THE BANKING ASSOCIATION SOUTH AFRICA

Tel +27 11 645 6700
Fax +27 11 645 6800
P O Box 61674
Marshalltown 2107
www.banking.org.za

3rd Floor Building D
Sunnyside Office Park
32 Princess of Wales Terrace
Parktown 2193

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Centralbahnplatz 2
4051 Basel,
Switzerland

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Your ref:	Pillar 3 disclosure templates & Voluntary disclosure of sovereign exposures
Direct ☎:	+27 11 645-6708
E-✉:	garyh@banking.org.za

Via: Direct upload to BIS

Re: **Revisions to market risk disclosure requirements &**

Voluntary disclosure of sovereign exposures

We thank you for the opportunity to provide comments on the two consultative documents related to Pillar 3 disclosures.

We have captured our combined industry comments on **Annexure A.**

We also wish to note that our members support the ISDA response paper.

Yours sincerely,

Gary Haylett
Prudential Division

Registration Number : 1992/001350/08 A non-profit company under the Companies Act, 3 of 2011
Directors : MWT Brown (Chairman), C Coovadia (Managing), AP Pullinger, GM Fourie, KR Kumbier, R van Wyk, M Stadler (*British*), RJ Wainwright, SK Tshabalala, VSK Khandelwal (*Indian*)
Company Secretary : Ms N Buthelezi

ANNEXURE A

TEMPLATE 1

REVISIONS TO MARKET RISK DISCLOSURE REQUIREMENTS

Reference	Specific revisions arising from the new market risk standard	Comments
2.1	Template **MR1** – Market risk under the standardised approach	Although we agree with the proposed changes, it is unclear if bank's need to complete table MR1 (Market Risk under the Standardised Approach) for either: i. a separate table for each individual desk being capitalised under this approach or alternatively ii. or alternatively the summation of all desks on the standardised approach (i.e. falling outside of IMA approval) The former may provide too much granular information on individual desks on a given bank's trading floor (and could be deemed sensitive information under DIS10.11). The latter approach will allow for netting of exposures across different desks which is not representative of the overall capitalisation under FRTB. We also note the following: 1. Scope of Application: There should be no need to specify "portfolios" in the revision as this is redundant. As the Internal Models Approach (IMA) application is at a trading desk level, is the disclosure suggesting that a trading desk can have portfolios under Standardised Approach (SA) and IMA simultaneously? 2. Accompanying Narrative: If a trading desk becomes ineligible and then becomes eligible in the semi-annual period, must this be disclosed as a change in scope of positions?

	Table **MRB** – Qualitative disclosures for banks using the IMA	1. (A)(a) is not clear as this only refers to IMA desks. i.e. "treated under other measures" could be construed as covering Standardized Approach desks and no other types of models approved by the regulator. 2. (A)(c): We recommend clarifying that ES description are based on the stressed observations for the reduced set of risk factors as per the notation introduced as ESR,S 3. (A)(e) in the example; we suggest that the word "may" be changed to "should". - We believe banks provide insight into the average % for the period of reduced risk factors to total risk factors (which needs to be above 70%). This provide insight to investors and regulators on the % of the full set that is stressed. 4. (B)(a): Does this imply that every individual NMRF and its treatment must be documented as Pillar 3 disclosure? - Or just a general description of methodology to generate the correct stress for a single NMRF?
	Table **MRC** – The structure of desks for banks using the IMA.	We support the implementation of a materiality threshold & the removal of the category "other" allowing banks to add the specific category of risk on a flexible basis and note: 1. <u>Content:</u> Does the use of the term "portfolios" not cause confusion that there may be some portfolios in trading desks that are under SA and others in the same desk under IMA? 2. <u>Content:</u> The first para of 'Content' is slightly ambiguous. • Is it requiring (i) That the SA capital for the largest desks on IMA must be summed until the cumulative capital is 50% of the total SA capital? • If this is the case, if less than 50% worth of capital is on IMA, should *all* the IMA desks be listed, or • (ii) The capital of the largest risk desks must be summed regardless of the desk being on IMA or not, until 50% of the capital is explained.

		3. Content: Does "total aggregate standalone capital requirement" mean the sum of the undiversified standalone trading desk SA capital requirements? • If so, is this under the Correlation Scenario chosen at a total level or at a trading desk level?
	Template MR2 – Market risk IMA	A definition and instruction for line 14 should be provided along with the section in regulations applicable (i.e. MAR 33.45). We also note: 1. Definitions and instructions (15): Clarification is required on the sentence "and no trading desks subject to IMA)" not read "and trading desks subject to the IMA)"? • We recommend that a separate table be created for lines 13-16, incl. SSA. • We recommend that this table apply to all trading desks, not just those under IMA. i.e. the table should be labelled "Market Risk for Banks • We recommend under "Definitions & Instructions (pg. 12), Movement in risk levels", remove the word "to" in "other than those to specifically identified below"
	Template MR3 – RWA flow statements of market risk for trading desks under the IMA	As with MR2, SSA needs to be catered for in the table. • We recommend that a total column (g) be added to the template. - This table should apply to for all trading desks, not just those under IMA. i.e. the table should be labelled "RWA flow statements of Market risk for trading desks under the IMA • We propose clarity is provided on the "*adjustment"* and *" total*" line items in the table as no explanation is provided on filling this in.
	Template MR4 – Market risk under the simplified standardised approach	We support the inclusion of MR4 as proposed
4	**Specific Questions**	**Comments**
	The usefulness of RWA flow statements of market risk for trading desks under the IMA as per Template MR3, and any concrete proposals to enhance its usefulness	We believe this table should cover total RWA, not just for desks under IMA.

