

**INTESA SANPAOLO GROUP RESPONSE
TO THE BCBS CONSULTATION****“PILLAR 3 DISCLOSURE REQUIREMENTS – CONSOLIDATED AND ENHANCED FRAMEWORK”****DEADLINE: 10 JUNE 2015**

[Intesa Sanpaolo](#) is one of the largest European banking groups with a strategic presence in Eastern Europe and in the Mediterranean basin. It provides companies with a full range of services and products to households and businesses. The Group is active in capital markets through Banca IMI, its investment bank, in the asset management business through Eurizon, in the venture capital through IMI Fondi Chiusi, in the third sector through Banca Prossima and Mediocredito for long term credit.

The Intesa Sanpaolo Group welcomes the BCBS’s objective of balancing the need of clear information under Pillar III disclosure requirements and of protecting banks’ sensitive data. Nevertheless, we believe that the amount and granularity of data required for some tables and templates might be burdensome for financial institutions, which are already subject to information requests from a number of competent authorities. Moreover, the Consultation Document seems to refer to quantitative measures that must be disclosed using the international rules defined by BCBS, without considering any specificities, that are otherwise adopted in the transposition process by local Regulations (e.g. CRD IV/CRR for the Euro Area). A disclosure based on non-harmonised rules could lead to different interpretations and misalignment within EU and non-EU Institutions together with the risk of duplication of information available and inefficiencies because of the different formats. Finally, we see that some data requested are still price sensitive and their disclosure can undermine the level playing field. The latter is only partially justified by disclosure needs as it must be taken into account that users already have a huge amount of information available.

Please find below our detailed comments about the specific sections of the consultation document.

COMMENTS TO THE CONSULTATION DOCUMENT***Part 1: Proposals for revised and new disclosure requirements*****4. General Considerations**

We express our concerns related to: the use and processing of confidential data required and the amount, granularity and frequency of required information. About the implementation dates, for instance, the possibility of earlier implementation of disclosure requirements may lead to misalignments with those set for the Standardised Measurement Approach (SMA) for operational risk. Moreover, banks, who are already required to produce and internally audit a bigger amount of information, according to the provisions under paragraph 4.4 of the consultation document, would be subject to increased level of implementation costs in terms of organisation and internal procedures. Concrete examples of this undue workload are represented by Templates HYP1 and HYP2 and the market risk IMA.

5.3 Templates/Tables with a fixed format

We understand the need for flexibility, but we believe that allowing for deletions of some rows and/or columns in fixed format templates would go against the final objective of harmonising disclosure making bank's templates comparable.

5.4 Signposting

We believe that also provisions under this paragraph (see also comment to par. 5.3) make information available less comparable among banks, especially in regard of the possibility of using web links, which might change a lot over time and would require a constant update.

Part 2: Overview of risk management, key prudential metrics and RWA**Template KM1: Key Metrics (at consolidated group level)**

We welcome the proposal of developing a dashboard of key regulatory metrics but we believe that the narrative comments, which might be provided should not have a deep level of details. Moreover, we need clarification on whether footnote 27 applies to any templates or to KM1 only.

Template HYP1: Hypothetical RWA calculated according to the standardised approaches as benchmarks to internally modelled RWA

Disclosure requirements under templates HYP1 should be simplified, for example by limiting the rows of template HYP1 to the totals only (i.e. rows 1, 2, 3 and 6). This is particularly relevant for the disclosure on credit risk with full standard data. These data are already available, but they are produced with a longer timeframe and currently submitted only to the regulator and not disclosed to the market. Therefore, in consideration of the relevance of these data for the market, it is suggested that the templates should become more user-friendly, as proposed above.

