BCBS consultation on disclosure requirements for cryptoasset exposures

<table>
<tr><th>Seq.</th><th>Section / Paragraph
(excerpt relevant text in question, but please keep excerpt specific/ minimal)</th><th>Concern / Recommendation
(please provide detailed rationale and suggested alternatives where appropriate)</th></tr>
<tr><td colspan="3">Disclosure of cryptoasset exposures</td></tr>
<tr><td>1.</td><td>2. Structure of proposed disclosure requirements
The proposal for DIS55 is set out in Annex 1 to this publication and contains the following table and templates:
- Table CAEA: Qualitative disclosure on a bank’s activities related to cryptoassets and the approach used in assessing the classification conditions.
- Template CAE1: Cryptoasset exposures and capital requirements.
- Template CAE2: Accounting classification of exposures to cryptoassets and cryptoliabilities.
- Template CAE3: Liquidity requirements for exposures to cryptoassets and cryptoliabilities.</td><td>The consultation paper states that disclosure of crypto assets and liabilities should be considered in CAE3 as well as the disclosure templates for liquidity. This is duplicative and a higher disclosure requirement compared to other asset/ liability types that exhibit similar liquidity risk characteristics depending on an institution’s interpretation/ treatment for liquidity risk.
The risk profile of crypto (price volatility/ risk or zero valuation/ fraud/ theft) justifies providing information to the investor community regarding capital/ liquidity requirements. For liquidity purposes, it would be useful to give banks the discretion over what is disclosed based on policy interpretation and perceived risk profile, and to prevent duplication disclosure requirements. We would propose that disclosures should be voluntary on top of the existing liquidity disclosures.</td></tr>
<tr><td>2.</td><td>4. Request for feedback
The Committee welcomes feedback on all aspects of the proposals set out in this consultation. In addition, it would welcome feedback on the following issues:
<u>Window-dressing</u>: 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.</td><td>Reporting of average levels would effectively entail additional tracking and recording of results on daily level basis – multiplying the related programming requirements and workload accordingly.
With respect to market risk, BCBS MAR (FRTB) for market risk capital-RWA does not require reporting of daily average values in addition to period-end values under Standardised Approach for market risk exposures.</td></tr>
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3.	**4. Request for feedback** The Committee welcomes feedback on all aspects of the proposals set out in this consultation. In addition, it would welcome feedback on the following issues: *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.	The proposed introduction of a specific disclosure threshold for cryptoasset exposures is inconsistent with the existing disclosure regimes and Basel Accord originally contemplated by SCO60.129. Typically, materiality tests are instead based around a subjective user test. If a specific threshold were to be included, it would need careful consideration in relation to a financial institution's total balance sheet, as the proposed 5% threshold could potentially exclude subjectively material exposures or include immaterial ones. We therefore suggest the disclosure templates be amended to provide that a financial institution should decide which disclosures are relevant for it based on the materiality concept in accordance with the Basel Accord and as originally contemplated by SCO60.129.
4.	**Annex 1: Proposed text of DIS55 – Cryptoasset exposures** 55.1 The disclosure requirements under this section are: (1) Table CAEA: Qualitative disclosure on a bank's activities related to cryptoassets and the approach used in assessing the classification conditions. (2) Template CAE1: Cryptoasset exposures and capital requirements. (3) Template CAE2: Accounting classification of exposures to cryptoassets and cryptoliabilities. (4) Template CAE3: Liquidity requirements for exposures to cryptoassets and cryptoliabilities.	We hope that further guidance could be provided on the exposure amounts for disclosure, e.g. whether they should be in accounting value or market value, to ensure consistency between disclosure templates and across the industry. For derivative exposures, please advise if the exposure amounts should be disclosed in gross NPV or netted down with collateral. If it is the latter, further guidance is needed on how to present netted exposures as these collaterals may be part of the border portfolios with non-crypto derivatives. In addition, we would like to seek guidance on how to calculate derivative contingent outflows such as HLBA relating to crypto. Crypto liquidity risk cannot be easily ringfenced and assumptions will be required.
Prudential treatment of cryptoasset exposures		

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	Nil	Nil