		• We recommend that where an IMA charge for a desk is disclosed, the corresponding Standardized Approach charge also be disclosed in order to provide the user with information on the "cliff effect" of failing PLA - There are several terms that should be more explicit e.g. "*changes in risk levels*," as banks can use the accompanying narrative section to briefly describe these rather than explicitly carve out this impact from the changes in RWA. We note however that this has limited usefulness as attributing changes in RWA over a period, if time can be difficult and is prone to making certain assumptions. • A proposal may be to clarify that certain changes were driven by once off numbers, while the balancing figure will be movements in risk levels.
	Whether the specific minimum threshold for materiality for the disclosures of individual trading desks in Table MRC is adequate to inform Pillar 3 disclosure users about the structure of desks.	The 50% level seems adequate to disclose the largest trading desks from a sensitivity's perspective. • We recommend the inclusion of a column to show the percentage that that individual trading desk contributes to the aggregate standalone capital requirement under SA. • We recommend consideration needs should be given to desks and instruments that could skew the representation – for example a small exotic option trading book but a large RRAO
General	No provision has been made for the disclosure of the "cliff effect" of desks failing PLA and being forced onto the Standardized Approach. Table MRC requires the disclosed of the number of trading desks under IMA that are not individually disclosed in this table. No provision has been made for disclosures relating to the internal risk transfer desk.	• We recommend that for material desks the difference between the standardized approach and IMA capital, particularly for desks in the amber zone, be disclosed. - This may result in proprietary information being disclosed regarding the internal structuring of trading desks for capital efficiency purposes. We suggest that this requirement be dropped. - We believe that given the importance of this new function, some form of qualitative and quantitative information should be provided. E.g. the structure and operations of the desk as well as the residual risks managed by the desk, incl. total RWA arising from the IRT activities.

TEMPLATE 2

VOLUNTRY DISCLOSURE OF SOVEREIGN EXPOSURES

Reference	Specific revisions arising from the new market risk standard	Comments
2	Template SOV1: Exposures to sovereign entities – Country and currency breakdown now include, for each jurisdiction that is material enough to be disclosed separately, a breakdown of the amounts that is denominated in domestic currency.	We support this disclosure and request guidance on "*material*": - Currently, where the regulations allow, banks will consolidate exposures across desks/Business Units in order to manage combined risk against limits as well as to ensure/allow for maximum potential set-off (provided legal are in place). - To do this, exposures are converted to the regional currency (ZAR) and then added to an output at a consolidated level, thus level the trade level attributes (such as currency) needed for this template. - This can be changed but at significant cost or redevelopment. In the case of a South African balance sheet: (i) sovereign exposure is often limited to South Africa only, with very minimal exposure at times to the UK and USA; and (ii) portion held relating to SOAF's (US$ denominate level) is relatively small and static, and hence the cost will significantly outweigh the benefit.
	Template SOV1 and Template SOV2: Exposures to sovereign entities – Currency denomination breakdown no longer require disclosure of exposure amounts before the application of credit conversion factors (CCF) or credit risk mitigation (CRM). - These changes should prevent the unwarranted disclosure of central bank liquidity assistance. Also, - The column disclosing the concentration of exposure as percentage of Tier 1 capital is no longer present in these two templates.	We support this disclosure but note: - That the template lacks clarity on the inclusion of counterparty credit risk exposures (i.e. derivatives and / or repo style transactions) with Sovereign and Central Banks - Same comment as above when it comes to disaggregation of capital data re: Very limited currency risk, exposure is mostly local currency (ZAR) with limited USD exposure in SOAFs • We request clarification if this needs to be included in the banking or trading book column? • What exposure metric is to be used (e.g. Notional, EAS, etc)? • Must RWA for CVA be included?

		We note: There could be instances where banks may be subject to unintended consequences when a bank currently meets all their LCR and NSFR requirements in an environment where rates are rising, yet the maturity breakdown shows that they hold all their assets just long enough to satisfy the NSFR requirement.
	Template SOV3 – Exposures to sovereign entities – accounting classification breakdown have been updated. - This template now also includes a breakdown of sovereign exposures according to their residual maturity.	The definition of “gross value” is unclear i.e. is gross value the absolute value (i.e. can you net written and purchased derivatives against the same sovereign?) • We recommend defining the types of “Allowances” that can be deducted from the gross value.
Annex 1:	Proposed new chapter DIS45	We support the creation of this new chapter
General		We support this disclosure being discretionary at the instance of national supervisors