degrees of access to AI are concerned[3].

As we understand it, there is significant evidence that AI is being used to evaluate corporate disclosure, but for the time being there is little more comprehensive analysis on the effects of the mentioned use of AI. In particular, the Request for Proposal fails to consider related developments.

As, by its nature, quantification of Pillar 3 disclosure is likely to be less reliable than other disclosure, efforts for standardization of information should be specifically directed to increase comparability and access to qualitative information.

Therefore, methodical and issues of consistency, processes, corporate governance in particular as far as it provides for checks and balances, review of veracity of information, workout techniques like the creditor focusing on playing an active role in distressed situationw as opposed to becoming a member in creditor or bondholder committees as well as syndicates should be focused upon. Such focus on qualitative disclosure should in particular be in place when there are signs that in relevant markets machine readability of quantitative information is gaining in public importance and is having a role in the context of price formation.

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[2] See https://www.bis.org/publ/othp101.pdf. Interestingly, in this paper statements relating to qualitative information to the effect that for them "the performance … is much better due to the standardized and controlled nature of the transaction certificate format." and extending it like "expansion to other data sets contained within PDFs will likely require schema-driven extraction" can be found.

[3] See about some investors using AI https://www.handelsblatt.com/finanzen/banken-versicherungen/banken/banken-umfang-von-geschaeftsberichten-stark-gestiegen-wie-kann-das-sein/100200899.html

1.2. – Undue Focus on Quantitative Information

The Request for Consultation appears to follow what seems a general notion, namely that the benefit of using AI is bigger when quantitative information is concerned. This general notion is not only wrong, it poses a systemic danger for capital markets and in particular for Pillar 3 disclosure. This is because it fails to take into account the bigger challenges in compiling qualitative information as compared to qualitative information.

The simplicity of comparing quantitative information is evidenced by such comparison only requiring to establish the interrelation among two or more figures that represent the values described by terms such as shareholders capital, turnover, profit or the relation among them, with selection of such figures being made based on objective criteria such as the magnitude of the figures. In contrast, the importance of qualitative issues is more difficult to determine, the criteria they relate to cannot be standardized as easily as for quantitative issues. Accordingly, the comparison of qualitative issues requires more relatively simple work than that of quantitative issues, and AI is likely to be more helpful for making qualitative issues.

At the same time, "making sense" of qualitative information, undertake action based on the knowledge that is a part of qualitative information requires judgements, which in particular in the context of distressed assets can have very significant values. Given what appears to be an increasing values and increasing speed of transactions in international capital markets, what appears to also be increased volatilities with changes in values of shares of corporate issuers in the double digit level not being rare, and an increased flow of information, being prepared for such subjective judgements also seems to require increased stamina and related motivation systems. Interestingly, on broader subjects and on the basis of personal perceptions and talks, the role of discretion for remuneration of more senior management appears to have decreased.

The impression that markets are taking time to understand the mentioned potential of AI and create the structures to work with the number of judgements required to use them suggest that regulatory action focus on this potential so as to bring it to fruition earlier. The Request for Proposal seems to avoid the related discussion by not approaching it at all.

Examples for technically simple comparisons that will however become the more useful the less more technical work is necessary for them to come to fruition, the less the senior work is dependent on the support by more junior persons, are:

1.3.1. – Corporate Procedures

the board of directors[4] being in charge of certain risk related decisions, and the qualification of members of the board of directors,

1.3.2. – Personal Responsibility

the CFO being personally responsible for Pillar 3 disclosure[5], which may also include the CFO should also be available for comment for instance at investor conference or shareholders meeting, and his comments and should be made public,

1.3.3. – Spread Out Documentation

parts of Pillar 3 related disclosure being contained in Annual Reports[6], and cross checking of Pillar 3 related mechanics for instance to remuneration report potentially bringing substantial benefit, with such cross-checking having practical effect for potentially existing "say on pay"- shareholders voting rights and the ability of minority shareholders to prevent management activity from being released (entlastet) at the request of minority shareholders[7],

1.3.4. – Reliability of Various Standards

standards for third-party confirmations such as audit opinions looking similar, but differing in detail and being substantially impacted by such difference[8]. In this context, depending on the circumstances the still nascent status of emissions auditing[9] may play a role,

1.3.5 – Impact of National Standards

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[4] See 39 of Bradesco Pillar 3 report, available under https://www.bradescori.com.br/en/market-information/reports-and-spreadsheets/risk-management/

[5] See https://www.wellsfargo.com/assets/pdf/cib/global-services/emea/WFSE%202025%20Pillar%203%20Disclosure%20(Year%20ended%2031-12-2024)_a11y.pdf, https://www.bnpparibasfortis.com/docs/default-source/pdf-(nl)/financiële-verslagen-2024-2/pillar-3-disclosure---2024.pdf?sfvrsn=db7c6f6f_7, which might deserve to be modified in case of group companies like https://www.morganstanley.com/content/dam/msdotcom/en/about-us-ir/pillar3/MSEHSE_Pillar_3_Disclosure_Report_31_March_2025_German.pdf

[6] page 8 of https://www.juliusbaer.com/index.php?eID=dumpFile&t=f&f=85097&token=634b546d9ec784575070cdcaaae8d01babb5297c#:~:text=This%20report%20provides%20Pillar%203,the%20introduction%20of%20harmonised%20templates.