Template HYP2: Hypothetical RWA calculated according to the standardised approaches for- credit risk (excluding counterparty credit risk) at asset class level

Disclosure requirements under templates HYP2 should be simplified, as already suggested for template HYP1. The proposed template requires details on RWA computed with hypothetical standardised approach covering also market risk. We find the level of detail of the information required burdensome and not really necessary for users. Moreover, in relation to the request of reporting (with detailed explanation) also on the portfolios where a significant change between the RWA IRB and the RWA STD would occur, it is suggested that this requirement should be considered as optional by the bank.

Part 3: Linkages with financial statements and regulatory exposures

Template PV1: Prudent valuation adjustments

1) General comment

1a) The proposed template is based on the prudent valuation regulation in Basel 2 (Jun. 2006), while the latest regulations on prudent valuation approved in the European Union are the CRR (Reg. EU 575/2013) and the Commission Delegated Regulation EU 2016/101 (in force since February 2016, based on Regulatory Technical Standards (RTS) developed by the European Banking Authority). It is worth to notice that the older BCBS regulation and the newer EU regulations are broadly similar, but the EU regulation is much more detailed (in particular because of the Regulatory Technical Standards specifying some aspects of the Commission Delegated Regulation EU 2016/101). In particular, the EU regulation requires that the Additional Valuation Adjustments (AVAs) have to be deducted from the CET1, with no effect on the fair value.

We are afraid that a disclosure based on the earlier BCBS regulation could imply different interpretations of the same concepts by EU and non-EU institutions, leading to non-comparable figures. We suggest that this Template as applied to EU banks should be reconciled to the EBA requirements on PVA

1b) It is worth to notice that the EBA is currently developing new Implementing Technical Standards (ITS) to update the prudent valuation reporting under the COREP (common reporting) templates, which will have a different format than the one proposed by the BCBS. Such new reporting, if adopted by the EU, would increase the contrast between the two requirements discussed above.

2) Comments on detailed template structure

2a) the rows do not reflect exactly the sources of valuation uncertainty that EU Institutions must calculate according to the EU regulations cited above. In particular, it is not clear why "Investing and funding costs" and "Unearned credit spreads" are reported in columns and not as rows (since they are described below as valuation uncertainties).

2b) The description of "Investing and Funding Costs" (IFC) should be clarified, since IFC is described both as a "valuation uncertainty", which is a prudential valuation adjustment outside the fair value, and as a "valuation adjustment on derivatives exposures", which is a component of the fair value.

2c) The proposed break down in columns a)-e) should be clarified. If the break down is required by underlying risk factor, it is consistent with the EU AVA calculation rules, based on valuation exposures (see Comm. Del. Reg. EU 2016/101, Ch. 3). If the breakdown is required by asset class (financial instrument) level, it is not consistent. In fact, at least some important valuation exposures include contributions from financial instruments associated to different asset classes. For example, AVA Market Price Uncertainty (mid-market value in the BCBS language) for interest rate risk arises from trades in all asset classes (because of the discounting rates used to discount future cash flows). The resulting AVA Market Price Uncertainty for interest rates is a single figure, representing the entire valuation uncertainty corresponding to interest rate uncertainty. There is no natural break down at

asset class level. The same happens for other valuation exposures such as to FX forwards and volatilities which may enter into FX, equity, commodity, etc. instruments (via e.g. quanto adjustment).

2d) The same argument above applies against the proposed split between trading and banking book.

Part 5: Macprudential supervisory measures

Template CCyB1: Geographical distribution of credit exposures used in the countercyclical capital buffer

We suggest to align the requirements regarding template CCyB1 (as for the geographical breakdown) to the existing framework adopted by the European Banking Authority (EBA), which allows, as far as the frequency is concerned, for at least an annual submission, leaving a broader margin of discretion to credit institutions.

Part 6: Leverage ratio

Templates LR1 and LR2: Summary comparison of accounting assets vs leverage ratio exposure measure and leverage ratio common disclosure templates

It is suggested to align the requirements regarding templates LR1 and LR2 to the existing EBA Guidelines, which provide: as for the frequency, for a semi-annual submission (instead of a quarterly submission, as proposed by the BCBS) and, as for the content, for more information to be included in the template.

