

Basle Committee for Banking Supervision
Bank for International Settlements
Postfach
CH-4002 Basel
Switzerland

9 June 2016

Dear Sirs

Pillar 3 disclosure requirements - consolidated and enhanced framework - consultative document

LAPFF represents the interests of 70 UK-based public sector pension fund members with combined assets of approximately £175 billion. Its mission is to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

We are pleased to be able to respond to the consultation and we fully support the Pillar 3 disclosure initiative. We believe that the numbers required to be reported in accounts by international accounting standards (IFRS) are not only defective for regulatory purposes, they are also defective for long-term shareholders with an interest in long-term sustainable returns on invested capital.

Further, outside of the accounting measures, we support the disclosure of standardised risk weighted assets, as opposed to management self-assessed risk weighted assets.

Given that the numbers in accounts required by regulation provide the only base from which a bank can, gear, trade and grow, we question what, if any, use there is in the IFRS numbers, which are wholly delinked from these numbers. The IFRS numbers are not only inadequate for regulatory and dividend distribution purposes, they also have little useful role for valuation purposes, as valuations depend on fundamental measures which are now the regulatory numbers not those that would be reported under IFRS.

We suggest two additional disclosures are considered under Pillar 3:

- First, there are significant regulatory adjustments to capital that will also have an effect on the underlying level of regulatory reserves available for distribution. We therefore believe that it would be beneficial for banking companies and groups, to disclose what the regulatory level of reserves is, and what the floor for those reserves are.
- Second, the regulatory adjustments to the balance sheet should be accompanied by a summary of their effect on the profit and loss account. That is the only way that the true return on true capital can be seen. Such information is vital, particularly if a bank is seeking to raise new funds from shareholders.

Finally, in any future consultations, we believe that it might be useful for the Basle Committee to ask respondents what they consider the useful elements of the IFRS framework to be. And, if so, how exactly these are useful.

This is relevant as IFRS is a cumbersome system that produces information that, in our view, is largely irrelevant as it is producing false numbers based on the wrong premise regarding the needs of the providers of capital.

We believe that any problems with information overload are a product of the IFRS system, not the regulatory system aiming to correct it. We are concerned that there may be complaints from banks about the volume of regulatory disclosures, whilst not making the same criticism of the accounting standards. Particularly relevant to this is the over representation of banking interests in accounting standard setting.

We also consider it relevant that the sell-side analyst sector is comprised of organisations predominantly working for banks themselves. We note that the largest employers of people with the CFA qualification are¹: JP Morgan Chase, PwC, HSBC, Bank of America Merrill Lynch, UBS, Ernst & Young, RBC, Citigroup, Morgan Stanley, and Wells Fargo.

We would be happy to add any further comments or clarifications on request.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ki Q.' with a stylized flourish at the end.

Councillor Kieran Quinn, Chair of LAPFF

¹ Source: CFA Institute, Research and Data 28 May 2016