[7] See recently on related issues the decision of the Landgericht München (Local Court Munch) in https://openjur.de/u/2529155.html?

[8] For audit standards varying https://www.academia.edu/10666596/Impact_of_Various_Legal_Regulations_on_the_Recognition_of_Impairment_Situation

[9] In my view, uncertainty about the role of environmental auditing lays at the core of the public debate alluded to in https://www.academia.edu/128265087/Role_of_The_Bundesumweltbundesamts_In_The_Context_of_the_Issuance_of_UERs_Corrected_German_

Various countries will have introduced various rules to mitigate crisis, in particular such emanating from the consequences of climate change[10] which are not likely to be usefully compared on a quantitative basis only and, for instance for EU, rules may work differently depending on their application in various countries[11],

1.3.6. - Approaching Pillar 3

In countries not complying with the requirement to implement Scope 3 reporting, make many data relevant to Scope 3 available[12], so approach

1.3.6. - Supervisory Action

material easily available including in the public domain may confirm that seemingly similar review processes by various supervisory bodies differ so that straightforward disclosure can be misleading, easily available examples are that reviews of balance sheets may have significant impact on markets[13] even if they concern time periods long having been superseded by later reports[14], the past may even if self-reported not disclose their importance[15] even if lost importance, difficulties in restructuring situations delay after resignation of auditor[16] no prospectus for a capital increase[17]

1.3.7. – Utilizing Granular Information Sources

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[10] See, for changing standards relating to climate disclosure https://www.moodys.com/web/en/us/insights/regulatory-news/ecb-to-expand-climate-change-work-in-2024-2025.html and https://www.ecb.europa.eu/press/pr/date/2026/html/ecb.pr260116~4b4a05a179.en.html

[11] As just one example for many see https://www.linkedin.com/feed/update/urn:li:activity:7435418849052737536/?originTrackingId=ZX5KJKJmDshlXCQaJMOi6g%3D%3D

[12] https://unibank.az/uploads/documents/1747317364Unibank%202024%20FS%20signed.pdf

[13] https://www.handelsblatt.com/unternehmen/industrie/gerresheimer-bafin-geht-von-weiteren-bilanzfehlern-aus-aktie-bricht-ein/100203440.html, prosecution of fraud as reported here is dependent on finding shareholders raising claims

[14] Regulatory action for delay of financial reports after the annual meeting of BayWa, the relevant company, in which the main shareholders avoid a vote on release for previous years for an amount which cannot be at the level of the damage inflicted, see https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Massnahmen/40c_neu_124_WpHG/neu/meldung_2026_01_23_baywa_ag_1.html, regulatory action of lack of risk management https://www.bafin.de/SharedDocs/Veroeffentlichungen/DE/Massnahmen/Bilko/Massnahmen/meldung_241111_BayWa_AG.html long after this lack had consequences (see https://www.baywa.com/investor-relations/veroeffentlichungen/ad-hoc-mitteilungen?

[15] self reported and remedied the issue https://www.reuters.com/legal/government/ecb-fines-jpmorgan-122-mln-euros-misreporting-capital-requirements-2026-02-19/

[16] See the case of. https://www.adler-group.com/en/investor-relations/translate-to-english-news-publications/news/detail-news?tx_news_pi1%5Baction%5D=detail&tx_news_pi1%5Bcontroller%5D=News&tx_news_pi1%5Bnews%5D=924&cHash=450a5ad2bb955dc2efbcdfbb4e49af91. Shares tumbling after an auditor refused to provide for audit, https://x.com/Schuldensuehner/status/1521047382355582979. Difficulties in finding auditors may have considerably delayed the restructuring

[17] https://www.wiwo.de/unternehmen/industrie/varta-rettungskonzept-fuer-varta-steht-porsche-steigt-ein-/29950044.html

Major crises and bubbles may best be prevented through locally or regionally adequate means[18]. Also, it may be possible to draw conclusions from nature related data and thereby predict risks[19].

1.4. – Little Attention to Qualitative Disclosure in Similar Reporting Initiatives

Providing for a focus on qualitative reporting is the more important as there also seems to be an undue focus on quantitative reporting in the context of corporate communication in general[20], governance sustainability reporting[21] and biodiversity[22].