Part 7: Liquidity

Templates LIQ1 and LIQ2: Liquidity Coverage Ratio and Net Stable Funding Ratio

Data required in these templates are not fully aligned with European requirements (please refer to the EU Capital Requirements Regulation and Directive (CRR\CRD IV)). This can lead to different interpretations and figures within EU and non-EU Institutions. Furthermore, it is important the disclosures on the NSFR (template LIQ2) would be introduced by the BCBS only after the final adoption of the NSFR minimum requirement (which is not yet in force).

Part 11: Market Risk

We notice that the proposal is focused on the market risk of the trading book, whereas, many financial institutions are currently disclosing also AFS books using internal market measures approach (VaR). Moreover, we have noticed that, under the Fundamental Review of Trading Book (FRTB), Regulators have required a monthly disclosure of the same figures. We question the opportunity of public disclosure of the same information. In particular, Template MR2 discloses information, such as risk portfolio strategies and appetite at desk level, that are useless for users and also price sensitive for competitors. Furthermore, the disclosure at desk level does not guarantee comparability because of possible inconsistent desk definitions among credit institutions. Finally, Standardised Approach

disclosure for IMA institutions could bring the public attention on risk figures that do not reflect the actual risk management practices.

Part 12: Operational Risk

For all the templates and tables proposed, we suggest to report percentages and trends instead of absolute amounts (subject to the low EUR 1 million materiality threshold), as the latter could be misleading and leading to the disclosure of confidential information.

Table ORA: general qualitative information about operational risk management

It is difficult to comment on disclosure of the current operational risk proposals, including, among other things, the ten-year data requirement, given that the SMA calculation has not been finalised yet. In fact, the industry is still asking for clarifications on the fundamental scope and definitional aspects of the operational risk proposal in the separate consultation on the substantive operational risk requirements. Nevertheless, we point out that there are significant issues of non-comparability and volatility in the proposal, which would flow through affecting the quality of related disclosures. The templates, as proposed, do not take into account the differences of business models, they assume that all losses are equal and fail to recognize mitigation actions, changes in business mix and subsequent improvements in controls.

We do not understand the request of description of risk mitigation and risk transfer which are no more compulsorily in the new SMA framework for operational risk, together with the request of describing scope and context of the reporting framework to the executive management and the board directors.

Template OR1: Historical losses used for SMA calculation

This template requires disclosure of confidential data and some data are partially overlapping with those required by template OR3 (please refer to the comment below about OR3).

Nevertheless due to different jurisdictions or accounting rules, the definition of losses to be included in the table could hamper comparability among banks.

Template OR2: SMA business indicator and subcomponents

The SMA perimeter adopted in the template is not yet clear, so that data to be commented on could be different from those published in the consolidated balance sheet. We do not understand the reason behind excluding lease expenses and income from the template. Moreover, business indicator components are similar to but not fully coincide with the official balance sheet items that are reported in the financial statement. In fact, a list of exclusion is provided and a different (and still unclear) perimeter is applied. This template could be misleading for the users while a signposting could refer to similar but not identical data.

Template OR3: Historical losses

Some data required by the template are overlapping with those of template OR1, we do not see the need for this duplication. Moreover, the template requires confidential data which should not be disclose. For instance, row n.3 requires the total of 5 largest losses materialized through the PnL: this could enable third parties to infer information on legal provisions, which are not yet disclosed.

Part 14: Remuneration**Template REM3: Deferred remuneration**

We would like the BCBS to clarify if deferred remuneration in column a) includes up front shares subject to holding period (i.e. retained remuneration subject to implicit ex post adjustment). Moreover it is not clear the timing and methodology of calculation for the values at the reporting date. For this reason, we suggest defining column a) and column c) 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, allowing for the deletion of column d), which makes the template more user-friendly.