Question 2 Do you have any comments on the technical data formats and standards, the API structure and the general concept of the taxonomy proposed for quantitative machine readable pillar 3 disclosure? Are there other formats and solutions that should be considered?

The current proposal, in including 4 formats (XBRL-CSV, XBRL-JSON, SDMX-CSV, JSON Schema instead of unifying them, leaves it to the reader to adapt to any of those formats without establishing a procedure for the national regulator to change formats, which creates unnecessary

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[18] See the assertion that "during the US subprime financial crisis, for instance, the problems were acute in only four or five states. However, this still led to a banking crisis that spread across the country" as being a helpful in the context of the real estate bubble in China https://www.imf.org/en/publications/fandd/issues/2024/12/chinas-real-estate-challenge-kenneth-rogoff, suggesting that regional recovery programs could help to mitigate the adverse consequences

[19] See as summary demonstrating the benefit of using specific parameters in a particularly manyfold area: "Our findings highlight the significant impact of physical climate risks on the financial stability of the SME loan market. They also underscore the need for targeted policy measures to strengthen financial systems against climate-induced economic disruptions, such as flooding. This analysis has significant policy implications for central banks (Chen et al., 2021, Wang et al., 2025) and macroprudential regulators, highlighting the critical role of granular spatial data availability on extreme weather events and forward-looking climate scenarios in assessing physical climate risks. While existing financial regulations predominantly focus on the corporate sector (Tan et al., 2025), our findings show the pressing need to extend regulatory attention to the SME lending market, which is relatively underexplored due to the limited data availability." in https://www.sciencedirect.com/science/article/pii/S0140988326000563?via%3Dihub#b12

[20] https://www.academia.edu/127708701/Reply_to_Consultation_Paper_on_Draft_technical_advice_concerning_MAR_and_MiFID_II_SME_GM

[21] https://www.academia.edu/128560219/Consultation_on_the_ESEF_RTS_for_sustainability_reporting_and_on_the_amendments_to_the_EEAP_RTS

[22] See https://www.academia.edu/130108676/Principles_of_Biodiversity_Policy

hurdles for comparability. Instead, and as is proposed in the context of other BIZ initiatives[23], tagged PDF should be used.

Question 3 Are the formats other than PDF's that should be considered for human readable disclosure?

See answer to Question 2.

Question 4 in your view which are the main operational benefits and challenges that this project would bring to banks? Would you see any other positive or negative impacts on your current disclosure process?

The benefits of the project could have been increased comparability which would translate into efficiency. The risks, as explained in more detail above, are being tied to an outdated set of rules for publications which could amount to a significant hurdle in capital markets.

Question 5 Do you believe the proposed effective date would provide sufficient time for implementation of machine readable Pillar 3 disclosure? Would smaller internationally active banks need additional time?

I see no reason to not include smaller banks in a manner which could well amount to a substantial competitive disadvantage given that the current international information landscape benefits bigger issuers.

[23] See https://www.bis.org/publ/othp101.pdf.

Question 6 How useful would data users consider a global database on the BSP's website? would visualization tools and industry aggregates make a global repository meaningfully more useful?

Search engines already provide for quick international access with little differences among countries and are likely to grow substantially more efficient soon. Accordingly, additional accessibility is not overly useful unless additional tools for navigation or comparison are provided (see above Answer to Question 1). At the same time, such tools should not supersede national tools and specifics issuers find useful to impress capital markets like the summary of goals or figures used in reports[24].

In particular if a central repository should ensure that reporting can be varied and market forces are used for such improvements, additional parameters are likely to emerge which could concern the assessment of the quality of bad assets, as well as their resolution and cross checking the effect of the same. and it should not be easily able to claim improvement of procedures at the same time at which it is conducting massively off investigation should have an effect information giving to investors should also be easily available in relevant risk assessments.

[24] As a brief summary of issues and approaches, to my mind, it should be encouraged that individualized text is used so that senior management spends as much time with this text and takes ownership of strategy. I for one find the relevant text by BNP much better readable than that of Deutsche Bank, but it should be left to the each reader to make sure his judgement is heard, be it through his decision to invest or sell his investment, be it through challenging text at investors conferences or shareholders meetings. Accordingly, issuers should be able to build their own architecture to improve access as relevant https://invest.bnpparibas/en/search/reports/documents/regulated-information so that for instance future paths are clear (more detail of my thinking is set out in my Academia-page, for instance at https://www.academia.edu/122287631/Parameters_for_Activity_within_the_Shareholder_Activism_Project, for instance a summary of key metrics in page 3 of https://www.santander.com/content/dam/santander-com/en/documentos/informe-con-relevancia-prudencial/2025/irp-2025-Informe-3Q25-en.pdf, and it should be possible to integrate photos such as those in https://www.santander.com/content/dam/santander-com/en/documentos/informe-con-relevancia-prudencial/2025/irp-2025-Informe-3Q25-en.pdf